# THE SINGLE-TAX COMPLEX OF SOME CONTEMPORARY ECONOMISTS

## I. CHARGE AND COUNTER-CHARGE

The attitude of mind with which, in the opinion of many single taxers, college and university professors of economics consider arguments for the single tax is similar to that with which, in L. Frank Baum's well-known book for children, *The Road to Oz*,[1] the shaggy man considered the road to Butterfield. Dorothy had undertaken to show him the road.

> After a while they came to the place where five roads branched in different directions; Dorothy pointed to one, and said:
>
> "That's it, Shaggy Man."
>
> "I'm much obliged, miss," he said, and started along another road.
>
> "Not that one!" she cried; "You're going wrong."
>
> He stopped.
>
> "I thought you said that other was the road to Butterfield," said he, running his fingers through his shaggy whiskers in a puzzled way.
>
> "So it is."
>
> "But I don't want to go to Butterfield, Miss."
>
> "You don't?"
>
> "Of course not. I wanted you to show me the road, so I shouldn't go there by mistake."
>
> "Oh! Where do you want to go to, then?"
>
> "I'm not particular, miss."

Whether the above can be regarded as at all an applicable simile, the reader shall judge as we proceed. But it does seem to be a fact that the majority of teachers of economics, or, at least, of those who write our current textbooks on economics and on public finance, have long regarded single-taxers as utterly unsound thinkers whose economic philosophy should be by all means clearly and definitely discredited. Of the authors whose books have been most widely used as texts during the last decade or two, a considerable number are severely critical of single tax, some are non-committal, and perhaps not more than

[1] Chicago: The Reilly & Lee Co., 1909, p. 17.

two or three are at all sympathetic. The unfriendly majority would, however, resentfully scout the suggestion of single-taxers that they (the teachers of economics and the writers of economics texts) are themselves prejudiced or that they are in any sense the spokesmen of a class; rather would they insist that they are merely the servants of logical thinking and scientific methods, setting forth the truth to which that thinking and those methods have led them.

### 2. THE SINGLE TAX AS A DETERRENT TO THRIFT!

It does appear, unfortunately, to be the case that some economists of high academic position, who have specialized for many years on the very subject of taxation, have nevertheless failed to grasp entirely the theory on which support of the single tax is based. Whether this fact has any significance we need not yet inquire. Nor is it worth while for the writer to mention here certain misapprehensions to which allusion has been made elsewhere.[1] But a few recent illustrations of apparent lack of comprehension of the single-tax theory may be cited.

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

> One of the clearest lessons of the world's economic history is that the most efficient use of the land comes when it is in the hands of private owners. Governments have proved to be very poor landowners. . . . . To obtain the fullest product from the land there must be careful, painstaking, intensive cultivation. The individual owner will give his land this kind of cultivation. It belongs to him. All that he does to improve it by hard labor and "loving" care, all that he spends for draining and fertilizing, are for his own gain and for his family. He will work and spend to improve his land, and the crops will increase accordingly. The marvelous results of the care and labor of small landowners in increasing the fruitfulness of the land are to be seen all over the world. Exactly the opposite has come from government-owned lands.
>
> "Now the land is the final source of all the wealth that satisfies our wants and makes life possible and enjoyable. Anything that increases the product of the land is a benefit to mankind. Anything that would reduce

[1] See *Economic Science and the Common Welfare*, Part II, chap. VI. Columbia: Missouri Book Co., 1923.

[2] New York: American Book Co., 1923.

the productivity of the land would be a world calamity. Therefore, in spite of some evils resulting from the private ownership of the land, we conclude that a change to government ownership would be a mistake.

"A change which is vigorously advocated by some people is known as the *single tax*. The final goal of the "single-taxers" is a tax of 100 per cent on the economic rent of the land. They would like to see the government take away from the landowners the entire economic rent. Since, as we have learned, the value of land depends on its economic rent, this would be equivalent to taking away the entire value of the land. *The single tax is ultimately land nationalization.*[1]

