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LUCAS BROTHERS

Columbia, Mo.

Comments on Some Current Criticisms of Land-Value Taxation

Reprinted from

THE TAXATION OF UNEARNED INCOMES

by

HARRY GUNNISON BROWN

Professor of Economics in the

University of Missouri

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LUCAS BROTHERS

Columbia, Mo.

After a while they came to the place where five roads branched in different directions; Dorothy pointed to one, and said:

"That's it, Shaggy Man."

"I'm much obliged, miss," he said, and started along another road.

"Not that one!" she cried; "You're going wrong."

He stopped.

"I thought you said that other was the road to Butterfield," said he, running his fingers through his shaggy whiskers in a puzzled way.

"So it is."

"But I don't want to go to Butterfield, miss."

"You don't?"

"Of course not. I wanted you to show me the road, so I shouldn't go there by mistake."

"Oh; Where do you want to go to, then?"

"I'm not particular, miss."

—L. Frank Baum
(*The Road to Oz*)

III

COMMENTS ON SOME CURRENT CRITICISMS[1]

§ 1

The Single Tax as a Deterrent to Thrift!

It will be worth while, before concluding our study, to consider some of the recent criticisms levelled against the increased taxation of land values, by a few of the most widely known of the economists who oppose that policy. These criticisms are, in large part, directed, ostensibly, against *the* "single tax". But it is perfectly obvious that most of them are intended to apply against *any considerable increase of land value taxation,* even if such taxation might have to be supplemented by other taxes in order to provide sufficient revenue or even if certain other taxes, such as inheritance taxes, were wanted anyhow for the effects believed likely to result from them.

In his elementary text for high schools, entitled *Essentials of Economics,*[2] Professor Fred Rogers Fairchild says:

"One of the clearest lessons of the world's economic history is that the most efficient use of the land comes when

[1]Reprinted, with some changes and considerable additions, from "The Single-Tax Complex of Some Contemporary Economists," published in the *Journal of Political Economy* for April, 1924. The author is under obligation to the Chicago University Press for permission to reprint.

[2]New York (American Book Co.), 1923, pp. 525 and 526.

it is in the hands of private owners. Governments have proved to be very poor landowners. . . . To obtain the fullest product from the land there must be careful, painstaking, intensive cultivation. The individual owner will give his land this kind of cultivation. It belongs to him. All that he does to improve it by hard labor and 'loving' care, all that he spends for draining and fertilizing, are for his own gain and for his family. He will work and spend to improve his land, and the crops will increase accordingly. The marvelous results of the care and labor of small landowners in increasing the fruitfulness of the land are to be seen all over the world. Exactly the opposite has come from government-owned lands.

"Now the land is the final source of all the wealth that satisfies our wants and makes life possible and enjoyable. Anything that increases the product of the land is a benefit to mankind. Anything that would reduce the productivity of the land would be a world calamity. Therefore, in spite of some evils resulting from the private ownership of the land, we conclude that a change to government ownership would be a mistake.

"A change which is vigorously advocated by some people is known as the *single tax*. The final goal of the 'single-taxers' is a tax of 100 per cent. on the economic rent of the land. They would like to see the government take away from the landowners the entire economic rent. Since, as we have learned, the value of land depends on its economic rent, this would be equivalent to taking away the entire value of the land. *The single tax is ultimately land nationalization.*[3]"

In his second following paragraph, Professor Fairchild goes on to say that in "its extreme form, the single tax

[3]Italics here are the present writer's.

is open to the objections already raised against land nationalization."[4] This he says without any qualification whatever. It would seem clear, therefore, that Professor Fairchild really believes that a tax of 100 per cent. on the rental value of land, with no tax at all upon the products of labor including what is spent for draining and fertilizing land, would "reduce the productivity of the land."[4] Or else Professor Fairchild understands the single tax to be—what it certainly is not in the minds of its most intelligent advocates—a scheme to tax the value of drainage, fertility, etc., put in by, or dependent for maintenance on, the individual owner. Professor Fairchild's statement that this[5] would "reduce the productivity of the land" must mean, if it means anything, that people will work harder and produce and save more when their taxes are proportional to their productiveness and thrift than when their taxes are so proportioned to the advantages of the sites they occupy that improvements in drainage or in the fertility of their lands, more and better buildings, improved machinery, greater productiveness, etc., will not at all increase their taxes.[6] This is certainly the interpretation which the high-school student, if he thought about the matter, would be obliged to put on the passage. And this is the impression which the high-school teacher—often untrained in economics and sup-

[4]See remarks quoted from Professor Fairchild on land nationalization.

[5]Land nationalization, but, as pointed out above, he tells us that 100 per cent single tax is *open to the same objections.*

[6]Professor J. E. LeRossignol in his recent *Economics for Everyman*, New York (Holt), 1923, p. 273, discussing the single tax, says that "public ownership of land" which he apparently regards as the same thing, "would interfere seriously with the improvement of land."

posing that the conclusions stated must be correct since they are those of a widely-known professor of economics in a great university—will get. Is the conclusion a true one?

But perhaps Professor Fairchild is troubled by the fear that no one would want to hold title to land if its economic rent were taxed 100 per cent., whereas people do want to own it when the land is taxed much less as now, but every building or improvement put upon or into the land is also taxed. If a farmer should have to pay a site-value or bare-land-value tax of, say, $100 a year, representing the full rental value of his farm not counting buildings, machinery, growing crops, fruit trees, installed drainage, maintained fertility, etc., he would, on this theory, not care to hold title to the land upon which and into which all these improvements were put. But if, paying a much smaller tax on the bare land, he had to pay additional taxes for each of these improvements, then he would be very anxious to hold title, even if, as might easily be the case with highly improved property, his total taxes were larger.

Let us digress a moment to the case of urban land which, for the purposes of the present argument, is analogous. The present writer's house is built on a lot the net rental value of which probably does not exceed $40 or $50 a year. Professor Fairchild, if he holds to the theory under discussion, would have to say that a tax of that amount would destroy the incentive to ownership. (He does say that "the single tax is ultimately land nationalization.") The owner's actual tax on house and lot comes to $70 or $80. The house is half stone and so is not removable. Can it be that the owner's interest in his home and his desire to hold title to the lot on which it is built

would be less if the lot were taxed at full rental value than it is when all the property is taxed? Is it not a reasonable conclusion that men would want title—even with the 100 per cent. extreme of single tax—to the land in which and on which they possessed valuable improvements, and that they would be as thrifty and as eager to make such improvements if their taxes were not increased because of them?[7]

But let us turn back to Professor Fairchild's discussion of private ownership of land versus nationalization, in which agricultural land seems to be especially referred to. "The individual owner," he says, will give the land "this kind of cultivation (careful, painstaking, intensive). It belongs to him. All that he does to improve it by hard labor and 'loving' care, all that he spends for draining and fertilizing, are for his own gain and for his family." As a matter of fact, under existing tax laws, "all that he does to improve it by hard labor and 'loving' care, all that he spends for draining and fertilizing," are *not* "for his own gain and for his family." The more the owner improves his land the more he has to contribute of his income to the state. What Professor Fairchild says of the present system in his desire to defend it against land nationalization (in his view the same thing as 100 per cent. single tax) is distinctly not true of the present system but would be true under the single tax.

One wonders whether Professor C. C. Plehn, also a specialist in taxation, had the similar view which a pas-

[7]Of course it may be argued that the more people are taxed the harder they will feel *obliged* to work. Relieving non-landowners of some of their taxes might then enable them to do less. But, on the same principle, taxing some landowners more might make *them* do *more* work.

sage from his *Introduction to Public Finance*[8] seems clearly to imply:

"Every tax tends to repress the development of the particular phenomenon on which it rests. A single tax *of any kind*[9] will tend to defeat its own ends by repressing the existence of the phenomenon which gives the signal for its assessment. In Mexico land is not taxed, but if the farmer kills a cow, or sells a crop, he is taxed. Naturally this discourages any extension of the uses of land that involve this disagreeable consequence. The experience of nations which has led them to diversify the forms of their taxation is, therefore, supported by theoretical considerations."

The reference to Mexico, considered in the light of its context, appears to be an attempt at an inductive proof that every tax, including the single tax on land values, is repressive. But, as Professor Viner has pointed out,[10] "this may be a valid argument against a tax on the slaughter of cows, but it is not a sufficient demonstration that a tax on land values would repress the use of land."

Whether a single tax on land rent could provide all the necessary revenue for our common needs[11] or whether

[8] 4th ed. New York (Macmillan), 1921, p. 88. Cf. comments on the passage cited, by Professor Jacob Viner, in article entitled "Text-books in Government Finance," *Journal of Political Economy*, April, 1922, pp. 250-51.

[9] Italics are the present writer's.

[10] *Loc. cit.*

[11] In his recent book on *Public Finance* (New York—Appletons—, 1924, p. 379), Professor H. L. Lutz seems to suggest that a tax on land values can be a satisfactory source of revenue only when a community is growing and when its land values are increasing! The truth is that what is essential is not that the value of land shall be increasing but merely that the total amount of economic

there may not be special reasons for levying certain other taxes is not relevant to the present problem. The point is that *if* a 100 per cent. tax on rent *should be* sufficient and if it should be the only or "single" tax levied (this being, according to Professor Fairchild, the same thing as land nationalization), then indeed, and only then, would *all* that the owner of land might do "to improve it by hard labor and 'loving' care" and *all* that he might spend "for draining and fertilizing" be "for his own gain and for his family."

