CHAPTER XV

The Problem of Land Rent

§ 1

Land Rent as a Marginal Product of Land

In the previous chapter [1] we had occasion to suppose the existence of a piece of land on which the labor of five men working with the aid of improvements and equipment worth $10,000, produced a yearly output above repair and depreciation costs, of $4,400. Of this $4,400, wages constituted $3,000, interest (at 8 per cent) $800, and $600 a year remained as rent. This $600 measures, roughly, the amount of rent the owner could secure from a tenant. It is the surplus produced on the land, above the remuneration of the labor and saving used. But we have seen that the remuneration of saving, the interest on capital, is fixed by demand and supply at a point where it equals the marginal productivity of saving.[2] We have likewise seen that the remuneration of labor is fixed by demand and supply at a point where it equals the marginal product of labor.[3] Hence, to say

[1] Chapter XIV, § 1.
[2] Chapter XIII.
[3] Chapter XIV, § 1.

that a piece of land yields per year a surplus of $600 over interest to saving and wages of labor is to say that it yields a surplus of $600 above the marginal product of such saving and labor.

Let us suppose this particular piece of land to be non-existent. Then the labor and capital applied upon it must needs be applied on poorer or less well situated land not previously used, or this labor and capital must be applied to using more intensively land already in use. Applied in either of these ways, such labor and capital would produce $600 less than could be produced if the labor and capital were applied to the $4,400 yielding land. In other words, the $600 is the marginal product of this particular piece of land *in the sense* that the existence and use of this piece of land make it possible for a product $600 larger [4] to be secured with no more labor and saving, simply because the land resources to which the labor and saving are applied are that much better than the margin at which the labor and saving in question must otherwise be applied. But although $600 may thus be regarded as a contribution of the land to production, it is not on that account to be regarded as a contribution of the land-*owner* to production.

Perhaps it may be well to explain this matter of the marginal product of land more fully. In the last chapter we saw that wages tend to be fixed at the point where they equal the marginal product of labor. In our assumed community with 50 establishments and 200 workers, the marginal product of labor was 600 bushels or (at the assumed price of $1 a bushel) $600. If one laborer of the assumed efficiency were to be withdrawn, the total output would be reduced by 600

[4] By way of qualification it may be said that this differential is not fixed but is greater for some potential users of the land than for others. Some users may be able to gain from the use of a piece of superior land much more than they have to pay. To others, the differential is less than the rent and they will presumably use inferior land. The marginal productivity of the land is its productivity to the user who is just induced to hire it and who, if rent were greater, would have to resort to poorer land. If A has to pay only $1,000 for the use of a piece of land because it is worth only that to his nearest competitor, B, while A would be willing, if necessary, to pay $1,200 because he believes he can use it to make that much of a differential gain, the extra $200 may be regarded as the reward of A's efficient use of the land and so as really wages. Only $1,000 is to be reckoned as land rent.

bushels. This 600 bushels is said to be attributable or "imputable" to the worker in question in the sense that his presence or absence makes that much difference in the total output. Obviously, the same test can be applied in seeking the (marginal) productivity of a piece of land. If the particular piece of land referred to above could not be used, if, for example, it were mysteriously to vanish or were universally regarded as accursed and not to be cultivated or otherwise made use of, the total product of industry would be reduced. But this reduction would not be by the amount of $4,400 (or 4,400 bushels, assumed to be worth $1 each). For each of the workers on this land could, presumably, find a place for himself on some one of the other 49 pieces of land, where his labor would add approximately 600 bushels to the output. For the five men displaced from the particular piece of land, this would be an added possible output, on these other establishments taken all together, of 3,000. In a similar way, each of the units of capital would be worth, on some one of the other 49 establishments where it might be used, 8 per cent or (for the entire $10,000 capital) $800 (or 800 bushels). The marginal productivity of all the five workers plus that of all the units of capital thus adds up to 3,800 bushels (or $3,800 worth). But if these five men and this $10,000 capital are used on the particular piece of land, the total product is 4,400 bushels. Then to withdraw the particular piece of land from production reduces the product by 600 bushels. This 600 bushels (or $600 worth) may be attributed to or imputed to that land and, therefore, measures the marginal productivity of the land.

If we did not go carefully into this analysis of marginal productivity, we might be tempted to impute the entire 4,400 bushels to labor, on the ground that, obviously, there would be no product at all if there were no labor. Or we might be tempted to attribute it all to land, on the theory that if there were no land there could be no product. Or we might attribute almost all of it to capital because of the fact that, if there were no capital whatever, very few bushels could be produced. But, following the marginal analysis, we consider each worker responsible for—i.e., we impute to him—only the additional product available with him working beyond what would be available with all the land and capital used and all the other workers except him. And we measure in a similar way the product imputable to a single unit of capital and the product imputable to a particular piece of land.

On the basis of this analysis, the entire 4,400 bushels produced on our assumed piece of land with five workers and \$10,000 worth of equipment, is wages plus interest plus rent. To any one of the workers (assumed to be of equal efficiency) is imputable 600 bushels. To each \$100 worth of capital is imputable 8 bushels (or \$8 worth—8 per cent). To the particular piece of land considered above is imputable 600 bushels. In this sense it can be truly said that the 600 bushels or (at \$1 per bushel) the \$600, is a contribution of the land to production. But it is not therefore to be regarded as a contribution of the land*owner* to production. For the landowner is not responsible either for the existence or for the productive advantages of the land.

When, as may happen, labor and capital engage in production on land so poor in its natural qualities or its situation that the entire product is barely enough to pay current wages and interest, such land is said to be *no-rent* land. Such a piece of land has no marginal productivity. It is barely worth using if it can be had for nothing. But men will not compete in offering rent for permission to use it.

It is to be emphasized that the rent of city land is determined in just the same way as the rent of land in the country. The well-located merchant derives a larger return from his business as a retailer or a jobber by virtue of his superior situation. So, also, the manufacturer whose business is wisely located in relation to sources of power and to shipping facilities derives from such a location advantages for which he may be willing, if necessary, to pay a high rent and for which, if the desired location is equally advantageous to others, he will have to pay such a rent. In the case of either country or city land it is here intended to regard as land rent only the amount which is the marginal product of the land as such. Interest on the cost of improvements, whether swamp draining and fertilizing in the case of farm land or filling and leveling in the case of city land, is not properly a part of the rent of land but is a return on capital investment.

It is extremely important for the reader to grasp the idea that, of the income from land and improvements (whether in the form of buildings or otherwise), even though both are owned by a single individual, a certain part is really received *by virtue of* the ownership of the improvements and another part *by virtue of* the ownership of the land.

The amount of rent which landowners can get for the use of their land appears to be pretty definitely fixed by the conditions of demand and supply. Attention is commonly called, by economists, to the fact that a tax on land rent can not be shifted. The owner of the land can not, when a tax is levied, get any more rent. The tax does not increase the marginal product of the land. It does not decrease the marginal product of waiting or the marginal product of labor. It can not make interest lower or wages lower. It can not, therefore, increase the difference between the total product of the land and the amount going to capitalists and wage earners. It does not make land space any scarcer. The tax-paying landowner can even less afford to keep his land idle (assuming a tax based on the rent he *could* get) than the landowner who is untaxed. It does not decrease the quantity of goods produced on the land and does not increase prices. It simply leaves the landowner with a smaller income by the amount of the tax subtraction. If the landowners who lease their land charge higher rents for its use, tenants will endeavor to economize in the use of land much as people economize in the purchase of clothes when clothes are expensive. Some of the owners will therefore find their land idle and yielding no revenue. These will quickly reduce their rent charges, the more so if unused land is taxed at the same rate as used land, since only so can they avoid loss.

We may state the matter convincingly in a somewhat different way if we call attention to the fact that the land-owners were presumably, before the tax was laid, charging all the rent they could get. There is nothing in the tax to make tenants willing to pay more or land more difficult to hire. Supposing the tax to apply also to unused land, even more land will probably be on the market for hire than would otherwise be the case, because of the loss to owners in leaving their land idle. Hence, owners cannot raise their rents but will more likely reduce them.

To put the matter in still another way, it may be said that rent is the surplus which can be produced by labor and capital on any piece of land above what that labor and capital could produce on the poorest land in use, for which no rent is paid and which has either no value or a purely speculative value based on prospects. A tax on the value of land would not increase this surplus yield on the superior land, and could not, therefore, increase rent.

Let us suppose that a tax is levied upon a piece of land because of its value, because, that is, of its superiority over the poorest land in use and in proportion to that superiority, and that the owner of the land tries, because of the tax, to charge more rent to the tenant. In that case the tenant may resort to poorer land on which the rent and, therefore, the tax is insignificant or zero and leave without rent and with his tax nevertheless to be paid, the too grasping land-owner. Or the tenant may find employment as an additional worker on another good piece of land, so that this other land is used more intensively than before. In this case, too, the owner of the land he had previously used would be without rent but with a land-value tax still to be paid. Such a prospect or its actual realization must cause the owners of land to keep down their rent charges and to pay the tax themselves.

Clearly, a tax on the value of land cannot raise rents. Neither can it raise the prices which tenants charge for the goods they produce or sell. Nor can it raise the prices charged by the owners of land for the goods they produce or sell when they themselves use their land. Such owners will not, because of the tax, produce any less of the goods in the production of which they are engaged. Refusing to produce the goods would not relieve them of the tax. They will produce as many goods as if there were no tax. And if the tax does not make such goods any scarcer, their prices will not be made any higher. In other words, if, before the tax is laid, landowners are charging for their goods all they can get, the tax will not cause them to charge any more for they cannot get any more.

If, then, we look at the matter of general land-value taxation from any point of view whatever, we arrive at the same conclusion, viz., that a tax on the rental value of land is paid by the owner of the land and by no one else, that the owner cannot because of such a tax raise either his rent or the prices of his goods, but that, indeed, productive land held out of use by speculators is forced onto the market so that, if land rent changes at all, the direction of the change will be downward. Other taxes may discourage production. But land-value taxation, so far as it has any effect on production, operates to increase it and thus to reduce prices or to raise wages or both.

A tax on interest *might* diminish saving and make interest, eventually, higher. Certainly it would keep capital, to some extent, out of the state or country which thus taxed it, and cause it to be invested elsewhere. A tax on wages, especially if heavy, might diminish population and so, conceivably, make wages, in a later generation, larger.[5] But a tax on rent can have no effect other than to diminish the amount of revenue received by landowners and give this revenue to the general

[5] This suggests the Physiocratic doctrine that all taxes must inevitably be borne by the landed proprietors of a country, through diminished population and lower rents. The conclusion may be (and may not be) largely true, if we include owners of urban, etc., as well as agricultural land, as the Physiocrats did not. But a tax on wages thus shifted to landowners will fall upon them in very different proportions than a direct tax levied as a percentage of rental value. The former will fall much more heavily in proportion on the owners of near-marginal land and the latter will fall with equal proportionate weight on the owners of superior land. But except on the hypothesis of a subsistence level of wages or some other fixed long-run comfort standard, this Physiocratic doctrine is not true at all.

public.[6] It should be said, however, that when the so-called "rent" results not chiefly from a favorable situation or other conditions independent of the owner's labor but in part from a fertility which has to be maintained by the owner, some shifting may take place. Return on improvements due to labor is, however, properly to be regarded as *interest* on capital. A tax upon the *situation* rent or value of land, or upon the rental value resulting from any advantages not dependent upon the owner's work or saving, falls upon the owner and upon no one else.

§ 2

Land Rent versus Capital Interest

An examination of the justice of special land-value taxation may advantageously begin with a brief consideration of the difference between rent and interest. The distinction between them has been elaborated elsewhere[7] and need not, perhaps, be long dwelt upon here. It is sometimes said that the rent of land is no less interest than the return on produced capital, since the return on land can be viewed as a given percentage on a given valuation, while on the other hand, the interest on capital can be viewed as an absolute amount in dollars per machine or factory, just as land rent is viewed as so many dollars per building lot or per acre a year.[8] But more fundamentally there is a difference, despite the superficial resemblance, between situation rent and capital interest. The return on land should be looked at as an absolute amount measured and determined by the surplus over production on the extensive or intensive margin. It is not determined by the value of the land. Neither

[6] To appropriate rent in taxation provided land is used for some purposes but not if it is used for other purposes, would discourage the former kinds of uses and encourage the latter. See the author's *Economics of Taxation,* New York (Holt), 1924, Chapter VIII, § 1. (Reprinted by Lucas Brothers, Columbia, Mo., 1938.) Such a tax must, therefore, result in a degree of shifting.

[7] Chapter XIII, §§ 3 and 5.

[8] This view seems to be definitely presented by J. B. Clark in *The Distribution of Wealth,* New York (Macmillan), 1899, pp. 334-337.

has the value of land as such, i.e., *its situation value apart from improvements,* any relation to any cost of production, since the land was not humanly produced.

Such a statement perhaps needs interpretation. It is true that land, in the sense of geographical extension, subsoil deposits, availability of harbors, etc., is the result of geological forces. But the location advantages of land and, therefore, its situation value, are due in large part to community growth and development. This means that the situation value of land results from the activities of millions of persons, that this value is not produced, and cannot be reproduced, by one or a few persons. Indeed, even a great corporation can influence the situation value of land in only a limited degree. A house, a steamship or a machine has its value largely determined by the cost of duplication. The potential buyer frequently will not pay, nor will competition allow the potential seller to charge, much more than it would cost to duplicate the thing which is to be so bought or sold. But with a site this is not the case. What owner of a valuable site in the heart of New York's financial district will be prevented from selling it for several millions of dollars by the competition of persons who might duplicate the lot and the situation for a few thousands of dollars! And what would-be purchaser will be restrained by the thought that he can, instead, himself duplicate the site at some such trifling cost!

Cost of production, therefore, or of reproduction, which is an essential factor in determining the value of capital, has no relevancy in the problem of the determination of the value of land. And so the value of the land can be arrived at only by capitalizing its expected future rents or returns at some previously found rate of interest. Thus, a piece of land which would yield $5,000 per year net rent (above taxes, wages of labor employed, interest on the capital invested in buildings and other improvements, and insurance) would be worth, if interest were 5 per cent, $100,000. Were the current rate 10 per cent, such a piece of land would be worth but $50,000.

