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The Challenge of Australian Tax Policy

Can Professional Economists Continue to Ignore Experience with Land Value Taxation?

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> *I will not insult my readers by discussing a project* [*land value taxation*] *so steeped in infamy.*
>
> FRANCIS A. WALKER

I

A SERIES OF ARTICLES published in the last few years in the Australian magazine, *Progress*, by A. R. Hutchinson of Melbourne, focuses attention upon studies made by the Land Values Research Group, of which Mr. Hutchinson is Director of Research. The conclusions to which these studies seem to point are almost precisely those which the very few professional economists seriously interested in the taxation of land values would have expected. Nevertheless, to the majority of American economists, these conclusions and the supporting data may come as a surprise. It might be well if such economists would seek to familiarize themselves with the data. In large part, Mr. Hutchinson's articles have been republished in a thirty-two page booklet entitled "Public Charges upon Land Values"[1] and in two folders entitled, respectively, "Housing the Nation" and "Rating Land Values in Practice—Results in Greater Melbourne." These reports will be dealt with here as a unit.

Hutchinson classifies the Australian states into two groups based on the proportionate burden of taxes on land values. The first group of states consists of Queensland, New South Wales, and Western Australia. In all of these, local real estate taxes are, in general, levied on *land values only*. Land-value taxes in Queensland take for the public, he estimates, more than half (54.5 per cent) of the annual rental value of the land; in New South Wales nearly a third; in Western Australia about a sixth. (In Western Australia, though the rural areas tax mainly land values, the municipalities tax land and improvements equally. Besides local taxes there are, in most of the states, state land taxes; but these taxes Hutchinson considers relatively unimportant because in several of the states they are paid only by lands above a certain value and because they raise so much less revenue than do the local taxes.)

[1] Melbourne (Published for the Land Values Research Group by the Henry George Foundation of Australia), 1945.

The second group of states includes South Australia, Victoria and Tasmania. In these states, local taxes are levied, generally, without distinction between land and improvements, although "some of the districts in South Australia and Victoria rate upon the land value basis," *i.e.,* tax only the unimproved value of the land. *In Tasmania, none at all do so.* All districts in Tasmania and most in South Australia and Victoria "rate upon" (that is, levy taxation upon) what is called "the annual value basis" of land and improvements together.

Between 1929–30 and 1938–39 the area under all crops increased in the first group of states by 21.5 per cent and *decreased* in the second group by 7.6 per cent. The increase was greatest for Queensland (65.8 per cent), next for New South Wales (22 per cent) and last for Western Australia (3.4 per cent). The decrease in the states not taxing land values (locally) as such was least for South Australia (4.9 per cent), greatest for Victoria (10 per cent) and nearly as great for Tasmania (8.4 per cent). During the same period the "area under wheat for grain" increased in Queensland by 117 per cent, in New South Wales by 17 per cent, and decreased in Western Australia by 4.4 per cent, the average increase for the three land-value taxing states being reckoned as 9.9 per cent. For the other group of states the *decrease* averaged 19.2 per cent and ranged from a decrease of 15.5 for South Australia, through 22.8 for Victoria, to 41.5 per cent for Tasmania in which *no* local district or governing area taxes land values as such.

The author considers next, data in regard to the construction of dwellings between 1921 and 1933. He finds the number of new dwellings constructed per one hundred marriages to be 74 in the land-value taxing states and 59.3 in the other (the "annual value rating") states. Each state in the first group had more building than any state in the second group. Tasmania, with *no districts at all* "rating on unimproved land values," had only 29.7 dwellings per hundred marriages during this period, less than half as many as the next lowest state in the group. However, Western Australia, in which land values are taxed less than in either Queensland or New South Wales and which does have, as we have seen, a much poorer record than those states as regards increase of area under crops, appears to have a somewhat better record in dwellings constructed per hundred marriages.

Hutchinson does not state whether this better record in Western Australia is confined to *rural* districts, although the fact that the municipalities of this state do not have a land-value tax system might lead one to expect such a result. But his figures on the degree of improvement of land do indicate that, as of 1939–1940, the "ratio of value of improvements as percentage of unimproved land value" in the case of country land was higher in Western Australia as compared to this ratio for city land, than in any other Australian state.

Attention is called to the fact that those districts in South Australia and Victoria which do tax land values as such "are the districts which contributed most to their states' better showing than Tasmania." Thus, in Victoria, "although at the 1921 census only 16 per cent of the state population was in the fourteen districts rating land values, these districts accounted for 46 per cent of the total increase in dwellings for the State between the two census years." And "evidence submitted to the Commonwealth Housing Commission in South Australia showed that dwelling construction in the districts rating land values in that state was markedly superior to that in the districts rating Annual Values," *i.e.*, taxing land and improvements at equal rates.

But Hutchinson is not satisfied with this rather general conclusion. He wants to compare cities or districts which are, as nearly as possible, similar in location advantages and type, except that some "rate on land values" and others do not. He suggests that "In many respects these comparisons may be more reliable than interstate comparisons of development since the comparisons are not complicated by different political policies which may exist in the states." Also, he notes that "It would be absurd . . . . . to compare development of the business centre of the city with a perimeter district." So he selects, first, mixed industrial and residential cities which do and which do not rate on land values, that are in the Greater Melbourne (Victoria) area and about equally distant by rail (five miles) from Flinders Street Station in Melbourne. These cities he classifies as in Zone 4. Next he selects cities further out from the Melbourne business center (seven miles), some rating on land values and some not, and all residential, which he classifies as in Zone 5. And, similarly, he classifies cities still further out (nine and a half miles) and entirely residential, as in Zone 6. Since in Zones 1, 2 and 3 there are no land-value taxing cities, Hutchinson's study is perforce confined to Zones 4, 5 and 6.

Comparing the cities in Zone 4 which tax land values and not improvements with those which tax both, he finds that the number of dwellings constructed per acre available, in 1928–1942, was more than 50 per cent greater in the former than in the latter cities. In Zone 5, he found the number of dwellings in proportion to the acreage available to be more than two and a third times as great in the unimproved land value taxing cities as in the others. For Zone 6, he found it to be twice as great.

