Is American Liberalism a Betrayal of the Masses?

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THE taxation of land values as a substitute for most or all other taxes has been advocated as a fiscal reform which would greatly simplify and improve our tax system and which would remove the penalty on efficiency and thrift. It has been advocated, also, as a fundamental reform in our economic system, which would remove an important cause of inequality and do much to open the door of opportunity to the common man. It is to this latter aspect of the matter that Henry George gave chief emphasis in *Progress and Poverty* and it is this aspect of it to which the reader's attention will be here specifically directed. For there can be, the present writer is convinced, no doubt, in the mind which approaches the subject seriously and without prejudice and considers carefully all the factors involved, that hardly any economic reform—if, indeed, any—promises half so much in the way of amelioration of the common lot as does this one. The sophistries of teachers, swayed, perhaps unconsciously, by class interest and the traditions of orthodox economics, may often conceal this fact from budding scholars; and the eloquence of demagogues who know how to gain popularity and to secure high office by giving effective expression to the prejudices which inhibit the common man from acting in his own interest may strengthen the hold of these prejudices on the masses and so delay the general understanding of important economic relationships. The truth is there; for minds persistent and unswayed by prejudice, to see. But with misunderstanding and misrepresentation so wide-spread, it is likely not to be seen clearly and fully except by those who are willing to devote to the problem some intellectual effort and to follow through a somewhat intricate analysis of cause and effect relationships.

An appreciation of the case for land-value taxation depends on a comprehension of the difference between land and capital, of the difference in the factors determining land value and capital value, and of the consequent difference in the effects of taxation on land and on capital. These differences many liberals have never apprehended. And they therefore think themselves befriending the masses when they are really supporting a system of taxation that penalizes industry, entrenches privilege, confirms tenancy and prevents or retards the accumulation of property by the ambitious poor. For those who would be the servants of the common interest need more than an amiable sympathy for the masses. They need also an understanding of cause and effect relations in complicated economic phenomena, and such understanding is not to be had otherwise than by concentrated and unbiased mental exertion.

Capital has been defined, by a well-known contemporary economist,* as "the produced means to further production." It 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. The value of capital, of course, is not unaffected by its expected future income. An unseaworthy ship does not have high value just because its cost of construction was high, and a railroad built through a desert is not valuable merely because many men and much material were required to build it. Nevertheless, in the long run and on the average, there is a close relation between the value of capital and its cost. No one will consciously pay for a ship, factory, machine or house much, if any, more than it would cost to produce another like it. And no one would go on, year after year, producing such capital instruments to sell for less than their cost.

The value of land, however, has no relation to any cost of production or of duplication, since the land was not humanly produced and is not reproducible. The prospective purchaser 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. Regardless of the growth of a community, capital cannot rise in value except as the cost of its production increases; while land rises in value as and because the community grows and develops. The growth of a town into

* Professor Henry Rogers Seager in the AMERICAN ECONOMIC REVIEW, December, 1912, p. 846, in an article entitled "The Impatience Theory of Interest."

a city, the building of roads, the construction of railroads, the putting through of subways, the erection of schools, the laying out of parks, all help to raise the value of land. The value of land, in so far as it is not a matter of natural advantage, is almost altogether a matter of social growth and development. A business block in the center of a great city is valuable, 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 owners of that block to enjoy large 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 value 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 heavily taxed, it follows that the taxation of land values, above all other economic reforms, tends towards the diminution of tenancy and towards giving to all who are hard working and thrifty, the opportunity of owning land. If incomes, commodities and capital savings are less taxed, it is easier for a poor man to accumulate a competence. And if land is taxed more, then land is cheaper and can be bought at a lower price.

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 ease 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 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 a part of our present tax system is. 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.

To the popular mind and even to the mind of the superficial student of economics, the idea of levying progressive taxes which

* In THE TAXATION OF UNEARNED INCOMES second (revised) edition, Columbia, Mo. (Lucas Bros.), 1925, pp. 101 and 154-156, the author has given reasons for thinking that it may more than offset the higher tax.

shall be high on the rich, as such, without distinction as to the source of income, seems to have a considerable appeal. To the masses this means, often, "soaking" the rich and, therefore, it is presumed, relieving the poor. Certain economists who appear never to have really grasped the distinction between land and capital have elaborated this idea into the "ability theory" of taxation. And these economists have apparently the endorsement of certain "liberal" newspapers and magazines.

