

Honest Farm Relief and Fair Taxation

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WE now come to the fact that our existing tax system penalizes industry and thrift, like the communism which our conservatives pretend to be opposed to but the principle of which, where they are accustomed to it and it benefits their own class, they are quite willing to approve.

The essence of communism lies in the equal sharing in the products of industry without much regard to contribution or efficiency. The larger output of goods produced by the comparatively efficient is, in part, taken from them for the support of the inefficient.

When conservatively-minded persons criticize communistic schemes on any other basis than their own immediate selfish pecuniary interests, their criticism is to the effect that such schemes fail to reward efficiency and thrift, divorce superior service from superior remuneration, and are likely, therefore, not to work well. Yet these same conservatively-minded persons will defend the existing system of taxation—which certainly has large elements of communism—against a system which would penalize much less or not at all any future labor or thrift of any person. Our Federal income tax is certainly, in some degree, communistic. Not only does it take more from those whose hard work and thrift give them larger incomes than the inefficient, wasteful and lazy, but it taxes the former at a much higher rate. Even our state and local property taxes put a greater burden—though not a greater proportionate burden—on those whose efficient work and whose habits of thrift enable them to accumulate capital. If a man saves and improves his property, he must pay more taxes. If he is lazy and thriftless his taxes remain low. If, constructing a great factory, he increases the efficiency of hundreds or thousands of workmen and so adds to the sum of commodities which all may enjoy, he is punished by increased taxes. But if, instead, he keeps a piece of land vacant and unused until the activities of those around him and the growth and development of the community have given it high value; if he then makes money out of what these others have done, requiring the person who would use the land to pay him a high price for advantages of situation for which not his activities but the activities of others are responsible, we keep his taxes relatively low.

On the other hand, a tax on bare-land values which are produced by the growth and activities of the community is clearly not communistic as communism has been above defined. Such a tax would take from the individual only that part of his income for which the community is peculiarly responsible. If his income is larger because the growth

of the community about him enables him to secure a high rent from a favorably situated piece of land, his tax would be higher. But if his income is larger because he works more efficiently than others or because by his thrift he is enabled to build stores, factories or houses or to cover bare acres with fruit trees, his bare land-value tax would be no greater. The rewards of his superior efficiency and of his superior thrift would not be taken from him. His efficiency and his thrift would not be penalized in order that the inefficient, lazy and unthrifty should share, without deserving, in what he has produced.

The intelligent application of this principle to American agriculture would involve the removal of all taxes, not only from farm machinery and buildings but also from the fertility value of the soil in so far as it is built up or maintained by the farmer's work and thrift. For in this connection we must remember that fertility elements put into the soil—and, equally, fertility elements maintained through constant renewal—by a farmer, are, in the economic sense, capital rather than land. In the city we construct capital *on* land. In the country we often put it, largely, *into* the land. Let us reckon as bare-land value, therefore, in the case of agriculture, only that value which the land would have if in large degree exhausted, and consider any greater value which it may have as a result of the care and attention applied to putting it into *or keeping it in* fertile condition, as compared with its "run down" value, to be capital as truly as the buildings, machinery and planted trees upon it. If we really wish not to penalize efficiency, not to penalize thrift, and not to tax as unearned income values which are produced by individuals rather than by nature and society, then we shall wish to arrange that the farmer who builds up *or, even who merely maintains*, the fertility of his land, *shall not have to pay any higher tax than if he kept it in run-down condition* and with no buildings, orchards or other improvements on it.

To tax community-made land values rather than labor and thrift would, in general, give relief to those farmers who most need it. It is not the wealthy owners of prairie land well situated on a concrete highway not far from a railroad station, whether they direct their own operations or live off of the rents paid by tenants, who most need relief. The farmers who most need help (leaving out of consideration, for the present, tenant farmers and farmers so heavily mortgaged as to be almost in the tenant class) are those whose farms yield almost no economic rent and who would, therefore, pay no or almost no tax if only the community-produced economic rent of land were taxed to meet public needs, i. e., if community-produced bare-land values were the sole source or nearly the sole source of taxation.

The bare-land value of a farm is what would be left after subtracting the value of buildings, of fruit trees, of fences, installed drainage, growing crops, tools and machinery, horses and cattle, and *fertility also* in so far

as it has been built up or maintained by fertilization and careful cultivation. A tax on the bare-land value of a farm would therefore be, really, a tax on the "run down" value of land, after the value of all the so-called improvements had been subtracted. Where such "run-down" value is zero, a tax on the bare-land value of the farm, no matter how high the rate of taxation, would be a zero tax!