With equipment of the producible and reproducible kind, however, the relation between capital and income value is not the simple one above outlined. The value of such capital, though not unaffected by the value of its expected services, is very directly related to the cost of its production. Buildings of a type costing $5,000 each will hardly be put up to sell for much less, as a rule, by the builders. Nor, so long as the alternative is open to him of supervising the construction of a similar building, will a possible buyer care to pay a great deal more.[9] The value of a building is determined then, in large part, by the expenses, such as wages, of producing the materials and of putting it up; and these wages are determined, in the last analysis, by the existence of alternative lines of activity open to the wage earners, while the other costs are determined by the alternative uses to which the *land* or *capital* which must be used in producing the materials might be put.[10]

In short, as those who have read carefully the chapters on interest will easily see, the matter of significance in the case of return on capital is the gain from roundabout production as compared with the gain from relatively direct production. This is naturally and properly expressed as a ratio or per cent of the surplus gain per year, from making production relatively roundabout, to what the production would have been had immediately consumable goods been produced instead. Surely, the per cent which the rent of a piece of land bears to a value which can be arrived at only by capitalizing this rent at this same per cent interest is of no such independent significance. And those self-styled "modern" economists who affect to despise the leading economists of an earlier generation for failure to note specifically a purely surface likeness, are themselves far more worthy of criticism for failure to recognize a basic distinction the understanding of which is of the greatest importance for the best ordering of our economic system.

[9] If he purchases a building already constructed he pays, in its cost, for the supervision of its construction.

[10] See Jevons, *The Theory of Political Economy*, fourth edition, London (Macmillan), 1911, pp. 179-183, and Davenport, *Economics of Enterprise*, New York (Macmillan) 1913, pp. 61-66.

Since the value of produced and reproducible capital is thus in large part fixed directly by its cost of production, the assertion that interest is in large part determined by the rate of productivity of capital does not involve reasoning in a circle. Interest is 5 per cent because, for one and perhaps the most important reason, capital worth \$10,000 will produce an annual net income of \$500. It therefore appears, to sum up our conclusions thus far, that the value of produced capital depends in a considerable degree on cost of production, that the ratio between the value of capital and its income is an important factor in determining the general long-run rate of interest, and that this rate of interest is an essential element in the valuation of land.

§ 3

Land Rent as an Unearned Income

It is but a short step to the conclusion that the accumulators of produced capital may—and in most cases probably do—add to the volume of the annual aggregate income of society as much as they take out of this income in interest; while the owners of land, as such, contribute no service in return for their income. Whereas, in the case of produced capital, the public (except in certain cases, numerous enough no doubt, where the capital is wastefully or injuriously used) pays the owner for a service which, without his saving (or the saving of someone whose right to payment has been transferred to him), would not have been enjoyed, in the case of land the payment is made for a benefit which is dependent on no individual's saving or effort and a benefit for which, therefore, no individual is responsible. In the one case the community pays for a service which is actually rendered to it. In the other case it pays people who have, in the capacity in which they are paid, rendered no service.[11]

[11] The view presented so consistently in this book that incomes received not in payment for service rendered lack social justification will, of course, not be accepted by the ultra-conservative type of mind. More or less plausible arguments may again be advanced as they have often been before, in favor of incomes to privileged classes. It will be alleged that members of these

To avoid any possible misunderstanding, let it be emphasized that land rent as here defined does not mean merely the sum paid by a tenant to an owner, for the use of land, but equally the amount received by the person who himself uses his own land, in excess of wages for his labor and interest on his capital. This rent comes to him in money when he sells the goods or services which the land produces. He is paid, thus, by others, for benefits which not he but the land renders. The community, in buying from him, pays him for more than the service he and his "waiting" render them.

Thus, income from land, purely as such, is not at all in the same category as income from improvements on land or from other capital. It is, rather, income from privilege. Suppose the land to be a mine of iron ore. The owner derives an income from it, not on account of anything he does, not because of the productivity of capital he has saved, not through any contribution of his to the output of industry, but solely by virtue of his having the exclusive legal right to withdraw or to grant or refuse permission to others to withdraw, the ore which geologic forces long since deposited under the surface of the earth. The owner need not do any work at all or provide any equipment at all. He may merely charge those who do the work and provide the equipment necessary for getting out the ore which men need, for the privilege of taking the ore out.

classes, not having to worry about their livelihood, will become efficient officers of state, scholars devoted to research, and, in other ways, profitable social servants. To the argument that if a class is to be supported without definite regard to a special service for which their income is received, in order that such results may accrue, the public might select in a better way the individuals who should make up this class, it will doubtless be replied that, in practice, the public will not select in any such manner as to give equally good results. Or the supporters of a privileged aristocracy may go a step farther and defend its existence, not by virtue of any alleged superior social service, but as being good in itself, as a class for the good of which other classes exist, as constituting "the backbone of the state." To one who accepts either view above outlined, no argument against exploitation will be convincing, especially if the exploitation is of an ancient sort and has the prescriptive sanction of long usage, as is the case with land rent.

There is an ancient story to the effect that when Alexander the Great saw the cynic philosopher, Diogenes, sitting in his tub out-of-doors in order to enjoy the sunshine, the king asked if there was anything that he could do for the philosopher. The reply of Diogenes is said to have been: "Only step a little out of my sunshine."

But suppose the king had had an exclusive right to the sunshine and had been able to say to Diogenes and to any of the people of Greece: "If you would enjoy any sunshine you must pay me for the privilege. For I have the exclusive right to use, or to grant or refuse permission to others to use, the sunshine which nature provides." Then the king would have been in a position analogous to that of the mine owner. He could have been rich perhaps beyond the riches of the famed King Croesus, and that without rendering any service to human kind.

It is the same in the case of an owner of city lots. He did not make the lots. And it is the general growth and development of the community, rather than any contribution on the part of the owner, that makes their situation value high. The owner, nevertheless, can derive an income, over and above what he earns by his work and what his capital yields, because he has an exclusive privilege of using a part of the surface of the earth. He is in a position to make others pay him for the privilege of living on or of working on this special part of the earth's surface. And the amount that he can get from them is measured, not by any contribution of his own to industry but by the value of situation advantages which nature and society have produced.

But, it may be said, at least many of the present landowners are persons who have made their savings from what they have earned and have chosen to invest their savings in land rather than elsewhere. Have they not, in their savings, given the community as much value as they draw in rent? The answer may well be that they have given, to that part of the community from whom their rent income is derived, nothing whatever. If A, who has saved

$10,000, uses it to buy a piece of land from B, he is merely paying B for the privilege, previously enjoyed by B, of receiving rent from others for the use of something that neither he nor any other individual produced and the use of which would be equally available had no owner or purchaser of land ever been born. In turn, B has now the $10,000 of accumulations and it is quite possible that he may use it in some way that will increase the annual product of industry. If so, the community, or some members of the community, will come to be paying B, in interest on capital, for services which, without A's saving, would not have been available, while they will be paying A, in rent, for benefits from the use of land, which are not due to any individual's work or savings. If, before, the community was paying the landowner, B, a rent while getting no service that could fairly be regarded as coming *from him,* now it is making payments to both A and B, as rent and interest respectively, and receiving services in return from only one. If, before, B, the landowner, was a pensioner to whom the community gave something for nothing, now A has become the pensioner, having bought out B, and is receiving, from the rest of the community, something for nothing. For it should be clearly evident that the $10,000 paid to B for the land is not a service rendered to C, D, or E, who are the persons that have to pay A for the use of the land. Yet much of emphasis is commonly directed to the assertion that the land-using part of the community ought to pay rent to landowners *because* these landowners have in many cases paid previous landowners for the land and despite the fact that none of the landowners in the series can be said to have rendered any service to those from whom they collect rent payment. In other words, it is asserted that C, D, and E ought to be obliged to pay A for no service rendered by him or by anyone, simply because A previously paid $10,000, not to C or D or E, but to B. Is such a doctrine good utilitarianism? Is its application good social policy?

§ 4

Improvements by Special Assessments and the Right of Landowners to a Rental Return

Nevertheless, to assert that in practice the landowner never performs any service for which he is entitled to a return in payment for the use of his land may be going too far. If he is entitled to nothing else, he is usually entitled to a return on the cost, to him, of improvements (such as cutting through and paving streets) met by special assessments. These assessments are customarily made on all owners of land where a street is to be put through or paved, on the theory that they derive a special benefit from the improvement, a theory which is generally in accord with the facts. It would seem that there is much the same reason for the owners of land which is, in effect, improved by such expenditures, to meet them as there is for farmers to pay the cost of fencing and fertilizing their own land.

That the benefit of this street building (as of social growth) goes to the landowner as such, and not to the owner of buildings on the land, should become apparent when it is realized that a building, apart from its situation, can hardly go much above the cost of putting up another like it. Suppose two building lots side by side, each worth \$2,000. On one, a \$5,000 house is put. The other stands vacant. If the building of a street or the growth of the community makes the combined house and lot worth \$9,000, is not the added \$2,000 an increase in the value of the land? If there is no change in the cost of putting up such a house, will not the adjoining land (on which an exactly similar house can be built for \$5,000, to sell, with the lot, for \$9,000) immediately come to be worth \$4,000? A house or other building unwisely located where it cannot be used may come to have less value than its cost, by the necessary expense of moving it, or, if it is not movable to a desirable locality, by an indefinite amount. But a house, as such, can hardly increase in value much above its cost of duplication. Analysis seems to show that the increase inheres in the site.

If, then, on the basis of this fact, the owner of land is compelled to bear the cost, or most of the cost, of the improvements made, it seems but reasonable that he should be allowed to enjoy some return on his investment in the expense of paving or other improvement, if any such return is forthcoming. This does not mean that he is entitled to secure all the value that results from social growth, or, perhaps, any of the value so resulting, but it may mean that he should be regarded as the owner of, and is entitled to interest on, the difference between what the value of the land in question would be to a prospective purchaser by whom the costs of improvement had still to be met, and the value to a purchaser after such improvements have been made. In short, the investor is entitled to a return—if the land can ever be made to yield it—on the expense to him of the special assessments.

It seems clear enough to the writer that a not very excessive rate on such expenditures for street-making, etc., will compensate owners on the average for any risks that their land may, in certain contingencies of population-shifting, yield less than an average return on such expenses. If, however, a group of lot-owners take steps to have a street cut through long before there is need of it and therefore find that a return on this cost cannot for some time be had, it does not follow that these owners are entitled to get, out of the increased value which later may result from social growth, all the interest lost during the interval of waiting.

That the value of city land usually includes more than can be accounted for by the expense of such improvements is evident if we call to mind the value of well-situated land where such local improvements have not yet been made. A piece of land in a great city, situated where the building of a street was contemplated but not begun, might well be less valuable by only about the cost of the necessary assessments than if the street were there. Without doubt it is sometimes true that improvements such as street construction *start the fashion* of living in a given section of a city and so bring up the value of sites there by far more than the cost of the improvements. But it is also true that the outward pressure of population or the building of a railroad, subway or bridge gives value to the unimproved land in the absence of streets, and makes the putting through of the streets worth while. In this latter case the causal influence runs the opposite way. It is the conditions leading to increased value, and the contingent possibility of deriving from the land an income previously not obtainable even if improvements had been made, that give rise to the street-cutting movement.

Our conclusion seems to be that owners of land are entitled to a return on their investments in improvements, such as special assessments for cutting streets, in the same sense and to the same degree that they are entitled to a return on the cost of building houses or factories; that, however, they are no more entitled to a socially guaranteed return in the one case than in the other; [12] and that there is no reason why they should be allowed more than enough, on the basis of such expenditures, to make the expenditures worth while. It does not follow that the sums required as special assessments or purposely invested by land speculators in street building, etc., are not fairly subject to tax in the same way as any property is subject to tax, but only that whatever reasons there may be for *special* taxation of land values in general do not apply to the part of land values clearly due to such investments any more than they apply to the part of farm land values due to the owners' expenditures in fertilization.

An alternative to street construction by special assessments would be to meet all such expenses by a city-wide land-value tax or, if borrowing were resorted to because of a large initial expense, to use the land-value tax for paying the interest on and, ultimately, liquidating the bonded debt.

[12] Except as the community compels them to make improvements at their own expense in advance of their desire to do so. Even then no absolute guarantee can be fairly expected. See remainder of paragraph.

§ 5

Other Services of City Landowners

Are there any other expenses met or services performed by the city landowner which are to be regarded from the viewpoint of the land-value-taxation philosophy as entitling him to some exemptions? Does the landlord, for instance, perform a service worthy of a share of economic rent by "managing" the land? Is the joint activity of landowners in a given section, in determining the class or race of tenants who may live in such a section, or attending to other matters of common interest, a service entitling them to the enjoyment of rent? Some of this activity or attention is needed only when the land is used for residential purposes, and perhaps might be given, under some arrangement for a percentage consent in favor of new residents, by tenants instead of by landowners as such, or, as is sometimes the case in a limited degree, by municipal ordinance. The desired protection of tenants in the matter of neighbors is but inadequately given when even two or three landlords, by departing from a general understanding, choose, for a profit, to admit undesirables as tenants or purchasers. Municipal protection might not, in a democratic community, be much better, but it probably would not be much worse.

At any rate, any service of this sort yielded by landowners does not entitle them to more than a very small fraction of the annual rent of the land. To say that it is worth all the rent in every case is to say that it is worth much more in a metropolis than in a small town. And to say that all the rent is earned by such service is to say that the cost and trouble of rendering the service so offset the rent as to make the value of the land (the amount that a purchaser would pay for the future enjoyment of the rent) zero.

Another view is that the rent of land, instead of being, aside from interest on special assessments, altogether an unearned increment, is partly a compensation for risk and a stimulus to seek out and bring into use desirable locations. In such a view, it might be argued that the real estate dealers who develop a new section of a city or a city suburb for residential purposes risk getting but an inadequate return; or the capital put into improvements may be, if the new section proves to be wholly unpopular, entirely lost. Must there be a chance for a corresponding gain of the so-called unearned-increment variety in order that the improvements desired shall be made? [13] And if the possibility of surplus gain needs to be kept open to the land speculator, must this gain include all the rental value of the land for all future time? Is the fact that a given speculator foresaw, earlier than others, the possibility of developing certain sites, and thus hastened the flow of business or population to them, a reason why later generations of business people or of residents, to whom the early bringing into use of the land is no advantage, should have to pay him for the privilege of working or living on it? Of what service is such earlier development to these later generations, that they should have to pay an extra rent for the space used, in order to compensate, for an early risk of loss, landowners or the descendants of landowners who took risk by, possibly, premature building in a new section? So long as this section is now built up and available for business or residence, its having been built long before their use of it is probably of no advantage to present users. If these present users must pay more in consequence of such early development, the landowner is presumably receiving payment from persons to whom neither he nor his predecessors have, as landowners, rendered a corresponding service.