In his second following paragraph, Professor Fairchild goes on to say that in "its extreme form, the single tax is open to the objections already raised against land nationalization." This he says without any qualification whatever. It would seem clear, therefore, that Professor Fairchild really believes that a tax of 100 per cent on the rental value of land, with no tax at all upon the products of labor including what is spent for draining and fertilizing land, would "reduce the productivity of the land."[2] Or else Professor Fairchild understands the single tax to be—what it certainly is not in the minds of its most intelligent advocates—a scheme to tax the value of drainage, fertility, etc., put in by, or dependent for maintenance on, the individual owner. Professor Fairchild's statement that this[3] would "reduce the productivity of the land" must mean, if it means anything, that people will work harder and produce and save more when their taxes are proportional to their productiveness and thrift than when their taxes are so proportioned to the advantages of the sites they occupy that improvements in drainage or in the fertility of their lands, more and better buildings, improved machinery, greater productiveness, etc., will not at all increase their taxes.[4] This is certainly the interpretation which the high-

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

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

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

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

school student, if he thought about the matter, would be obliged to put on the passage. And this is the impression which the high-school teacher—often untrained in economics and supposing that the conclusions stated must be correct since they are those of a professor of economics in a great university—will get. Is the conclusion a true one?

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

Let us digress a moment to the case of urban land which, for the purposes of the present argument, is analogous. The present writer's house is built on a lot the net rental value of which probably does not exceed \$40 or \$50 a year. Professor Fairchild, if he holds to the theory under discussion, would have to say that a tax of that amount would destroy the incentive to ownership. (He does say that "the single tax is ultimately land nationalization.") The owner's actual tax on house and lot comes to \$70 or \$80. The house is half stone and so is not removable. Can it be that the owner's interest in his home and his desire to hold title to the lot on which it is built would be less if the lot were taxed at full rental value than it is when all the property is taxed? Is it not a reasonable conclusion that men would want title—even with the 100 per cent extreme of single tax—to the land in which and on which they possessed valuable improvements, and that they would be as thrifty and as eager to make such improvements if their taxes were not increased because of them?[1]

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

One wonders whether Professor C. C. Plehn, also a specialist in taxation, had the similar view which a passage from his *Introduction to Public Finance*[2] seems clearly to imply:

> Every tax tends to repress the development of the particular phenomenon on which it rests. A single tax *of any kind*[3] will tend to defeat its own ends by repressing the existence of the phenomenon which gives the signal for its assessment. In Mexico land is not taxed, but if the farmer kills a cow, or sells a crop, he is taxed. Naturally this discourages any extension of the uses of land that involve this disagreeable consequence. The experience of nations which has led them to diversify the forms of their taxation is, therefore, supported by theoretical considerations.

The reference to Mexico, considered in the light of its context, appears to be an attempt at an inductive proof that every tax,

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

[2] 4th ed. (New York: Macmillan, 1921), p. 88. Cf. comments on the passage cited, by Professor Jacob Viner, in article entitled "Textbooks in Government Finance," *Journal of Political Economy* (April, 1922), pp. 250–51.

[3] Italics are the present writer's.

including the single tax on land values, is repressive. But, as Professor Viner has pointed out,[1] "this may be a valid argument against a tax on the slaughter of cows, but it is not a sufficient demonstration that a tax on land values would repress the use of land."

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

It should be noted that Professor Fairchild (and likewise Professor Plehn) does not base his statement upon any alleged impossibility of separately assessing land and improvements. Professor E. R. A. Seligman, in attempting to make good the contention that a single tax would rest more heavily on agricultural than on urban districts, found himself compelled to note the arguments of those who insist that the owners of agricultural land should not and would not be taxed on the value of fertility, drainage, and other such elements put in or maintained by their own efforts and investments. His answer was that it is impossible to separate the value produced by the owner from the value socially produced. The only evidence the present writer could find adduced for this statement was the allegation[2] that this is not easy to do, that "it is quite impossible in practice, to distinguish improvements on the land from improvements in the land,"[3] and the statement that "no attempt

[1] *Loc. cit.*

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

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

is ever made, in assessing land values, to differentiate between the two."

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

An unbiased inquirer would not, perhaps, be primarily concerned with listing difficulties as arguments against the single tax. One suspects that he would endeavor first to ascertain what economic consequences would be likely to ensue from the application of a bare-land-value tax, and that then, if these consequences seemed desirable, he would be anxious to know whether a system of assessments approximately meeting the need could not possibly be devised. It seems not beyond the bounds of reason that the exercise of intelligence in listing elements of value not appreciably dependent upon owners' efforts, e.g., situation, slope, freedom from rocks, etc., together with experience, would go far toward the eventual securing of workable differentiated assessments even of agricultural land. To settle the matter in the negative with an *obiter dictum* or with a statement that differentiation is "quite impossible" and that "no attempt is ever made . . . . to differentiate" may be no more reasonable than it would have been in 1890 or in 1900 so to settle the question whether travel by airplanes would ever be feasible. If, indeed, no better scheme should prove possible of application, we might follow a suggestion of Professor Commons[1] and reckon the value of bona fide agricultural land which is *kept up to par in fertility*, as, say, one-half bare-land value, after the value of all buildings, planted trees, etc., had been subtracted. And the cost of installed drainage and other permanent improvements might similarly be subtracted. If such permanent improvements are likely to become, in time,