It should be noted that Professor Fairchild (and likewise Professor Plehn) does not base his statement upon any alleged impossibility of separately assessing land and improvements. Professor E. R. A. Seligman, in attempting to make good the contention that the single tax would rest more heavily on agricultural than on urban districts, found himself compelled to note the arguments of those who insist that the owners of agricultural land should not and would not be taxed on the value of trees, fertility, drainage, and other such elements put in or maintained by their own efforts and investment and that the single tax would, therefore, be relatively less burdensome to the average farmer than the present tax system. His answer was that it is impossible to separate the value produced by the owner from the value socially produced. The only evidence the present writer could

rent shall be reasonably large. As long as such a tax leaves to private owners any considerable fraction of economic rent it is nonsense to complain that the tax "base" is too "narrow" to yield adequate revenue, nor is it a well-taken objection to heavy land-value taxation that under its operation many parcels of land are surrendered for taxes and can not then be marketed at a high price. For one of the very purposes of such taxation is to lower the salable value of land. See § 7 of this essay (III).

find adduced for this statement was the allegation[12] that this is not easy to do, that "it is quite impossible in practice, to distinguish improvements on the land from improvements in the land,"[13] and the statement that "no attempt is ever made, in assessing land values, to differentiate between the two."

Doubtless such differentiation would involve difficulties. In practice there might be considerable variations from the ideal of accuracy. But even with noticeable imperfections of assessment it is possible that, by seriously attempting to tax land values rather than improvements, we might penalize thrift and the improvement of land very much less than we now do.

An unbiased inquirer would not, perhaps, be primarily concerned with listing difficulties as arguments against the single tax. One suspects that he would endeavor first to ascertain what economic consequences would be likely to ensue from the application of a bare-land-value tax, and that then, if these consequences seemed desirable, he would be anxious to know whether a system of assessments approximately meeting the need could not possibly be devised. It seems not beyond the bounds of reason that the exercise of intelligence in cataloging elements of value not appreciably dependent upon owners' efforts, e. g., situation, slope, freedom from rocks, etc., together with experience, would go far toward the eventual securing of workable differentiated assessments even of agricultural land. To settle the matter in the negative with an *obiter dictum* or with a statement that differentiation

[12]*Essays in Taxation*, 9th ed. New York (Macmillan), 1921, p. 77 and footnote on p. 91.

[13]Professor Seligman's phraseology is a bit confusing. For what is wanted is to differentiate between bare-land values on the one hand and improvement values of any sort on the other hand.

is "quite impossible" and that "no attempt is ever made . . . to differentiate" may be no more reasonable than it would have been in 1890 or in 1900 so to settle the question whether travel by airplanes would ever be feasible. If, indeed, no better scheme should prove possible of application, we might follow a suggestion of Professor Commons[14] and reckon the value[15] of bona fide agricultural land which is *kept up to par in fertility*, as, say, one-half bare-land value, after the value of all buildings, planted trees, etc., had been subtracted. And the cost of installed drainage and other permanent improvements might similarly be subtracted. If such permanent improvements are likely to become, in time, indistinguishable from the land, they could be regarded as being amortized into bare-land value[16] so gradually—say over a period of thirty to fifty years—as not seriously to discourage the owner from making them. Then, in a succeeding generation, when evidence of their cost was no longer available, the problem of assessment would not be complicated by them.

Those who object to taxing land values rather than capital on the supposition that the distinction frequently could not be made by assessors with absolute accuracy, perhaps do not fully realize what this argument implies. If we must, *sometimes*, because of the inadequacy of our data and the imperfections of our judgment, uninten-

[14]"A Progressive Tax on Bare-Land Values," *Political Science Quarterly*, March, 1922, especially pp. 53-56. Professor Commons makes other interesting suggestions along the same line. Cf. the present book (*The Taxation of Unearned Incomes*), pp. 102-3, footnote.

[15]It would be well to reckon by rental rather than by salable value since the latter, in the case of land, is so greatly affected by any considerable tax.

[16]Cf. Commons, loc. cit., pp. 61-64.

tionally penalize thrift and improvement, is it therefore to be argued that we ought deliberately to maintain a system of taxation by the application of which we *always and everywhere* penalize thrift and improvement?

§ 2

Does the Community Gain from Land Speculation?

While some economists seem to argue that to levy on land values rather than on other things would discourage the improvement of land, other economists (or, at least, one other) seem to fear that such taxation would unduly interfere with the holding of land out of use by speculators! In the words of a well-known opponent of increased land-value taxation, Professor Richard T. Ely,[17] the owner of vacant or unused land "renders distinct service because he carries the burden while a lower use is ripening into a higher one." There is no intention to argue here that all land ought to be used when it is not all needed.[18] Neither is it intended to deny that the holding of well-situated land out of use for a few years may sometimes leave the way open to a better use,[19] that, for example, speculation in city lots may yield a service by preventing land from being built on too soon and so saving it for prospective high buildings without necessitating the tearing down of

[17]*Outlines of Land Economics,* Ann Arbor, Mich. (Edwards Brothers), 1922, Vol. III, p. 105. Cf. also, context, p. 104.

[18]Much of the remainder of this and the next paragraph is repeated almost word for word from the footnote on page 106.

[19]See Fisher, *The Nature of Capital and Income,* New York (Macmillan), 1906, pp. 253-254. The present writer has no reason to believe that Professor Fisher opposes increased taxation of land values.

old and lower ones.[20] But if any economic waste is ever so avoided it is probably more than equalled by the waste involved in constructing, repairing and cleaning longer streets, in the walking and riding longer distances, past vacant land, of thousands of city dwellers, and in the transporting of goods farther from store to store and from stores to homes than would otherwise be necessary.[21] Individual estimates of the balance of gains and losses do not tend to result in the most economical arrangements when the individual who exercises the power of choice experiences the gains but divides with the community the losses. May it not be that wastes of a like sort, including the building of railroads past many miles of largely unused land, help to account for those *"high costs of distribution"* of farm products, of which farmers and others frequently complain?

Again, the notion that money can be made by speculation in land probably operates as would a partial combination among holders of vacant land, thus forcing up rents and land prices. Also, such unused land is raised in value not only by road and street construction, but also by other improvements and services paid for from community funds. Hence, to tell the owners of land that many of the improvements will be paid for chiefly by

[20]Everybody knows that, as a rule, skyscrapers are built upon land on which lower buildings previously rested and that, usually, these lower buildings are torn down in order that the higher ones may be constructed. And there are persons who would be inclined to say that, even if the speculative holding of land out of use really were an advantage to the community, the leaving of the major part of economic rent to private landowners would be too heavy a price to pay for it.

[21]In so far as space may be wanted for parks and playgrounds, the taxation of land values makes it possible for such space to be bought at a lower price.

those owners who build upon and use their land may be not merely to avoid discouraging speculative holding but to offer a distinct encouragement to such holding.

It is interesting to note that different conservative professional economists answer in seemingly opposite ways the contention of land-value taxation advocates that speculation in land injures the community by holding good land out of use, so forcing resort to poorer land, decreasing the productivity of industry, lowering wages and raising land rent. For, while some economists make light of this contention, claiming that very little good land really is held out of use, others (at least one other) argue that land *is* held out of use during the "ripening" process, that this is to the *advantage* of society and that heavy land-value taxation is objectionable because it would prevent such holding. Both of these arguments against increased land-value taxation are apparently appealed to by Professor Ely.[22]

§ 3

The Unearned Increment as a Cause of Cheap Goods!

A view which should perhaps be distinguished from any of the foregoing ones is that of Professor T. S. Adams. Professor Adams seems to believe that the private receipt of the so-called unearned increment stimulates production and thereby lowers prices. The implication would appear to be that, were land values so taxed as

[22]Outlines of Land Economics, Vol. III, pp. 98, 104, 105. The chapter here cited is repeated, in large part, from Professor Ely's paper in the *Proceedings of the National Tax Association* for 1921. See, especially, pp. 245 and 251.

to prevent private realization of any unearned increments, prices would be higher. Professor Adams says[23] that "farmers and farms are more numerous, farm products more plentiful, and farm prices lower, because of the unearned increment. . . . It (the unearned increment) is diffused to every one who eats." To this one would be inclined to reply that *if* we have more farmers,[24] farms and farm products and lower prices of these products, then we must have fewer people in some or all other lines, fewer builders, fewer manufacturers, fewer houses, fewer manufactured goods and higher rents and prices for these houses and goods.[25] But such does not appear to be the view of Professor Adams! For he goes on to say:[26]

"Similarly our railroads have counted upon the unearned increment to justify extensions that would not otherwise have been made; and if the land used in operation is yielding a high economic rent, that rent enters into the earnings upon which traffic rates are based. Thus in two ways the unearned increment operates to reduce railway rates. . . . The manufacturer in the same way is forced to give back to the community the unearned increment which he is supposed to receive. . . . Here the consumer of the product gets the benefit through a reduction in the cost of production. . . . Finally, ten-

[23]"Tax Exemption through Tax Capitalization," *American Economic Review*, June, 1916, page 279.

[24]We might, conceivably, merely have the same number of farmers, but settling new land instead of remaining on the old.