In the case of inventions and patents, we limit the time during which the inventor is to enjoy a special profit on his idea, our philosophy being—partly, at least—that after a few years the general progress of knowledge would be likely to bring the essential idea involved to someone else or to several, and that the general public or that part of the public using the invention cannot be regarded as

13 Cf. Hadley, *Economics*, New York (Putnam), 1896, pp. 287-291.

perpetually indebted to the patentee. May not the discovering of, and the calling of the community's attention to, the value of new sites be a service of this limited kind? Can it be supposed that the residents of a city would forever, and despite increase of numbers, be indifferent to the advantages of living in "Hillcrest," "Riverview," "Countryside," or "Eastville"? For how many generations must the public pay the descendants of, or the purchasers of land from, those who first emphasized or advertised the advantages of these sections, for the service of thus advertising them? It is, indeed, quite possible that the land speculators who first, by their advertising, induced population to move into a new section, have sometimes performed a disservice rather than a service, by unduly hastening a movement which would have normally come somewhat later.

Another point sometimes emphasized in the case of patents is that a limited period of special profit is enough to induce the invention and its exploitation. It is unnecessary, therefore, to make the public pay this excess profit forever. May not the same conclusion apply in the case of the service of landowners in calling attention to the advantages of special sites?

Even if we should decide that this particular kind of service was of no value and that we did not wish population or business location to be affected by the activities of land speculators, and even if, therefore, we allowed no part of the rental value of land to go into private hands to pay for such services, there would need to be no fear that houses and other structures would not be built. Obviously, a certain intensity of demand and willingness to pay rent for houses, etc., on the part of tenants, would yield a sufficient average return on the cost of building to make investors willing to take the risk of building in places where there was reasonable probability of the use of the houses, and this without any prospect of realization of situation rent as an offset to possibilities of loss.

While we are on this general topic, one point should be particularly emphasized, viz., that foresight, purely as such, deserves nothing whatever. The man who, foreseeing a rise in certain land values from a probable increase in, or shift of, population, puts himself in a strategic position to profit by it, is not thereby rendering any service to those from whom he derives return. Foresight used to give a service may earn remuneration. Foresight used to get something for nothing seems hardly deserving of any special protection.

In this connection we may note the fact that the "foresight" of land speculators not merely is a frequent means of getting something for nothing but that it may also decrease productive efficiency through holding good land out of use. Then the remaining land must be used more intensively and resort must be had to poorer land. Thus is the marginal product of labor reduced, land rendered artificially scarce and dear and the rent of land raised. Thus are fostered congested slums. Thus is made inevitable the waste of extending electric light and telephone wires, gas and water mains, street car and bus service past hundreds and thousands of vacant lots, that those may be served whom land speculation has driven far from the center of their city. Wherever men would go to engage in commerce and industry, to establish homes, or, even, to enjoy, near woods and water, a vacation season, there they find land speculators ahead of them.

§ 6

The Increment of Land Values in Relation to the Settlement of the American West

The expectation of an increase of land values is commonly, as we have just seen, a cause of keeping land *out of use*. Considered as an inducement to bringing new land *into use*, under certain special conditions which will, presumably, never recur in America, it has sometimes been brought up in connection with the settlement of the West. It has been asserted, for example, that the lure of the "unearned increment" was instrumental in inducing the settlement of the West.[14] However, it must be noted that, in order to acquire title, the settlers to whom the land was given by the government, had, ordinarily, to *live on it*, and this the land speculator usually does not do.

It has also been argued, in the same connection, that the stimulus to settlement of the West and its earlier settlement because of this prospect of an increasing value of the land, benefited not only the settlers, but also those who remained East, and that, therefore, the unearned increment was "diffused" throughout the country.[15] Many have doubtless drawn from this contention the conclusion that the descendants of the early settlers in the West are clearly entitled to any increase that may have come to the value of their land. The argument regarding the diffusion of the increment is based upon the belief that the prospect of rising land values, by inducing a movement of the labor supply westward and its settlement upon the farms, prevented the labor congestion in the East, in the cities, and even in the agricultural West from being as great as it might otherwise have become. Hence, it can be argued, the settlement of the West prevented the marginal product of labor from being so small and wages from being so low, in the East and elsewhere, as might otherwise have been the case.

But may we not, in some degree, question the conclusion that an unearned increment, or any substantial amount of it, was necessary to get the West settled? After all, relatively few of the settlers were fortunate enough to take up land which afterward became part of the sites of cities and it is probable that most of them did not seriously expect such fortune. May we not conclude that, for the most part, they might have been willing, for the possibility of enjoying homes where the marginal product of their labor gave promise of being high, to go and take up new land

[14] See J. B. Clark, *The Distribution of Wealth*, New York (Macmillan), 1899, pp. 85-87.
[15] *Ibid.*

even though the value of the bare land, as such, could not be expected greatly to increase?

If not, however, if, on the contrary, the prospect of an increasing land value was an essential part of the invitation of the West, then the question arises whether settlement was hastened, to the temporary economic loss of those who went first and to the later loss (through rent payments) of those who followed, and whether a more gradual spreading of population westward, when a real need rather than an artificial inducement began to operate, would not have been economically better.[16]

As to the question whether the early comers or their descendants are entitled to rent compensation for being earliest because of any service that they thus rendered, we must bear in mind that any such compensation, under our present land system, does not come from those easterners whose wages are conceivably higher because of the drawing off of surplus population to the West. Nor does it probably come, for the most part, from wage-earners in the West whose wages have been made higher by the movement to the land so stimulated by the prospect of securing a profit from its appreciation. Under the present land system, the rental compensation to the western landowners comes from people living in the West, and mostly from people who came a little too late to get land for themselves, or, in some cases, from people who had other ambitions. It is these people whose coming and whose demand for the use of the land bid up land rents. To them, as persons who have come to be inhabitants of the West, any artificially induced scarcity of labor in the East is no longer—if, perchance, it once was—an advantage. Their wages are not higher, but lower, in the long run, than if the West were less completely settled. For the marginal product of western labor is presumably less. The old alternative of taking up new and good land is gone. Of course, so long as there

[16] Cf. Professor H. J. Davenport's article entitled "Theoretical Issues in the Single Tax," in the *American Economic Review*, March, 1917, especially pp. 22-26.

was still other new and good land to be had, even western wages must have been kept up by the rush of labor to this land, but this would not continue to be the case as the land filled up and as the available free land became progressively poorer.[17]

In what sense, then, and how far, were the benefits of rising land values diffused? Was it in such a sense that the descendants of those who did not take up land must, in justice, pay the descendants of those who did, for the privilege of living and working on it? Are the descendants of those who did not acquire the land, to be regarded as having so gained from the possibly slightly larger labor incomes of their grandfathers, or to have so lent their moral sanction to the system, as to be under obligation not to change it, even where cities have grown up and have made land which was worth its hundreds of dollars now worth millions? Is it their social duty to go on paying indefinitely for the use of land which would be equally available and which would be about equally desirable if any individual owner to whom or to whose descendants the payments for its use are made had never lived? Or can society in general be regarded as having ever even impliedly pledged itself that the increase in land values resulting from social growth should go entirely to individuals and should not be subject to any considerable taxation by states or cities?

Is it not, indeed, clear that we are very definitely maintaining a land system which makes part of the public pay large sums annually to the rest of the public for no service that the recipients of these sums, or their ancestors, or any other landowners as such have ever rendered to the persons from whom their rental incomes are derived? Why are those who thus pay without getting, under an obligation to maintain the system and to continue paying through all future time? Must countless generations of the disinherited be held under obligation to pay for a somewhat

[17] Furthermore, the consequent inflow of new labor from the East and of immigrant labor into both East and West tended, by rapidly filling any vacuum, to prevent any considerable realization of such a gain in wages.

problematical "diffusion" benefiting some of their ancestors, a diffusion from which most of the descendants of those who may thus have somewhat benefited have very likely realized nothing whatever? We do not allow the creditors of a father to require payment for the father's debts from the labor income of a son, however much the father may have gained—in his lifetime—by his borrowing, nor do we insist on "compensation" to a creditor who is therefore unable to recover. We adhere to this policy because we do not consider it socially desirable to make one class partially the slaves of another class, to compel them to spend part of their time working for that other class without return from the latter, even though the latter class may conceivably have rendered a real service to the ancestors of the class that pays. May it not be as much contrary to good public policy to recognize any implied contract by which, as an offset to the possibly temporarily larger incomes of one class, the descendants of that class have to pay others for the use of the earth? Is not the recognition of any such implied contract equivalent to recognizing the right of men to sell their children or their grandchildren into slavery? We would not recognize the latter right, in our society, directly and avowedly, even if the children were sold to get food to save their lives. Must we recognize the former? It is true that, in the case of land rent, we *associate* the payment made with a material thing, the land, but are we not, nevertheless, in essence, dealing with a payment for which no service is rendered?

If it is said that the western homesteaders sometimes had to fight the Indians, it can also be said that they frequently and largely received protection from the United States army paid for out of the general tax fund; and it may well be that men who served in the army and gave such protection, or men who contributed in taxes to maintain it, afterward came to have to pay, for the use of land, persons so protected. It is to be questioned whether any service of the pioneers, still less of the droves of later settlers, who followed them while the land was still cheap, was so important and far-reaching that their descendants can be held to have acquired a right to receive tribute for all future time because of this service, and that the millions of dollars of situation rent in the cities of Chicago, St. Louis, Denver, Los Angeles, and San Francisco really all represent legitimate payment from later comers and their descendants for the *equivalent* services to these later comers and their descendants, of those who chose to come first. Surely, one who holds this needs take but a short step farther to prove that the whole idea of the unearned increment is a myth, or the product of diseased imagination, and that, really, anything that anyone gets is earned by equivalent service to the one who pays it.

§ 7

Ownership of Land by Small-Family Groups versus Increasing Population in Other Groups

A special phase of the land problem arises in connection with the rights of small holders of land whose land has been handed down to them by ancestors who have deliberately, when population was increasing, kept their own families small, and who have hoped, thus, to bequeath to their children a sufficiency of land for the latter's use. We may advantageously approach this problem by considering a related one—that of immigration. There seems to be a growing opinion that a highly civilized and prosperous country having a low birth-rate may properly protect its standards of living and of wages by excluding from its shores the teeming millions of more prolific races whose multiplication reduces them to poverty at home and whose invasion of other and happier lands tends to make such poverty world-wide. To let them enter may only make room for new millions in their native country, relieve the poverty of that country but slightly, and add to it the poverty, due to immigration, of the low-birth-rate country. Yet the latter country, if it practices exclusion, is maintaining a monopoly of its land for its relatively sparse population, and is shutting out from any possible use of this land the millions who would be glad to come.

What now of the thousands of families in a country who have each enough land for the most efficient application of their own labor and for comfortable subsistence and who, by limitation of offspring, are preventing the undue subdivision of such land into small plots—who are doing their share in keeping up the general level of comfort by trying to prevent too great an increase of population in relation to available land? If the rest of the nation multiplies quite without regard to natural resources or land space and so forces down the margin of labor production, does society's right to land space justify redividing the land equally, thus directly depriving the families which have kept down their numbers of the standard of comfort which would naturally result from their low birth-rate? Or does this right of society justify a system of taxation of rental values which indirectly accomplishes the same result? For it should be clear that if the land so held by individual families comes to be more valuable, not by virtue of its yielding more, but solely because pressure of population increases the demand for it, then to take the greater annual value in taxation will leave less to the owners than before.

To express differently the same thought: if the policy of state appropriation of land rent is consistently applied, so that individuals get only the earnings of their capital and the wages of their labor (employed or self-directed), then an increase of population which lowers the marginal product of labor will not only enable the state to collect more than previously from individual landowners, but will leave less to them as individuals and families than before. Such an increase of population will leave less than before even to those families which are in no way responsible for the population increase from which flows their new family poverty. For this reason—viz., because it would remove a stimulus to desirable limitation of offspring, because it would penalize the far-seeing, because it would give to families whose ideals tend toward universal misery the inheritance of those families whose ideals, if generally adhered to, would bring universal plenty—such appropriation of all rental values of land might not be a desirable social policy. Part of the rental value of land, even of agricultural land held by actual cultivators, may certainly be, with justice, appropriated by the state, but not, it may be argued, the entire rental value.

To illustrate the principle involved, suppose a piece of land capable of supporting a man and his family, a piece of land just large enough to utilize one man's time to the best advantage. Further labor than he could give would then be attended with diminishing returns. To make the illustration quantitative, we will assume that on this land the labor of one man will produce 1,000 units (e.g., bushels of wheat), of two men 1,800, of three, 2,400. If, at the start, the land is valueless, the occupant and owner will enjoy 1,000 units of labor income. If population increased to such a point as to force wages for this grade of labor to 600 or less, he could afford to hire, perhaps, two other men, since the second would add just 600 to the product; he would therefore pay 1,200 in wages to the two men, would receive 600 in labor income for himself, and would have 600 left as rent.[18] The owner's total income would then be 1,200. We could take 200 of this in taxation and still leave the owner's combined rent and labor income at 1000 which he was getting as a labor income, with no more total effort, before. But if we take all of the rent in taxation, we leave him only his 600 labor income, which is not much over half of his previous income; and we have subjected him to deprivation through an increase in population for which he was not responsible and which was clearly undesirable from the point of view of general welfare.

However, in practice the increase of land values is usually in large part an increase in the value of special sections of land which growth of population causes to become more advantageously situated in one or more ways. As the

[18] For simplicity we eliminate income on capital from consideration.

country grows, certain places come to have new and special advantages as market centers, as ports, etc., and thus acquire an increased rental value not dependent on a lowering of the margin of production. Increase of population in a fertile, unsettled plain, containing a great deal of land of approximately the same fertility, might not for many years lower the marginal product of labor. To be sure, the later settlers might have to go farther, but the more distant points would be no more isolated than the first-taken land was at an earlier date, and the extension of roads and railroads might make them less so. Rent would rise, not because the margin has become lower, but because the situation of a part of the land relatively to markets, population centers, etc., has become better. Still more clearly does this fact stand out when at some point on the plain a city develops, called into existence by the increasing number of those whom its merchants, artisans, et al., can effectively serve. Its growth is, possibly, an advantage even to the owners of rentless land, but confers a special advantage on those whose near-by location enables them to reap exceptional gains from supplying the city needs as to produce. The growth of the city confers a still greater advantage on those whose land comes to have value for distinctly urban uses. The occasional settler who or whose descendant finds that his land is in the center of a thriving city may become a millionaire as a consequence of conditions to which his own contribution was negligible if anything at all.

