II

THE RENT OF LAND AND ITS TAXATION [1]

§ 1

Land Rent as a Marginal Product of Land

In *The Theory of Earned and Unearned Incomes,* the writer 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 $5,000, produced a yearly product above repair and depreciation costs, of $2,200. Of this $2,200, wages constituted $1,500, interest (at 8 per cent.) $400, and $300 a year remained as rent. This $300 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 waiting (i. e., saving, or the postponement of consumption) used. But the remuneration of waiting or saving, the interest on capital, is fixed by demand and supply at a point where it equals the marginal productivity of waiting.[2] Likewise, 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 that a piece of land yields per year a surplus of $300 over interest to waiting and wages of labor is to say that it yields a surplus of $300

[1] This essay is reprinted with considerable changes and additions, from Chapter VI of *The Theory of Earned and Unearned Incomes.*

[2] *The Theory of Earned and Unearned Incomes,* Chapter IV.

[3] *The Theory of Earned and Unearned Incomes,* Chapter V, § 1.

above the marginal product of such waiting 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 $300 less than could be produced if the labor and capital were applied to the $2,200 yielding land. In other words, the $300 is the product of this particular piece of unimproved land *in the sense* that the existence and use of this piece of land makes it possible for a product $300 larger [4] to be secured with no more labor and waiting, simply because the land resources to which the labor and waiting are applied are that much better than the margin at which the labor and waiting in question must otherwise be applied. But although $300 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.

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

[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 product 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.

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 levelling in the case of city land, is not properly a part of the rent of land but is a return on capital investment.

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 cannot, 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 cannot make interest lower or wages lower. It cannot, 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 any scarcer. The tax-paying landowner can even less afford to keep his land idle 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. A tax on interest *might* diminish saving and make interest, eventually, higher. A tax on wages, especially if heavy, might diminish population and so 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 public. It should be said, however, by way of qualification, that when the 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's efforts, some shifting may take place. (Return on improvements due to labor is properly *interest* on capital.) But a tax upon the *situation* rent or value of land 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.[6] It is sometimes said that the rent of land is no less interest than the return on other capital, since the return on land can be viewed as a given percentage on

[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.

[6] This and the following paragraphs of this section appear also in I, § 5, but are repeated here because of their relation to what is to follow.

a given valuation, while on the other hand, the interest on other 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.[7] 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 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. On the contrary, the value of the land can be arrived at only by discounting 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

[7] This view seems to be presented in Fisher, *The Nature of Capital and Income,* New York (Macmillan), 1906, pp. 184-188.

him of supervising the construction of a similar building, will a possible buyer care to pay a great deal more.[8] 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.

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 [9]

It is but a short step to the conclusion that the accumulators of produced capital may—and in many cases doubt-

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

[9] This section is in part repeated from I, § 5, because of the bearing of the repeated paragraphs on the immediately succeeding discussion.

less do—add to the value 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.

The view presented so consistently in this book that incomes received not in payment for service rendered lack social justification will not, of course, be accepted by the Junker 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 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.

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 saving render them.

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, as such, never performs any service for which he is entitled to a return in payment for the use of his land is 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 manuring their own land.

That the benefit of this street building (as of social growth) goes to the landowners as such, and not to the owners 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 or trolley line 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;[10] 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.

§ 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

[10] Except as the community compels them to make improvements at their expense in advance of their own desire to do so.

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 offsets 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 income, 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?[11] 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

[11] Cf. Hadley, *Economics,* New York (Putman), 1896, pp. 287-291.

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 perpetually indebted to the patentee. May not the discovering of, and the calling of the community's attention to, the value of new sites (and likewise of new mines, etc.) 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?

A parallel argument applies in the case of mines, oil wells and power sites. It is unreasonable to suppose either that resources of these sorts would never be discovered except by the individuals who first happen upon them, or that it is necessary, in order to get them discovered and used, to grant the discoverers the entire rental value of them so long as they are used.

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.

§ 6

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

The expectation of an increase of land values, considered as an inducement to bringing new land into use, 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.[12] 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.[13] 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, even when cities have grown up on or near it and their descendants have been able to retire and live as landed aristocrats, leaving to others not so fortunate the occupation of agriculture in which their fathers were wont to engage. 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.