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

indistinguishable from the land, they could be regarded as being amortized into bare-land value[1] so gradually—say over a period of thirty to fifty years—as not seriously to discourage the owner from making them. Then, in a succeeding generation, when evidence of their cost was no longer available, the problem of assessment would not be complicated by them.

### 3. THE SINGLE TAX IN FRANCE!

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

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

Innocently enough, doubtless, so far as intent is concerned, but with a carelessness that he might not have permitted himself had the supposed facts in his possession run counter to his own views, Professor Merlin Harold Hunter has used this kind of argument in his *Outlines of Public Finance*.[2] Near the beginning

[1] Cf. Commons, *op. cit.*, pp. 61–64.

[2] New York: Harpers, 1921. See review by the present writer in the *National Municipal Review* (November, 1922), p. 391; cf. Viner *op. cit.*, pp. 253–55.

of his chapter on the single tax, Professor Hunter refers to France, the physiocrats, and the *impôt unique* of these economists.[1] Then he makes the following amazing statements:

> Much was accomplished in putting the system into effect until glaring inequalities in the tax burdens became apparent. Citizens with large incomes from stocks, with unquestioned ability to meet fiscal burdens, were escaping entirely, while the poor landowners were able to meet the tax burden only with the greatest difficulty.[2] The injustice became so marked, and the dissatisfaction so evident, that the *impôt unique* was abandoned.[3]

In the *Century Magazine* for July, 1890, Mr. Edward Atkinson. debating the single tax with Henry George, made a similar statement.[4] He said: "It [the single tax] was presented more than a century since by the economists of France known as the physiocrats; it was applied in France under Turgot, before the French Revolution, with very disastrous results." But in the November (1890) number of the *Century*, replying to a communication from a Mr. James Middleton, Mr. Atkinson admitted that he had written incorrectly and that the single tax had not been tried in France.[5]

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

> Here is a farm, a gift of nature, and on it a dwelling house, a product of man's labor. But when a little closer consideration is given to the house, nature appears to have played a considerable part in making provision for it. The clay in the brick was taken from the hillside; the oak in the floors was taken from the forest; the glass in the windows was accumulated from various places. The entire building was a gift of nature—man has no more power to create houses than to create land. He simply changed the mate-

[1] P. 363.

[2] In regard to probable effects of single tax on the welfare of the common man, the reader is asked to compare this decidedly misleading clause with what is said in sections 2 and 5 of this paper. The clause here cited is perhaps as misleading on the principles and probable effects of land-value taxation as it is historically.

[3] Pp. 363, 364.

[4] XL (New Series, Vol. XVIII), 393. [5] XLI (New Series, Vol. XIX), 158.

rials of nature to make them more serviceable, the difference being that he exerted more effort on some than on others.[1]

A very similar view is presented by Professor Seligman in his *Essays in Taxation*,[2] by Professor Winthrop More Daniels in his *Public Finance*,[3] and by others. But have these authors never heard of the theory of marginal productivity, in which produced wealth is imputed in part to each of the so-called "factors of production"? If they have, they should be able to realize that there is a sense in which land, apart from all improvements in or on it, is very much more a gift of nature than a building. Can the land be in any way "imputed" to labor?

What the single-taxers are really endeavoring to do is to make a distinction between certain values that can be imputed to the labor and thrift of individuals as such and certain other values that cannot be so imputed but are either gifts of nature or the results of community growth. If this distinction is not always clearly presented and if there is sometimes confusion about seemingly border-line cases,[4] the business of the trained student of economics whose point of view is the objective one of the scientist, is to dissipate the confusions and make the distinction plain. Yet here we find two economists—and there are many more of like mind—attempting to make less clear rather than more so a really important distinction that every student ought to be made to understand; and this for apparently no other reason than to discredit the single-tax philosophy.

There are various other arguments presented in Professor Hunter's book (as, also, in Professor Seligman's *Essays in Taxation*) to which no attention will here be paid, partly because of a disinclination so to extend the discussion and partly because the present writer considered them, or a number of them, prior to the appearance of Professor Hunter's book, in an article[5]

[1] Pp. 367, 368. [2] Pp. 70, 71. [3] New York: Holt, 1899, p. 82.