In this case and, in general, in a country like the United States, land rent has certainly grown much more largely by the increase of the possibilities of special, often supramarginal, land, thus creating a differential between it and rentless or marginal land (i.e., between it and the poorest land worth using, land which is marginal, not between two uses, but between use and non-use and so yields no rent), than by forcing cultivation to a lower margin. And, certainly, unless population so increases as to make the marginal product of labor definitely lower and wages lower, *all* of the rent is a net product of community growth and development and *all* of it may properly be taken by the public for public needs. In short, any desire that we may feel to protect small landholders who limit their families, from being made to suffer through the general increase of population, need not prevent us from taking, in taxation, most of the rental value of land, including that of mines and power sites, and nearly all of the rental value flowing from its situation of city land. And indeed, even the slight theoretical qualification suggested in this section may come to seem of still less practical significance in view of considerations yet to be discussed.

§ 8

The Bearing of the Contention that there may be Other Unearned Increments Not Especially Associated with Land

It has sometimes been pointed out, by way of objection to the land-value tax proposal, that land rent is not the only income which is of the nature of an unearned differential. Sometimes the incomes of genius in excess of what persons of ordinary ability can secure are presented as an analogous case. Whatever may be, in some respects, the degree of likeness, the two cases certainly are not alike in all respects. Thus, it may not be equally possible to tax largely and successfully the incomes resulting from the exercise of genius, as to tax land rent, for, in the case of the large incomes of the exceptionally gifted, the attempt to tax them heavily might conceivably discourage effort and cause the former recipients of these incomes to be satisfied with smaller—and, therefore, untaxed—returns. Taxation of the rental value of land, however, if based upon such general considerations as the evident yield of neighboring sites and the apparent market value of the land to be taxed, i.e., if the tax is not made larger because an efficient producer or business man gets more from his land than others could get, would probably in no wise affect the owner's choice of uses for the land or his intensity of use of it or the efficiency of his use of it. Having a tax to pay which was independent of his efficiency, he would be just as eager to gain the maximum income out of which to pay the tax as he would be to secure the maximum income if he were not taxed.

Indeed, the levying of a tax upon the *potential* situation rent of land, whether actually received or not, would discourage the speculative holding of land out of use and so would operate to prevent the forcing up of rent by any scarcity of available land induced by such speculative holding.

Economists whose class sympathy (of the influence of which they are not always conscious) or whose training by their former teachers, incapacitates them for seeing any distinction between land and capital and predisposes them to accept superficial resemblances as a conclusive defense, are fond of saying that other values than land values are enhanced by social forces. It is true enough that dress suits are likely to have less salable value in the Ozark Mountains than in the centers of wealth and fashion and that a twenty-story office building is worth more in New York City than in a country village. Nevertheless, cases of monopoly excepted, it can hardly be denied that, year in and year out, produced goods cannot be sold anywhere for much more or much less than the cost of producing them in the places where they are to be sold. An occasional dress suit may have to be sold at a sacrifice in the Ozarks, and a building too large for the needs to be met may prove to have been a mistaken investment in the country village. But as a general rule dress suits will not be produced in or transported to the Ozarks except as the anticipated price covers costs, nor will skyscrapers be regularly built to sell for less than a return which seems reasonable in relation to building expenses. And, on the other hand, where competition is active and is carried on fairly, the prices of goods which have to be humanly produced cannot go much above costs. Even making all possible qualifications for cases of obsolescence and for changing conditions of production, can anyone say that cost is really an element of corresponding significance in the case of land rent?

Again, it may be said that there is possible no large remuneration, in a sparsely settled primitive community, for the person gifted with an exceptional voice or other highly specialized talent. But neither is so large a *service* possible in return for the remuneration. When such remuneration is received it is in return for an equivalent service rendered by the person who receives it, and this is not the case with the situation rent of land. May not considerations of eugenics as well as of efficiency in service, apply differently to the proposition to tax such incomes than to the proposition to tax land rent?

Furthermore, some of the incomes which are often thought of as unearned are chance gains so offset by corresponding deficiencies of incomes at other times, as to mean no average loss to the public. If the failure of the Argentine wheat crop may unexpectedly give to American farmers, grain dealers and millers a higher return than was contemplated when they made their expenditures for seed, labor or grain; so, also, an unexpectedly large crop of wheat in Argentina, Canada, or elsewhere, may compel the same persons to accept prices which fall far short of compensating them for the expenditures and effort undergone. The general public is likely to gain in the latter case as much as it loses in the former. But the general public never gains from an unexpected fall in the rental value of land except in the sense that the public is then *less exploited* than before. It continues to be exploited, though in a smaller degree. There is little point to an attempt at equating continuous exploitation varying in degree, with occasional excess pay for service which is likely at other times to be underpaid.

It will be worth while, here, to emphasize the fact that land rent involves exploitation when the land is used in socially desirable ways as well as when it is used antisocially. In the latter case, payment is made for a disservice. But even in the former case payment is made for a zero service or for a service less than equivalent to the rent. Where wages of labor, interest on capital or rent on land are secured by activities or by uses of property which definitely injure the general well-being, which are anti-social, *these activities or uses should be prohibited* rather than that men should be allowed thus to secure wealth which society afterwards taxes. When a business concern by means of unfair competition, e.g., by misrepresentation of competitors' goods or by securing discriminating rates on the railroads,[19] succeeds in getting extra profits which its rivals do not get, or, being able to undersell the rivals discriminated against, gets business which would otherwise go to them, we have a clear case of unearned income resulting from anti-social activity. Success is made to depend, not on superior service, not on superior efficiency in economizing labor, but on the ability to exclude rivals from the market even if, as may well happen, these rivals are much more efficient in the proper business of both or all. The public cannot afford to let the principle become established that success and wealth may be gained by such methods. In the long run, consumers must expect to suffer unless competition of this sort is effectively forbidden. So too, in the case of monopoly, which gives more than an ordinary return to effort or to the users of capital or land, it is the consumers of the monopolized article or articles who are entitled to relief since it is they alone who are exploited.[20] In general, industrial free-booting should

[19] See, for a fuller discussion along this line, the author's *Principles of Commerce*, New York (Macmillan), 1916, Part III, Chapter VII, § 4.

[20] No opinion is here expressed regarding the relative desirability, from the viewpoint of preventing high monopoly prices to consumers, of public regulation and of public operation of industries which have to be or ought to be of monopoly size. But if public operation is chosen, it would seem, on the principles set forth in this book, undesirable that the public should pay for the capitalized value of the land rent included in the prospective returns of such monopolies. If not to pay for such capitalized exploitation in cases where the public chooses to take over the ownership of any industries is objectionable as discriminating against some landowners while allowing others to continue to enjoy site rent, then the taking over of these industries by purchase should be deferred until a general policy is adopted towards all site rent.

be stamped out, so far as this is possible. *But for unearned income in the form of land rent, purely as such, the tax method is adequate and is the logical method of correction.*

Again, even if there are—as there may be—other increments than situation rent which are equally unearned, it does not follow that the heavier taxation of land values should be deferred until such time as a general agreement is reached regarding such other increments. It may suit the views of reactionaries to have us use the claim that many and complicated reforms are needed, as a reason for delaying one the justice and desirability of which are reasonably evident, but that kind of attitude should scarcely suit anybody else.

§ 9

Taxing Inheritances versus Taxing the Rental Value of Land

Enthusiasts for inheritance taxation believe it should be made a most important source, even *the* most important source, of public revenue. Indeed, some call into question the whole system of inheritance, on the ground that through it the individual receives what another, e.g., a father, grandfather, brother or other relative, has earned. The institution of inheritance is said to make for inequality. Most persons begin life with nothing or nearly nothing. A few start with property worth a few thousand dollars. Still fewer find themselves, by no virtue of their own, the heirs to property worth millions. The contention is made that such inequality is unfair and undesirable and that the institution of inheritance ought to be either abolished entirely or, at the very least, radically amended.

Furthermore, it is said, and it may be true, that the institution of inheritance is likely to contribute to a permanent and undesirable class differentiation, to the development of a fixed caste system. At an intermediate stage on the way to this result, those with large means derived from inheritance may use these means, in part, through propaganda and political corruption, so as to control government, influence legislation and establish and maintain economic institutions favorable to their class interests and detrimental to the interests of the masses.

There may, indeed, be danger in carrying the idea of inheritance to extremes. But, within proper limits, it is probably desirable that the institution be maintained. At any rate, its abolition seems to be inconsistent with the maintenance of the institution of the family and with the making of children dependent, in large degree, upon their parents. For the maintenance of the family in substantially its present form means that the future success and happiness of the children depends largely upon the home training they receive, upon the education their parents provide for them supplementing what the state provides for all, and upon the advice and help which, at various stages of their careers, their parents are able and willing to extend to them.

Analogous to these other advantages is that of inheritance. As long as the family affections endure in their present strength, much of the happiness of parents will be realized only as they are permitted to work for the future prosperity of their children. General welfare and happiness would probably not be furthered by a policy which should entirely deprive parents of the privilege of bequest. Nor would the community probably get, in the long run, the use of so much capital, for less would probably be accumulated. A parent will be less likely to save and to invest his earnings in the education of his children if he believes society will appropriate all the gain and will not allow his children to reap a larger income for the larger service which such education enables them to render. And, in like manner, a parent will be less inclined to save and to invest in the construction of material capital if he believes that society will allow his children to reap no advantage in return for the service from such capital.

It is clearly illogical, then, to abolish the inheritance of wealth without abolishing at the same time all the advantages of nurture and education that the children of thoughtful, thrifty and affectionate parents have over the children of other parents. It is, in short, illogical to abolish completely the inheritance of wealth unless we also abolish the family and make all children wards of the state. And few of us would regard it as conducive to human welfare and happiness to do the latter.

There is no intention to suggest, however, that inheritances should never be taxed or that the law of inheritance should never in any respect be changed. When, as at present, the state provides for inheritance of the property of intestate decedents by remote collaterals who have often been unacquainted with their unconscious benefactors, it can hardly be said that the policy adopted has been dictated by the necessity of encouraging accumulation or by the desirability of giving men and women the happiness of safe-guarding the future welfare of those for whom their affections are strongest. Also, so far as the existence of large estates is the outgrowth of a past when individuals have been allowed to receive large incomes which they have not earned, or so far as such estates may result from our inability ever completely to prevent the securing of ill-gotten gains, the regulation of the transmission of great estates or their high taxation may be the only means of avoiding the perpetuation of a most undesirable inequality. Even the transmission of estates honestly earned may possibly, although less likely, need to be limited or regulated or the inheritances heavily taxed, lest the inequality resulting from the bequeathal of these estates become unduly great and, perhaps, threaten democracy.

We may fairly conclude, then, that the institution of inheritance should not be abolished, that, however, there may be justification for placing limits on the right of inheritance or for taxing inheritances and that, if a policy of taxation is adopted, there is a certain reasonableness in making the rate of taxation progressive in proportion to the distance of relationship between the decedent and the beneficiary. And it may also be well to make the rate higher where the value of the property inherited is large than where it is small. For where this value is very large there is perhaps less reason to assume that the principal motive for its accumulation was to make provision for offspring and that the prospect of such a progressive tax would discourage the necessary saving. And there is less reason to worry lest the heirs fail to derive a sufficient advantage in the struggle for existence from the affection and thrift of the accumulators of the estate. And when the sums inherited are very large, the dangers, if any, from inheritance as conducing to great inequality, political corruption and permanent class differentiation, are more to be feared than when the sums inherited are but small.

Perhaps sharply progressive inheritance taxation would help to cure the inequality which has resulted, in considerable degree, from our past errors in public policy. The permitting (for many years) of unfair competition, the long delay in developing proper supervision of our public service industries, our failure to stabilize the general price level, and the maintenance of a land and taxation policy which have consistently allowed private persons to appropriate community-produced values,—all these mistakes and others have helped to bring about the inequality which carefully adjusted inheritance taxation (assuming that extensive evasion could and would be prevented) is expected to mitigate. But with our economic system reformed in all these respects, it is not so certain that continued inheritance taxation would be important either as a necessary means of preventing great inequality or as a source of any appreciable public revenue.

Whether circumstances would then justify the permanent retention of such a tax we need not, perhaps, inquire. But, certainly, whether or not it ought to remain as a part of the tax system, it should in no degree serve as a substitute for or in any way prevent or appreciably decrease the public appropriation or high taxation of the rental value of land. Just because an individual is not allowed to transmit to his heirs all that he accumulates, is no adequate reason for letting him make his accumulations in whole or in part by charging his fellows for the enjoyment of advantages which not he but nature and community growth have produced. Inheritance taxation, beyond certain limits, may discourage accumulation; land-value taxation can not. Inheritance taxation, if applied extensively to moderate amounts of property inherited by the very near of kin to decedents, is inconsistent with the maintenance of the family and of parental responsibility for offspring; land-value taxation is not. Inheritance taxation does not especially penalize speculation in land and does not make land cheap to those who would use it; land-value taxation does.

§ 10

The Taxation of Future Increments of Value

Hesitating to accept the more radical proposal of Henry George in favor of sweeping into the public treasuries situation rent both new and old, some writers have contented themselves with advocating the public taxation and use of *future increases* in the rental value of land.[21] This advocacy, they seem to have felt, frees them from the necessity of urging anything that looks like confiscation. But there are reasons for thinking that if the more radical proposal involves confiscation, the other does also, though it may be less in degree; and it is doubtful if the more moderate plan can be successfully defended without raising a presumption that the more far-reaching scheme has also something in its favor. Indeed, an attempt to tax only *future increases* in land value, making no tax subtraction from present rents, might be said to resemble an attempt to deal with slavery by passing a regulation that slave-owners must not work their slaves any *harder* in the future than they had done in the past, but might continue to work them as hard.

[21] See, for example, Taussig, *Principles of Economics*, third edition, New York (Macmillan), 1921, Vol. II, p. 108. This scheme was suggested by John Stuart Mill in the middle of the last century. See his *Principles of Political Economy*, Book V, Chapter II, § 5.

To the proposal that only future increases in rental value be taken by the state, it has been answered that to take future increases without compensating landowners in the case of future decreases in the value of their land unfairly deprives them of the chance of gain while still leaving them the risk of loss. In the words of F. A. Walker, "the game of 'heads I win, tails you lose' is not one in which the state can, in fairness and decency, play a part."[22] If one believes that the *present* rental yield of land, as well as future increases of this yield, should not go to the private owner, this contention will not disturb him. Otherwise it may seem to be convincing.