To persons whose sympathies are with the common people rather than with the well-to-do, an attack upon the "ability theory" as having elements of communism, may not seem very significant. Though it be shown conclusively that the application of such a theory of taxation penalizes industry and thrift and, even, that it thereby discourages accumulation and deprives the community of the use of as much capital as might otherwise be had, many "liberal" sympathizers will still be inclined to favor this theory. But the masses have more to gain from justice than from charity. A tax on land values is no burden at all, as we have seen, on the property-less person and it makes it easier than before for him to become an owner of land. It does not increase rents or the prices of goods. The taxed landowner can less afford to hold his land out of use than if the land were not taxed. He must either use it himself or let others use it on favorable terms. If more land rather than less is on the market, the rent of land can not be higher; and if more goods—certainly no fewer goods—are produced, the prices of goods can not be raised. Are any of the systems of taxation which liberals of "ability theory" persuasion support, anything like so favorable to the common man as the taxation of land values? Are not most other taxes likely to operate, indirectly if not directly, to burden the masses? In truth, the so-called liberal who thinks to serve the interests of the masses by advocating the application of the "ability theory" of taxation, may be, however unconsciously, an auxiliary of the forces of reaction. For the effect of such advocacy may be to relieve land of taxation, or, at best, to weaken the support for increased taxation of land. Hence, land tends to be higher in price, the unearned increment from the growth of cities becomes a cause of great fortunes, tenancy is unnecessarily and undesirably accentuated, and the opportunities of the thrifty poor to rise in the economic scale are lessened. Liberalism needs more than sympathetic hearts. It needs, as well, economic intelligence. Without the aid of such intelligence it is likely to be found flirting with the ideals of communism and pluming itself that it is thereby serving the common welfare.

There is another idea, essentially socialistic rather than communistic, which seems to have attracted many persons of liberal persuasion, though most of them would scout the suggestion that they are in any sense socialists. This is the idea that income from property—any kind of property—is unearned, and that only income from labor is earned. And the application of the idea is to levy heavier taxes on the "unearned" than on the "earned" incomes.

Against such a policy, as in any way a substitute for the increased taxation of land values, it is pertinent to advance two criticisms. The first is that land and capital are two kinds of property of entirely different nature so that, although the income of one is not individually earned, the income of the other is normally earned. Capital is an advantage to the community. It adds greatly to our wealth-producing power. But it cannot be brought into existence otherwise than by labor and saving. The person who, though he works hard, consumes in current gratification all that his labor produces, brings no capital into existence. Since capital aids production, the person who works and saves does more for industry than the person who works just as hard but saves nothing. To assert, therefore, that interest on capital is unearned is economic nonsense. This, however, is the orthodox socialist theory and it has permeated far beyond the confines of professedly socialist groups.

The second criticism is that the results of taxing land rent or land values are quite different from the results of taxing capital or its income. Since land is not brought into existence by production and saving, taxation cannot decrease its quantity; while the taxation of capital may discourage capital accumulation. Since the value of capital depends upon its cost, taxation of capital or its income cannot, in the long run, reduce the value of capital, whereas the taxation of land values makes land cheap and easy to buy, reduces tenancy and, by virtue of the correlative reduction or removal of other taxes, encourages industry and facilitates saving. And so those persons who suppose that they are manifesting liberal sympathies by supporting a discriminating tax on incomes from property while making no distinction between property in land and property in capital, are merely confirming the masses in a generally recognized but relatively unimportant distinction and helping to divert their attention from a less generally recognized distinction which is far more important. Socialism emphasizes the superficial distinction which the masses easily see. "Liberalism" frequently does the same. What is needed, above all else, is an economic intelligence which will grasp and help to popularize the distinction which is really fundamental and important. Sentimental liberalism, without economic understanding, may but fasten more firmly upon the masses the shackles of poverty and tenancy.