[25]See footnote on pp. 163-165 of this book. Cf. II, § 6, where consideration is given to the claim that the unearned increment is diffused in *higher wages*.

[26]Pages 279-280 of his article.

ants receive the transmuted unearned increment" (in the form of reduced rents)![27]

Unlike those who contend that, because of the hope of an unearned increment, good land is held out of use and production retarded by the forcing of industry to poorer and more remote land, Professor Adams seems to believe that there are more people in every line, more land used, more buildings constructed and prices and house rents lower than if the unearned increment were not allowed to go into private hands! The number of persons in each line is increased thereby without the number in any other line being decreased![28] Does Professor Adams think that the private enjoyment of the unearned increment increases the birth rate or decreases the death rate, so causing more persons to crowd into all lines? And, if so, does he suppose that the presence of this larger population (perhaps forced to the use of poorer land by speculative holding as well as by increase of numbers) will result in greater prosperity for the masses, so "diffusing" the unearned increment? If he does not suppose this, then what does he suppose?

[27]See, for a discussion of the relation—or non-relation—of the unearned increment and building, Davenport's article on "Theoretical Issues in the Single Tax," *American Economic Review*, March, 1917, pp. 17-24, and the present writer's recent book, *The Economics of Taxation*, New York (Holt), 1924, pp. 225-227.

[28]On page 281 of his article Professor Adams seems to admit that if the increment were accurately known in advance it would be capitalized and that then lower rents and prices would not follow. The implication is that the stimulating effect which he alleges, depends upon the increment not being expected! A future gain, not now contemplated, is asserted to have a present effect on action!

§ 4

The Single Tax in France!

An alleged "actual fact" makes a considerable impression on persons as untrained in the methods of science as are many students of economics in some of our best-known colleges and universities where the chief material offered in economics, after the beginning course, is descriptive and narrative, as is most of the material usually presented in textbooks on taxation and public finance. One who desires to convince such students that a given policy is undesirable can find no more effective method of doing so than to get an historical case where it was "actually tried" and where it was abandoned because it "didn't work."

The competent student of human history knows that many times when a policy has been abandoned because it "didn't work," it has really been given up because, however desirable its effects may have been on the people-in-general, it has been objected to by some class or classes having power or influence. Indeed, policies which would benefit them are often rejected by the very persons who would be the beneficiaries. But these facts the superficial observer does not see. Hence, the statement that an abandoned policy was given up because it "failed" may seem to such a one conclusive.

Innocently enough, doubtless, so far as intention is concerned, but with a carelessness that he might not have permitted himself had the supposed facts in his possession run counter to his own views, Professor Merlin Harold Hunter has used this kind of argument in his

Outlines of Public Finance.[29] Near the beginning of his chapter on the single tax, Professor Hunter refers to France, the physiocrats, and the *impôt unique* of these economists.[30] Then he makes the following amazing statements:

"Much was accomplished in putting the system into effect until glaring inequalities in the tax burdens became apparent. Citizens with large incomes from stocks, with unquestioned ability to meet fiscal burdens, were escaping entirely, while the poor landowners were able to meet the tax burden only with the greatest difficulty.[31] The injustice became so marked, and the dissatisfaction so evident, that the *impôt unique* was abandoned."[32]

In the *Century Magazine* for July, 1890, Mr. Edward Atkinson, debating the single tax with Henry George, made a similar statement.[33] He said: "It (the single tax) was presented more than a century since by the economists of France known as the physiocrats; it was applied in France under Turgot, before the French Revolution, with very disastrous results." But in the November (1890) number of the *Century*, replying to a communication from a Mr. James Middleton, Mr. Atkinson admitted that he

[29] New York (Harpers), 1921. See review by the present writer in the *National Municipal Review* (November, 1922), p. 391; cf. Viner "Textbooks in Government Finance," *Journal of Political Economy*, April, 1922, pp. 253-55.

[30] P. 363.

[31] In regard to probable effects of single tax on the welfare of the common man, the reader is asked to compare this decidedly misleading clause with what is said in sections 1 and 7 of this essay. The clause here cited is perhaps as misleading on the principles and probable effects of land-value taxation as it is historically.

[32] Pp. 363, 364.

[33] XL (New Series, Vol. XVIII), 393.

had written incorrectly and that the single tax had not been tried in France.[34]

§ 5

Are All Goods Equally Products of Nature?

Professor Hunter's book contains many of the current arguments against the single tax. And he apparently has no sympathy even with the views of those who hold, without being orthodox single-taxers, that land should bear a larger proportion of the total tax burden. The often asserted difference between land and various other goods, viz., that it is a gift of nature and they the products of labor, he disallows in the following passage:

"Here is a farm, a gift of nature, and on it a dwelling house, a product of man's labor. But when a little closer consideration is given to the house, nature appears to have played a considerable part in making provision for it. The clay in the brick was taken from the hillside; the oak in the floors was taken from the forest; the glass in the windows was accumulated from various places. The entire building was a gift of nature—man has no more power to create houses than to create land. He simply changed the materials of nature to make them more serviceable, the difference being that he exerted more effort on some than on others."[35]

A very similar view is presented by Professor Seligman in his *Essays in Taxation*,[36] by Professor Winthrop More

[34] XLI (New Series, Vol. XIX), 158.

[35] Pp. 367, 368.

[36] Pp. 70, 71.

Daniels in his *Public Finance*,[37] and by others. But have these authors never heard of the theory of marginal productivity, in which produced wealth is imputed in part to each of the so-called "factors of production?" If they have, they should be able to realize that there is a sense in which land, apart from all improvements in or on it, is very much more a gift of nature than a building. Can the land be in any way "imputed" to labor?

What the single-taxers are really endeavoring to do is to make a distinction between certain values that can be imputed to the labor and thrift of individuals as such and certain other values that cannot be so imputed but are either gifts of nature or the results of community growth. If this distinction is not always clearly presented and if there is sometimes confusion about seemingly border-line cases,[38] the business of the trained student of economics whose point of view is the objective one of the scientist, is to dissipate the confusions and make the distinction plain. Yet here we find three economists—and there are many more of like mind—attempting to make less clear rather than more so a really important distinction that every student ought to be made to understand; and this for apparently no other reason than to discredit the single-tax philosophy.

There are various other arguments presented in Professor Hunter's book (as, also, in Professor Seligman's *Essays in Taxation*) to which no attention will here be paid, partly because of a disinclination so to extend the discussion and partly because they have been discussed

[37]New York (Holt), 1899, p. 82.

[38]The present writer has recently discussed certain of such seemingly border-line cases in *The Economics of Taxation*, New York (Holt), 1924, pp. 220-233.

at length in the preceding essay in this book. Indeed, the present writer considered them, or a number of them, prior to the appearance of Professor Hunter's book, in an article[39] and in two different books,[40] one of the books being the first edition of this one. Considerable attention was given to some of these arguments in Professor H. J. Davenport's article on "Theoretical Issues in the Single Tax," 1917,[41] with which Professor Hunter seems unfamiliar.[42]

§ 6

"Vested Rights" Again

But the real objection of conservative economists to the single tax—or any considerable steps toward the single tax—flows from their respect for "vested rights." Says Professor Fairchild in his *Essentials of Economics*:

"The present owners of land have come into possession in good faith under the present rule. Many of them have paid for their land its full present value. To proceed now to take from them the whole *or a part* of the value of their land or to impose upon them discriminatory taxes would be an injustice. If there is to be land nationalization it can be accomplished justly only by purchasing the land at its fair value from its present owners. Any other procedure *is like changing the rules of a game, while the*

[39]"The Ethics of Land-Value Taxation," *Journal of Political Economy*, May, 1917, pp. 464-92.

[40]*The Theory of Earned and Unearned Incomes*, 1918, and *The Taxation of Unearned Incomes*, first edition, 1921. Both, Columbia, Missouri (Missouri Book Co.).

[41]*American Economic Review*, March, 1917, pp. 1-30.

[42]There is in Professor Ely's *Outlines of Land Economics*, also, no evidence of acquaintance with Professor Davenport's article.

game is in progress, to the disadvantage of one contestant."[43] A similar view seems clearly to be held by Professor T. S. Adams,[44] whose apparent contention that the unearned increment increases production in general and is "diffused" in lower prices, not of one sort of goods only, but of *goods in general,* we have already noted.[45] It is apparently subscribed to by Professor R. T. Ely,[46] whose opposition to special land-value taxation is well known. It is definitely declared by Professor Winthrop More Daniels.[47] And it seems to have the support of Professor F. W. Taussig,[48] of Professor C. J. Bullock,[49] and of various other writers.

Professor Daniels is thoroughly consistent in his adherence to the view that an investment once made is sacred as against discriminatory taxation whether it is in land or in a stock corporation having a monopoly. For he asserts that[50] "when the source of monopoly or unearned profits has been once transferred from the original owner,

[43] P. 527. Italics are the present writer's.

[44] See his article on "Tax Exemption through Tax Capitalization" in the *American Economic Review* for June, 1916.

[45] § 3 of this essay (III).

[46] *Outlines of Economics,* 3d rev. ed. New York (Macmillan), 1916, pp. 681, 682. The fourth and latest edition (September, 1923), does not appear to contain the specific passages here referred to, but the passage on page 672 (which is logically correct as against the theory there criticised) would probably be interpreted by most readers as implying the former view. Certainly there is no clear indication of any change in this view.