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

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 even though the value of the bare land, as such, could not be expected greatly to increase? It is those who, thus, did not greatly profit from rising land values, whose sons and grandsons are now, presumably, working farmers and not landed gentry.

But if, as some economists assert, 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.[14]

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

[14] 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.

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 will 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 wealthy 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 are perhaps lower, in the long run, than if the West were less completely settled. For the (marginal) product of western labor, if not less, is almost certainly not greater. The old alternative of taking up new and good land is gone. Of course, so long as there 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.[15]

In what sense, then, and how far, were the benefits of rising land values diffused? Was it in such a sense that

[15] 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.

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 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 the descendants of the more fortunate ones 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.

A qualification of society's right to land rent should be made in the case of a country the population of which has increased or is increasing beyond the point of maximum per capita production. In such a country there may be many families 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 wages of labor production, society's right to land space will scarcely justify re-dividing 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. Nor will 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 all of the greater annual value in taxation may leave less to the owners than they could previously fairly earn. 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 other capital and the wages of their labor (employed or self-directed), then an increase of population which lowers the productiveness 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 then 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 self-imposed limitation of numbers certainly does not decrease the amount of land available for the rest of society and whose ideals, if generally adhered to, would bring universal plenty—such an 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 fairly be taken, but not, in crowded countries, all.

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 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 marginal land, but confers a special advantage on those whose near-by location enables them to reap exceptional profit 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 probably grown much more largely by the increase of the possibilities of special, often supra-marginal, land, thus creating a differential between it and marginal land, than by forcing cultivation to a lower margin. Hence, 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.

§ 7

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

It has sometimes been pointed out, by way of objection to the single-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 earn the maximum income out of which to pay the tax as he would be to earn 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 anti-socially. 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,[16] succeeds in get-

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

ting 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.[17] In general, industrial free-booting should

[17] 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. Nor should government for any long period guarantee interest or net dividends on the bonds or stocks of companies whose property it undertakes to operate. For suppose that during the period of such a guarantee, one

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.

§ 8

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

or several of the States, or the Federal government itself, should choose to adopt a new tax system, e. g., to increase very greatly the tax on site values. This would for all other industries than the ones in question diminish the land rent part of their incomes, though to be sure, removal of other taxes might increase other elements in their incomes. But, whatever the net result on these other industries, the holders of the securities of the government-operated industries would experience no effect as regards their annual returns. The better way would be to guarantee (if there is to be a guarantee of past earnings), net earnings from business but not net earnings after the subtraction of taxes.

contented themselves with advocating the public taxation and use of *future increases* in the rental value of land.[18] 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.

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."[19] 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 it plausibly may, that the present owners of land have, in

[18] See, for example, Taussig, *Principles of Economics,* New York (Macmillan), 1912, Vol. II, p. 102. This scheme was suggested by John Stuart Mill in the middle of the last century.

[19] *Political Economy, Advanced Course,* New York (Holt), 1887, pp. 416-17.

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, at least in part, 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, increases not earned by any service rendered by the landowners, 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 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?

§ 9

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 capital. 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 incomes 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 guaranty 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? Must not purchasers of land be presumed to have purchased in the knowledge that rates of taxation might be changed and that government might discriminate, for purposes of taxation, among different kinds of property as it often has done among different commodities? 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)[20] 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 had 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 con-

[20] 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.)

fiscated 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 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 someone 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?

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 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.

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.[21] 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.[22]

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

[21] 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.

[22] 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.

who own their own homes and little else,[23] and many such would clearly gain. But to persons owning land and buildings 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.[24]

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[25] (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 presumably reduce interest rates if the leaving of larger net returns to owners of capital operated to encourage capital accumulation. But for some time the average property

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

[24] 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 *The Theory of Earned and Unearned Incomes*, Chapter III, § 5 (last three paragraphs of section).

[25] 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.

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 parasites 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 care-free children of Hamelin followed into the dark mountain-side 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 [26] and the prospect that its program could be put into effect and made to work is exceedingly dubious.[27] 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 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.

§ 10

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

[26] See *The Theory of Earned and Unearned Incomes,* Ch. III, § 5 and Ch. IV, § 10.

[27] See the preceding essay (I), § 2.