But perhaps the greatest of the obstacles which block the progress of the land-value-taxation movement is the doctrine of "vested rights." To increase the rate of taxation on land while decreasing other taxes is held to infringe upon the legitimate expectations of present owners of land since it would lower the salable value of land. The theory seems to be that society is under an implied obligation not to disappoint the expectations of landowners by one iota. The expectations of the manufacturers of spirituous liquors may be interfered with by prohibition laws. The expectations of skilled workmen may be disappointed by the establishment of trade schools which train competitors quickly. The expectations of monopolists may be ignored when public service commissions are established and the rates of public service industries regulated, but any change, no matter how gradual, in the rate of taxation of land is held to be objectionable. Other taxes are raised or lowered according to prevailing sentiment and the weight of political influence. Tariffs are established, increased, reduced, abolished. Is the rent of land the one thing regarding which any change in taxation policy, however gradual, must not be allowed? Or is this objection, in fact, utterly silly? May it not reasonably be argued that landowners, like other persons, buy their property with no pledge or guarantee by society, either overt or implied, that public policy will never change, but merely with the practical certainty that such changes as occur will not be precipitate or without the warning of years of agitation preceding the changes? Must the masses, because they have paid rent in the past for benefits due not to landowners but to society itself, therefore continue to do so for all future time? In truth, any change in public policy regarding this matter is almost certain to come slowly. The danger is that the protests of the conservative, coupled with the lack of understanding of the liberal minded, will prevent its coming at all.

Before concluding our discussion it will be of interest to examine briefly some of the arguments against increased land-value taxation presented by various academic economists who have become prominent in the field of public finance. We may note first a statement from Professor C. C. Plehn* of the University of California. "Every tax," says Professor Plehn, "tends to repress the development of the particular phenomenon on which it rests. A single tax of *any kind*** 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 almost unanimous testimony of economists, since the time of Adam Smith, has been to the effect that a tax on land values does not discourage industry and cannot be shifted. There is no less land because of such a tax, and, certainly, there is no less use of land. To tax land does not encourage owners to hold it out of use for speculative purposes. Yet here we find an economist and taxation specialist apparently endeavoring to create the impression that land-value taxation discourages the use of land, presenting, as evidence, the statement that a tax on cows discourages the raising of cows! As Professor Viner, of the University of Chicago, has pointed out,*** "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."

While Professor Plehn thus argues, in effect, that land-value taxation has the disadvantage of discouraging the use of land, Professor Richard T. Ely, formerly of the University of Wisconsin and now of Northwestern University, seeks to convey the impression that such taxation would too greatly *en*courage the use of land by unduly interfering with the speculative holding of land out of use! The owner of vacant or unused land, according

* INTRODUCTION TO PUBLIC FINANCE, fourth edition, New York (Macmillan), 1921, p. 88.
** Italics are the present writer's.
***In the JOURNAL OF POLITICAL ECONOMY, April, 1922, pp. 250-51.

to Professor Ely, "renders distinct service because he carries the burden while a lower use is ripening into a higher one."* It is, of course, a fact that the holding of well-situated land out of use for a few years may sometimes leave the way open for a more profitable use. Thus, speculation in city lots may occasionally keep land for prospective high buildings without necessitating the tearing down of old and lower ones, although it is generally known that, as a rule, skyscrapers are built upon land on which lower buildings previously rested. But whether or not 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 city land, of thousands of city dwellers, and in the transporting of goods farther from stores to homes than would otherwise be necessary.

A still different argument against increased land-value taxation is put forth by Professor T. S. Adams of Yale University. Professor Adams appears to contend that the private receipt of the unearned increment stimulates production, lowers prices and so is distributed to the masses. And the implication apparently is that to tax land values so as to prevent private enjoyment of the unearned increment would make prices higher. For Professor Adams says** 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." But if the unearned increment thus caused us to have more farmers, farms and farm products and lower prices of these products, it must necessitate our having fewer persons 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. But, *mirabile dictu,* Professor Adams does not reach this obvious conclusion. On the contrary he goes on to contend that the unearned increment not only lowers farm prices but also lowers railroad rates, the prices of manufactured goods, and house rents.*** Does Professor Adams seriously believe that laborers work harder because landowners get an unearned increment, or that the ideas of inventors mature faster because part

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* See Professor Ely's OUTLINES OF LAND ECONOMICS, Ann Arbor, Mich. (Edwards Brothers), 1922, Vol. III, p. 105, cf also, context, p. 104.

** "Tax Exemption through Tax Capitalization," AMERICAN ECONOMIC REVIEW, June, 1916, p. 279.

*** Pages 279-280 of his article.

of the product of industry goes to persons who merely own land? If this is not his opinion, on what theory can he possibly contend that the unearned increment makes goods cheap? Is not the argument frequently presented by advocates of increased land-value taxation, that the prospect of receiving an increment of value encourages men to hold good land out of use as a speculation, so decreasing the supply of goods and raising prices, more reasonable?