[47] *Public Finance,* p. 85.

[48] *Principles of Economics,* 2d rev. ed. New York (Macmillan), 1915, Vol. II, 102.

[49] *The Elements of Economics,* 2d ed. Boston (Silver, Burdett & Co.), 1913, pp. 326-28.

[50] P. 85.

special or exclusive taxation involves the expropriation of property owners, who acquired their title by indefeasible right."

By the same logic it would appear to be unjust to regulate downward the high prices or rates of public service or other monopoly companies after purchases have been made of their stock, in the expectation of the continued receipt of unregulated returns, by other parties than those who established the monopolies. If the originally responsible persons have died, or have sold out and cannot be found, or have sold out and dissipated their gains, it must then be the duty of the public to go on paying, indefinitely, rates that yield 20, 30, or 40 per cent. on the value of the necessary plants for conducting the businesses —or else to buy out the monopoly concerns at values arrived at by capitalizing their large anticipated returns.

Extreme cases are sometimes enlightening. Let us suppose, then, a community in which not only is all the land owned by a few, but in which every article is under the control of, and the price fixed by, a monopoly. At every turn the common man finds himself the victim of exorbitant prices. But the monopolists, like the landowners, have bought the right to these large incomes and cannot justly be dispossessed! The masses, even though they get control of government, cannot fairly reduce rates and charges because this will involve "the expropriation of property owners who acquired their title by indefeasible right."[51] No, the masses must either continue to pay indefinitely the high prices and rates that have become customary or else they must buy out the monopolists at the fair present value of the incomes that have become customary! This view of the ethics of the case might

[51] Daniels, *loc. cit.*

seem a hard one to persons whose real incomes were thus forced to a low level by ubiquitous monopoly. And they might decide that to continue paying the monopoly charges would be fully as easy as to buy out the monopolists at the capitalized value of their "indefeasible" property. In any case the victims of the system continue to be victims. There seems reason to believe that, in the eyes of economists like Professor Daniels, no other alternative is permissible.

But, in general, teachers and writers of economics do not seem inclined to insist *as strongly* on respect for other vested rights as on respect for vested rights in land. Thus, there appears to be a willingness to have monopolies regulated even after innocent investors have bought stock in the expectation of large dividends. There appears to be, also, a willingness to see tariff changes even although industries have been established at considerable cost on the basis of existing tariffs. There is an apparent willingness on the part of many that price levels should be stabilized for the future, if government can be brought to adopt the policy, even although some persons have made their investments in the expectation that society would permit them to profit from fluctuations they believe they can foresee—and even although other persons have invested largely in their own education on the peculiarities of the cycle in order that they may gain from the changes that occur rather than lose. The Eighteenth Amendment must have seriously damaged the property interests of many persons whom society had permitted to buy and to build specialized property for the brewing of spirituous liquors, who had "come into possession in good faith" under the then existing rule. But the writer can recall no protest against this change in the economics textbooks of any

of the current writers. Nevertheless, this also, to use the phrase adopted by Professor Fairchild, is "changing the rules of the game, while the game is in progress, to the disadvantage of one contestant."

There are various other ways in which society has been guilty of "changing the rules of a game, while the game is in progress." Thus, the establishment of trade schools has tended to do this. Prior to the establishment of trade schools, the craftsman had to learn his trade by a long period of apprenticeship. The time required tended to limit competition. But the establishment of trade schools operates to increase competition in the trades for which they are provided, by bringing in new workers who are more quickly trained. Thus the establishment of trade schools may prevent the receiving of the wages which their sacrifices and their long apprenticeship would have otherwise brought them, by workers already in the field. Ought not economists to protest against the establishment of trade schools by the public as an infringement on vested rights? But perhaps the vested rights of wage-earners are not as important as the vested rights of property-owners! A change which lowers the wages of an artisan does not lower the *capitalized salable value* of anything, since his prospective income is not salable as a whole!

What shall we say, then, regarding the rent of land? Is that particular kind of income more sacred, more inviolable, than the other types of income we have been discussing? In this connection it will perhaps be argued that the private receipt of land rent has a longer and less-questioned prescriptive sanction than the private receipt of monopoly gains, of income from the manufacture of spirituous liquors, etc. It should be borne in mind that the claim which must be held inviolable as against the single taxers or other advocates of increased land-value taxation, is a claim to a future rent which shall never be reduced by taxation in such a way as to lower the salable value of land. Society is held to be under a moral obligation not to reduce the salable value of land by one iota. To do so is like "changing the rules of a game, while the game is in progress, to the disadvantage of one contestant." The owners of land are said to have bought it in the faith that "the rules of the game" will not be changed. And this appears to mean in the view of many, if not, indeed, most writers of economics texts, that the present taxation system should not be changed *at all* in the direction of heavier relative taxation of land.[52] Has society, directly or by implication, pledged itself that it will not raise these taxes? Nobody seems to think that a tax on automobiles cannot legitimately be increased after people have bought automobiles not expecting such in-

[52]Perhaps, in this view, there should not even be a generally increased rate of taxation on all property. For this *might* lower the salable value of land on the constancy of which purchasers had relied. For increased taxation of all property *might* discourage saving. If it did so, the decrease of capital would tend, in the long run, to keep its value up to its cost of production. And interest rates would rise. It would still be worth while to save some capital, though perhaps less than before. But at interest rates which, including the tax, are higher than they would have been and, with the tax subtracted, almost as high as they would have been without the tax, the capitalized salable value of the heavily taxed land rent would be reduced. And the anticipation of this result might conceivably cause the salable value of land to fall as compared with other values, as soon as a generally increased tax on all property was levied—or seriously proposed! Cf. Note by H. Gordon Hayes, entitled "The Capitalization of the Land Tax," *Quarterly Journal of Economics*, February, 1920, pp. 373-80, especially p. 376.

crease. And nobody seems to think that other tax rates, e. g., on tobacco, may not properly be changed if to change them seems expedient. Is it only landowners against whom any increase of taxation is a violation of faith? Is it only landowners to whom society guarantees no discriminating tax increase? Or would it be reasonable to argue that landowners, like other persons, make their contracts and buy their property with *no guaranty that public policy will not change*, but merely with the practical certainty that such important changes in public policy as occur will not be precipitate or without the warning of years of agitation preceding the changes?[53]

The natural reaction of some economists will perhaps be to say that society does have a right to increase taxes on land, but that it has no right deliberately to set out upon a policy which leads eventually to the single tax. Yet such a position cannot be logically defended. For, once it has been admitted that any definite increase whatever of land-value taxation is permissible, the mathematician can point to a smaller present increase plus future additional increases, the application of which would lower the present salable value of the land no more.

[53]Suppose that a group of persons, by long agitation, succeed in making it appear likely that the single tax will be adopted. In consequence of this expectation, land values decline and many owners sell land at lower prices than they would otherwise charge. Do the persons who start this agitation commit an immoral act, since it is as a consequence of their agitation that the salable value of land falls? Ought the government to suppress such an agitation in order to protect "vested rights"? But what if the government allows the agitation to go on until many owners have sold land at low prices counting on the adoption of single tax and until many other individuals, perhaps, have made valuable improvements out of current savings, counting on a future exemption of these improvements from taxation; but finally does *not* adopt the single tax! Are any "vested rights" then infringed?

It may now be said, however, that the objection to the single tax or to heavy taxation of land is not meant to be an objection to *gradual* change. But if their objection is only to *sudden* change, most economists have deftly concealed the fact. Nearly always there is no intimation that even gradual change is permissible.[54] Indeed, one

[54]It may be of interest to some readers to note that not even by outright purchase of land—if it were really paid for by taxes rather than by creating a perpetual debt—could we entirely avoid interference with "vested rights." Even by such purchase we should be "changing the rules of a game, while the game is in progress, to the disadvantage of one contestant." For the persons who would have to pay the taxes necessary for buying the land, would be the persons who have taxable income or property *now* or in the *near* future, i. e., while the tax is being collected. Such persons would, to be sure, be free, thereafter, of taxes, so far as the future collecting of economic rent in lieu of other taxes could free them. But *so would other persons whose ability to pay taxes, prior to the period of land purchases, might be so small that only their usual tax contributions toward current expenses could be secured and nothing additional toward buying out the landlords.* The freedom of these other persons from future taxes is not enjoyed at the expense of landowners, as such, but is at the expense of all those who are in a position to pay extra taxes during the land-buying period and who have to contribute, not only to buy themselves free of future taxation but *to buy these others free of future taxation.* Property owners and receivers of large incomes might, then, so buy free of future taxes persons who could not buy themselves free. The vested rights of these property-owners are disregarded. And landowners themselves, being taxed with others to provide means to pay for the land—in which thereafter they would be but part owners with the rest of the community—would be helping to buy free of future taxation persons who could not, at the time, buy themselves free. So the vested rights of landowners themselves might not be *fully* respected by such a scheme. These considerations may not be important but they are believed not to be mathematically fallacious.