[4] The present writer has recently discussed certain of such seemingly border-line cases in an article entitled "Is a Tax on Site Values Never Shifted," which has been accepted for publication in the *Journal of Political Economy* and is, at this writing, on press.

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

and in two different books.[1] Considerable attention was given to some of these arguments in Professor H. J. Davenport's article on "Theoretical Issues in the Single Tax," 1917,[2] with which Professor Hunter seems unfamiliar.

Attention may be called to the fact that both Professor Hunter's book and Professor Seligman's book are widely read, and widely used in the teaching of public finance in American universities and colleges. It is interesting to speculate on the question whether a texbook on public finance no more partial than these but written from the opposing point of view could possibly enjoy wide adoption as a text and, therefore, whether a publisher could afford to print it at his own expense.

### 4. "VESTED RIGHTS"

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

> The present owners of land have come into possession in good faith under the present rule. Many of them have paid for their land its full present value. To proceed now to take from them the whole *or a part* of the value of their land or to impose upon them discriminatory taxes would be an injustice. If there is to be land nationalization it can be accomplished justly only by purchasing the land at its fair value from its present owners. Any other procedure *is like changing the rules of a game, while the game is in progress, to the disadvantage of one contestant.*[3]

A similar view seems to be held by Professor T. S. Adams,[4] Professor R. T. Ely,[5] Professor Winthrop More Daniels,[6]

[1] *The Theory of Earned and Unearned Incomes*, 1918, and *The Taxation of Unearned Incomes*, 1921. Columbia, Missouri: Missouri Book Co.

[2] *American Economic Review* (March, 1917), pp. 1–30.

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

[4] See his article on "Tax Exemption through Tax Capitalization"[1] in the *American Economic Review* for June, 1916.

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

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

Professor F. W. Taussig,[1] Professor C. J. Bullock,[2] and by a great many other writers.

Professor Daniels is thoroughly consistent in his adherence to the view that an investment once made is sacred as against discriminatory taxation whether it is in land or in a stock corporation having a monopoly. For he asserts that[3] "when the source of monopoly or unearned profits has been once transferred from the original owner, special or exclusive taxation involves the expropriation of property owners, who acquired their title by indefeasible right."

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

Extreme cases are sometimes enlightening. Let us suppose, then, a community in which not only is all the land owned by a few, but in which every article is under the control of, and the price fixed by, a monopoly. At every turn the common man finds himself the victim of exorbitant prices. But the monopolists, like the landowners, have bought the right to these large incomes and cannot justly be dispossessed! The masses, even though they get control of government, cannot fairly reduce rates and charges because this will involve "the expropriation of property owners who acquired their title by indefeasible right."[4] No, the masses must either continue to pay indefinitely the high prices and rates that have become customary or else they must

[1] *Principles of Economics*, II, 102, 2d. rev. ed. New York: Macmillan, 1915.

[2] *The Elements of Economics*, pp. 326–28. 2d ed. Boston: Silver, Burdett & Co., 1913.

[3] P. 85.

[4] Daniels, *loc. cit.*

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

But, in general, teachers and writers of economics do not seem inclined to insist *as strongly* on respect for other vested rights as on respect for vested rights in land. Thus, there appears to be a willingness to have monopolies regulated even after innocent investors have bought stock in the expectation of large dividends. There appears to be, also, a willingness to see tariff changes even although industries have been established at considerable cost on the basis of existing tariffs. There is an apparent willingness on the part of many that price levels should be stabilized for the future, if government can be brought to adopt the policy, even although some persons have made their investments in the expectation that society would permit them to profit from fluctuations they believe they can foresee—and even although other persons have invested largely in their own education on the peculiarities of the cycle in order that they may gain from the changes that occur rather than lose. The Eighteenth Amendment must have seriously damaged the property interests of many persons whom society had permitted to buy and to build specialized property for the brewing of spirituous liquors, who had "come into possession in good faith" under the then existing rule. But the writer can recall no protest against this change in the economic textbooks of any of the current writers. Nevertheless, this also, to use the phrase adopted by Professor Fairchild, is "changing the rules of a game, while the game is in progress, to the disadvantage of one contestant." Here we have reference to the property interests of brewers and dealers. But to some there may seem another kind of "vested right" involved! Society "has permitted" people to acquire a taste for alcoholic liquors under the impression that this taste might be recurrently gratified! Has it a right now to forbid the gratification of the appetite!