The *value* of *all* building per available acreage was, during the same period, in Zone 4, 40 per cent greater for the land value tax cities; in Zone 5 it was 140 per cent greater, almost two and a half times as great, and in Zone 6 it was 134 per cent greater.

Hutchinson remarks in regard to an alleged shortage of houses in Victoria of 40,000, that "if these ten cities in Melbourne which do not now rate on land values had been rating on that system and showing the same building figures per acre as the districts now rating on land values, instead of the 41,293 houses which were actually built there would have been 88,000 built. In other words there would be 46,700 more houses in these districts alone."

The change in holdings of vacant land in 1939 as compared to 1921 is noticeably different in the unimproved land value taxing cities and the others. In Zone 4, the decline in vacant holdings in the land value tax group was 57 per cent as against 30 per cent for the other group. In Zone 5 it was an 8 per cent decline as compared to a 50 per cent increase. In Zone 6 there was an increase for the only land value tax city on which data could be secured of 74 per cent, as compared to an increase for the only annual value rating city on which data could be obtained of 243 per cent. These increases the author attributes to speculative development of holdings previously agricultural. But the per cent increase was less than a third as great for the land value tax city as for the other. Perhaps it is a fair guess that the policy of taxing more heavily the value of land operated to prevent the waste involved in taking well situated land out of agricultural use years before it would be needed for urban uses. Perhaps one can fairly surmise that less adequate taxation of the value of land operates merely to have most of it held during these years in the form of vacant lots.

Coming back to a comparison of the states, we note that the ratio of the value of improvements to unimproved land values in 1939–40, was 151 per cent in the land value rating states and only 79 per cent in the others, and that it was decidedly highest (198 per cent) in Queensland, where the land value tax is highest. Furthermore, the average total value of improvements, for each land taxpayer in the states rating locally on land values, was fully twice as great as in the other states and was greatest of all in Queensland.

Land value taxation has been sufficient in Queensland so that the sale value of land per head of population actually declined 16.7 per cent between 1901 and 1937. In each of the other two locally land value rating states, it has risen by 11.5 per cent. In South Australia and Victoria, where, in general, districts do not rate on land values, the value of land per head of population has risen by 44 per cent and 77.5 per cent respectively. In Tasmania, however, the corresponding rise is given as only 4.8 per cent.

Another comparison Hutchinson makes is of the average income in the land value taxing states compared with the other states, received by non-property owners having incomes high enough to require them to submit a Commonwealth income tax return. The figures here were only slightly favorable to the land value taxing states, but the author shows that the proportion of persons receiving these higher incomes is considerably greater (40 per cent greater) in the land value taxing states.

Comparing money wages in factories paid in the first group of states with those paid in the second, he finds them larger in the first group, and larger in purchasing power.

Mr. Hutchinson's figures show, also, a considerably larger increase in value of plant and machinery in factories in the first group of states than in the second. In two of the second group there were actual decreases.

"One of the most delicate tests of whether conditions are favorable or not in any country," says Hutchinson, "is the flow of migration. If more people are coming to that country than are leaving it we may be sure that the new citizens regard the prospects in their new home as better that those in the land they are leaving. Conversely, when departures exceed new arrivals, it must be regarded as an ominous sign in the development of any state."

The data show a net migration into the land value rating states between 1929 and 1938, per 1,000 of the 1929 population, amounting to 8.8, and an outflow from the other states averaging 10. The inflow for Queensland, the state with the highest level of land value taxation, is the greatest, 16.5. *All of the other states* (the "annual value rating" states) *show an outflow*. For Victoria this is slight. For both South Australia and Tasmania it is considerable, 29.1 per 1,000 and 15.5 per 1,000 respectively.

No doubt it can be questioned whether conditions in the two groups of states are sufficiently similar to make the conclusions reached, purely from the data given, wholly reliable. Some critical readers may question whether, despite the care taken by the author of the studies to select only cities similarly situated, even the conclusions drawn from the data on cities in the Greater Melbourne area should be taken seriously. But certainly the data presented, *pointing with almost complete,* if not complete, *consistency in the same direction,* make a sufficiently good *prima facie* case so that it would seem *inexcusable* for any professional economist *to refuse to examine carefully* and without antagonistic prejudice *the theoretical argument* for land value taxation. And in view of the seeming great advantage of the land value tax policy, there would appear to be little excuse for the failure of many economics teachers to present the relevant facts and theory clearly and with some completeness to their classes. Yet scarcely ever, in the economics courses at American universities and colleges—even in the course in Public Finance—is the theory of the subject—or any such relevant data—presented to students adequately, so that any considerable number of them get any appreciable understanding of what land value taxation can accomplish or why it can accomplish it. *Frequently neither the teacher nor the textbook mentions the subject at all,* —or they mention it only to make a few brief and unanalytical derogatory comments on it.

II

Land value taxation, if sufficiently high, makes it utterly unprofitable to hold good land out of use. It increases, therefore, the amount of land offered for rent or for sale. It lowers the rent of land and thus reduces for tenants the cost per month or per year of housing.

By making more good and well situated land available, land value taxation increases the productivity of labor or of labor and capital both. It thus tends to raise wages. And insofar as it makes possible the abolition or even the reduction of commodity taxes and other taxes resting largely on wage earners, workers are still further benefited.

Heavy land value taxation would make possible the abolition, among other taxes, of taxes on real estate improvements, on livestock, on machinery, etc. Thereby it would definitely increase the net per cent return on capital investment. This would almost certainly cause an increase of saving, and so of capital. But even if saving were not thus promoted, such a tax system would inevitably cause savings made in other communities to be invested more largely in the land value tax community or communities. And the greater amount of capital in any such community or communities would mean that labor could be and would be better equipped with capital *as well as* better provided with good land. Thus there would be *two* reasons for a *greater productivity of labor* and *higher wages.*

For all these reasons it is easier for a tenant to become an owner of land. *The rent he has to pay while he is a tenant is lower. His wages are higher. From these wages less is taken in direct taxation of his income or in taxation of the goods he must buy. He can save more easily. If he does save and invest, his net per cent return from capital, thus untaxed, is greater and this further increases his ability to save. The price of land is lower.*

Some writers have contended—for example, Prof. Lewis H. Haney[2] and, apparently, Prof. Willford I. King[3]—that, though the price of land is lower, the tax which the owner must pay on it annually is higher and that this offsets for him the advantage of being able to purchase it at a lower price.