Lest this point seem not quite clear, we may illustrate it by an extreme but somewhat analogous case. Let us suppose a community of which one-third of the members are slaves whose total value is a million dollars, one-third are the owners of these slaves and own a million dollars worth of other property besides, and the last one-third are non-slave-owners who are of equal wealth with the slave-owners, i. e., worth, in the aggregate, two million dollars. It is decided to free the slaves and, with the idea of avoiding an infringement of the "vested rights" of slave-owners, this is done by purchase. A capital tax of 25 per cent is levied on all owners of property, to provide the million dollars necessary to buy the slaves free. The slave-owners receive this million dollars, but have to pay out half a million as their share of the taxes. They are left then, without the million dollars' worth of slaves and with an extra half-million dollars' worth of other property, or a total of a million and a half in value in place of their former two million. The other propertied classes have to pay out half a million dollars in taxes as their contribution toward freeing the slaves and have a million and a half dollars worth of property remaining. The slaves are thereafter free, but the wealth of their former owners and also of the other propertied class is reduced to three-fourths of its former amount. Together they own, not a million dollars' worth of slaves plus three million dollars' worth of other property but only three million dollars' worth of other property. *The slave-owners have lost as much, notwithstanding they have been paid for the slaves out of property and so "compensated," as if they were deprived of their property more gradually without "compensation."* The advantage of the "compensation" method is that it frees the slaves instantly without imposing any burden for payment upon *them* (presumably they have, at the time, nothing to pay with), but this gain of the slaves is at the expense of an infringement of the "vested rights" of the non-slave-owning propertied classes. To pay for the slaves by taxing all other persons and *not taxing the slaves* would be, surely, "like changing the rules of a game, while the game is in progress, to the disadvantage of one contestant." The only way to free the slaves without interference with the "vested rights" of any property-owners would be for the slave-owners to be paid by a bond issue, the interest and principal of which (or the interest forever) should be paid by the slaves themselves and their descendants! Similarly,

recent writer, Professor J. E. LeRossignol, definitely expresses his view of the "injustice and impracticability" of the adoption of the single tax "whether done at once or gradually."[55]

A comment on the foregoing argument, received by the writer from a specialist in the field of taxation, of high reputation, seems to indicate the necessity for further explanation. The comment was, in part, that "monopolistic rates and charges are regulated only for the purpose of holding the monopolist to a reasonable return"

the only way that the present system of private enjoyment of land rent and support of government largely by taxation of other incomes and property could be changed without any violation of "vested rights," would be for the rights of the landowners to be bought out with funds to the raising of which all victims of the system, however poor they might be, should contribute.

It may advantageously be pointed out, before we leave this topic, that nationalization of land and government management are not the things to be sought for. Rather should we aim at individual ownership and management and ease of acquiring such ownership. And the way to attain our end is not to adopt the utterly impracticable and burdensome scheme of land purchase, with possible future interest payments on the national debt assumed, as great as present economic rents, but rather to remove gradually or, at least, greatly reduce, other taxes and to put more and more of the tax burden upon bare-land values.

Among various suggestions for land purchase by the community may be mentioned one for the purchase from landowners of the right to take, in taxation, all or most of the economic rent of land *beginning some fifty years hence*. But if the public become ever seriously aroused regarding the land problem, they will hardly want to wait fifty years before securing any results at all; and unless and until they are aroused they are unlikely to take interest in levying higher taxes on themselves to pay for the privilege of having a reform begin (even if their descendants were sure to do it) after the passing of two generations. *All such proposals serve merely to divert attention from the only method by which there is any reasonable possibility of reform,* viz., a step-by-step substitution of land-value taxation for most other taxes.

[55]*Economics for Everyman*, p. 272.

and that "the average landowner is getting only a reasonable return", that "investors in land realize no greater return than investors in other forms of property" and even "realize less"[56] if his "observation and experience are correct." So far as the monopolist is concerned, it is doubtless true that we regulate "only for the purpose of holding the monopolist to a reasonable return." But upon what value do we desire that the return shall be "reasonable"? If the present holders of the stock of a monopoly have purchased it at a high price because it was expected that the monopoly would be able to continue to charge high rates for the service rendered by it, then the high rates must be allowed to continue or else these holders of stock will *not* get a "reasonable" return on what the stock cost *them,* on *their* investment. Yet much lower rates might suffice to yield a "reasonable" return on what it would cost to construct in duplicate, the entire plant. If investors must be allowed to get, on the average, a "reasonable" return on *what they have paid,* then little or nothing can be done to terminate any exploitation of the general public when such exploitation has previously been thought of as something which would extend into the indefinite future. If persons owning property the value of which depends upon exploiting power, have made their plans and purchases on the supposition of the indefinite continuance of such power, then nothing can be done to relieve any victims of an exploiting system, *except as the victims pay for their own relief.*

[56]This seems very clearly to be the view, also, of Professor Ely. See his *Outlines of Land Economics,* Ann Arbor, Mich. (Edwards Brothers), 1922, pp. 94, 95. And Professor Ely, too, considers this conclusion as an important argument against special land-value taxation.

Consider now the case of the average yield to owners of land. However largely economic rent may be due to the natural advantages of particular pieces of land and to advantages due to community growth, the rate of return to owners who have bought the land in the general expectation that the economic rent would be considerable, is only a "reasonable" rate. Even if the land purchased rises in value, the purchaser who bought it in the light of a widespread expectation of a rise, has had to pay so much for it because of that expectation that the return received by him, including the rise in value, nets him only a "reasonable" rate on the sum invested. So, if, on the average, "reasonable" rates of return on investments of any sort whatever are sacred *because* they are only "reasonable", then monopolists must be allowed prices which yield a very high return on what it would cost to duplicate their plants; landowners must be allowed to receive economic rent and, frequently, progressively higher and higher future rent on land that had no cost of construction and the value of which is a function of social growth; and even slavery, if once established, cannot be abolished unless the slaves buy themselves free, for otherwise the average returns of slave-owners on their investments will be reduced below what is "reasonable." Indeed to abolish slavery while "compensating" the slave-owners with funds raised by taxing the owners of other property, tends to deprive the owners of this other property of a "reasonable" return and infringes on *their* vested rights. In general, the only way that any kind of exploitation, be it slavery, monopoly or the private collection of the economic rent of land can be terminated without infringing on the expectations and "vested rights" of some group of persons, is for the cost of the

change to be contributed to by all the victims of the system of exploitation the termination of which is sought.[57]

To say that abolition of slavery, or regulation of monopoly charges, or increased taxation of land values operates to lower the return on money invested in slaves, monopoly or land by purchasers, below the average or ordinary rate in other investments, below a "reasonable" rate, amounts to the same thing as to say that such a change in policy *lowers the salable value of the property* of such purchasers. It is merely a different way of expressing the fact that "vested rights" are infringed. But since some economists of reputation, when the conclusion has been pointed out to them in one way, have seemed to think that an important argument against land-value taxation was overlooked because the case was not stated in the mathematically equivalent other way, both forms of statement are now included in our discussion.

Economists sometimes refer, in this connection, to the fact that land may fall in value as well as rise, i. e., that there may be a "decrement" instead of an increment, as if such a fact were somehow relevant to the problem. In truth, a fall in the value of land merely means that land owners are able to get less rent than before, albeit, usually, still *something,* for advantages due not to them but to nature, to population growth, or to civic improvement.

It is customary to attempt the annihilation of the "single-tax" case partly by alleging that it is based on a doctrine of "natural rights."[58] Yet this chief objection—vested rights—commonly raised against it seems also to

[57]See discussion in long footnote beginning on page 142.

[58]See, for example, Ely, *Outlines of Economics,* 3d rev. ed., p. 681, The writer does not find this reference in the fourth and latest (September, 1923) edition.

be based upon "natural rights" or something fundamentally similar. For just as in the view of the orthodox single-taxer, everyone has a natural right to the use of land, so in the view of many writers of textbooks on economics every landowner has a kind of "natural" right not to have the salable value of his land lowered by taxation. We are dealing here, apparently, with an intuitive ethics. Economists do not say that the proposed tax reform is wrong *because of* injurious consequences anticipated to the general welfare, but merely that it *is wrong* or *immoral* or *unjust*. In this matter they seem to experience a sense of *shock* at the mere proposal, which prevents any really free *objective* investigation of cause-and-effect relations. Hence the discussion of the subject by many economists presents the appearance, not so much of a search to discover whether the general effects of single tax would probably be beneficial or the reverse, but of an attempt to prove the policy wicked. One rather gets the impression, then—is it a false one?—that in the minds of most writers of economics texts ideas of sacredness cluster about property in prospective land rent to a more marked degree than about various other kinds of property. And Professor Robinson has said[59]—could he, by any chance, have been right!—that "if a thing is held to be sacred it is the center of what may be called a defense complex" so that "a reasonable consideration of the merits of the case will not be tolerated." The sense of proportion of many economists has been hopelessly dulled by their making of the doctrine of vested rights a veritable fetish. Otherwise, the insistence that society, which makes frequent changes of policy in other matters,

[59]James Harvey Robinson, *The Mind in the Making*, New York (Harpers), 1921, p. 92.

is under a binding implied pledge and obligation *never* to move, *no matter how gradually*, towards the eventual taking in taxation of the major part of economic rent would be clearly seen to be, as in fact it is, utterly silly.

Occasionally, however, the objection is made to heavy increase of land-value taxation that this would destroy the sense of security and weaken the incentive to accumulate! Do any economists seriously believe that a gradual substitution of land-value taxation for taxation which penalizes activity and thrift would have any such result? Is there any evidence that such a consequence has been experienced in Pittsburg and Scranton, Pa., in Northwestern Canada and in other places where steps have been taken in this direction? Has the development of the policy of regulating the rates of public service monopolies brought about any such undesirable effect? Or is the presenting of the contention merely one more bit of evidence that conservative economists are determined to find *some* argument—*any* argument—against the increased taxation of land values?