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 benefits 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.[28] 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 site values threatens them with poverty, than that it should forever maintain a bad

[28] 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."

system. Indeed there must be many widows and orphans who are victims of this system, of which some of their class may be beneficiaries.

§ 11

The Taxation of "Excess Profits" versus The Taxation of Land Rent

In view of the contemporary popularity of taxes on so-called excess profits, the question ought to be raised whether such profits can advantageously be taxed, year in and year out, on the same basis as site rent. These excess profits, when they are not the fair earnings of superior efficiency in serving the public, must be either the returns of monopoly or the gifts of chance. If they are the returns of monopoly it is, indeed, better to tax them than to allow them to be privately enjoyed, but it is better still to protect the consumers of the monopolized goods against extortion. If the excess profits are the gifts of chance they must be considered along with chance losses, and when so considered will be seen not to be analogous to land rent. For, as was stated in a previous section,[29] it is incorrect to equate continuous exploitation varying only in degree (rent of land) with occasional in-excess-of-average pay for services which, on other occasions, may receive less than average remuneration.

But there is another important reason for discriminating between excess profits, so-called, and land rent. Large returns in any line of business which is relatively unable to meet the demands upon it for goods or services are

[29] § 7.

the means by which, in the competitive system, men and capital are induced to go into such a business. The goods and services produced by the business are temporarily worth more than ordinarily to the community because they are relatively scarce. But the larger returns therefore received by those in the business in question bring their own correction just because they operate to draw men and capital into the desired line of production and so increase competition.[30] Not only is it true, then, that the excess returns tend to be only temporary, but it is also true that to tax them largely out of existence might operate to retard the very readjustment of occupations and investments which is needed. *No such objection can be raised to the high taxation of land rent,* since such taxation is specifically intended to be independent of the use which any individual chooses to make of his land.

But in spite of the differences which analysis makes it possible to point out between land rent and other kinds of incomes, economists of the conservative school will doubtless continue to refuse to see any differences which tend to support special taxation of land rent as against such other incomes. And when asked to suggest, from time to time, how larger revenues may be secured for important governmental services, they will probably continue to look towards almost any other conceivable source rather than to advise increased taxation of rent.

[30] Such evils as result from changes in the *general level of prices* should be corrected, so far as possible, by stabilizing banking conditions and the value of the monetary standard.

§ 12

The Taxation of Inheritances

Let no one conclude that our argument tells equally against all inheritance on the ground that those who pay interest for the use of capital accumulated by previous generations are paying for a service to persons who did not contribute that service. For it well may be, in the case of inheritance of capital produced by human labor, that the prospect of descendants' reaping return from it is a condition without which, in great part, it would not be saved. If so, the interest is paid for a service which, except for the prospect of interest payment to descendants, might never have been rendered; it is paid for the use of capital which, except for expectation of reward to descendants, might never have been added to society's equipment. 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 invest in capital construction 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 the inheritance of wealth unless we also abolish the family and make all children wards of the state.

There is no intention to suggest, however, that inheritances should never be taxed or that the law of inheritance is not in need of modification. 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 properly be limited or regulated or the estates heavily taxed if the inequality resulting from their undivided bequeathal is likely to prove a danger to democracy.

But whatever may be the advantages to the general welfare of maintaining in considerable degree the right of inheritance and bequest, there appears to be *no reason to believe that to keep the major part of ground rent from going into the pockets of individuals would decrease the amount of land or the amount of any other capital.*

§ 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.

If, then, a piece of land is expected to yield $100 a year for an indefinite future, in excess of the wages and interest expended in making use of it, and if the market rate of interest is 5 per cent., the land will be valued at $2,000. A tax which should take each year $75 from the $100 previously left to the owner, leaving him a net rent of only $25, would reduce the value of the land in as great a proportion, i.e. to $500. The annual yield to the owner, after the tax, would be as large a percentage as before of the price at which his land could be sold. Hence he would have no more motive to sell the land than he had before and he would continue to do with the land exactly what he would do with it if there were no tax. The speculative holder of land, however, would find the tax a reason for not holding his land idle and, if he could not use it, would have to let it go to those who could.