But such writers consistently and persistently overlook some very important points. They overlook the great reduction—and it might be even the abolition—of many or most other taxes. They overlook the lower rent of land, consequent on the forcing of good unused land into use. They overlook, therefore, the fact that, even if the land value tax takes *all* the rent, this tax will nevertheless be lower for the ex-tenant owner than the rent was previously when he was a tenant. They overlook the fact that the (marginal) productivity of labor is higher, so that more of what is produced from the land is wages ("imputable" to labor) and less is rent ("imputable" to land). They overlook the effect of the land value tax system in increasing the amount of capital in the community or communities adopting the system, thus further increasing the productivity of labor and the wages of labor. And they overlook the effect of a higher net interest rate on capital, along with the lower land rent from forcing speculatively held land into use, in reducing the sale price of land by *more* than the capitalization of the tax at the old (and lower) interest rate. In short, *there are serious gaps both in their appreciation of the relevant economic facts and in their comprehension of the relation of these facts to the appropriate mathematical calculations.*

Obviously, the most ideal system of taxation would hardly suffice to

[2] In his "Value and Distribution," New York, Appleton-Century, 1939, pp. 736–7.

[3] "The Single-Tax Complex Analyzed", *Journal of Political Economy,* Vol. XXXII, No. 5, October, 1924, p. 609. Dr. King mentions the point herein criticised, as something that "a captious critic might assert" and perhaps he does not mean himself to assert it; but he seems to be seeking to make sure that the reader will see it stated and he does not offer any refutation of it. One must perhaps judge his meaning and intent from the general tone of his article.

bring as much productive activity and agricultural and manufacturing development in the Sahara desert as might come to a region highly favored by nature, even though the latter has a very bad tax system. But do not the Australian data which have been summarized herein, re-enforce the argument from theory? And does not the theory—which has long since been well and rather thoroughly worked out, even though various economists of reputation write as if they did not at all understand it—make the figures presented by Hutchinson seem entirely credible?

Yet teachers of economics continue to stress "the ability theory" of taxation and, in lesser degree, what they are pleased to call "the benefit theory" and appear to have, usually, no appreciation of the overwhelming advantages to a community or a nation, of making the annual rental value of land the first source and, in so far as reasonably possible, the chief source of taxation. The truth is, despite the sniping of an antagonistic economics professoriate, that, certainly within the limits of what a tax taking substantially all of the annual rental value of land would yield, such a tax would be *more advantageous even to propertyless wage earners* of small income, *than the most drastically progressive tax on earned incomes or on all incomes together,* and this *even though such drastically progressive income tax were to take nothing at all from such wage earners.* Then *why* should any economics professors plume themselves on their "liberalism" when they are putting chief emphasis on the "ability theory"? And how can they think of themselves as sympathetic toward the ordinary worker, when they persistently refuse to present fully and fairly to students who would eagerly listen, the demonstrable advantages of and the convincing arguments for such land value taxation? Or *are ambition, hard work, efficiency, and the willingness to save and invest,* so *deserving of punishment* that we should tax them *in preference to* taxing land values, *although the latter tax policy is better even for average and below-average propertyless wage earners!*

Is it, perchance, regarded as academically more "safe," or less "radical," for economics professors to emphasize a tax system that goes a considerable distance toward the Marxian ideal—"from each according to his capacity, to each according to his need"—than to emphasize land value taxation, *which is of the very essence of a truly self-consistent philosophy of free private enterprise?*

But perhaps most living economists, just because they have been trained by a generation or generations that rejected Henry George, have no real understanding of the land value taxation policy and feel under no necessity to acquire such understanding. Perhaps they mislead their own students, and readers, because they are so smugly confident, though they have never thought it necessary to examine it objectively and thoroughly, that the land value taxation case is utterly mistaken.

Meanwhile, not a few business leaders are constantly seeking to get taxes on property-in-general and on the larger incomes, reduced by substituting taxes that burden more heavily the smaller incomes and the purchases of the relatively poor. Instead of urging a really significant reform based on fundamental principle, their interest appears to be merely the getting of taxes off of their own large incomes and thereby increasing the burden on the recipients of smaller incomes. *What wonder if the propaganda of such business leaders is greeted by common folks with lifted eyebrows or even with jeers! Such propaganda is hardly the way to make the system of "capitalism"—the private enterprise system—more attractive to the masses. Nor is it an effective way to inoculate them against the virus of communism!*

The basis of the case for the public appropriation of most or nearly all of the annual rental value of land by taxation, is the fact that geological forces, not men, made the earth, and the further fact that the location advantages of land, in so far as they result from human activity, are a by-product of the activities and choice of habitat of many millions of human beings. They are not produced by one man or a few men.[4] But capital—buildings, machinery, locomotives, livestock, planted fruit trees, ships—can be brought into existence only through work and saving.

There is a related distinction between the two kinds of income stemming from these two kinds of property. In the case of capital which one's own work and saving have made possible, and *without which the capital would not be in existence*, the income the owner receives comes to him from the added product of industry which this capital makes possible and which, therefore, is in no sense abstracted from others. In the case of natural resources and valuable city sites, the facts are far otherwise. When, for example, geological studies and investigation and (perhaps) actual drilling show clearly that there is oil under a particular tract of land, oil which the landowner did not put there, which the landowner did not find, and which the landowner does not help to get, the royalty (rent)

[4] This point I have discussed more thoroughly, and with due reference to minor qualifications, in some of my books. See "The Economics of Taxation," New York (Holt), 1924 (reprinted by Lucas Brothers, Columbia, Mo., 1938), Chapter VIII, § 2. See, also, "The Economic Basis of Tax Reform," Columbia, Mo. (Lucas Brothers), 1932, Chapter IV, § 6, and "Basic Principles of Economics," Second Edition, Columbia, Mo. (Lucas Brothers), 1947, pp. 264–5 and 351–3.