There still remains the argument, however, that, in a growing country, increases are frequent and decreases rare and that, therefore, no large injustice would be done by the scheme. But what if the opposition contends, as of course it may, that the present owners of land have, in many cases, bought it at prices which they were willing to pay only because of the prospect of future increases? The opposition may contend, in other words, that expected future yields have been discounted into the present price of the land, and that, therefore, to tax heavily these future yields will deprive such purchasers of an income they paid to receive, and will depreciate the value of their land below the price at which they bought it. Some increases, to be sure, may come as unforeseen luck, but many must be anticipated or over-anticipated. Is a tax on such increases any less "confiscation," so far as the capitalized value of land is concerned, than would be a moderate increase in tax which would take away a part of the constant annual rent of a piece of land bought with no expectation of a rise, but bought in the belief that its owner would be left undisturbed in the enjoyment of the entire rent?

Without now pursuing this comparison further, we may note that a doctrine according to which the public has no right to take by taxation future increases in land values,

[22] *Political Economy, Advanced Course*, New York (Holt), 1887, pp. 416, 417.

increases not earned by any service rendered by the land-owners, must, logically, be opposed to other governmental policies of which most of us are in favor. Such a doctrine would mean, for instance, that the purchaser of stock in a company which contemplated—or the purchaser of whose stock foresaw the likelihood of its undertaking—selling out to, or becoming a part of, a monopoly and so securing monopoly profits, since such purchaser paid more for his stock because of this expectation, must be allowed to enjoy these monopoly profits, or, if they are taken away from him, must be *compensated.* Has the purchaser of stock under circumstances of this kind any such claim even if the policy of limiting monopoly profits is one which was not previously in force but was adopted after he purchased the stock?

§ 11

Land-Value Taxation in Relation to the Theory of Vested Rights

The principal objection actually felt, if not the one chiefly emphasized by opponents of land-value taxation, is an objection based upon respect for vested rights, viz., that such a scheme of taxation would take away from the owners of land a large part of the capitalized value of their property by making it impossible for them to enjoy from it the expected future income. If a piece of land yielding $1,000 per year is valued on a 5 per cent basis, its selling price would be $20,000. To take $200 a year would mean, since a tax on land rent cannot be shifted, that the selling price of the land must fall to $16,000. Hence, it is said, since such taxation takes from the owner a fifth of the value of his property, it is confiscation and a denial of vested rights. Of course what we definitely take is a fifth of the yearly income, but since the value is dependent upon the income, the establishment of such a tax as a *permanent part of the tax system* in effect takes one-fifth of the value. But how is it if through indirect taxation we take $100 a year from the family of a workingman whose annual income is $500. If the man's expectation of life is thirty years, would not the capitalized value of his income be well in the thousands of dollars, supposing it to be salable? And would not this capitalized value be reduced one-fifth by a tax of $100 per year if such a tax were adopted as a permanent part of the tax system? To be sure, workmen are not in the habit of thus capitalizing and selling the right to their future incomes, but is the injury to them from a tax any the less for that, or the fundamental nature of the problem essentially different? If a need of increased revenues were thus met, there might be sympathy expressed for the working classes and objection to the tax as an undue hardship upon them, but the word "confiscation" or the expression "vested rights" probably would not be used. No complaint would be made that the fundamental rights of property were being invaded or that society had violated any implied pledge.

It seems to be this last notion, that of an implied pledge or sanction given by society, which makes many thinkers regard so askance any proposal for radical changes. We must not take rent in taxation because the enjoyment of it is a vested right. "Society" has allowed individuals to appropriate nearly all of rent in the past and various persons have bought land, relying upon the continuance of the system. Hence the private enjoyment of land rent must always be allowed unless compensation is paid by the dispossessed to the possessors.

If we are perfectly frank in our adoption of this vested-rights argument as a reason for refusing to take from those enjoying them incomes not earned by service given to those who pay them, we shall have to admit very frankly that several types of income ordinarily objected to by economists must be continued indefinitely. Thus, in consistency, we must protest against any regulation of monopoly which will do away with the monopoly prices on which any monopolists had counted, and particularly so if the monopolists have bought stock at a higher price because of the expectation of monopoly profit. "Society" has permitted this profit in the past, has lent its "sanction" to it, has allowed people to buy stock in the expectation of realizing an exceptional profit. May society, therefore, by its regulations cut down this profit? Must it not pay the monopoly prices indefinitely or else *compensate* the monopolists by paying them in advance the capitalized value of their expected future monopoly profits?

So, again, if we would be perfectly consistent, we must not remove the protective tariff on goods when those who have invested in the companies producing such goods have paid more for their stock than they would otherwise, in the expectation of deriving protected profits. In other words, since, largely through the influence of those engaged in protected industries, the policy of protection has been maintained for a limited number of years, society at large owes such industries a continuance of favor. In still other words—for this is the inescapable implication—those who wish to consume the protected goods may properly be required to pay for these goods an excess price, a price above the real value of the service given. In this view of the case, the taxed class, being part of society, has some sort of responsibility for what society has done, even for what the class that profits by protection has influenced society to do, and has no right suddenly to refuse longer to pay tribute to the protected class.

The foregoing is a view which the writer cannot bring himself to accept. Society is under no obligation nor is any class in society under an obligation to pay tribute to any person or group of persons for all future time. Still less is a class which, *while another class has controlled government,* has been exploited, under obligation to continue to let itself be exploited if and when it is able to get into the saddle. Society as such has given no pledge, and is not in a position to give a pledge, that its policy will not change. Those who buy stock in a monopoly or invest their money in a protected industry must be held to have done so, not under any guarantee of permanence, but at their own risk, knowing it to be the right of the rest of society to cease paying the excess prices and adopt a new policy at any time.

How does the matter stand in the case of land values? Is it correct to think of land-value taxation primarily as a system of taxation that infringes on vested rights by taking something away from landowners? Is it not more enlightening to call to mind that, indeed, the rest of society is continually (weekly, monthly, or annually)[23] paying tribute to the owners of land, tribute for which neither these owners nor any previous owners as such have ever rendered a return to those who thus pay them? When we say that for the public to take in taxation most of the rental value of land would be to confiscate the "property" of those who have previously enjoyed this rent, do we not express the fact the wrong way about? Would it not be nearer the truth to say that the rest of society simply refuses longer to have its earnings confiscated by the landowning class? Does the situation value of land, the value apart from improvements, represent anything else but the estimate, in a present valuation, of the future tribute, the future payments without corresponding services, which the owners are in a position to get from others? Are not the masses paying a perpetual tax to the owners of land for the privilege of living upon, and making use of, sites which were neither produced nor rendered valuable by the owners? Suppose the masses who are thus paying tribute without receiving either labor services or more capital equipment for production than would otherwise be available, or indeed anything else worth the price, simply decide to stop paying this tribute! Would their doing this be confiscatory? And must they, if they are to cease paying, compensate the landowners by giving to the latter interest-bearing bonds worth as much as the land, and payable finally, as to interest and principal, by the same persons who now pay rent? Is this not equivalent to saying, not only that those who are slaves in the sense that they devote much of their

[23] Cf. Henry George, *Progress and Poverty*, Book VII, Chapter III, particularly pp. 362 and 363. (Page reference is to edition of 1905, Doubleday, Page & Co.)

labor to the support of a parasitic class, cannot be freed without provision for compensating the parasitic class, but also that the compensation must be provided by the slaves? Could we reasonably expect the slaves, once they were in the saddle politically and thoroughly understood the matter, to take this view of it?

As an analogy to the payment of tribute for the use of land to persons who are in no way responsible for its existence, let us suppose that an ancient king or a small ruling caste has somewhere given to a favorite or to some one of political influence the negotiable privilege of collecting each year a certain amount of the taxes and turning them to his own use. The favorite later sells his "right" to another for a large sum of money which that other had honestly earned by hard and faithful work at a useful task. Some time after this second arrangement is made, the taxed class overthrows the power of the king or aristocracy and establishes itself in power. Must this class go on contributing the tax because the would-be recipient paid to get it, notwithstanding he paid nothing to those whom he now expects to pay him? And if they refuse, using the money in question instead as part of their general tax fund for common purposes, are they guilty of an immoral act? Must not the would-be collector of tax money be assumed to have made his purchase subject to the condition that society could in its own good time make such changes as its members might see fit? And if the remainder of society came to believe that, in the long run, *the greatest good to the greatest number* would be attained by establishing a system in which, in general, each should profit according as he served, and in which, *except as some special social reason justified the apparent exception,* no one might receive tribute from those he did not serve, would not society have a moral right to establish such a system?

Public policies are constantly changing in such ways as to disappoint the expectations of persons who have invested on the supposition that policies would not change and to affect the salable value of their property. Tariffs are raised and lowered. Prices of monopolized services are first left to be fixed by the monopolists and are then regulated. The business of manufacturing alcoholic drinks is at one time permitted and at another time outlawed. High inheritance taxes are suddenly imposed after wealth has been accumulated in the expectation that it may be bequeathed without appreciable diminution. Taxes are increased on some goods and decreased on others. In a few communities, indeed, taxes have already been made higher on land than on improvements. May purchasers of land, then, fairly make the presumption that the one thing which society can not rightly do is to discriminate in taxation against land, *no matter how gradually taxation policy is changed in this direction?* May not society, on the contrary, presume present owners to have purchased their land knowing that public policies frequently change, knowing that tax policies change, knowing that taxation systems frequently discriminate among the consumers of different goods and otherwise, and realizing that a change may some time be made and can legitimately be made in the direction of heavier relative taxation of land?

The sense of proportion of many persons, including not a few professional economists, seems to have been hopelessly dulled by their making of the doctrine of vested rights a veritable fetish. Otherwise, the view that society, which makes frequent changes of policy in other matters, is under a binding implied pledge and obligation *never* to move, *no matter how gradually*, toward the eventual taking in taxation of the major part of the rent of natural resources and sites, would be clearly seen to be, as in fact it is, *utterly silly*.

The truth is that few of those who advocate large taxation of land values, even of the single-taxers, urge any but a gradual change in the rate of taxation of land. A *sudden* break with the past is not usually sought for. Nor, if it were, would there be any serious likelihood of its coming. Though we may work for the change with ardor, it will probably come through compromises and little by little. But *even if the tax change*, as such, *were suddenly made*, its being preceded by a long period of agitation and of growth of the land-rent-taxation sentiment would forewarn landowners and operate to ease the transition for those who were likely to lose by it. Indeed, it is not unlikely that by the time such a change goes into effect—if it finally does go into effect—many landowners will have come into possession of their land more or less expecting the change and will have allowed for it in the price offered for the land they have purchased.

Furthermore, a fall in the price of land, though it may involve loss to a person who sells his land for current gratifications, does not involve such loss to a person who sells one piece of land in order to buy another.

Again, even if, here and there, a town or city increases rapidly the amount of tax it puts upon land, this may not, while the new system is not general, cause very considerable loss to landlords. For it will be likely to mean that in those cities business and individuals are relieved of other taxation which elsewhere they have to meet, and the policy will, therefore, probably cause those towns to be more rapidly settled (by the drawing of population away from other towns) and land rents in them to go up.[24] This is a result which would not be brought about if the equally rapid increase of land-value taxation in other places kept the balance.[25]

Furthermore, even if the tax were generally applied, no great loss would fall on small landowners who have improved their land and who themselves live on it, persons who own their own homes and little else,[26] and many such would clearly gain. But to persons owning land and build-

[24] Suggested by Professor H. J. Davenport's *Exercises*, printed to be used with his *Economics of Enterprise*. Cf. pp. 28 and 29 of Professor Davenport's article in the *American Economic Review*, March, 1917.

[25] Some may regard it as an objection to a purely *local* application of anything approaching the single tax and the local use of the funds derived from it, that such a policy gives to labor in the town adopting it a benefit more than it receives elsewhere and therefore induces labor to come to such a city when otherwise it would stay away, and, by inducing surplus labor to come, brings diminution of the product of this particular labor.

[26] Cf. Henry George, *Progress and Poverty*, Book IX, Chapter III.

ings which are used by others or for the production of goods to be sold to others, a tax on land rent might eventually involve a considerably heavier burden, since such a tax clearly cannot be shifted (if general), while the tax on buildings very possibly can be, at least to some extent.[27]

The removal of taxation from all capital and its concentration on land values would of course involve an increased burden to those whose property was chiefly in land values. But the immediate loss to the person who owned both land and capital would be minimized by the fact that he would be enjoying relief from taxation on his capital[28] (the interest from which, if the capital was itself earned and was being used in socially advantageous ways, would be earned), at the same time that he was being made to pay heavier taxes on his land (the situation rent of which was principally unearned). In the end, the removal of taxation on capital would reduce its marginal productivity if the leaving of larger net returns to owners of capital operated to encourage capital accumulation. But for some time the average property owner would probably be largely compensated in his greater net interest on capital, for the reduction by taxation of his net rent on land.

In truth, when all is said regarding confiscation, we must recall that government cannot possibly raise revenue without taking something from somebody. And if we have to choose between taking an unearned income already being collected by part of us from the rest of us, or allowing part of us to enjoy such an unearned income and taking something more, in taxes for common purposes, from the rest of us, the choice should not be difficult.

To be relieved of the burden of supporting social para-

[27] Whether a tax on all the earnings of capital regardless of the line of investment could be shifted and to what extent, would depend on whether and how far such a tax diminished saving. See the discussion of the effect of interest on saving, in Chapter XII, § 5 (last three paragraphs of section).