Another way of expressing the matter is to say that a bare-land-value tax certainly should not take more than the entire *economic* rent, and the entire *economic* rent, in the case of many farms, is *nothing*. For what is *economic* rent? Suppose a man owns a farm which he leases to a tenant by the year. Before we know what is the *economic* rent, we must subtract from the yearly payment made for the farm by the tenant, not only enough to cover depreciation of improvements, but also a reasonable percentage of interest on the value of all improvements, including fruit trees and including the fertility value built up or maintained by fertilization, careful crop rotation, etc. Only the surplus above such interest is *economic* rent or rent of the bare land. A tax on bare-land value could not take anything beyond such economic rent. If it did, it would be a tax on improvements, too, and not just a tax on bare-land value.

Let's look at the matter in still another way. If the owner runs his own farm—i. e., if he is a typical American working farmer—what really is his *economic* rent which is all that would be taxed under a bare-land-value tax? To find what is his economic rent, we must first subtract from his total income as pay for his work, all that he would make as a tenant if someone else owned the farm. Then, second, we must subtract from the remainder enough to cover not only depreciation but also a reasonable percentage return as interest on the value of all improvements. And in these improvements must be counted the fertility value built up or maintained by wise cultivation and proper fertilization. Only what is left after making these subtractions, is economic rent. A tax on this remainder would be a tax on bare-land values. And a tax on bare-land values alone could *not* take *more* than this remainder. A tax taking more than this would not be a tax on bare-land values alone but on improvements also. A bare-land value tax is a tax on the *run-down* value of the land not counting any improvements.

One would think that farmers and farm leaders would devote themselves enthusiastically to putting into effect such a scheme of taxation of bare-land values. For this would be practically no tax at all on a considerable proportion of farmers. Especially in this recent period of agricultural depression when all sorts of nostrums have been advocated to cure the evil, is it not amazing that more farmers have not demanded scientific taxation which would leave them all the wages of their labor and interest on all their improvements, which would tax only their economic rent, if and when they received any, and which would

never penalize them for improving their farms, by raising their taxes?

That many farm owners would most certainly gain if taxes were removed from improvements and concentrated on bare-land values is evident to anyone who will examine the facts. A recent investigation carried on by the Agricultural Experiment Station of the Michigan State College, in cooperation with the United States Department of Agriculture clearly shows it. Among other data are those showing the proportion of taxes to net property returns on farms surveyed in seven Northern Michigan counties from 1919 to 1925 inclusive. The taxes averaged over 90 per cent. In 1922 they averaged over 150 per cent. It is perfectly obvious that these taxes must have been *very greatly* in excess of the economic rent or return on bare-land value. Since a large part of the return on most farms, besides the wages of labor, is interest on improvements, and only a part, probably a distinctly minor part, is economic rent, how can any one suppose that a tax on economic rent alone would be anything like so burdensome as a tax which, as in this instance, has been taking nearly the whole of both interest and rent?

But perhaps the most important reason for taxing community-made land values rather than other things, and at the same time the most important objection to our present tax system is that the former will make land cheap and the acquisition of ownership relatively easy; whereas our present tax system operates to make land expensive and so tends towards heavy mortgages or towards long and, often, hopeless tenancy.

In order to make this perfectly clear, it is necessary that we distinguish between the conditions determining the value of capital and those determining the value of land. The difference lies in the fact that the value of capital depends upon its cost of production—or of duplication—while the value of land depends solely upon its expected future income. This distinction is, from the point of view of public policy, of the utmost importance. Capital includes all tools of production brought into existence by the effort and thrift of human beings. It includes planted trees and the fertility put into land by the owner's effort and investment or restored and maintained by the owner's care and thrift. The bare-land is a gift of nature. Since capital has to be produced, its value depends on its cost of production, whereas land has no cost of production and its value is dependent solely on its expected future income. Of course the value of capital, also, is related to the prospect of income. An unseaworthy ship does not have high value just because its cost of construction was high, and a railroad built through a desert may have little value despite a high cost of building. Yet in the long run and on the average there is certainly a close relation between the value of capital and its cost. Competition tends to bring about a price for any capital which just about covers the cost of producing it, including in cost the ordinary

"profit" to the producer. Indeed, no one will go on year after year producing capital instruments to sell for less than their cost; and no one, unless he has a monopoly, can go on year after year charging much more.