which he receives comes to him merely for *permitting* others to withdraw the oil. Similarly, when, as has happened, the growth of the tributary territory makes it important that millions of people live on and near New York Harbor in order that the world commerce on which all of us depend may be most effectively carried on, this means that the owners of New York City land are in a position to secure hundreds of millions of dollars a year merely for *permitting* men and women to work and live where the rest of us need to have them work and live in order that our wants may be adequately served. The difference between receiving income from capital which, without work and saving, would not even be in existence, and receiving income because one is in a strategic position to forbid others the use of a part of the earth which has been made desirable because of geological forces or community growth and development—*this difference is fundamental and profound.* What shall we say of learned professors of economics in whose economic philosophy—and in whose teaching and textbooks—it has *no place at all?*

Francis A. Walker, a teacher and writer of economics who was a contemporary of Henry George, referred to George's "practical proposals" as "this precious piece of villainy"[5] and concluded his discussion of them with the statement: "I will not insult my readers by discussing a project so steeped in infamy." Can it possibly be that contemporary teachers of economics who can find no classroom time for the consideration of any tax reform which goes even the tiniest bit and by the tiniest steps in the direction of relatively increased taxation of land values, are reacting similarly?

In the United States there have been not a few changes in tax rates and tax policies. But *no other change or proposal for change,* so far as I am aware, *has ever stirred any college or university teacher of economics to language so denunciatory.* In those cities, districts and states of Australia that now "rate on unimproved land values," *the dominant sentiment has obviously not been that the one change in taxation which is most superlatively sinful is a change in the direction of taxing land values more while abolishing or reducing other taxes.* Possibly these Australians *do not feel* that "society" has made a *perpetually binding* "pledge" to all owners and to-be owners of land, *never* to levy *any heavier taxes* on them *than have been previously levied!* Therefore, the proposal to change taxation in this particular direction, *could be discussed reasonably* and

[5] "Political Economy," New York (Holt), 1887, p. 418. (The text reads ". . . *price* of villainy," obviously a typographical error.)

with due consideration for its probable consequences on community progress and welfare.

Few—if any at all—of the economics teachers and writers who follow Francis A. Walker in this matter, have read Henry George's book, "A Perplexed Philosopher,"[6] Chapter XI of which is devoted specifically and most effectively to answering this sort of objection. I have myself discussed the matter in a number of publications[7], directing attention especially to such questions as

(1) What is the *nature* of "society's" supposed "pledge"?

(2) Just *what* members of "society" are thus under "pledge"?

(3) Are the *victims* of a bad economic or social institution to be considered as under a binding "pledge" *never to seek* to change the institution from which they are suffering, except as they, the victims, reimburse the beneficiaries of the system for the latter's loss of their favorable position?

(4) Are the victims of such an institution under such an ethically binding "pledge," as being a part of "society," even if they never consented to the institution understandingly but only through the influence of the propaganda of its beneficiaries,—and even if they never consented to it at all but opposed and protested against it?

(5) Are the victims of such an institution likewise under a "pledge" not to change it without paying to reimburse its beneficiaries, even if the institution was established before they were born but was ignorantly—and perhaps only tacitly—consented to by some of their ancestors, *i.e.*, are the present victims "responsible" for it when their "consent" to it, if ever given at all, was given only vicariously?

(6) If the institution under criticism happens to be slavery and such victims are slaves, would it then be a sinful act for them to run away without reimbursing their owners for the loss (since some of these owners may have *bought* their slaves) of their invested savings,—or, if strong enough, to *abolish* slavery and their own servitude without contributing to the reimbursement of these owners?

To the best of my knowledge and belief—and I have checked on a good many of them—none of the economists who follow the lead of

[6] This book is currently available from the Robert Schalkenbach Foundation, New York.

[7] "The Economic Basis of Tax Reform," especially, Chapter IV, §§ 7 and 9; "Fiscal Policy, Taxation and Free Enterprise," also printed as Part I of "A Postscript and Questions," Columbia, Mo. (Lucas Brothers), 1946, Chapter VII; and "The Teaching of Economics," New York (Schalkenbach Foundation), 1948, Chapter IV.

Francis A. Walker in this matter has shown any sign of having *really* faced, *ever*, these questions.

Economics teachers who are not so completely convinced of the rightness of F. A. Walker's point of view as to know in advance that further study of the matter is useless, might take the trouble to consult one or more of the publications referred to above!

In view of the frequent and numerous changes that have been made in taxation policies and tax rates, as well as in other economic policies, why should it be assumed that those who may have purchased *land* have made *their* purchases on an implied—and morally binding—"pledge" that the tax rate on land, as compared with other taxes, shall *never* be increased!

When, in 1913, the Pennsylvania legislature established the Pittsburgh (and Scranton) graded tax system, it provided that the city tax rate on buildings should become, in 1914, only 90 per cent of the rate on land; that in 1916 it should be 80 per cent; in 1919, 70 per cent; in 1922, 60 per cent, and in 1925, 50 per cent. This meant that to get the same revenue for the city, the tax on land values had to be gradually raised. If this gradual change had been continued by corresponding stages until 1940 and applied also to the taxes levied by other taxing authorities, such as the county and the school district, all taxes on buildings in Pittsburgh (and Scranton) would have been then done away with. Had a comparable policy been followed throughout the entire United States, or even any large number of the states, the land value tax rate would presumably be high enough by now in the territory so affected, to absorb for public use the greater part of the situation rent of land.

Did the Pennsylvania legislators, then, in passing this law in 1913, commit a *sinful act?* Was the passing of this law, *unlike* or *beyond* any *other* of the *many* taxation changes that have been made by our various legislative bodies, a "precious piece of villainy" and was its mere proposal "a project . . . steeped in infamy"! If not, how shall we account for the psychology of those professors of economics who seem able to accept with apparent equanimity all sorts of policy changes—some of them certainly unwise and wrong—but who greet any proposal looking to the eventual establishment of a land value tax policy with denunciation?