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

What shall we say, then, regarding the rent of land? Is that particular kind of income more sacred, more inviolable, than the other types of income we have been discussing? In this connection it will perhaps be argued that the private receipt of land rent has a longer and less-questioned prescriptive sanction than the private receipt of monopoly gains, of income from the manufacture of spirituous liquors, etc. It should be borne in mind that the claim which must be held inviolable as against the single taxers or other advocates of increased land-value taxation, is a claim to a future rent which shall never be reduced by taxation in such a way as to lower the salable value of land. Society is held to be under a moral obligation not to reduce the salable value of land by one iota. To do so is like "changing the rules of a game, while the game is in progress, to the disadvantage of one contestant." The owners of land are said to have bought it in the faith that "the rules of the game" will not be changed. And this appears to mean, in the view of many, if not, indeed, most writers of economics texts, that the present taxation system should not be changed *at all* in the direction of heavier relative taxation of land.[1] Has society, directly or by implication, pledged itself that it will not raise these taxes? Nobody seems to think that a tax on automobiles cannot legitimately be increased after people have bought automobiles not expecting such increase. And nobody seems to think that other tax rates, e.g., on tobacco, may not properly be changed if to change them seems expedient. Is it only landowners against whom any increase of taxation is a violation of faith? Is it only landowners to whom society guarantees no discriminating tax increase? Or would it be reasonable to argue that landowners, like other persons, make their contracts and buy their property with *no guaranty that public policy will not change*, but merely with the practical certainty that such important changes in public policy as occur will not be precipitate or without the warning of years of agitation preceding the changes?[2]

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

[2] Suppose that a group of persons, by long agitation, succeed in making it appear likely that the single tax will be adopted. In consequence of this expectation, land values decline and many owners sell land at lower prices than they would otherwise charge. Do the persons who start this agitation commit an immoral act, since it is as a consequence of their agitation that the salable value of land falls? Ought the government to suppress such an agitation in order to protect

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

It may now be said, however, that the objection to the single tax or to heavy taxation of land is not meant to be an objection to *gradual* change. But if their objection is only to *sudden* change, most economists have deftly concealed the fact. Nearly always there is no intimation that even gradual change is permissible.[1] Indeed, one recent writer, Professor J. E. LeRossignol, definitely expresses his view of the "injustice and

"vested rights"? But what if the government allows the agitation to go on until many owners have sold land at low prices counting on the adoption of single tax and until many other individuals, perhaps, have made valuable improvements out of current savings, counting on a future exemption of these improvements from taxation; but finally does *not* adopt the single tax! Are any "vested rights" then infringed?

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

impracticability" of the adoption of the single tax, "whether done at once or gradually."[1]

It is customary to attempt the annihilation of the "single-tax" case partly by alleging that it is based on a doctrine of

the rest of the community—would be helping to buy free of future taxation persons who could not, at the time, buy themselves free. So the vested rights of landowners themselves might not be *fully* respected by such a scheme. These considerations may not be important but they are believed not to be mathematically fallacious.

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

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

"natural rights."[1] Yet this chief objection—vested rights—commonly raised against it seems also to be based upon "natural rights" or something fundamentally similar. For just as, in the view of the orthodox single-taxer, everyone has a natural right to the use of land, so in the view of most writers of textbooks on economics every landowner has a kind of "natural" right not to have the salable value of his land lowered by taxation. We are dealing here, apparently, with an intuitive ethics. Economists do not say that the proposed tax reform is wrong *because of* injurious consequences anticipated to the general welfare, but merely that it *is wrong* or *immoral* or *unjust*. In this matter they seem to experience a sense of *shock* at the mere proposal, which prevents any really free *objective* investigation of cause-and-effect relations. Hence the discussion of the subject by many economists presents the appearance, not so much of a search to discover whether the general effects of single tax would probably be beneficial or the reverse, but of an attempt to prove the policy wicked. One rather gets the impression, then—is it a false one?—that in the minds of most writers of economics texts ideas of sacredness cluster about property in prospective land rent to a more marked degree than about various other kinds of property. And Professor Robinson has said[2] —could he, by any chance, have been right!—that "if a thing is held to be sacred it is the center of what may be called a defense complex" so that "a reasonable consideration of the merits of the case will not be tolerated."