But if the removal of taxation from capital means that the owner of capital enjoys even temporarily a higher net interest than before, because an untaxed interest, the fall in the selling value of land will be more pronounced. For the prospective $25 a year of rent left to the owner if the land is taxed, which, if net interest is 5 per cent., makes the land worth $500, will, if net interest is (say) 6 2-3 per cent., make the land worth only $375.

Let us consider, now, the effects likely to be produced upon different classes by a change in the tax system which should remove the burden of taxation, in large part, from capital and commodities and concentrate it on land. The belief has been long held by many persons that farmers would regard such a system of taxation as bearing more heavily upon them as a class than upon city dwellers. What evidence is available, however, seems to show that land values, at least in some of our states, *are much larger in proportion to improvement and building values in the cities than in the country.*[31] Furthermore, many farmers are coming to resent being taxed on their improvements which constitute so large a proportion of their total possessions, while they see speculative holders of unimproved agricultural land, who are rendering to the public no service, paying taxes much lower and often insignificant.

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] which avoided, also, taxing com-

[31] See Fillebrown, *The A. B. C. of Taxation,* New York (Doubleday-Page & Co.), 1909, Chapter IX.

[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

modities of which he was a purchaser, and which taxed only the value of the unimproved land. His net annual

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 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 conreturns 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 would 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 would enable the farmer more easily to get out of debt. Indeed, there seem to be a very large percentage of farmers who, with good management and industry, can hardly get incomes which amount to fair wages for their labor and interest on the cost value of their improvements. Such farmers *get no land rent at all,* or an insignificant rent, and, 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.* Those economists who favor confining increase of taxation of the rental value of land, to cities, for local purposes, might well be objects of suspicion to such farmers. For it appears often to be in the cities that the receipt of large incomes from the rental values of land is most important;

dition precedent to the enjoyment by the latter of nature's subterranean gifts, tends neither toward equality of opportunity nor toward general wellbeing.

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.

and it is very clear that the high values of the city lots from which these incomes are drawn are sometimes due in great degree to the growth of environing farm communities. At all events, it may properly be asked why the large rental incomes from city lands may not be taxed to meet the cost of state functions in the benefits of which farmers share, as well as for purely local expenses.

But let us consider the case of the prospective farmer, or of the tenant farmer who desires to become a farm owner. To him there is a still greater benefit as to which there can be absolutely no question. For a tax on land or land rent causes land to be obtainable more cheaply than before. A farm the net rental value of which is $100 a year is worth, capitalized on a 5 per cent. basis, $2,000. But, as we have seen, a tax upon it of $75 per year, leaving the owner $25 while raising the rate of interest (unless and until the stimulus to greater saving again lowered the rate) to 6 2-3 per cent., would reduce the selling value of the land to $375. The purchasing farmer would, to be sure, have to pay each year thereafter the $75 in taxes, but this he could pay and more than pay out of the interest on his saving of $1,625 in the purchase price, even if this interest remained only 5 per cent. For 5 per cent. on a saving of $1625 would be $81¼. And besides this, it is to be noted that the farmer would now get not 5 per cent. but, for a while at least, a net return of 6 2-3 per cent. on his investment in capital. Let it 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 will not suffice. To tax only future increases of land values is not very appreciably to cheapen land and so make the acquisition of

[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 (See 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 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?

farms and homes more easy. It is simply to prevent such acquisition from becoming more difficult. 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 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 salable 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 economic democracy, prove to be an obstacle.*

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.

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 and of 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 unctiously 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 high salable 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 better far 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.

Before quitting the general topic of this section, let us inquire what would be the effect, in any large community which should first adopt it, say the State of Missouri, of a tax system such as the foregoing argument suggests. Clearly, the value of land, as such, would rapidly fall. The mere speculative holder of idle land would not be able to collect the toll he now collects from those who desire to build homes or to launch business enterprises. The ownership of homes and farms would be made easier. The return on capital investment would be increased. Persons in other states who had accumulated capital would be more inclined to invest or lend it in Missouri. The inflow of capital would tend to an increase in the number of buildings and in the amount of machinery, fruit trees, cattle, etc. The increase of buildings would eventually tend to reduce the charges to tenants. The increase of capital in general would tend to make labor more effective and to raise wages. Missouri would perhaps first become a more desirable state for the average capitalist to invest his capital in; but it would quickly become a more desirable state for the average non-capitalist to live in. The inflow of capital and of population, together with the force of example, would then be likely to start a movement for a similar tax reform in those neighboring states from which the capital and the population were flowing.