In any case, is not the expressed opinion of various economics professors that "society," which makes frequent changes of policy in other matters and frequent changes in tax policy and in rates of taxation, is nevertheless under a binding implied "pledge" *never* to move, *even by the most imperceptible steps,* in the particular direction urged by Henry

George and already followed for some distance by Queensland,—is not this opinion *utterly silly?*

Some of the pronouncements of distinguished economists from our best known universities suggest that their failure to explain the land value tax program and the effects it would produce—which it apparently does produce in (for example) Queensland, Australia—to their students, could, possibly, be due to their not understanding it themselves. This, in turn, could be because the economics teachers *they* had in *their* student days had no interest in explaining it and so these contemporary teachers never had occasion to study it or to learn anything about it.

In an article in the November, 1939 issue of *The Atlantic Monthly*, "Business Looks Ahead," Prof. Sumner H. Slichter of Harvard University writes of high real estate taxes as an "important obstacle to cheap housing." He refers to the Detroit Bureau of Governmental Research as estimating the rate of real estate taxation in 274 cities as "about 25 per cent of rent or rental value." This, he says, means that "the present real estate taxes are equivalent to a 25 per cent sales tax on shelter," and he urges that sources of local revenue should be "broadened" so as to "make it possible to cut real estate taxes in half."

Professor Slichter ought to know—but I suppose it is highly doubtful whether any of his teachers in his student days ever explained the matter to him, and apparently he is not conscious of any vacuum in his understanding of it—that taxation of land values does not have the same effect as taxation of buildings and other real estate improvements. He ought to know that to cut in half the part of the real estate tax which rests on land values would make land rents and land values higher rather than lower. The theory of the subject is clear and convincing. The data from Australia cited at an earlier point in this paper certainly do not tend to support Dr. Slichter's views—unless his views are wholly different from what his words make them appear clearly to be. And if it be said that the particular data herein cited were not available to Professor Slichter when he was writing his article, it is still to be noted that the theoretical argument against him is unanswerable. It is unfortunate for the people of the United States that they can get no help from Dr. Slichter and others like him towards understanding what consequences land value taxation definitely tends to bring about and appears to have already brought about, to a considerable degree, in parts of Australia.

III

THE CASE OF DR. SLICHTER is not an isolated one. In my books I have subjected to analysis the confused pronouncements, antagonistic to the land value tax reform, of more than a dozen of the economics professoriate. Economists who have discussed land value taxation in print may be interested in checking *to see if their names are on the list!* Other economics teachers, who may have feared to express sympathy for the land value tax policy because of a seeming weight of professorial authority against it, *may have their courage restored* after contemplating the warped and twisted economic "arguments" against this policy used by these "authorities." Let us hope that not forever, when land value taxation is mentioned, will there be the present tendency for economics teachers (by hasty disavowal) to *"scurry for cover" lest someone accuse them of being "single taxers" or "followers of Henry George."*

But at present, prejudice against the land value tax program is widespread among teachers of economics, *the very persons who,* more than any others, *should have a clear appreciation of its advantages.* A few do realize the desirability of moving in this direction. One of these, who had collaborated in writing a book in which an increasing land value tax was favored, told me in personal conversation that he had taken considerable "razzing" from colleagues because of it. Another sympathizer with the land value taxation program informed me that when, as a graduate student, he had indicated his viewpoint in the presence of one of his teachers, this teacher suggested to him that, as a young economist, he should be careful about committing himself to a view not generally approved in the profession. A third, after some experience in teaching and collaborative writing, confided to me that "economists seem to have closed minds on the subject." A fourth economics teacher told me that, when taking a graduate course at one of our distinguished universities, he made some reference to Henry George as an economist, to which his professor replied: "Well, if we call Henry George an economist."

It is true that Henry George was guilty of some errors of analysis. I shall refer later, in this connection, to his discussion of interest on capital. But in view of the logical errors I have pointed out in various articles and books, committed by economists rated among their fellows as the most distinguished, it would seem that those economists and all others who accept their alleged reasoning, cannot with propriety or common sense, from the glass houses of their own systems, "throw stones" at Henry George.

A student coming from another institution and enrolled in my course in Public Revenues, confided to me that one of his former teachers of economics, on learning that he was taking this course with me, inquired: "What do you want to take that for?" Then, referring to the land value tax idea as "mediaeval", he said to the student, in relation to my course: "Well, don't pay too much attention to it."

A distinguished and respected economist who has done a great deal of valuable work in another field of economics, has more than once indicated privately to me real sympathy with this important reform. He explains that he does not express this sympathy publicly because, *in view of the widespread antagonistic prejudice on the matter among economists*, he fears that his own studies in the other field would become thereby discredited and of relatively little influence.

I shall make no attempt here to repeat analyses I have made elsewhere pointing to the fallacies and irrelevancies in the principal arguments used against the high taxation of land values. Not a few economists are still naïvely presenting their objections to this policy *without ever having investigated*—pretty generally, it would appear, *without ever having heard or seen*—the convincing *objections to their objections!* Hardly any of them are familiar with Prof. George Raymond Geiger's really brilliant study, "The Theory of the Land Question."[8] Probably very few of the new generation of economists have read more than a few pages of Henry George and, when they have, it is seldom indeed that they have gone beyond "Progress and Poverty" to read such incisive criticism of opposing contentions as is to be found in his book entitled "A Perplexed Philosopher." Yet as Dr. Geiger says with regard to the stereotyped objections constantly appearing in economics texts, "it is only fair to add that every one of these objections has been met by writers who, from Henry George on, have tried to break the wall of indifference and misrepresentation that so effectively surrounds this reform."

The arguments and pronouncements antagonistic to Henry George and the land value tax reform, to which I have called attention here and in previous publications and to which so many of the "big names" in American economics have been committed, *are certainly not indicative of intellectual discernment or of logical keenness and consistency!* Rather are they, in general, such arguments and pronouncements as would make one who had somehow slipped into committing them; who had, later, really made a clear, objective and logical appraisal of them, and who was at all sensitive to any judgement of an informed posterity, *devoutly wish he could expunge them completely and forever from his record, so that no one could see them ever again.*

If there has been no progress in the United States towards relatively increased taxation of land values, may not this be largely because teachers

[8] New York, (Macmillan), 1936.

of economics in most colleges and universities either "refute" the arguments for it—usually in a few sentences or, at most, three or four paragraphs—or ignore it? And few students, in these days of heavy reading assignments, go far afield to read anything their professors do not assign. How, indeed, would most of them have occasion to realize or to suspect that here is a subject very much worth studying? And so, among the numerous graduates of our institutions of higher learning, from whom our leaders in business, government and journalism are largely drawn, there are hardly any to whom the idea ever occurs to urge this reform.