But the value of land has no relation to any cost of production, since the land was not humanly produced and is not reproducible. The would-be buyer of land asks only how much net return he is likely to be able to make from it. Such an expected net yield is then capitalized at the prevailing rate of interest. However much the community may grow, capital cannot rise in value except as the cost of producing it increases; while land rises in value as and because the community grows and develops, and in proportion as roads, subways, railroads, schools, etc., are built around, through and in it. A business block in the center of a great city is valuable (bare-land value), not because of the activities of those who own that particular piece of land, but chiefly because of the way in which others settle about it. The development of the environing areas enables the owner of that block to enjoy larger rents, and the possibility of enjoying these rents gives the privilege of ownership value and makes the land sell for a high price. Individuals create the values of their capital by saving and constructing the capital. Nature and society create the value of land.

Since the value of land has no relation to any cost of production but depends solely on its expected future rent, a tax on this value which reduces the net rent of land will correspondingly reduce the salable value of the land. Here is a fundamental difference, frequently overlooked or not comprehended, between the effect of taxing capital and the effect of taxing land value. The more land is taxed the less is its salable value, while the less it is taxed the greater is its value. But this rule does not apply to capital.

Since the salable value of land is lower in proportion as land values are more heavily taxed, therefore the taxation of land values, above all other economic reforms, tends to diminish tenancy and to give all who are hard working and thrifty the opportunity of owning land. If incomes, commodities and capital saved are less taxed, it is easier for a poor man to accumulate a competence. And if land is taxed more, then it is cheaper and can be bought at a lower price. The greater cheapness of the land fully offsets the higher tax on it and there is to be reckoned, also, the reduction or removal of other taxes. Thus there is a clear gain to any person intending to buy land for a home or other use, but no gain to the mere land speculator.

Many persons, and among them some professional economists, have never succeeded in getting a thorough comprehension of this point. Thus, the writer has heard the objection advanced that the greater cheapness of land is no advantage to the poor man who is trying to save enough from his earnings to buy a piece of land; for, it is said, the higher taxes on the land after it is acquired, offset the lower purchase price. What such objectors do not

see is that even if the lower price of land does no more than balance the higher tax on it, the reduction or removal of other taxes is all clear gain. It is easier to save in proportion as earnings and commodities are relieved of taxation. It is easier to buy land, because its selling price is lower, if the land is taxed. And although the land, after its purchase, continues to be taxed, not only can this tax be fully paid out of the annual interest on the saving in the purchase price, but also there is to be reckoned the saving in taxes on buildings and other improvements and in whatever other taxes are thus rendered unnecessary. It would seem, then, that those economists who can see no advantage to the common man in case of becoming an owner of property, from the taxation of land values rather than of other things, are lacking in the ability to make a very simple mathematical calculation. And if to tax land values rather than other values would aid the property-less person to acquire a competence, it would obviously make easier the economic rehabilitation of those to whom fortune has dealt heavy blows or of their children who must begin, at the bottom, the struggle to restore their broken family fortunes. Thus, this reform may be likened to the abolition of debt slavery and of imprisonment for debt and to the establishment of bankruptcy laws. Men could not sink so hopelessly low in the economic scale as is now possible.

The taxation of land values rather than incomes, commodities and capital is not communistic, as is a part of our present tax system. Land-value taxation does not penalize the efficient. It provides no royal road to wealth for the lazy and the thriftless. It does not attempt to reduce all to a common level. It is essentially individualistic. It leaves to the individual all that he can acquire by labor and saving. It takes for society a value which is in a peculiar sense a social product. But no system of taxing commodities, incomes, and property in general can possibly be so good for the common man, do so much to encourage ownership as against tenancy, make the opportunities of getting a start in life so hopeful, as a system of relying chiefly on the rental value of land for the provision of public revenues.

My impression has been and still is, that among the so-called spokesmen of the farmers there are almost none who understand the fundamental principles involved and are seeking a remedy which is fair and at the same time goes to the root of the difficulty. The current complaint about low land prices proves this. If those who think that a high salable value of land and high taxes on other values are the things to be desired have their way, we shall likely end with a tenant population perhaps reduced almost to the status of serfdom.