§ 14

Summary and Conclusion

At the beginning of this essay it was shown that land rent is fixed by the marginal productivity of land and is a surplus over the interest to waiting and the wages of labor, a surplus the amount of which cannot be increased by the owners of land to make up for the taking by taxation of any per cent. of it. The attempt was then made to distinguish briefly between rent of land and interest on other 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 earned. The interest is earned in the sense that the effort and waiting done by the producer and saver of the capital secure for the community as much of wealth as the capitalist receives in interest. 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 cannot be said to give 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.

Nevertheless we concluded that increased value of land resulting from increasing population which forced down the margin of production ought not to be made an excuse for so taxing land rent as to leave with incomes smaller than their previously earned incomes families which, to avoid overcrowding their own land, had refrained from rapid multiplication. The increase of those whose habits or ideals would eventually tend toward general misery ought not to result in so reducing the available space for cultivation or in so increasing the tax on the land owned, as to greatly reduce the incomes of a non-parasitic class with ideals of a different sort. This last 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 mainly to increase of its special advantages rather than to a lowering of the margin of production.

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 cannot 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 differential and unearned incomes, we concluded has little force.

Most other unearned incomes, such as those secured by monopoly and by industrial free-booting, 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 incomes 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. As to whether or how far it may be desirable, during a transition period, 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, or as to whether wholesale evasions of such taxes could be prevented, no opinion is here expressed.

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—as it is certainly altogether likely—that any great change should be made gradually, 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.

APPENDIX

§ 1

Suggestion for Legal Enactment or Constitutional Amendment, Especially in States Having the Initiative and Referendum

Whereas, the possession by the few of great landed estates beyond the possibility of their own use is a principal source of inequality and a danger to democracy, and

Whereas, the value attaching to land apart from improvements is due rather to population growth than to the efforts of the individual owners, and

Whereas, the holding of land out of use for speculation or to aid monopoly operates to make land and home ownership difficult for the many, to diminish production, to lower wages, and to cause involuntary idleness, and

Whereas, taxes on buildings and improvements, including fertility put into land by the owner, and on other goods which are produced by labor, discourage improvement, increase rents, restrict the supply of the taxed goods and raise their prices; while taxes on the value of land force idle land into use, encourage improvement and production, reduce rents, enlarge earned incomes and increase the number of home owners, and

Whereas, taxes on the shares of stock of corporations, held by individuals, are almost uniformly evaded; while taxes on the mines, gas and oil wells, valuable sites and other landed property of these corporations would effectively reach their stockholders, therefore

It is hereby enacted that all taxes on buildings, machinery, cattle, fruit trees, growing crops, fertility put into the land by any owner or occupier and not yet practically exhausted, drainage improvements, stocks and bonds, money, and all other taxes except taxes on land shall be immediately reduced 20 per cent and thereafter by a like amount each year until they are completely abolished, and that the necessary revenues for state, counties, cities, towns, villages, school districts and other units shall be secured by a tax on the rental value of land exclusive of the value of improvements in, over or under such land; but, however small its value, no land held out of use shall be entirely untaxed, and

It is further enacted that all previous constitutional limitations on the rate at which land may be taxed, are hereby repealed.

Provided, however, that in any year for a period of fifteen years following this enactment, any person whose real estate is improved, is occupied as a residence, and does not exceed, in such year, $10,000 in assessed valuation, or $20,000 if it is agricultural real estate actually worked or operated as a farm, may, at his or her option, in lieu of the tax hereinbefore provided for, pay a tax on all his or her property which would be taxable under the previous law, at a rate, on the first $5,000 of such property, of 8-10 the average rate paid by him or her to the various governmental units, state, county, etc., during the last —— years preceding this enactment; at a rate, on the second $5,000, equal to 9-10 of such previous average rate; and at a rate, on the rest of his or her property, equal to such average rate. But no option in taxation shall be given to any corporation, nor shall any option be given to any natural person as to payment of taxes on land held substantially out of use, notwithstanding such person may live on such land in a tent or shack for less than two-thirds of the year. Nor shall any natural person have such an option as to more than an acre of land used for residence only, as distinct from farming, or as to two or more non-contiguous pieces of land.