At the University of Missouri we have many students who have done their first two years of college work elsewhere. *Almost without exception they have been taught nothing*—or next to nothing—*about this really fundamental and important reform* which, if either theory or the data we have from Australia mean anything, promises much in prosperity, and in hope for common folks, to any country that will adopt it. Are university and college students of economics *never* to have a reasonable chance to *learn anything about it in their college economics courses?* And then, if, *as a result* of such a condition, no movement for the public appropriation of the rental value of land or most of it, develops, will the economics professoriate adopt the added excuse that the reform is "politically impossible" here—notwithstanding what has been done in Queensland!—and therefore not worth while explaining to students? Will there continue to be *practically no chance to learn about it in college*—where, of all places, its study is most appropriate—so that college boys and girls will usually not learn anything about it unless they just happen to drop into one of the classes (taught as a labor of love by volunteer teachers who have other jobs to make a living) of the Henry George School of Social Science?

In an article of just a few years ago, "Capitalism in the Postwar World,"[9] Prof. Joseph A. Schumpeter of Harvard University undertook to give an analysis of the way certain forces, political and economic, threaten or may threaten the continuance of "capitalism." Among the influences he mentioned was heavy taxation which largely absorbs the gains of enterprise and investment. In this connection he referred to "burdens which eliminate capitalist motivation and make it impossible to accumulate venture capital, with risks of borrowing greatly increased." And in an appended footnote he went on to say: "High or highly progressive taxation of profits increases the risks of borrowing for purposes

[9] Chapter VI of "Postwar Economic Problems," edited by Seymour E. Harris, New York (McGraw-Hill), 1943.

of long-run investment, because it absorbs profits the accumulation of which might be counted on to take care of subsequent losses."

But why did not Professor Schumpeter call attention to the fact that a tax taking all or most of the annual geologically-produced and community-produced *rental value of land* definitely does *not* remove or at all weaken the motive to accumulate? Why did he fail to remind us that the more we take of this income which is *not* the product of individual work and efficiency, or of saving and investment, the more can other taxes be reduced and the less will be the "burdens which eliminate capitalist motivation"? Is it because he—and, perhaps, a considerable number of other economics teachers—really thinks it *desirable* to *"eliminate capitalist motivation"?* Or it is because, *after careful and unprejudiced study* of such evidence as is presented herein and such analysis as appears here and in the various publications herein referred to, he was thoroughly convinced that there is no case for land value taxation and no argument for it sufficiently plausible, even, to be worth mention? Or did he never have the theory of the question really explained to *him* by any of *his* teachers, so that it has never occurred to him to mention it?

In this connection it is appropriate to quote from a letter written to me just a few years ago by a university teacher of economics. "The thing that is both curious and amazing to me," said this teacher, "is that I could have attained a Ph.D., having gone, among others, to two state universities, without having been subjected to more than a few pages of literature, mostly derogatory, and without having spent more than five minutes of class time on Henry George's philosophy."

Many textbooks in the "principles" of economics—and some, even in public finance—*make no mention at all of the subject.* Indeed, the recent text on "The Elements of Economics" by Prof. Lorie Tarshis of Stanford University, does not have the word "land" or the word "rent" or the name of Henry George in the index. The publishers claim it is in use at Columbia, Harvard, Yale and other universities. The same statement can be made regarding *"The Economics of Public Finance"* by Prof. Philip E. Taylor of the University of Connecticut. Such cases remind one of the limerick which relates that

A college economist planned
To live without access to land
And would have succeeded
But found that he needed
Food, clothing and somewhere to stand.

If there is occasionally a teacher who is eager to present the subject fully and fairly, he is quite likely to be limited in his opportunities of doing so by the prejudices of colleagues. Texts are selected and assignments arranged which all must use and follow. Dull and, from the point of view of the general welfare, *relatively inconsequential* topics are dwelt on for weeks. Almost no time—if any at all—remains for a consideration of the question whether some men should have to pay other men for *permission* to work on and live on the earth in those locations where work is relatively productive and life reasonable tolerable. I know personally of one teacher—probably in some such strait-jacket—who stated that he was trying to work out a method of presenting the subject in a single class meeting. That amount of time is, of course, *utterly inadequate for real understanding,* all the more so because of the prevailing lack of comprehension of what is proposed and *the confused and confusing antagonistic arguments* that the students will have to meet. *The situation is much as it would be in a college of medicine if the lecturers on cancer and on rabies were forced to devote their time chiefly to the subject of poultices and dressings and were allowed hardly any time for the explanation of surgical techniques, radium and X-ray treatment, and vaccination.* Thus, in economics, because important truth is denied or ignored, the students—and the public—are cheated.

It may be—*and has been*—a matter for unfavorable comment in a book review, if an author devotes "too much" space (*i.e.,* barely enough to enable an average student to understand the cause and effect relations involved!) to land value taxation. But *never* have I seen *any* review of *any* textbook in the field of economics or public finance criticize the author for devoting *too little* space to the subject or *even* for devoting *no space at all* to it. I doubt if there has been, *ever,* any such review in *any* of the regular professional journals of economics. Is this because "that sort of thing just isn't done in the best circles"?

What *should* determine the amount of space, and of time, to be devoted to the theory of land rent and its taxation? As we have already noted, other taxes and tax systems cannot, so long as any considerable part of the annual rental value of land is left to private owners, be so favorable to productive efficiency and so advantageous to the well-being of the majority of the citizenry of a country as can taxation of land values. The proponents of other tax systems, however inadequate and incomplete they may consider the inductive data herein summarized on the effects of land value taxation, have never, so far as I am aware, presented any similar inductive evidence regarding the prosperity inducing tendencies of the taxes or tax systems they urge. The study of land value taxation and its relative merits makes necessary a thorough study of the theory of the production and distribution of wealth and applies this theory to tax policy. Most certainly such a study can be used to train the student in logical analysis. And if it be argued that chief emphasis should be put, rather, on the study of the taxes and tax systems now actually in force in the United States and Western Europe, the answer is that *such a view completely misconceives the proper aim of university and college education for citizenship.* What our graduates should get, if they are to be intelligent and helpful leaders of public opinion, is such an understanding of cause and effect relations *that they can point the way to better policies than those of the past and the present* and can present cogently and effectively the reasons why such policies *are* better.