Many professional economists, it is suspected, have never permitted themselves to think long and without bias on the subject, examining carefully, and not merely to discredit them in debate, the arguments of the single taxers. With some exceptions, they seem to have accepted the views of their conservative teachers as expressed in current texts. That the single tax is unsound because it is based on a doctrine of "natural rights," that it cannot be levied so as to distinguish at all fairly between bare-land values and labor-produced values, that there is no such difference anyway because everything is in large part a gift of nature, that there are other unearned incomes and increments besides land rent and land values,[60] and that, anyhow, any change is unjust, are contentions generally familiar and quite commonly accepted. And where economists whose voluminous writing, or whose apparent familiarity with all that has been previously written on taxation, or whose high academic position in long-established institutions gives them reputation, are called upon to render "expert" advice regarding taxation, they are not unlikely to advise something other than, or to advise definitely against, higher taxes on land values. And the graduate student or young teacher who has memorized the arguments summarized above feels no special inducement further to investigate the views of a school of writers—the single-taxers—who are largely outside the academic fold, who are supposed to adhere to an eighteenth-century ethical standard from which academic economists believe themselves emancipated, and the acceptance of whose conclusions even with qualifications would brand him as a heretic.

§ 7

Increased Land-Value Taxation and the Chances of the Common Man

Certain important effects which increased land-value taxation when accompanied by decreased taxation of commodities, capital, and incomes, would tend to produce are consistently ignored by most writers of our economics

[60] This contention is discussed at length at an earlier point in the book. See II, § 7. It is believed that what Professor Seligman says on pages 81 and 82 of his *Essays in Taxation*, 9th edition, is there adequately answered.

texts. Being above all things scientists, they are more interested in showing the non-conformity of the policy to their intuitive ethics than they are in exhibiting its probable consequences!

Perhaps the most significant probable consequence is a decrease of tenancy or, at least, an increased ease of becoming an owner of land. For, as the opponents of single tax are fond of pointing out in their references to "vested rights," increased land-value taxation would reduce the salable value of land. Lower selling values of land make the purchase of land for farms, homes, or business easier. And not only would a higher tax on land values make a lower selling price but also, by virtue of it, other taxes could be correspondingly reduced. If labor and interest incomes were less taxed, it would be easier to accumulate, out of earnings, the money necessary to buy a piece of land. Despite the conventional acceptance by economists, almost as a fetish, of the "ability theory of taxation," it does not at all necessarily follow that taxation according to "ability," in the sense commonly understood, most conduces to the general well-being. Indeed, it *may be* that the advocates of it, who have plumed themselves upon their sympathy with the common man, have so been in some degree auxiliaries of the forces of reaction.

But there is another way of looking at this matter, which, to many, may seem even more significant. We all know that success is frequently a precarious thing. Sometimes the business changes of a few months sweep away the accumulations of a lifetime. So, too, sickness or some miscalculation for which we may or may not be entirely to blame, will occasionally leave us, after years of effort and thrift, financially where we started. Our children, then, or, if not our children, perhaps our grandchildren, have to begin a struggle which we fondly hoped they would be spared. If land is comparatively untaxed, then it is made harder for them to get started. The incomes they may earn have to be taxed directly or indirectly, and they can save but slowly. The value of land is high and they cannot soon buy land. They may be obliged to remain tenants or laborers for years—perhaps so long as they live.[61]

To tax land values more and other things less would be, therefore, a reform *somewhat similar in principle to the abolition of imprisonment for debt, to the doing away with debt slavery, and to the establishment of bankruptcy laws.* We would protect the individual—ourselves, our children, our grandchildren—from the danger of falling so hopelessly low in the economic scale as is now possible. High land prices may mean prosperity for some. But there can be no question that they tend to make the situation of the propertyless person, even though he be hardworking and thrifty, comparatively hopeless. And, *paradoxical as it may appear* to those who have never thought about it, *the levying even of progressive taxes on incomes,* along with the ordinary taxes on commodities and property, as an alternative to special taxes on land values, may keep such hardworking and thrifty persons down economically because it keeps land prices up. A tax on land values is fully made up, for such prospective buyers, by reduced land prices and, if land speculation is so discouraged, more than made up. But taxes on commodities, capital, and incomes[62] are always some burden to the hardworking and thrifty propertyless person, unless they are so levied—assuming this to be possible—that no part of any of them falls directly upon, or is shifted to, him.[63]

[61]Taxing land values at a high rate does not, of course, provide a guaranty that all tenants will become property owners. Nor is it necessarily desirable that they should. Some persons work better under the direction of others.

It is to be noted that the end sought can be fully achieved only by a general tax on all economic rent or land values. A *progressive* tax on land values (progressively higher as the land owned by the taxpayer is of greater value), since the highest tax could hardly take more than the entire rent, would leave small holdings comparatively untaxed. This would leave the price of land fairly high and keep it hard for persons of small means to acquire land. Large holders would, indeed, prefer to sell. But their financial position need not be seriously injured or that of their former tenants greatly improved. For they could dispose of their land to these tenants and others on mortgage security, so ceasing to hold title and avoiding the progressive tax. Or they could organize numerous corporations each of which would own a small amount of land and in all of which the original large holders of land could keep control, or they could avoid the tax in other ways. It is also to be noted that really to penalize large holdings as such might operate to force small-scale business even where large-scale busi-

[62]The incidence and other economic consequence of taxes on commodities, labor incomes, capital and its interest, property in general, etc., are discussed at length in the author's recent book, *The Economics of Taxation,* New York (Holt), 1924.

[63]In view of the above facts and of others discussed in this book the conclusion seems inescapable that the passage from Voltaire which Professor Seligman refers to on pages 79 and 80 of his *Essays in Taxation,* 9th edition, apparently with approval and as a means of helping to discredit the "single tax" view is a most unfair statement of the case.

ness would be more economical. Thus, it might, if evasion were impossible, prevent the establishment of department stores and cause the establishment, instead, of small specialty stores.[64]

But even when this advantage (viz., the protection of the individual against the danger of falling so hopelessly low in the economic scale) of levying taxes largely on land values is carefully pointed out, objections are made which indicate either an unwillingness (perhaps, sometimes, mere carelessness) or an inability thoroughly to analyze the problem. For example, it is sometimes said that the greater cheapness of land is no advantage to would-be owners since, although the land is made cheaper by land-value taxation, the greater tax offsets the lower selling price. The new owner, it is said, merely pays the tax *instead of* the higher purchase price or *instead of* interest on a larger mortgage. Those who present the above argument apparently overlook entirely the fact that, if the greater annual tax on the land no more than offsets the lower purchase price, then the reduction of other taxes, including taxes on improvements, *is all clear gain*. And they also overlook the fact that the greater tax on land values, by discouraging speculation in land, i. e., by increasing the competition of landowners to get their land used, lowers land rent. The salable value of land therefore falls, partly because the rental yield which is capitalized into a salable value is reduced by this competition, as well as partly because the remaining rent is further reduced by the increase of land-value taxation.

[64]No criticism is here intended, however, of those who favor progressive taxation of bare-land values because they think it, for political reasons, a good entering wedge to bring about, eventually, non-discriminating taxation of bare-land values.

Hence, the new buyer finds that the greater cheapness of land more than offsets the increased tax which he has to pay on it, *even if his other taxes are not reduced—as they thereafter can be.*[65]

But some may still insist that there is as much reason for interfering by taxation, or otherwise, with the right to receive income from capital as with the privilege of drawing rent from land, seeming, despite such arguments as have been presented in the foregoing pages, to see no distinction between land values and capital values of any significance for public policy.[66] In order to give every reasonable consideration to those who hold such a view let us inquire carefully what would happen if, instead of removing taxes from capital and putting them on land values, we should do just the opposite, i. e., remove taxes from land values and put them on capital. The net income from capital would thus be reduced. Unless and until this fact caused a decrease of saving and so lessened the supply of capital and raised interest rates, the net rate of interest realized on capital would be lower. But, certainly over any considerable period, the value of capital goods could not be less than the cost of production of such goods, else capital would not be constructed even to take the place of old capital wearing out, and there

[65]Although the competition to put good idle land into use lowers the *economic rent* that an owner can get on his land, i. e. his income *as an owner*, his *labor income*, as such, is increased. In the technical terminology of economic theory, labor is more productive, having more and better land available to work with and the product of industry attributable to labor is greater, while the part attributable ("imputable") to land and collectible as rent is less.

[66]This seems to be the attitude taken by Professor Ely in his *Outlines of Land Economics*, Ann Arbor, Mich. (Edwards Brothers), 1922, Vol. III, p. 103.

would finally be no capital at all. It seems obvious, therefore, that no considerable cheapening of the salable value of capital could, in the long run, be expected from the heavier taxing of capital. But the correlative lighter taxation of land values would encourage speculation in land, keep land out of use and make land rent higher. The fact that from this higher rent less was taken in taxation would mean a greater increase of net rent than of gross rent. The capitalized value of land, even if the interest rate at which the land was capitalized did not fall as a consequence of the increased tax on capital, would tend to rise in as great a proportion as its net rent. It would be harder for an ambitious and thrifty but poor man to save enough to buy a piece of land. And, after he had bought it, though the tax on his land value would be less, the tax on any improvements he might make would be more. The increase of tenancy would be accentuated.