And provided, further, that nothing herein contained shall operate to prohibit such taxation of estates transferred by bequest or inheritance, including gifts made in anticipation of death, as the legislative body may think desirable.

§ 2

Reasons for Proposed Program

The average man does not know much political economy. He persists in thinking that a scheme to substitute a tax on the rental value of land for other taxes is a scheme to burden the farmer and the small home owner and to relieve of taxation persons of wealth; and the classes interested in maintaining the existing system play upon this belief so as effectively to prevent reform. Proposals to exempt altogether from taxation small farm and home owners, violate fundamental principles and are undesirable. Such proposals, indeed, would probably meet popular opposition rather than favor. The very success of land value taxation in breaking up large estates and throwing land into the possession of many small holders might, in such a case, so reduce the number of taxable properties as to make impossible the securing of sufficient revenue. So, too, proposals for permanent exemption of any landowners, even of a partial nature, are undesirable. We do not know what the governmental needs of future generations may be.

But those persons whose studies have brought them to the conclusion that a tax on the rental value of land would be a lighter burden on small farmers and home owners than present taxes, cannot very consistently object to an enactment which, in effect, *merely gives assurance that the proposed new system will, in its inception, so operate.* And it can be no objection to such an assurance, that it may make a desirable reform possible through preventing the misrepresentation of its probable results by an interested privileged class. Unless, indeed, advocates of land value taxation are willing to include some such assurance, in their program, to the small owners who are still numerous in America, and who are not, and cannot be expected to be, political economists, it is doubtful whether this most essential of all economic reforms can be secured for generations, if ever. And a mere assurance of a special rate of taxation for such persons, would not do, even if it were desirable. The assurance must be to the effect that their taxes under the proposed system will not be burdensome *in comparison with* their taxes under the present system. But if advocates of the taxation of the rental value of land are willing to include such assurance as a prominent part of their program, success may be near. The advocate of land value taxation need not then do all the explaining. His opponents will have the task of trying to explain to persons of common sense, that a reduction in their taxes will hurt them. How far will these opponents get in persuading home owners and working farmers that they should pay high taxes and the land speculators low taxes in order that land may be kept out of use and in order that land prices may be kept high? If the owners of the sources of iron ore, the coal mine owners, and other big landed interests succeed for a while in blocking the way, it may be necessary to offer larger or longer-continued concessions to the small home owner and farmer. When, however, it becomes evident to these large interests that they are bound to lose and that delay may only make their loss the greater, their opposition is likely to weaken. At any rate, if some such program is adopted as has been above suggested, the politicians who choose to oppose the reform cannot successfully pretend to be so doing in the interest of workingmen, home owners, and small farmers, but must, tacitly if not frankly, admit that they are the spokesmen of the large landowners, including the powerful corporations which control our mineral resources.

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THE THEORY OF EARNED AND UNEARNED INCOMES

In these days of Bolshevism and syndicalism on the one hand and of reactionary influences on the other, it is perhaps more than ever important that students of economics should get a thorough understanding of the principles underlying our economic organization. *The Theory of Earned and Unearned Incomes,* by Harry Gunnison Brown of the University of Missouri, aims to present these principles. It sharply distinguishes types of incomes which the Marxian theory of socialism lumps together as "surplus value" and which ought not to be dealt with alike. Yet its discussion of *unearned* incomes will be as little pleasing to conservatives as to Bolshevists and other Marxians.

We are of the opinion that Professor Brown's book is well adapted for use in college and university courses on *Economic Theory* and on the *Theory of Distribution* and in courses devoted to a critical examination of *economic reform movements.* The theoretical student will be particularly interested, we believe, in the exhaustive discussion of the causes of and the rate of interest. This discussion is a further elaboration of articles contributed by the author to the Quarterly Journal of Economics and the American Economic Review. The "roundaboutness" of production, the productivity of capital, "impatience" or "time-preference," fluctuations in the general price level, and the significance of changes in bank reserves are all given consideration. Besides the forces determining interest, those determining wages are also studied, and very considerable attention is given to the theory of the rent of land and its taxation.