Or is it instead the proper function of the professors in our universities and colleges, *first* to find out what views are currently in favor, and *then make sure to indoctrinate their students with these accepted views!* Can it possibly be that this philosophy of the teaching of economics is the excuse for the current attitude of the economics professoriate toward the land question?

IV

NOT LONG AGO, after I had sent to a well-known teacher of economics a reprint of an article discussing some techniques for the teaching of rent and taxation theory, I received an acknowledgement that concluded with a mild reproof. The mildly-chiding professor suggested that if my development of the subject were "part of a broader attack on other major difficulties in our economy perhaps a more sympathetic hearing would have been attained."

I have written books and articles dealing with international trade, tariffs and bounties, with transportation rates, with the problem of the regulation of the rates of and of the valuation of public utilities, with business fluctuations and price level stabilization, etc. My teaching has for many years put emphasis not just on one but on *various* reforms needed to make "capitalism" work more effectively and fairly to the common advantage. I had been under the impression that the fact of my having shown interest in, and participated in the discussion of, these other aspects of economic theory and economic reform might indeed help at least a little in drawing sympathetic attention to my presentation of the land value tax proposal. And then comes this letter!

If I have devoted relatively more attention to the land rent problem than to some others, this is partly because it is so fundamental—after all, *why* should we *not* raise questions about *who should have to pay whom* for *permission* to *work on* and *live on* and to use *the earth?*—and partly because the land value tax proposal *has been so shamefully misrepresented and ignored* by various members of the economics professoriate and *needs friends so desperately.*

The teacher to whom this subject makes a significant appeal as a teaching problem will not be wholly without reward. A recent letter from one such teacher includes the following:

> In my own college days I studied economics at — University, and like most students of the subject, found nothing of particular interest—certainly nothing stimulating—about the subject, as taught. Then I went to the — Law School, and went to Chicago to do law office clerical work. . . . During the three years I spent there before my entry into the military service, I stumbled across Henry George classes, and for the first time in my life I was able to see that there was some direction that could be taken by a person with a strong sense of the values of individualism and a strong sense of mission in life, even in a world like the one we were living in. More than four years in the army and now two years of post war adjustment have only postponed the performance of what I think is the most important thing in the world—helping people to do some straight sound economic thinking.

Let no reader conclude that, as Dr. Willford I. King contends, men like this "are not merely advocates of an economic policy but that they are a religious cult and that their intense devotion to their creed has little connection with logic or reasoning."[10] That is a *cliché* for which there is no sufficient justification. It is the *argumentum ad hominem* of writers who *cannot really answer* the arguments of those on whom they seek to cast discredit. I have myself had considerable contact with leaders and teachers in the Henry George schools in New York City, Chicago and St. Louis. I have found some of them to be persons of considerable learning and all of them mentally alert and eager to understand the cause and effect relations involved in this subject. Only last year I lectured to teachers of the parent Henry George School in New York City, on the theory of interest from capital, criticizing sharply the views of Henry George on this subject. My talk was received with, apparently, considerable approval. Later I wrote an article for *The Henry George News*, organ of the New York branch of the School, elaborating this criticism. Special pains were taken by the editor to see that this article was printed not only in the *News* but separately—some thousands of copies—so that it might be available for the use of teachers of the School in different cities. Professors of economics who echo after each other this and other *clichés* about those who have found sense in Henry George's teaching regarding land rent and good tax policy, simply do not know what is going on elsewhere

[10] "The Single-Tax Complex Analyzed," p. 612.

than in their own little group. When will they "snap out of" their coma?

It is my experience that students in the "principles" of economics (and in public finance, too) *are more interested in this part of the course than in any other part.* Individual students have informed me that they have heard about this topic as a part of the course and that they wanted to take the course especially for that reason. Any adequate presentation of this topic *reaches for fundamentals. It stirs discussion. It is dramatic. The students talk about it outside the class.* Only recently one of my best students told me that "the question of the land tax is *the most discussed question on this campus." They endeavor to explain the theory of it to others* not taking the course. They *talk about it at home during vacation. Teachers who omit or "soft-pedal" this part of economics can scarcely hope,* if other things are at all equal, *to make their classes as interesting to their student customers.* No amount of money spent from the income of large endowments, to hire instructors or "tutors" to stimulate discussion in dormitories or other small groups, can compensate for leaving out of the work in economics *the most exciting and vital topics on which it can shed light.*

Recently a college teacher of economics told me that the economics students where he is teaching tend to accept "a mixture of Keynesian economics and traditional socialism." Other economics teachers, including one of considerable years and experience with whom I have discussed the matter, agree that this is probably a general condition in American colleges and universities. Certainly there appears to be reason to believe that in most of our institutions of college rank, students of economics who are inclined to social idealism—as many are—*tend toward one or another form of socialistic philosophy.* This, I believe, is *because they do not get,* from their courses in economics, *the vision they might get* of what a system of free private enterprise would mean to common folks, if it were so reformed as to make it *consistent with the principles appealed to by those who essay to defend it.* Such reform would, indeed, include much more than reform in our land and taxation system *but this it must certainly include.* There is tragedy in the fact that among those who have been lured into communistic activities, and even into betraying the interests of their own government to those of an alien power, are some *who followed communism because of their own social idealism* and who *might have been saved from this personal tragedy had the influence of our economics professoriate not been in the direction of discrediting and hushing up all serious advocacy of the public appropriation of the annual rental value of land.*