[28] If the shift in taxation from capital to land were great and sudden, therefore, the *rate* of interest would be temporarily higher and whatever was left to landowners of site rent would have to be capitalized, for a while, at this higher rate.

sites by rent payments while at the same time supporting government out of taxes, and instead to let the rent serve also as the taxes, would mean a clear and large net gain to the classes previously exploited. Yet many of the exploited, understanding little what is happening, and failing to distinguish between property incomes based on service and property incomes purely exploitive, prate pseudo-learnedly of "surplus value," the "class struggle," and the prospective evolution from capitalism to socialism. Eternal children in their comprehension of the working of economic forces, unwilling, for the most part, carefully to examine any other economic philosophy than their own, the majority of socialists are ready to follow the Marxian doctrines wherever they may lead, as the dancing feet of the carefree children of Hamelin followed into the dark mountainside the enrapturing music of the Pied Piper. The socialistic theory in outline is simple. To the mind unused to analysis it seems to be both a comprehensive and a conclusive account of the nature of exploitation. But its doctrine regarding the nature of interest on capital is utterly fallacious [29] and the prospect that its program, if put into effect, would work acceptably, is very dubious.[30]

The classes which profit by privilege, are, in their understanding of economic and social phenomena, but little superior to the exploited masses. Were this not the case, and were there not the fear of Bolshevist violence, we might well expect them to be exultant at the relative strength of socialism among reform movements. For socialism almost hopelessly diverts the minds of those who might be the principal protestants against the receipt of unearned incomes into an indiscriminate opposition to earned and unearned incomes alike. And it therefore serves to prevent recognition of facts the recognition of which by the masses might mean to those who hold economic power based on privilege rather than service, real danger of its loss. The

[29] See Ch. XII, § 5 and Ch. XIII, §§ 3 and 10.
[30] See Ch. XII, § 6. Cf. the author's book on *The Economic Basis of Tax Reform*, Columbia, Mo. (Lucas Bros.), 1932, pp. 12-16.

one chief virtue which socialism, as currently preached, does have, is its insistence that evils exist, that present conditions are far from ideal and that the doctrines and propaganda of the privileged classes are not to be accepted as final truth.

§ 12

The Ability Theory of Taxation

Nor should we be turned back from the taxation of land rent by the contention that the proposal so to raise much or most of the public revenues, does not conform to the ability theory of taxation. It has never been finally established that taxation ought to be in proportion to ability. Taxation ought to be arranged with a view to societal welfare, and this may or may not mean that it should be in proportion to ability. Societal welfare may be better furthered, for instance, by preventing exploitation and the consequent receipt of unearned income, than by mathematical precision in apportioning taxes to total income of all sorts.

The ability theory of taxation rests upon much the same ground as the theory of charitable relief. In the case of charitable relief it is argued that the sums thus expended have a greater (marginal) utility to the poor and helpless who receive them than to the relatively prosperous who contribute them (voluntarily or otherwise). In the case of taxation it is argued that a large requisition from one who is prosperous may involve less deprivation and sacrifice than a small requisition from one who is comparatively poor, or, otherwise expressing the same idea, that to take money from the well-to-do, even though they have fairly earned it by giving equivalent service, and to expend it for public purposes so that a large part of the benefit from its expenditure is received by the relatively poor, will increase utility and will increase the sum total of happiness. Assuming wants to be equal, one might with some plausibility argue that the maximum of aggregate human happiness could only be attained by carrying this principle to the point of equalization of incomes. But long before incomes had been equalized, the effects on efficiency of labor, perhaps, also, on the rate of accumulation, and, possibly, on biological selection, resulting from neglect of the principle of making incomes received depend on services rendered, would become serious. The greatest welfare would *not* be thus secured, *in the long run.* If, therefore, we venture to make some partial application, in our tax system, of the principle of equalizing incomes, we must *sharply limit our application of this principle* in the taxation of earned incomes lest we depart too far from the principle of *proportioning incomes received to services rendered.*

But whether or not there are classes which, because of their poverty, ought to receive from the community in personal incomes and in services from government, more than they contribute, in taxes and otherwise, to the community, it seems quite certain that the recipients of situation rent, as a whole, do not constitute such a class. And whatever justification there may be, from the point of view of maximizing utility, in providing that the poor should exploit the rich, it is doubtful whether there is any equally plausible justification for provisions which enable the rich to exploit the poor.[31] This, it is believed, is mainly the direction which is taken by the exploitation growing out of our present land system.

If, then, among the owners of land who profit by the exploitation which is inextricably bound up with the present system, are to be found the ubiquitous "widows and orphans" whose anticipated distressful state has been made the basis of opposition to many other necessary reforms, it is better that society should make special provision for them in those exceptional cases (assuming that there are any such) where the shifting of the tax burden from other values to land and site values threatens them

[31] The writer is not unaware that such exploitation has been suggested as a means by which savings may be made which the poor, having many unsatisfied needs, would not make. See an article by Alvin S. Johnson, in the *Political Science Quarterly*, XXIII, pp. 221-241, on "Protection and the Formation of Capital."

with poverty, than that it should forever maintain a bad system. Indeed there must be many widows and orphans who are victims of this system, of which some of their class may be beneficiaries.

Similarly, if, to abolish land rent exploitation, a system of taxation is necessary which shall place chief reliance for public revenue on the rent of land, it is no sufficient objection to such a reform that it might conceivably reduce the tax burden of a few wealthy persons whose property happens to be mostly not in land and whose "ability" to pay taxes is nevertheless considerable.

In any case, no taxes other than taxes on the rental value of sites and natural resources, that we may levy for any reason whatever, should in any degree serve as an excuse for leaving land rent as a considerable source of private income. They should not in any degree serve as an excuse for maintaining a system under which a majority must pay a few for *permission* to work on and to live on those parts of the earth where life is relatively supportable and labor relatively productive.

Of late some supporters of the ability theory have urged that we "broaden" the income tax "base." What they mean by this is that we should lower the amount of allowed exemption, so that income taxes can be collected from many whose incomes are so small as not now to be taxable. And, of course, such incomes are almost altogether the wages of labor.

Is it desirable public policy to tax not only large earned incomes but even the very moderate earned incomes of artisans, bookkeepers and clerks and of other persons whose incomes are small, *in order that* the *community-produced* location values of land may go mostly into private pockets? Is it desirable thus to keep down the standard of living of many thousands of middle-class people who are having a hard struggle to feed, clothe and educate their children, in order that the owners of natural resources and city sites may derive large incomes by charging the rest of us for *permission* to use these resources and to live on and work on these sites?

There appears to be, with many, a determination not to notice the matter of *source* of income but only its amount. Or, if source is noticed at all, it is only to distinguish property income from income earned by work.

And so it seems necessary to point out, again and again and most emphatically, that both income earned by work and, likewise, income derived from capital which work and saving have brought into existence and which adds to the wealth-producing efficiency of the community, are to be sharply distinguished from the rent of land.

The fact is that any study of taxation policy ought to envisage *all* of the effects likely to result from a given kind of tax or tax system, not merely whether the tax is in proportion to "ability" or would involve "equal sacrifice" from taxpayers or (more communistically) "*least* sacrifice." Among these other effects are the possible stimulus to or encouragement of efficiency and thrift, effects in bringing savings and, therefore, capital into the state or nation or keeping capital out, effects on speculative holding of good land out of use and, thus, on the productiveness of industry, and effects, which may have tremendous economic and social significance, on the sale value of land. To center attention exclusively on the matter of "ability" or the immediate sense of loss ("sacrifice") of the taxpayer, is consistent neither with a properly scientific method of inquiry nor with common sense.

§ 13

Some Probable Effects of Making Land Rent the Chief Source of Public Revenues

If taxes were removed, for the most part, from other capital and were concentrated on land, several consequences would follow. The net returns to owners of capital would be greater, because less taxed, and this would mean a higher rate of interest to them on the value of their capital. If this higher rate of interest resulted in increasing accumulation, the rate might eventually somewhat decline. So long, however, as the net rate of interest remained higher than before, there would be two reasons for a decline in the selling value of land. Land would decline in value because the net rent to its owners would be reduced by the tax. And it would decline also because its future rent would be capitalized, for a time at least, at a higher interest rate. For the value of land, unlike the value of capital, has no relation to its cost of production. Land, as we have here defined it, has no cost of production. Its value can be arrived at only by knowing or estimating its future rent (or surplus yield over interest and wages) and capitalizing this future rent at the market rate of interest.

Let us consider, now, the effects likely to be produced upon different classes by a change in the tax system which would remove the burden of taxation, in large part, from capital and commodities and concentrate it on land. The typical small farmer would very likely have considerable to gain from a system of securing public revenues which avoided taxing him on his buildings, machinery, stock, orchards (except the bare land), fences, drainage improvements and the fertility put into the soil by his own efforts,[32]

[32] For the purposes of taxation it is not to be assumed, however, that the rental value of agricultural land, as distinguished from the interest on capital, necessarily includes only the rental value which the land might have if the exhaustible fertility elements of the soil were entirely withdrawn. In most cases the land would become unusable without some restoration of fertility elements, before this point had been reached. Land which has been so far exhausted that it will not yield to labor and to the capital invested in buildings, machinery, etc., the ordinary wages and interest, *unless its fertility is wholly or in part restored*, and which would therefore be abandoned if restoration were not feasible, might not be altogether without fertility elements capable of further exhaustion. *But no one could afford to live on the produce of his labor on this land*, while thus carrying the exhaustion further. The minimum of *practically* exhaustible fertility has been reached. If, now, a piece of agricultural land exhausted to this degree is so well situated that a would-be tenant could afford to pay rent for it, provided he were assured either a perpetual lease or, on termination of the contract, the full cost value of his refertilization, this rent would measure the rental value of the land as distinguished from interest on capital. That land which is so far exhausted as not to be practically usable without some degree of restoration, may nevertheless be so well situated as to yield, *if restored*, something in excess of the wages of labor and the interest of capital employed upon it, *including in "capital" the restored fertility of the land*, will be readily admitted. Such a yield is clearly *rent*.

Gas and oil wells and mines, like farms, are exhaustible. But they differ from farms in that exhaustion is necessarily permanent. The owner never which avoided, also, taxing commodities of which he was a purchaser, and which taxed only his land value as if unimproved. His net annual returns would frequently be larger, although the selling value of his property would be smaller. Considered as a potential land speculator he would be worse off. But considered as a farmer who intended to remain such and to pass the farm on to his children, he and they might easily be better off. Such a farmer, if he owned his farm free of debt, could accumulate wealth the more rapidly because of the assumed change. And if, previous to the tax change, the farm had borne a mortgage, the new system might enable the farmer more easily to get out of debt. Indeed, there seem to be many farmers who, with good management and industry, can hardly get incomes which amount to fair wages for their labor and interest on the fair value of their improvements. Such farmers *get no land rent at all,* or an insignificant rent, and,

replaces what he takes from them. There is, consequently, no problem of distinguishing between the rental value given by nature and any interest return on elements replaced by the owner. The rental value of the ore of a mine as distinguished from the interest on machinery, shafts, corridors, etc., is all, clearly, unearned (except so much as may fairly be conceded as reward to the discoverer of the mine for making it available somewhat sooner than it might otherwise be found—cf. § 5 of this chapter), and may be taxed with justice at a very heavy rate, perhaps up to 100 per cent a year. This conclusion need not interfere with a governmental policy designed to conserve mineral wealth for future generations. Either inducements could be made to owners to conserve, by a policy of remission or partial remission of taxes on unused mines (which policy might, however, offer temptations to speculative holding of some mines so inducing all the greater use of others, or to monopolistic restriction of output), or the government could buy mines outright for the purpose of conservation, being able to buy them more cheaply because of this policy of taxation than if private individuals were permitted to appropriate all the income from natural mineral resources. This will be an unwelcome conclusion to the owners of our mines of gold, silver, copper, lead, zinc, iron, coal, etc., but from the point of view of the masses it is a just conclusion nevertheless. For that a few men should be permitted to derive tribute from the remainder as a condition precedent to the enjoyment by the latter of nature's subterranean gifts tends neither toward equality of opportunity nor toward general well-being.

In passing, attention may be called to the fact that there is nothing in the scheme to tax land rent which need at all militate against the forestation of land. Under this scheme idle lands can be the more cheaply secured by government for forestation purposes. Under it, the additional value due to an individual's forestation goes untaxed. And under it, as now, special exemptions from taxation can be given, if it is believed that private forestation is of general benefit, to encourage such forestation.

therefore, *would pay no tax at all if no property but land were taxed or would pay a merely nominal tax of a few cents an acre.*

To the tenant farmer who desires to become an owner there is a still greater and an unquestionable benefit. For a tax on the rental value of land instead of on capital lowers the sale price of land. A farm the net rental value of which is $100 a year is worth (bare-land value), capitalized on a 5 per cent basis, $2,000. To increase the tax on the bare-land value by (say) $79 a year, leaving the owner only $21 net land rent, while untaxing all improvements and other capital and thereby raising the net return on capital from 5 per cent to, perhaps, 7 per cent, would reduce the sale value of the farm (exclusive of improvements) to $300. For this is the sum of which $21 is 7 per cent and, with capital untaxed, those who save can now enjoy its entire yield. The farmer purchasing the land would, indeed, have to pay the added yearly land-value tax of $79, but this he could more than pay out of the interest on his saving of $1,700 in the purchase price, especially as all the return on capital (assumed to be 7 per cent or, in this case, $119 a year) goes to the owner, with no tax subtraction.

Indeed, since a land-value tax would discourage speculative holding of land out of use and thereby reduce land rent, *the net rent of this piece of land after the tax would be less than* $21 and *its sale price lower than* $300. The marginal product of labor would, of course, be greater.

It should be noted that just as the acquisition of farms would be facilitated in the country *so would be facilitated the acquisition of homes in the cities.*[33] But half measures

[33] There is no intention to argue that all land ought to be used when it is not all needed. Neither is it intended to deny that the holding of well-situated land out of use for a few years may sometimes render easier the possibility of a better use (Fisher, *The Nature of Capital and Income*, New York—Macmillan—, 1906, pp. 253-4), that 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 old and lower ones. But if any economic waste is ever so avoided it is probably more than equalled by the waste involved in constructing longer streets, in walking and riding longer distances past vacant land by thousands of city dwellers and in transporting goods farther from store to

will not suffice. To tax only future increases of land values will not secure very much revenue and will not make possible any considerable reduction of other taxes. It will not very appreciably cheapen land and so make the acquisition of farms and homes more easy. It may, indeed, tend to prevent such acquisition from becoming more difficult. But indeed, if such a tax is moderate it may not, in the long run, accomplish even this.