But to remove taxes from other things and impose them on land values would cheapen land and make it easier to acquire, while capital goods could not become worth more than the cost of duplicating them. Owners of land and capital would pay heavier taxes on their land but lower or no taxes on their capital. If they intended to continue using their land rather than to sell it, its lower salable value would be no injury to them. Owners of land who intended to sell it in order to buy other land would lose no more as sellers by the fall in the salable value of land than they would gain as buyers. Owners of land who intended to sell, not for the purpose of reinvesting but in order to use up the proceeds in current consumption, would, indeed, lose, since the reduced salable value of their land would mean diminished possibilities in the way of such consumption. Owners of unimproved and slightly improved land would lose, at least temporarily, since the increased taxation of their land would more than offset any decreased taxation of their capital. But even they, if they were hardworking and thrifty, would gain from the reduction or abolition of taxes on capital, since whatever capital they might thenceforth accumulate would be less taxed or not taxed at all. In cases where their future accumulations in general or their future improvements on their land were considerable, a net benefit might be realized even by some persons who, at the time the change went into effect, had little or no property except in unused land. To tax land values rather than improvements certainly does not guarantee fortunes to the thriftless. It means heavier taxes on the non-improving owners of land. It does nothing to encourage—discourages rather—the holding of land by persons too thriftless to use it well. It does remove a penalty now generally placed on thrift and land improvement. Unlike part of our *present* taxation system, it is *not communistic*. It does not try to reduce the efficient to the level of the inefficient. It does not try to reduce the thrifty to the level of the unthrifty. Finally, despite its non-communistic character, the taxation of land values rather than improvements, incomes, commodities, etc., gives a better chance to the ambitious poor to get started economically and to acquire a competence.

The net effects likely to be produced by a system of raising revenues as largely as possible from taxes on bare-land values can perhaps best be visualized if the reader will inquire as to the probable consequences of the adoption of such a system in every state of the United States but his own. Where would people prefer to invest capital—in his state or outside? Where would people anxious to accumulate capital and improve their land prefer to live? Where would persons anxious to start large enterprises prefer to start them? Where would persons anxious to become home owners feel inclined to buy land and build? Where would laborers be more likely to find desirable opportunities for employment? Is that policy the more desirable which would attract capital and labor? Or is that policy to be preferred which makes the community adopting it a less promising one for both capital and labor?

For the benefit of those economists who may still be determined to admit nothing, it is perhaps worth while to put the matter in the form of a dilemma. Either the substitution of land-value taxation for other taxes lowers the salable value of land or it does not. *If it does not,* then the talk about "vested rights" is nonsense even from the conservative point of view. If it does, then there can be no denying that such a tax removes obstacles which now stand in the way of the economic progress of the thrifty poor and the economic rehabilitation of those whom fortune has dealt heavy blows. Why try to blink the issue? If conservative economists really believe the "vested rights" argument to be, of itself, a sufficient objection to change, why not frankly say so instead of contending that such change would not bring results which reason clearly indicates it would bring or instead of ignoring the likelihood of such results? Does the explanation lie in a fear that an argument which to them is conclusive might seem inadequate to some of their readers? Or do they feel the proposal to tax land values more heavily to be so vicious that it *must* be attacked from *many* angles?

There are a considerable number of the more "liberal" present-day economists who, like the socialists, with

whom, however, they would be otherwise at odds, class only labor incomes as "earned" and class all incomes from property, whether interest on capital or rent of land, as "unearned," and who are favorably disposed towards discriminatory taxes on what they call "unearned" incomes. The impropriety of such a classification has been sufficiently shown in the first part of this book.[67] But it is desired, at this point, to call the attention of these economists, and of readers in general, specifically and most emphatically to the difference in the consequences which are likely to ensue according as we levy taxes on the income from capital or on the rental value of land. It sometimes looks as if a good many economists were willing to make every kind of distinction which might seem to indicate sympathy with the common man except the one distinction the application of which would do the common man most good.

§ 8

Do We Avoid Trenching on Vested Rights by Taxing Only Future Increases in Land Values?

Despite the apparent condemnation by a large proportion of text-writing economists, of the single tax, there yet seems to lurk a feeling that something should be done about land rent. But how can something be done without interfering with the sacred rights of ownership intuitively determined? The answer of many economists is, to tax *future increases* in the value of land. To do this, it is supposed, would not interfere with vested rights because

[67]See I, §§ 4 and 5; also II, § 2.

it supposedly would not lower the salable value of land. In the simple phraseology of Professor Fairchild's book, written for high-school pupils, "there is nothing unjust about this."[68]

And yet, this also resembles "changing the rules of a game, while the game is in progress, to the disadvantage of one contestant." For the adoption of such a policy on any extended scale would be likely, as the present writer has several times pointed out,[69] to lower the current salable value of land in comparison with other goods. Indeed, considered as a mathematical proposition, the argument is just as convincing for reduced present value of land consequent upon a definitely promised tax on *future increment* of value as for reduced present value consequent upon a definitely promised increased taxation rate upon the entire value of the land. The purchaser of a piece of land, in buying it and in determining the maximum price he can afford to pay—as, also, the seller in determining the minimum price he can afford to take—considers as well the possibilities of future increases in value as the present rental yield. A piece of land may sell for about $1,000, not because of any present yield, but because of the estimate that, after fourteen years, it will yield a net annual income of $100 and be worth (capitalized on a 5 per cent. basis) approximately $2,000. Suppose that, on the day after a purchaser has possessed himself of such a piece of land at a price of $1,000, it suddenly and unexpectedly becomes evident that half of the increment in value, at the end of fourteen years, is to be taken in taxation! Would not the present salable value at once fall to $750? And if the increment tax were

[68]P. 527.
[69]See article and books referred to earlier in this paper.

to be 100 per cent., would not the present value at once become $500? Yet economists like Professor Fairchild—who is here referred to not as an isolated errant writer but as *following the beaten track*—can say on the same page[70] that discriminatory taxes on land "would be an injustice" and, of a tax on future increases in value, that "there is nothing unjust about this"!

In truth, in a rapidly growing country, the present value of a very large part of the land is probably affected by the estimate of or the reasonable hope of future increases. Even land which actually does not rise in value may have high present value because of the expectation of such a rise, and the partial destruction of this expectation by a prospective increment tax might lower its present value. Suggest, for such a country, *any rate whatever* of taxation of *future increments* and it becomes at once possible for the mathematician, if he has the requisite data, to work out a lower (at first), but gradually increasing rate on the entire value of land, becoming eventually high enough to absorb the entire rental yield, which would lower the present salable value of land, on the average, *no more than the increment tax*. This conclusion will be obvious to any mathematician. Indeed, it requires only a very little knowledge of mathematics to grasp it. There is no occasion for anyone to be vainglorious over his comprehension of it. But many, if not most, of the American economists who have become prominent as the authors of textbooks, not only do not mention it but write as if it were untrue.

Professor Taussig seems clearly to understand that the value of a piece of land is affected by its expected future rent. Thus, he states[71] that in a growing city "an ad-

[70]P. 527.
[71]*Principles of Economics*, 2d rev. ed., Vol. II, p. 98.

vantageous site will command a price more than in proportion to its present rent; because it is expected that the rent will increase still further as the years go on." A little further on,[72] referring specifically to "the problem of vested rights," he says:

"To the present owners, the capitalized value represents an investment or an inheritance, precisely as does the present value of anything which is capital in the strict sense. Here, again, unless the whole institution of private property be remade or abolished, the existing rights to land, as they have been allowed to develop through the centuries, must be respected."

And yet, after having thus pointed out that present values are affected by prospective future increases of rent, and after having indicated his respect for the doctrine of vested rights, Professor Taussig proceeds to defend the taxation of future increments![73] "The question is different," he says, "as regards the rise in rent that is still to come. There is no vested right in the indefinite future. In strict theory, the whole of this increase might be taken through taxation."