A land value tax policy would reward industry, efficiency and thrift. It would stop the waste of vacant land speculation. It would further ownership of land as against tenancy by those who use it. It would be better for workers as such, whatever their prejudices in the matter, than any other tax policy. *It would, along with effective anti-monopoly policy, the ending of special government privileges to various groups, stabilization of the dollar as the yard, quart and pound are stable, etc.,*[11] *conduce powerfully to strengthen the system of free private enterprise* ("capitalism") and *increase its attractiveness as compared with the regimentation of socialism to which we seem to be tending.* If our teachers of economics, *instead of rejecting,* as so many of them have done, the teaching of Henry George, had striven to make the important and relevant parts of that teaching understood, we might by now, through their influence and that of thousands of their students, be well on our way to the realization of this basic reform in full measure. Thus we would be *more prosperous, stronger should war threaten,* and with *the peoples of other countries looking too admiringly at us and our system to be greatly tempted by communism.* If our military leaders had ever had it adequately explained to *them* in their college days, *it might have been applied to occupied countries,* hastening their recovery from the ravages of war, making more distinct the advantages of free enterprise over socialism and communism and increasing our influence as against that of the communist states.

But this our professors of economics have not done. Instead, they have mostly sought, even when they have been willing to discuss the land question at all—*say for five minutes!*—to indoctrinate their students with an entirely different economic philosophy, inconsistent with and antagonistic to that of Henry George. And their influence has spread widely. Students have come from far countries to study at American universities and especially at the larger institutions, such as Columbia University. In these institutions students from the Chinese Republic, whose founder, Dr. Sun-Yat-Sen, was greatly impressed by Henry George's contribution to economics and wished to make some application of George's principles to Chinese taxation policy, have been indoctrinated with a contrary philos-

[11] If and when our economic set-up is reformed in all these respects, there will remain, still, the undeserved inequality that stems from the injustices of the past. Elsewhere I have discussed the possibility of mitigating this inequality by means of wisely graduated inheritance taxation; while yet not denying the natural and reasonable desire of men and women to bequeath from their savings to those near and dear to them who may survive them, and, therefore, not appreciably weakening the motive to save. See my "Basic Principles of Economics," pp. 453–7 or "The Economic Basis of Tax Reform, pp. 61–7.

ophy and have returned to China to teach this contrary philosophy in Chinese colleges and universities.

If communism—or socialism—and the incident regimentation *should win,* in the United States, in Western Europe, in China and elsewhere, *over the present caricature of free enterprise,* those professorial economists whose economic philosophy has contributed to make our economic system such a caricature cannot be held free of all responsibility for the system's ultimate collapse. For "capitalism" is indeed under heavy attack in a large part of the world. And the college graduates our economics professors have taught are but poorly armed against the bombardments of communist and socialist ideology, when they can oppose the optimistically idealized programs of the "planners" with nothing better than this caricature of what capitalism could be at its possible best. *Why have they not been shown the intriguing blue-print of a free private enterprise system clearly worth fighting for?*

Were the great majority of the teachers of economics in the universities and colleges of the United States *convinced communists* desirous of *following "the party line,"* were the leaders of the party *in Moscow* seeking *to corrupt* capitalism into as poor a system as it could be made, in order that it might operate so badly as to *provoke revolution,* and had the communist leaders, for that very reason, given to all of these communist teachers of economics definite instructions either to *keep students from ever thinking about the land value taxation program at all* or to *cast discredit on it,* the situation as regards education of university and college students on land rent and its taxation could hardly be worse than it actually is. For with current trends and political pressures what they are and the current teaching of economics what it is, the people of the United States are unlikely to go along the path that Queensland has followed more than half the way, and, still less, to go further than Queensland has gone, thus reaping the advantages—and more—that Queensland has gained in considerable degree. Rather are we likely to follow the example of Tasmania and eventually, perhaps, do even worse. And how can anyone say that the teachings of our economists have and will have nothing to do with the result, unless he believes that this teaching has no effect whatever on the minds that are subjected to it?

It is of course difficult to assess individual responsibility when the mental pattern of most of the economics professoriate is so largely conditioned by the teaching of their predecessors, the economists of an earlier generation, and by the ideas and *clichés* current among their contemporaries. *But there is nevertheless a collective responsibility.* And so in a very real sense, the failure of the economists in our colleges and universities, to make clear to their students the cause and effect relations involved in the land value taxation policy, is *a betrayal of the interests of common folks, who had a right to expect from these teachers a guidance they have not received.*

"Political economy," wrote Henry George[12] nearly three-quarters of a century ago, "has been called the dismal science and, as currently taught, *is* hopeless and despairing. But this, as we have seen, is solely because she has been degraded and shackled; her truths dislocated; her harmonies ignored; the word she would utter gagged in her mouth, and her protest against wrong turned into an indorsement of injustice."

What are the chances that, among the present (seemingly) "lost generation" of professorial economists, any considerable number will reject *the illogical teaching of so many of the prestige names* in economics? What are the chances that any of this lost generation will re-educate themselves to an understanding of the land question? What are the chances that any appreciable number of them will earnestly strive to give their students a fundamental comprehension of "capitalism" *and* of the nature and significance of the reforms—*including reform of the tax system in the direction pointed out by Henry George*—essential to its beneficent operation? Some of them *can* do effective teaching along this line *if they want to. Who* among them—*and how many—will really want to?*

And what are the chances that there will be, here and there, a department chairman, or a president of a small college, who seriously believes that students at his institution *ought to have the opportunity* to gain *real understanding of the case for this important reform*—as well as, in general, of the advantages of a system of free private enterprise so reformed as to be consistent with the principles commonly appealed to in its defense? What are the chances that some chairman—or president—will want to have, in his department of economics, *at least one* teacher *really capable* of giving and *interested* in giving such understanding? What are the chances that such a chairman—or president—will not only *strive earnestly to get such a teacher* but will see to it that the teacher has *full freedom and opportunity* for adequate oral presentation, reading assignments and class discussion of the problem—to the end that against *that* university or college, at any rate, the indictment levelled in this paper shall not apply?

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[12] In "Progress and Poverty," New York, 1879, "Conclusion." The passage quoted is on page 559 of the Fiftieth Anniversary edition, New York (Robert Schalkenbach Foundation), latest printing, 1948.