In connection with this problem, attention may be called to a serious objection to the too extensive use of the now very popular income tax. In so far as the income tax is largely relied upon as a source of revenue, land values tend to be relieved of taxation. As a result, the sale value of land is high; ownership of farms and homes becomes difficult except for the well-to-do; and tenancy is unnecessarily accentuated. *Thus, indirectly, may the income tax, which many have hopefully advocated as an aid to the attainment of greater opportunity for the common man, prove to be an obstacle.*

We need not go so far as to assert that a graduated general income tax is never justifiable. Thus, should a tax of close to the full rental value of land (together with a properly graduated inheritance tax) prove to yield less than the revenue needed for important governmental services, there might seem to be good reason for supplementing

store and from stores to homes than would otherwise be necessary. Individual estimates of gains and losses do not tend to result in the most economical arrangements when the gains and losses do not accrue to the same person. Furthermore, in practice, the notion that money can be made by speculation in real estate, probably operates as would a partial combination among holders of vacant land, thus forcing up rents and the price of land. 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 the improvements will be paid for chiefly by those owners who build upon and use their land, is not merely to avoid discouraging the speculative holding of land. *It is to offer a distinct encouragement to such holding.* As to those economists who argue that the free play of individual speculation in land will usually keep land from present use only if there are probabilities of a better future use (which the poorer present use is assumed to negative), would any of them deny that when owners who build on and use their land are therefore forced to pay higher taxes which in part are so spent as to increase the value of idle land, the tendency will be for land to be uneconomically and wastefully held out of present use?

such a land-value tax with a general tax on incomes. But the taxation of earned incomes, whether from labor *or* capital, even the graduated taxation of such incomes, *in order that* private individuals may enjoy, permanently, any large part of the *community-produced rent of land* and *in order that* the community may be cursed with a high sale value of land, is certainly *not* "progressive" or liberal or economically wise.

To sum up, the change here discussed would remove heavy tax burdens some of which rest in large degree on wages; it would add to the net returns on capital; it would discourage speculative holding of land; it would make more easy the acquiring of land for production or for homes and so would facilitate the change from tenancy to ownership. Those who were ambitious to get farms and homes for themselves would have larger (because untaxed or less taxed) earned incomes to buy with, and they would not have to pay in advance, in a high price of land, the capitalized value of exploitation, although only in case all rent were taken in taxation would even unimproved land be obtainable for nothing.

It may be added that a population of home owners would be a substantial bulwark against such irrational revolutionary economic changes as are advocated by many radical socialists. On the other hand, in a country where the few own nearly all the wealth and the many are but tenants or laborers possessing nothing except their labor, a parasitic class can maintain the *status quo* under the forms of democracy only by corrupting the voters or their elected servants or by controlling the avenues of information. Revolutions, political and economic, are not unknown to history or in the contemporary world. Could we, then, by any chance, be risking the continuance of the price system ("capitalism"), with its freedom, its régime of competition and its stimulus to efficiency and thrift, by refusing to introduce those fundamental reforms which are as important to its fair and effective operation as they are consistent with the ideals its defenders commonly profess?

How long is this subject of the rent of land and its taxation going to be ignored by publicists who are ready to consider and to discuss many other and comparatively inconsequential proposals for economic reform? How long is it going to receive no mention at all—or just the briefest and not very illuminating reference—in the economics courses of a considerable proportion of universities and colleges, so that graduates of these universities and colleges who have taken these economics courses are, often, altogether unaware that anyone, anywhere, has ever seriously suggested the use of the community-produced location value of land as a chief source of public revenue?

There is no intention to argue that every farmer would find his tax burden lightened if land rent were made the principal or the exclusive source of public revenue. Some farmers there doubtless are whose incomes are in considerable degree made up of rent. But these are farmers who realize a good surplus above fair returns for their work and their investment in capital. These are farmers who can, as a rule, easily bear a heavier tax burden. Under our present system of taxation we tax the earned incomes—interest and wages—of farmers, manufacturers, laborers and all other persons. We diminish the profitableness of making improvements in soil and drainage, of erecting buildings, of planting orchards, of accumulating machinery and stock. But we tax land rents so lightly as to leave land values, i.e., capitalized prospective rents, high, and so make it seem easy and relatively worth while for discouraged users of land whose labor and interest incomes are highly taxed, to sell their land and *live out their money*. In brief, our policy of taxation gives almost the maximum encouragement to speculation in land, keeps the price of land high and so makes it hard to acquire except by the wealthy few, keeps earned incomes derived from the use of land relatively low and tempts users of land to sell. We pretend to desire widespread ownership. We repeat unctuously the dictum of Arthur Young that "the magic of property turns sand into gold." But we adopt a policy which works in the direction of tenancy.

Even those property owners whose personal pecuniary interests cause them to object to putting taxes chiefly upon land rent might well, perhaps, give thought for a little while to the interests of their sons and daughters in case, as often happens through the mistakes, miscalculations and accidents of life, their family fortunes come to be dissipated and their children fall into the tenant class. Do such property owners wish to make economic rehabilitation and home ownership for their children, under such circumstances, as difficult as possible? Yet this is the consequence to be expected from a high sale value of land. And just as it is much to be preferred that no one of us should be permitted to own slaves, rather than that, in case of misfortune, our children should be able to sell themselves into slavery, so likewise it is far better that the landed property of each landowner should have a smaller salable value than that the children of many of them should be able to sink into a tenancy made hopeless by high land prices.

The advantages of raising public revenues by taxing community-produced site values, rather than by penalizing industry and thrift, certainly are not confined to cities. Nevertheless, an appreciation of these advantages will perhaps be etched most sharply on the reader's mind if, at this point, we pass in review, briefly, certain salient characteristics and problems of the modern city and of modern city life.

The city is a much larger part of the economic life of the modern world than it was of the economic life of the world of the ancients or of the middle ages. To begin with, it is a trade center. That, the city has been always, but never before have the efficiency and cheapness of transportation made this function so important. Great fleets of passenger and freight trains rush daily into and out of magnificent passenger stations and large freight depots, coming from places hundreds and thousands of miles distant and from many directions. Concrete roads, gray ribbons stretched across the fields and through the woods of the countryside, converge on the city. From all parts of the sea-faring world, if the city is a seaport, come giant ships to cast anchor in its harbor. The products of distant mines, plantations and factories pass through on their way to far markets and are, in part, intercepted and used by the city's people. Many of these products are raw materials which must be manufactured and sent out again in finished form for sale to widely scattered consumers. Trade, indeed, is ancient, but trade on the contemporary scale is wholly modern.

The location of the city is partly a matter of position in relation to the surrounding territory to be served. The city may be as the hub of a wheel of which roads and railroads are the spokes. Its location may be dictated in part by the results of physical forces which operated in remote geological ages. Ships must dock and land their cargoes where a harbor is. Railroads must focus where ships come in. Men must work where work is to be done. There must be men at the wharves, men at the railroad stations, men to build and to repair stores and factories and houses, men to operate trucks and taxis, men and women to work in the factories, men and women to sell to all these workers the food and clothing they need, the luxuries they desire and can afford. There must be insurance agents, bankers, ship brokers and men of numerous other occupations. In a single one of the towering buildings which make for the eyes of the approaching visitor a picturesquely jagged skyline there may be thousands of workers,—accountants, lawyers, investment bankers, brokers, and others.

In the city is now done much of the work which, a few generations ago, was done in the country. Spinning and weaving are done in the factories, not in the home. Clothing is purchased ready-made. Food is canned largely in factories. Farm work which used to be done by hand or with simple tools inexpensive to make and to buy is now done with the aid of expensive machinery made in the city. Proportionally less labor, and so less of the population, is needed on the farms. Competition tends to force down, relatively, the remuneration of farming and to drive the excess farm labor supply to the cities, where there is the lure of apparently much higher wages,—the evils of city life for the poor not being clearly visualized.

For all these reasons the city draws its millions to do the work which can be done adequately nowhere else. And here their work is effective, aided by every device that inventors can plan and by the workers' nearness to each other and their high degree of specialization.

But because the work must be done here and because the workers who do it must live here, those who are permitted to claim this part of the surface of the earth as their own reap rich returns. Men must pay them *for permission to work in this area,* must pay them *for permission to live on this part of the earth.* And because, as the city grows, this land becomes more and more valuable, there are persons who buy land and hold it vacant hoping for it to rise in value that they may sell it at a profit. Thus is land made still more expensive. Thus are the poor compelled to live in even smaller quarters. Thus is home ownership made, for the masses, a yet more impossible ambition. Land becomes so expensive that the people of the city, even in their corporate capacity, feel they cannot afford to buy sufficient space for parks and playgrounds and school athletic grounds, since *the city must pay private owners for the very values that the city itself creates.* And so the children whom high land values have crowded in their homes are, from the same cause, denied relief outside.

In this situation, when privileged owners of land are pocketing the rents which the growth and development of the city and its tributary territory, and not any activities of their own, have produced, when land rents, thus the result of general community development, are the highest they have ever anywhere been in the previous history of the world, we hear constant pleas that land should be *relieved* even of part of the taxes it now pays, and the burden put elsewhere. Such relief would but encourage speculation; it would leave *yet more of community-produced value* in the hands of *privileged private owners*, and it would make land *still more expensive* for the poor man's home.

At the same time we hear men talking about rising land values as if such increase were to be desired! This seems to be the ordinary popular view, perhaps because the tone of opinion is set by speculators in land, while the masses of common folk, working for salaries and wages and living in hired apartments or tenements, are not directly and acutely conscious that *land* is something they have to pay for the privilege of using, *both* where they work and where they live. The truth is that high sale values for land are, could these common folk only realize it, *an economic and a social calamity*. Who would boast of a high price, in his city, of bread or meat or clothing, as if that were desirable for the people who must live there? Then why think of high land values, brought about by allowing private individuals to enjoy, to capitalize into sale prices, and to speculate in, community-produced advantages, as desirable?

For the highly civilized countries with their efficient technology which transfers so much production to towns and cities, the old days of life in the country are gone, so far as a large proportion of men and women and children are concerned,—gone, probably never to return. The open fields and woods, horizons not shut from view by skyscrapers and close-set dwellings, the healthful work of the out-of-doors—these are largely things of the past. Men must live close to their fellows; they must work in towering buildings, twenty, forty, sixty or more stories from the ground; they must rush in buses, surface cars, elevated trains and subways to their work in the morning and back to their homes at night, for the millions who work in a great metropolis cannot all live within a few blocks from where their work is to be done. Yet they must not live too far away. And so, land in the great cities and their suburbs comes to have a tremendous value, and speculators, holding part of it for higher prices, make it artificially scarce and still further increase this value. Gardens, green grass, trees and play spaces are too seldom seen. And for too many children there are, in place of the woods and fields, only the dingy and dirty and traffic-filled streets and the crowded city sidewalks. Yet childhood demands, and will have, its play. The instincts of the race cannot be entirely thwarted, however bad the environment in which they have to be expressed.

Some day there may come into existence the ideal city, a city that, from our present conservatively cruel point of view, may seem a dream city, although there are, even now, some remote approximations to it. In that city a tax will take all or nearly all the rental value of all the land, to be used for the common benefit. Improvements, brought into existence by the labor and thrift of individuals, will be exempt or nearly so. The necessities and amusements of the poor will not be taxed either directly or indirectly. No one will be able to afford to hold land out of use for speculation. Except for the tax, land will be costless, or nearly costless, for there will be no large privately-received site rent to capitalize into a gigantic sale price. And so the city government can afford, without risking bankruptcy, to construct beautiful and spacious public buildings and to provide sufficiently numerous playgrounds and parks. Then we shall have for all, including the city's children, the best substitutes available for the life in the country and the country village, enjoyed by a majority of children in the generations which have passed. And these we shall have without sacrificing but, rather, while extending, those opportunities for education and culture, which city life, whatever its evils, has tended to promote.

To conclude this part of our case, let us suppose that all the surrounding states should adopt a system of taxation such as has been above suggested, while Missouri should keep to the existing system. What would happen? Obviously, the surrounding states would be better places for business to locate. All buildings, machinery and other capital would be untaxed—or, anyhow, less taxed than in

Missouri. Consequently the net returns to investors would be greater. There would, to be sure, be a higher tax on bare-land value. But this would be fully offset and more than offset, for any one desiring to buy land in these states for any business whatever, by the lower price of land. For, as we have seen, land has no cost of production and its value is arrived at solely by capitalizing its net income—the net income due to the ownership of the bare land, not counting the improvements. Furthermore, speculative holding of vacant land would not pay. Land would be available on reasonable terms to people who wanted to use it.

People are constantly boasting about the rise in land prices in their towns or states, as if this were desirable. "Come to our town," they say. "It's a fine place; land is going up in price by leaps and bounds." But if bread and meat, or potatoes, are rising in price in their town, people do not boast. Land, too, is a necessity of life. And it is a necessity of business. Indeed, as has already been noted, *high sale prices for land are an economic and a social calamity*. If the surrounding states should untax capital and business, therefore, and should tax land values more heavily, the cheaper land so made possible and the larger net returns remaining to investors on their improvements and other capital, would stimulate a flow of capital into these states and away from Missouri. Even those conservative Missourians who were most bitterly opposed to the idea of land-value taxation would be found preferring to invest in the neighboring states which had adopted the new plan!

As business investment would flow to these neighboring states, so would population flow. The hard working and thrifty person trying to accumulate a competence for his children would prefer to live in a state where his savings would be taxed as little as possible and where he could buy cheaply, and so without assuming heavy mortgage indebtedness, the land necessary for a home. And the opportunities for profitable employment, also, would presumably be best in a state to which capital would thus be flowing and where good land was not held out of use.

§ 14

Summary

At the beginning of this chapter it was shown that land rent tends to be equal to the marginal productivity of land and is a surplus over the interest to saving and the wages of labor, a surplus the amount of which can not be increased by the owners of land to make up for the taking by taxation of any per cent of it; *for land-value taxation does not decrease available land but tends, rather, to force speculatively-held land into use.* The attempt was then made to distinguish briefly between the rent of land and interest on capital. The situation rent of land we found to be an absolute amount, not determined by the value of the land or by its cost of production, but an essential element in the determination of the value of the land. The value of reproducible capital, however, was found to be directly determined, in large part, by cost of production, analyzable into alternative returns of the productive factors used. The productivity of capital appeared to be an important influence, perhaps the most important direct-acting influence, fixing the rate of interest. It further appeared that the interest on capital, when this capital is produced and saved by effort and waiting respectively, and when it is used in socially desirable ways, is, very clearly, earned. On the other hand, the situation rent of land appeared to be a payment for benefits due to natural conditions or to social growth and not for services brought into existence by the owner of the land. Thus, the rest of the community is perpetually under taxation to support a class of landowners from whom, as such, no equivalent return is received. The landowner who has bought his land, though he has given an equivalent for it in value of something else, nevertheless can not be said to be giving a service to those from whom he derives rent, which would not equally have been available had neither he nor any other landowner ever lived. When one person buys land of another, he simply buys the privilege of collecting a periodic income from the landless masses without giving any service in return. So far as these masses are concerned, the purchase of land by one person from another is but a change of masters, *a change of parasites of which the landless masses are the multitudinous collective host.* Hence the private receipt of rent violates the utilitarian principle that each should receive remuneration or income only in proportion to service rendered to those by whom the remuneration or income is paid.