It is sometimes contended—and the argument is supposed to be a crushing one— that whatever may be said, in theory, for land-value taxation, it is a failure in practice. Back in 1890, in a magazine* debate with Henry George, Edward Atkinson stated that the single tax had been tried in France, under Turgot, "with very disastrous results." But in the November number of THE CENTURY, replying to a communication from a Mr. James Middleton, Mr. Atkinson admitted that he had written incorrectly, that the single tax had not been tried in France, and that the "disastrous results" he had had in mind were the results of the revolutionary paper money issues! But the idea of the "failure" of the single tax in France has received the recent endorsement of Professor Merlin Harold Hunter of the University of Illinois in his *Outlines of Public Finance.*** Near the beginning of his chapter on the single tax, Professor Hunter refers to France, the physiocrats, and the *impot unique* of these economists. Then he goes on to say:—

"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. The injustice became so marked, and the dissatisfaction so evident, that the *impot unique* was abandoned."

Here is certainly an interesting tale about the woeful effects of a tax law that didn't exist! And, in the light of what has been explained in this article regarding the advantages of land-value taxation to the common man, the statement quoted from Professor Hunter would seem to be as misleading in its implications as to the to-be-expected consequences of land-value taxation as it is historically.

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* CENTURY MAGAZINE, July, 1890.

** New York (Harpers), 1921, pages 363-364.

One more of the puerile and silly objections of certain specialists on taxation, to land-value taxation will be here given attention. This is that the difference between land and capital is, after all, of minor importance, and that, instead of land being a gift of nature and capital a product of labor and thrift, both are gifts of nature. This idea seems to be held by Professor E. R. A. Seligman of Columbia University,* by Professor Winthrop More Daniels of Yale University,** and by Professor Merlin Harold Hunter of the University of Illinois. Professor Hunter expresses his view of the matter 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."

Of course no competent student of economics ever contended that men create houses out of nothing. But land is, in a special sense, a gift of nature and its value is a function of natural advantages and community growth and development. Houses require labor and saving for their production. That there is a distinction, any careful and unbiased investigator should be able to see. If the advocates of greater land-value taxation do not always present the distinction clearly or if they occasionally exhibit confusion about seemingly border-line cases, the business of the trained student of economics whose point of view is the objective one of the scientist, should be to dissipate the confusion and make the distinction clear. Yet here we find three well-known writers of books on public finance, attempting to make less clear rather than more so a distinction that every student ought to be made to understand, and this for apparently no other reason than to discredit the single-tax philosophy. The

* ESSAYS IN TAXATION, ninth edition, New York (Macmillan), 1921, pages 70-71.

** PUBLIC FINANCE, New York (Holt), 1899, page 82.

*** OUTLINES OF PUBLIC FINANCE, pages 70-71.

**** Italics are the present writer's.

points of importance are, that the rent of land is not individually produced, that the value of land depends solely upon its expected future income while the value of capital can not, in the long run, greatly differ from its cost of production, that a tax which takes most of the rental value of land substracts nothing from the rewards of future industry and thrift but lowers the salable value of land, thereby making it easier for the thrifty to get a start in life and to become owners of property.

It seems a pity that persons of liberal sympathies, seeking to know what policies will most conduce to the common welfare, should so often be misled by the teachings of those whose prestige as authors of current texts and as professors in famous universities gives them an authority which their logic could not give. It seems a pity that liberals should be attracted by the communistic philosophy underlying the "ability theory" of taxation and by the socialistic doctrine that all incomes from property of any sort are equally unearned, and ought to be subjected to special taxation. For, as a consequence of the influence of these "authorities" and the spread of these theories, there is danger that the permanent subjection of the masses to exploitation and to the burdens of a hopeless tenancy and poverty will be most contributed to by men who sincerely believe themselves to be leaders among the forces of liberalism. And for such a situation, if it arises, those professional economists who have been so swayed by class prejudice or by the traditions of their craft as to become, however unconsciously, the spokesmen of privilege, will be largely responsible. "Political Economy," said Henry George, "has been called the dismal science and, as currently taught, is hopeless and despairing. But this is because she has been degraded and shackled, her truths dislocated, her harmonies ignored, the word she would utter gagged in her mouth, and her protest against wrong turned into an indorsement of injustice." Surely, those who would serve the cause of humanity can not afford blindly to follow as "authorities" or "experts" teachers and writers who oppose with logical fallacies and historical inaccuracies the economic reform which promises most for the common welfare, despite the degrees, the academic position or the erudition in matters of detail, which these "authorities" can exhibit. Liberalism must do its own thinking; else it will find itself indirectly betraying, while seeming to further, the interests of those its adherents seek to serve.