There have been periods before of low prices for agricultural staples. Such periods will occur again. Even if by some kind of favoritism of government these prices could for a time be made abnormally high, there is no

guarantee that they would stay high. But while they were high would be just the time that many farmers would buy farms at high prices, mortgaging themselves with high interest payments for years ahead. Then any fall of the prices of products would again, as so often heretofore, bring bankruptcies and foreclosures, spreading ruin among those who might, under saner taxation, have continued solvent and relatively prosperous. For a tax levied only on the rental value of land would be a lighter burden on farmers in a decade when low prices of their products made the rental value of farm land low; and always, whether prices of products were high or low, it would keep down the salable value of land and facilitate the change from tenancy to ownership, without compelling the assumption of heavy mortgage indebtedness certain to bring bankruptcies and foreclosures with every price recession. Here, then, is a reform, *not* of a temporary nature, serviceable only to our own generation, but one of *incalculable benefit to our children and our children's children.*

There are many persons who are, or think they are, of a liberal cast of mind and who are desirous of contributing to the welfare of common folk, who nevertheless make no substantial contribution to this end because they have not learned—though some of them may have grown gray in social studies—how to relate cause and effect, clearly and without bias, in the field of economics, or to distinguish significant influences from trifles. Of what use to hold conferences and make social surveys and carry on extended investigations of the evils of farm tenancy when the investigators never by any chance stress the effects of our inept land and taxation policy in producing a high salable value of land and so making ownership as against tenancy, as difficult for the masses of men as possible? Of what use for students of social affairs of "liberal" persuasion to plume themselves on their support of high taxes on the rich, as such, without distinction as to the sources of their incomes, when such taxes are *in place of* high taxes on land values, and so would leave the salable value of land high, land speculation unchecked, and congestion and tenancy, including farm tenancy, little relieved?

What shall we say of a so-called liberalism which does not note the effect of taxing the rental value of speculatively-held vacant land as well as of used land, in discouraging land speculation and so reducing land rent; and which does not understand how both the direct reduction, through taxing it, of the net rent privately received, and its indirect reduction through discouragement of land speculation, operate to lower the salable value of land? What shall we say of a so-called liberalism which has no least suspicion of how the resultant possible untaxing of capital may, by increasing the net rate of interest on it to those who save (unless and until increased saving again lowers the rate) further bring down the salable value of land through causing the capitalization of its reduced

rent at a *higher interest or discount rate?* What shall we say of a professed liberalism which thus utterly fails to comprehend how important is land-value taxation from the point of view of the common man and how poor a substitute is any system of taxing all kinds of property or of income, even though such taxation be made progressively higher on the rich? May we not characterize the "liberalism" which favors taxing different kinds of property or of income at the same rate as a *liberalism innocent of arithmetic!*

Those students of economics who have turned for guidance to thinkers thus confused will scarcely themselves have acquired a clear and unbiased comprehension of the land rent problem. On the contrary there may with some justice be asserted to be true of them what the historian, Buckle, remarked as being frequently true of the so-called educated, viz., that the progress of their knowledge "has been actually retarded by 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."

The Coming International Single Tax Conference at Edinburg

UNDER the direction of Judge Peter Burt of Glasgow, Chairman of the Arrangements Committee, and Ashley Mitchell, of Yorkshire, Chairman of the Programme Committee, considerable progress is being made toward perfecting the plans for the Conference of the followers of Henry George called by the International Union for Land Value Taxation and Free Trade, to be held at Edinburg next summer. The formal opening of the Conference proceedings will be on Monday morning, July 29th, and a programme of discussion and entertainment will occupy most of the following week. The fine audience hall of the College of the United Free Church will be the meeting place.

An interesting feature of the gathering will be a religious service on Sunday evening, July 28th, at which representatives of various denominations will stress the religious significance of the teachings of Henry George. There will be music and choir singing.

About 200 American and Canadian followers of Henry George have enrolled in the International Union thus far and a large number of these will attend the Edinburg Conference. Among the better known subscribers are:

R. L. Atkinson, Charles G. Baldwin, H. deForest Baldwin, Mrs. Caroline Takamine Beach, James G. Blauvelt, Warren S. Blauvelt, R. R. Bowker, Prof. Harry Gunnison Brown, Edmund J. Burke, Andrew P. Canning, John S. Codman, Ralph H. Culley, Grace T. Colbron, Otto Cullman, Josiah Dudley, Anna George de Mille, Prof. J. H. Dillard, George E. Evans, Oscar H. Geiger, Mrs. Henry