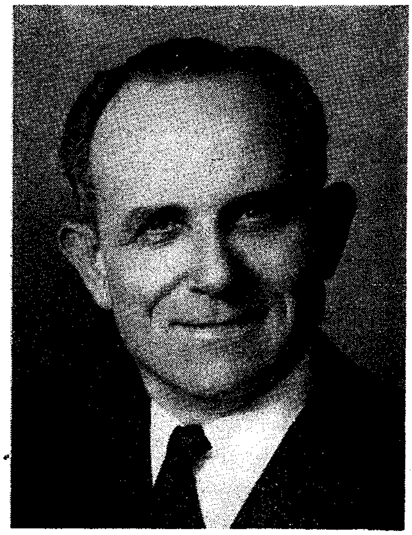

Unearned Increment Explained

by NEIL S. BOOTH

YEARS ago, the south side of the Chicago River at the north edge of the Chicago Loop was a depressed, mud filled street known as the Produce Market. As time passed, the city grew and the Produce Market was moved to a more suitable location west of the Loop. This muddy, unkempt area which had depressed adjacent land values was converted into upper and lower level Wacker Drive. All the people of Chicago paid for this improvement, while the owners of adjacent land received the benefit in sharply increased land values. This was certainly an unearned increment for the nearby landlords.

Some writers claim there is no such land problem in the United States as there is in Europe because of more widespread ownership here. But ownership is irresponsible so long as the rental values of the land is not collected for public purposes, whether ownership is widespread or not. The argument is specious, it does not square with the facts. It lulls the conscience of those who should know better, obscuring the obvious fact that opportunities are greater in the United States than in Europe because of a more dynamic economy. As far as the land question is concerned there is no real difference.

There would be no unearned increment if the rental value of land was paid for the maintainance of government. There would be less inflation which periodically pauperizes a large segment of the population, and there would be less concern over unemployment and the needs of the indigent. The "35 million laws to enforce the Ten Commandments" could be largely done away with as the simple understanding of truth and cooperation replaced the present bickerings over economic matters which are basically unsound.

The term "unearned increment" is often puzzling, and I recently explained it to a friend with the following historical sequence.

In the beginning, man subsisted on the free gifts of nature, its fruits, grains, animals and fish. The food grew wild. Man could climb trees to obtain fruits. He would wade in shallow streams to catch fish with his hands. Animals less fleet than he could be run down. He ate his food raw and lived in a cave. After he discovered fire, flesh could be speared on a sharp stick and cooked over an open flame.

By a stretch of the imagination we can see that the sharp sticks and stones which could be thrown at things, out of reach of man's hand, were the beginnings of capital—and capital came directly from labor.

As man's inventiveness increased he discovered that it took less labor to get what he wanted from nature if he had tools with which to work. At first each new and crude tool was the possession of a man who designed and used it—soon others made similar tools for themselves.

The Profit Motive

Food and other desirable things were offered to the inventors as payment for tools, and when the offers were greater than the amount of labor involved, the inventors would comply. This was the beginning of profit. Inventors profited by getting more in return for tools than they could have obtained for themselves, and the purchasers of tools would thereafter also be able to get what they desired with less labor. True profit always was and always will be a mutual saving of labor.

The invention of crude tools extended man's hands. If we bear this in mind we will never err in seeing that true capital, even in the complex society of today, results from man's labor applied to the material gifts of nature. To be sure, modern capital is most frequently described in terms of money, but its accumulation was the savings of labor.

Now we come to the "division of labor." Our early inventor of the simple tool, which he made for his neighbor, saw that if he could go into the tool business alone he could satisfy more desires with less exertion. But he would find no market for the tools unless they satisfied the customers desires with less exertion (to them). So when he saw that enough tools were desired by others to warrant full time production he went into tool-making in a big way. This was the beginning of capital goods.

As centuries have passed the division of labor has increased until it has become impossible to obtain even daily necessities exclusively by our own labor, not to mention the many luxuries we enjoy. We have learned that we can satisfy more desires by doing one thing well and, from the rewards of this labor, satisfying our desires by choosing from the specialized products and services of others. Capital goods today include everything which man buys and consumes.

Originally land was owned by the soldiers of a locality, later by a state. The land could not be owned unless trespassers could be ejected by force, if necessary. Most land has now settled into the hands of the last conquerors and has from there been passed on by sale or gift.

As long as the owners furnished their own armies and paid the costs of maintaining the state, as in feudal England, this early form of ownership had some foundation in justice. The serfs and peasantry paid to their individual lord in labor and fighting, the values they received in security and sustenance upon his lands. The rental value of the land was used by its owner to defend it and make the lives of the lesser souls reasonably safe and secure. The "increment of land value" was earned.

With the division of labor established, however, the manufacturing and merchant class grew to the point where they could not be politically ignored. They began to share in the power of the state and, to cite England again, the former subjects of the feudal lords were expelled from the land as wool growing became the most profitable enterprise for the land.

The political and military viewpoint then changed. It became apparent that the public revenue would be drawn from taxes levied on the whole populace. Thus taxes grew—all kinds of taxes—who knows better than we do today? But these taxes were levied against capital and labor while the landlords retained the rental value of their land which formerly paid for the costs of law and order. Every person still paid in rent or in the capitalized purchase price of land, the full value of the land they used, and all too often more than it was worth.

Because the price paid for the ownership of land gave the owner the right to hold it out of use until the price he could obtain satisfied his desires, the collusion between state and landowners made it easy for them to dictate the terms upon which others could use their land. Being relieved almost wholly from the obligation to maintain government and the military establishment, the moneys the landlords received for the use or sale of land served no social or economic purpose. The old conception of obligation in land ownership was cancelled out while the funds which supported the old concept still accrued to the landowners. They received and did not give. What they receive is known as the "unearned increment of land rental value." A landlord may also labor and use capital in which case the returns from his labor and capital are rightfully his. We are speaking only of the degradation of our concepts of justice in the ownership of land.