Professor Bullock argues in a somewhat similar vein. He points out that Henry George advocated seizing "gradually the present economic rent of land" or enough of it to defray all public expenditures.[74] He then proceeds to insist upon the confiscatory and unjust nature of the reform.[75] Following after this he contends that "to adjust municipal taxation in such a manner as to intercept a considerable part of the future unearned increment from

[72]*Ibid.*, p. 102.
[73]*Ibid.*
[74]*The Elements of Economics*, 2d ed., pp. 324, 325.
[75]*Ibid.* pp. 326-28.

land would be a safe and probably a desirable policy."[76] But Professor Bullock has not left unconsidered the possibility that purchasers of land have paid, in the purchase price, for anticipated future increases in value. For he goes on to say:

"The purchase price paid for land in a progressive city is somewhat greater than its capitalized present rental value, since the purchaser can and must pay more in view of the prospective increase of the rent. Some part of the future increase, therefore, is reflected in present capital values, and should be left to the present owners."[77]

But what part of the future increase is *not* reflected in present capital values? Are present capital values of land arrived at in any other way than by discounting all anticipated future rents? Does Professor Bullock think that these rents are in part discounted and in part not, or does he think that the anticipated increases are, on the average, less than the realized increases? And if he thinks the latter, for what reason? Or does Professor Bullock suppose that a part of future land-value increments is unanticipated in such a sense that to establish definitely the policy of taxing heavily this part, would leave every purchaser of land perfectly confident that not any of the tax would fall upon him and perfectly willing, therefore, to pay as much for the land as if such a tax were not promised?[78]

[76]*Ibid.* p. 329.
[77]*Ibid.* p. 329, footnote.
[78]Perhaps, however, Professor Bullock supposes that there are cases where the rise of land value is so utterly unexpected that no anticipation of it, no remotest hope of the possibility of it, has had any previous effect on the value of the land. To plan for the taxation of such an entirely unanticipated increase in land value would presumably have no effect upon the salable value of any land when the

Except as we suppose that landowners, owners of monopolies, etc., *underestimate* the future possibilities of

policy was announced. But in view of unanticipated declines in land value, also, such a policy would presumably reduce the *average* rate of return on investments in land below a "reasonable" rate. And if, when they buy land, people are ordinarily influenced by the thought that there are possibilities of gain as well as chances of loss, then a tax on such gain, if the tax is to have no least influence on present salable values, must be on only such parts of the gain as have been in no sense contemplated or considered by sellers or purchasers of land. Whether or not a means could be devised to distinguish any such part of any gain from the rest, it will be obvious that a tax on so limited a value is, considered as a source of public revenue, unimportant and, considered as an engine of economic reform, utterly futile. And, indeed, if the investor thinks of the possibility of unexpected gains as offsetting the possibility of unexpected declines, a foreseen tax on the gains, with no "compensation" for the declines, would certainly lower the salable value of land.

But no matter if all future land-value increases are considered as subject to taxation, no matter how high the rates of tax on such increments and no matter how *quickly* the salable value of land might be affected and "vested rights" infringed, in the *long run* the salable value of land could not be made to fall as much and the opportunities for widespread land ownership rendered as favorable as by gradually increasing the tax rates on land values in general.

In passing, it may be worth while to allude to the contention sometimes made that an "unearned increment" is necessary to keep farmers in their business. Then what keeps the increasing proportion of tenant farmers in the business? And is it likewise necessary in other lines to keep everyone in a specific business? If no one received any "unearned increment" would *each* person leave his business for some other business in which he likewise would not receive it? But, as we have seen, if land values were taxed the yield to owners of land would be as high a per cent. of what their land would then sell for as now—a higher rate, perhaps, because of the reduction of other taxes.

After meeting this objection, viz., that farmers must have an unearned increment, it seems curious to find some economists, who

income from their property—and they are, perhaps, as likely to overestimate—there is certainly no possibility of ever giving the non-landowning and non-monopoly-owning public *anything whatever*, even through purchase, without trenching on the "vested rights" of the owners.[79]

apparently do not venture to support generally increased land-value taxation, demanding that *railroads* shall be *prevented* from securing "unearned increment" but that the means of prevention shall be rate regulation instead of taxation. It is proposed that railroad rates shall be regulated on the basis of original cost of plant without regard to what the land necessary would now cost. But there are a number of serious objections to such a proposal. In the first place, if we say, in effect, to landowners, that they have a chance at an unearned increment provided they use their land in any other way but no chance for it if they use it for railroads—or that railroads which purchase land cannot have the same chance as other purchasers—then the tendency is to discourage railroad construction as compared with other uses of land. In the second place, if two railroad lines are built through a given territory, one at a later date than the other and paying a higher price for its land, such a system of rate regulation would tend to justify higher rates on the second-built railroad than on the first, with consequent discrimination in favor of the shippers on the first-constructed road. And no system of taking from successful railroads a part of their increased returns from superior efficiency can possibly be as satisfactory as a system of taxing them and all other persons and corporations on their economic rent (potential rent in the case of unused land) or land value. (For a fuller discussion of this problem see the author's review, "Sharfman's American Railroad Problem" in the *Quarterly Journal of Economics*, February, 1922, pp. 323-334, and relevant passages in the author's book on "Transportation Rates and Their Regulation," New York—Macmillan—1916.)

[79]We are here supposing that the property owners in question have bought their property in the confidence that public policy would not change. If they have paid less because of the expectation of change, does such change trench on their "vested rights"?

Possibly the statement above in the text should be qualified. Besides the direct loss to consumers of monopoly goods from extortionate

The landless must continue to pay owners for the privilege of living on or working on their land or they must pay the owners, in advance, not only the capitalized value of the present rent but the capitalized value of any future increases in the rent which the owners may have a reasonable prospect of being able to charge.[80] Similarly, consumers must continue to pay monopoly prices to the owners of monopolies or else they must pay such owners, in advance, the capitalized value not of the present monopoly profits only but, if increased prices may be looked for in the future, of the estimated additional future profits also. Why must professional economists continually try to evade the issue, insisting at one moment that vested rights—which are merely rights to expected future income—must be respected, and in the next moment discussing sympathetically the proposition to take a part of such expected future income for the public?[81] Is economic science now where the physical sciences were before the days of Newton, Kepler, Galileo, *et al.?*

prices, there is also the disadvantage to persons who are prevented by these prices from buying the monopolized goods and who so contribute nothing to the monopoly gains, i. e., who are injured but not exactly exploited. If there is any advantage at all to the public in so buying out a monopoly it can only lie in the termination of this incidental disadvantage or injury. Does speculative holding of land thus similarly injure even where there is no direct exploitation? But economists who say that speculative holding is no especial evil and those who say that it does good are not the ones to argue that the public would derive even any incidental advantage from buying out the owners of land.

[80]It may be of passing interest to a very few readers to note that this point, although apparently overlooked by most current writers of economics texts, was clearly understood by Henry George. See his book, *The Science of Political Economy*, New York (Doubleday and McClure Co.), 1898, p. 195.

[81]Professor T. S. Adams is both more consistent and more conservative. He seems very clearly to go the whole way and to be definitely opposed to the taxing even of future increases of land value as unfair to "the man who has purchased land at a price or value determined by capitalizing unearned increment." See his article, "Tax Exemption Through Tax Capitalization," *American Economic Review*, June, 1916, p. 281.

A heavy tax on future increase of value may infringe upon "vested rights" as much as or more than a gradual increase of taxation on land values in general. But if we are primarily interested in building the best possible future society, we shall prefer the latter. For however greatly "vested rights" may be infringed upon by an increment tax, in the *long run* the salable value of land cannot be made to fall as much and the opportunities of the ambitious poor to get started in life cannot be made as favorable by such a tax as by a gradually increasing tax on the entire salable or rental value of land.

But scarcely any least glimmering of light on the real and important advantages of increased land-value taxation shines through the dark smoke-screen of confused reasoning with which, however unconsciously and unintentionally, the majority of writers on public finance have surrounded this subject. And so what the historian, Buckle,[82] remarked as being frequently true of the so-called educated, can perhaps be fairly asserted of many present-day students of economics who, ambitious to understand the economic laws of taxation and the effects of taxation on human welfare, have sought aid from the standard text books on public finance, viz., that the progress of their knowledge "has been actually retarded by

[82]Henry Thomas Buckle, *The History of Civilization in England*, reprinted from the second London edition, New York (Appleton), 1894, Vol. I, p. 195.

the activity of their education", that they are "burdened by prejudices, which their reading, instead of dissipating, has rendered more inveterate", that their "erudition ministers to their ignorance" and that "the more they read, the less they know."

§ 9

Summary

In concluding our brief and somewhat limited review of the opinions of certain professional economists on the taxation of land values, we may, perhaps with advantage, glance back at some of our discoveries. We have found the claim set up, by very clear implication, that to tax pure land rent rather than improvements would discourage thrift and improvements more than to tax land and improvements together at a lower rate on their combined value. We have noted the assertion, by a widely known economist and taxation adviser, that the unearned increment is "diffused," in large part, through *generally* reduced rents, prices and railway rates. We have met with the claim, from the writings of a specialist on taxation, that bare-land values and improvement values cannot be distinguished because "it is quite impossible" to do it and because "no attempt is ever made" to do it, and from the writings of both this specialist and two others, that there is not much distinction, anyway, between gifts of nature and products of labor. We have met with the claim that the single tax (the *impôt unique*) was "abandoned" in France, because of its "injustice," although it was never tried in France. We have examined the contention that additional taxation of land values would be

unjust, but have found other "vested rights" receiving, usually, less sympathetic consideration from professional economists. Finally, we have found that economists who are well known among their fellows in the craft are capable of both opposing increased general taxation of land values as infringing on vested rights and, simultaneously, favoring special taxation of *future* land-value *increments* as not infringing on such rights. What arguments will be next concocted by those conservative professional economists who are determined, at all costs, to oppose increased general land-value taxation?

From a Recent Review by Henry Raymond Mussey in *The Nation*.

It was full time for some competently equipped economist to take up the cudgels in behalf of the economically tenable parts of Henry George's doctrine. Mr. Brown has done it with zeal, and on the whole with skill. Of course this puts him outside the fold of the safe and sane economists, and the vigor of his onslaught has already occasioned some little fluttering in the academic dove-cotes. But say what we may, land does differ significantly, for purposes of economic analysis, from factories and railroad trains and other things that men make. The true economic scientist, then, if he is going to devise tax systems, must take account of those differences, and not simply foam at the mouth every time the single tax is mentioned.