In the course of our study, however, it became necessary to make certain criticisms. The so-called rent of land is not all an unearned income. Part of it is really interest on the cost of street-cutting, paving, etc., usually met in whole or in part by special assessments on owners of contiguous land. Since these owners of land chiefly benefit through a resultant increase in the rental and salable value of their land, it seems just that they should bear special assessments. But the justification of their having to pay these special assessments depends upon their being allowed to receive, in higher rental value of their land, a return on the cost of the assessments. Various alleged services of city landowners, such as exercising control over the class of tenants in any locality, or seeking out, developing, and advertising new sites, were next considered. The first did not seem to be a service for which we are necessarily dependent on landowners, or, in any case, a service so costly to them in effort as to justify very much of rent. The seeking and advertising of new sites and bringing them into use at an earlier date than their advantages would otherwise be realized may sometimes be a service to the present generation, but is not clearly a service to later generations who would eventually, with growth of population, have taken up this land anyway. Hence, if this is a service justifying rent payment, it can justify such payment only for a limited time. It is like the service of an inventor who gives us, somewhat sooner than we might else have it, the benefit of a new idea in mechanics, and to whom we give a definitely terminable right to receive royalties. So, also, we were unable to conclude that the early settlers in the American West had rendered any such economic services as to entitle their descendants and successors to receive rent for all future time from the descendants of later comers. For there seemed no clear indication that any benefit was received or is being received by the later comers or their descendants, from either the present or the former owners of the land. If the "benefit" of rising land values was "diffused" in any sense, the diffusion was not clearly to those of the present generation who now have to pay rent to use the land. They may well regard themselves, if they choose to recognize the authority in the matter of those who did it, as "sold out" by a previous generation.

In the course of our inquiry we considered the possibility that, in the absence of birth control, increasing population would be likely to raise land rent, because of growing relative scarcity of land, while definitely reducing the marginal product of labor and reducing wages. In such cases, it appeared that the public appropriation of all the rental value of land, might penalize families which, to avoid overcrowding their own land, had refrained from rapid multiplication. This consideration, however, seemed to tell with but little force against the high taxation of city or near-city land, or of any land in a country not unduly crowded, since the value of such land is due to increase of its special advantages rather than to a lowering of the marginal product of labor. And in any case, if we compare taxation of the annual rental value of land with taxes that penalize the efficient and thrifty, as such, we can hardly avoid the conclusion that land-value taxation is to be preferred.

A consideration of the probable effects of high taxation of rent indicated that such a policy would tend in the direction of wide distribution of home ownership and away from tenancy. Ownership can not be stimulated by a policy which makes land high in price.

The argument that taxation of land values should not be much emphasized because there are other unearned incomes, we concluded has little force. Most other unearned incomes, such as those secured by monopoly and by unfair competition, require to be terminated, rather than to be continued in order that their recipients may be taxed. If there are other incomes of an analogous sort to land rent, the possibilities of taking them in taxation and the social utility of taking them should be separately considered. And in the meanwhile, the possibility of there being other unearned incomes is no more an adequate objection to taxing a kind of income we know to be unearned, than is the possibility of there being gentler ways of stealing, a reason why we should allow highway robbery to go on until we have reached an agreement about the proper way to deal with *all* forms of dishonesty. Let us not be too afraid of a transition period when we may somewhat discriminate between different sorts of unearned incomes. Whether or not it may be desirable, during a transition period or, even, indefinitely, to levy sharply progressive inheritance taxes for the purpose of mitigating the inequality which has resulted in part from our long continued policy of permitting the private receipt of unearned wealth, we concluded that in no case can inheritance taxation be regarded as in any way a substitute for taxation of the rental value of land. The institution of inheritance is socially and economically desirable. It should, perhaps, be qualified. It should not be abolished.

To avoid the objection of infringement on "vested rights," some advocates of land-value taxation have proposed that only future increases in the value of land should be specially taxed. But this proposal seems to ignore the fact that purchasers often pay a higher price for land in the expectation of these very future increases. How, then, can special taxation of these increases be anything else than an infringement of "vested rights?" In truth, however, too great a respect for the "vested rights" of individuals comes perilously near to meaning no rights for society. It might be interpreted to mean that society could never modify any policy in the expectation of the continuance of which individuals had acted, without giving compensation. It might be interpreted to mean that when we undertake to regulate monopoly price, we must compensate the purchasers of monopoly stock, and that when we choose to remove tariff protection we must compensate holders of the stock of protected industries. If society is not bound to do these things, neither is it bound to go on, through all future time, paying landowners for services which not they but nature and society render. The community has frequently discriminated, in taxation, among different kinds of commodities and, therefore, among consumers of such commodities. It is under no pledge never to discriminate between land and other property. In some places a certain amount of such discrimination has already been practiced. Purchasers of land should be presumed to have bought their land on the understanding that tax systems may be changed in this direction at the option of the public. It may be desirable that any great change should be made gradually. As a matter of practical politics such a change can hardly come otherwise. But that society, or the non-landowning part of society, because it has paid in the past for no service received, must either go on doing so forever, or must buy itself free with no expense or loss to landowners, is a doctrine which even those who favor it prefer not to state, and doubtless will not now state, frankly and without equivocation.

The truth seems to be, substantially, that no system as a result of which some profit at the expense of others can be abolished *without* infringement of "vested rights" unless the victims of the system which is to be abolished themselves pay for their own relief. Many people say with regard to slavery that the ideal way to have freed the slaves would have been to pay the slave owners their full value. But *who* should have paid this money to the owners? If the property of non-slave-owners had been partially confiscated by taxation—or the future income of this property heavily taxed—to provide the requisite means, would not the "vested rights" of non-slave-owning property owners have been disregarded? Should the slaves then have been paid for by the proceeds of a bond issue which they themselves would have had to redeem, principal and interest? In other words, was it not necessary, if "vested rights" were to be fully respected, that the victims of the system of slavery should buy themselves free? May we not, then, as already suggested, lay it down as a *general* truth that if and when 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, practically nothing can be done to relieve the victims of the exploiting system, *except as these victims pay for their own relief,*—unless we *are* willing to permit *some abatement* of vested claims? Must the victims, therefore, remain victims forever? Surely not every reader will say so.

To tax the rental value of the land is to take for the use of society a value produced almost altogether by society. Land as a material factor is not humanly produced. As we have noted in this chapter, the situation advantages of land are not brought into existence by the individual owner. The rental yield which the owner derives from land or sites is not, therefore, in general, the product of any owner's work and is not the product of any owner's saving. It is a surplus above wages and interest. It is the surplus product of any piece of land above what the labor and capital used on it could produce if each laborer on it were to become an additional worker, just worth hiring at current wages, on land already being used, and if each unit of capital were to become an additional unit of capital, just worth borrowing at the current interest rate, on land already improved or supplied with capital. As some land used yields no surplus over wages and interest, rent can also be regarded as the extra product resulting, not from superior efficiency of labor or of management, but *solely from the privilege of using superior land.* In this sense it is the marginal product of the superior land. Since this superior land is limited in quantity relative to the demand for it, those who own it, if not using it themselves, can compel the persons who do use it to pay them rent for the opportunity of doing so.

But why is one piece of land economically superior to or more valuable than another? Land is valuable because of natural advantages of location and because of community growth and development. The latter influence is recognized wherever the phrase "unearned increment" is current. We all know that the annual rent which an owner could charge for a piece of bare land in Chicago's main business district, commonly called "the Loop," to a prospective builder desiring a long lease, is not a consequence of the owner's saving the land or making the land, but is the consequence of the growth of Chicago and surrounding territory. An eighth of an acre at a busy Chicago corner was, a number of years ago, expertly appraised as worth, bare-land value, about two and a half million dollars or at the rate of twenty million per acre. Wherein is such an eighth of an acre better than an eighth of an acre of farm land worth five or ten or fifteen dollars? Is the additional value of the land in Chicago due to the owner's activities? Everyone who is honest with himself knows it is not. It is the result of the growth and development of the geographically tributary country, and of Chicago as a port and a market center.

The same is true of the several billions of dollars of land value in New York City. New York is situated on a great natural harbor. If there were none to use it except a few pioneer farmers on Manhattan Island trading some of their surplus produce for the textiles and other goods of Europe, landing space for a very few boats or perhaps for a single one would be all that would be needed. But as the rich interior of the North American continent was settled, with its mines of iron ore, copper and coal, its prairie and river-bottom wheat and corn lands, and its other resources, more and more goods were produced to be poured through the port of New York into foreign countries and more and more foreign goods were wanted in exchange which could most advantageously pass through the same port. Today there is needed in New York City a large population to meet the requirements of this great *hinterland* (as the Germans would say) or tributary country.

If all the present working population of New York were whisked away overnight, the land of New York would still have great value because of the need for millions of men and women on it to serve the commerce of the back country. A new population would move in and take up the important work for the rest of us which can be done nowhere else so well; and those who own that part of the earth's surface would be in a position to make this new population pay handsomely for the privilege of working for us and of living where we need to have them live in order that this work may be effectively done,—in short, for *permission* to work and to live on that part of the earth.

The demand of the tributary country for this service makes a demand for the use of the land by the people who must live and work there to render the service. Incidentally, too, it makes a tremendous demand—and correspondingly high rents and values—for the use of especially well-situated lots for the location of department stores, lunch rooms, banks, lawyers' offices, etc., necessary to supply near-at-hand the requirements of those who live there to serve the non-sea-coast sections.

Surely, the rent of land is in a very peculiar sense socially produced rather than individually earned, and ought to be sharply distinguished in thought from interest on capital produced by individuals. And if there is any kind of return which is peculiarly fitted to be a source of public revenue, it is the rent of land.

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* the 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.

In our discussion, in this and previous chapters, we have seen what utter nonsense is the socialist contention that interest on capital is, in general, an unearned income. Capital can be brought into existence only by saving. To have capital we must produce more than we consume, i.e., save. By not consuming all of our income but instead investing part of it we really turn the use of the invested part over to laborers, et al., whose time is thus set free for the construction of capital—the tools and equipment of industry. If nobody saved, all the time of all laborers would have to be spent producing goods for immediate consumption; no time could be spared for producing equipment. And capital is useful. Though to save it involves temporary sacrifice, yet much more wealth can be produced with capital than without it. So the person who works and, saving part of his proceeds, thus makes possible the construction of capital, adds thereafter more to the annual output of industry than the person who works but does not save. To give him a larger income—in the form of interest on capital—is not to rob anyone else. It is merely to give him wealth which, except for him, would never have been brought into existence.

The distinction between interest on capital (an earned income) and rent on land (an unearned income) is slurred over by socialists. They, as a rule, class both together. They would abolish both as private incomes. But our most conservative citizens, though many of them would be shocked and perhaps angered to be classed with the socialists, seem to share in some degree the socialist notion. They, also, see no distinction between interest on capital brought into existence by work and thrift, and rent from sites made valuable by community development. They, also, see no essential difference between land and capital. Although they would not abolish private income from either, they insist on taxing the income from both—and at equal rates.

But 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 reports on congested conditions in the slums of our great cities, when these conferences, surveys and reports ignore the scarcity of space and the high rents caused by land speculation? Of what use to make extended investigations of the evils of farm or other tenancy and of heavy mortgage indebtedness and foreclosures, 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 sale value of land high, land speculation unchecked, and congestion and 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 is 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—*and among such thinkers we must include the authors of not a few economics textbooks*—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,[34] 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."

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

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 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. Indeed, this particular reform is one of the most important along the line of making the voluntary price system ("capitalism") what its conservative defenders claim it is, viz., a system which rewards industry and thrift and enterprise and gives most to those who are most deserving,—presumably those who serve the public best. And 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.

Why, then, should men who claim to favor a system of industry based on voluntary choice, who say they are opposed to the prevailing trend toward regimentation, and who insist that they desire a system which rewards industry and thrift and efficiency,—why should such men persistently oppose this and other reforms without which, it *may* be, the voluntary price system will become eventually discredited and will give place to one of the "isms" that they profess to abominate?

The land-value tax program, too, leaves in the economic order its essential element of freedom, freedom as to what work to do, freedom to save, and invest in capital construction, or not to do so, freedom on the part of each individual or group of individuals to use his or their capital in whatever line seems most profitable. And this reform would add a new freedom, viz., the freedom to live on and to work on the earth without being hindered or prevented by persons who, not desiring to use their land—or much of it—themselves, hold it out of use speculatively in the hope of making money from a *community*-produced increase of value.

If their inquiries are to contribute to the welfare of mankind, students of the economic aspects of human society need minds unprejudiced and clear fully as much as they need sympathetic hearts. As was pointed out when we were concluding our discussion of the causation of business depression and possible remedies therefor, the socialistic solution, to revamp our entire economic system, is not to be commended. That is a kind of counsel of despair, the proposal of men who do not understand the price system well enough to discover the specific evils in its operation. It is the proposal of men who, not comprehending how the price system, based on freedom of choice, can be made to work to the common advantage, *urge resort instead to compulsion and regimentation.*

The proposals of many who are not socialists can be similarly explained as attempts to deal with evils without clearly visioning their causes. Nor is the conservative policy of changing nothing, any better entitled to our approval. And they are far too numerous whose "thinking" on nearly all matters of public economic policy is but a reflection, however unconscious, of their own personal, group or class interests.

The path of democracy is in truth a way of peril, beset with the pitfalls of a too common ignorance and flanked by the ambushed forces of privilege. Yet it is perhaps only through this pathway that there is any hope at all of the eventual attainment of a better economic order. For although, in a democracy, interested persons and classes are ever seeking to confuse and mislead, in matters of economic policy, a citizenry unduly prone to believe itself championing worthwhile reform when it may be really but subjecting itself to a more hopeless exploitation; nevertheless government by a limited class appears to lead inevitably, in the end, to the self-aggrandizement of that class at the expense of all others. With democracy there is at least the chance that education and the resulting growth of intelligence will lead to better things. This is because the democratic way offers a freedom of expression for divergent views—despite occasional examples of legislative repression and too frequent cases of local majority tyranny—seldom or never enjoyed to anything like the same extent under other forms of government. And it offers, therefore, a greater likelihood that most of the important considerations bearing on public policy will at least get some sort of hearing.

We need not—if we are scientists we cannot—have the faith in democracy sometimes professed by the practical politician anxious to flatter the common man into giving him his support and vote, that "the people" will necessarily even eventually know and do what the general well-being requires. But possibly we may have a limited faith in democracy as seemingly offering the least hopeless pathway—if any pathway there be—to an economic policy fundamentally wise and just.