Most professional economists, it is suspected, have never permitted themselves to think long and without bias on the subject, examining carefully, and not merely to discredit them in debate, the arguments of the single taxers. In general, they seem to have accepted the views of their teachers as expressed in current texts. That the single tax is unsound

[1] See, for example, Ely, *Outlines of Economics*, p. 681, rev. ed. The writer does not find this reference in the fourth and latest (September, 1923) edition, of which he did not know when this article was sent to press.

[2] James Harvey Robinson, *The Mind in the Making*, p. 92. New York: Harpers, 1921.

because it is based on a doctrine of "natural rights," that it cannot be levied so as to distinguish at all fairly between bare-land values and labor-produced values, that there is no such difference anyway because everything is in large part a gift of nature, that there are other unearned incomes and increments besides land rent and land values, and that, anyhow, any change is unjust, are contentions generally familiar and quite commonly accepted. And where economists whose voluminous writing, or whose apparent familiarity with all that has been previously written on taxation, or whose high academic position in long-established institutions gives them reputation, are called upon to render "expert" advice regarding taxation, they almost invariably advise something other than, or advise definitely against, higher taxes on land values. And the graduate student or young teacher who has memorized the arguments summarized above feels no special inducement further to investigate the views of a school of writers—the single-taxers—who are mostly outside the academic fold, who are supposed to adhere to an eighteenth-century ethical standard from which academic economists believe themselves emancipated, and the acceptance of whose conclusions even with qualifications would brand him as a heretic.

### 5. A PROBABLE CONSEQUENCE OF INCREASED LAND-VALUE TAXATION ORDINARILY IGNORED BY PROFESSIONAL ECONOMISTS

Certain important effects which increased land-value taxation when accompanied by decreased taxation of commodities, capital, and incomes, would tend to produce are consistently ignored by most writers of our economics texts. Being above all things scientists, they are more interested in showing the non-conformity of the policy to their intuitive ethics than they are in exhibiting its probable consequences!

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

But there is another way of looking at this matter, which, to many, may seem even more significant. We all know that success is frequently a precarious thing. Sometimes the business changes of a few months sweep away the accumulations of a lifetime. So, too, sickness or some miscalculation for which we may or may not be entirely to blame, will occasionally leave us, after years of effort and thrift, financially where we started. Our children, then, or, if not our children, perhaps our grandchildren, have to begin a struggle which we fondly hoped they would be spared. If land is comparatively untaxed, then it is made harder for them to get started. The incomes they may earn have to be taxed directly or indirectly, and they can save but slowly. The value of land is high and they cannot soon buy land. They may be obliged to remain tenants or laborers for years—perhaps so long as they live.[1]

To tax land values more and other things less would be, therefore, a reform *somewhat similar in principle to the abolition of imprisonment for debt, to the doing away with debt slavery, and to the establishment of bankruptcy laws.* We would protect the individual—ourselves, our children, our grandchildren—from

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

the danger of falling so hopelessly low in the economic scale as is now possible.[1] High land prices may mean prosperity for some. But there can be no question that they tend to make the situation of the propertyless person, even though he be hardworking and thrifty, comparatively hopeless. And, *paradoxical as it may appear* to those who have never thought about it, *the levying even of progressive taxes on incomes*, along with the ordinary taxes on commodities and property, as an alternative to special taxes on land values, may keep such hardworking and thrifty persons down economically because it keeps land prices up. A tax on land values is fully made up, for such prospective buyers, by reduced land prices and, if land speculation is so discouraged, more than made up. But taxes on commodities, capital, and incomes are always some burden to the hardworking and thrifty propertyless person, unless they are so levied—assuming this to be possible—that no part of any of them falls directly upon, or is shifted to, him.

The writer does not know of any widely used textbook on economics or public finance (he does not claim to have read them all) which exhibits a clear comprehension of this point, although it is familiar to all of the leading single-taxers. But then, if any increase whatever of land-value taxation is essentially wicked by virtue of its conflicting with either an intuitive or a revealed ethical standard, it will of course seem better to economists

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

who conceive themselves responsible for the upholding of this standard not to set forth any probable consequences of such taxation which would be likely to appeal to readers (including the students who use their textbooks) as desirable. The desideratum, as with Fundamentalist anti-evolutionists, is not investigation but refutation.

### 6. DO WE AVOID TRENCHING ON VESTED RIGHTS BY TAXING ONLY FUTURE INCREASES IN LAND VALUES?

Despite the apparent condemnation by nearly all text-writing economists, of the single tax, there yet seems to lurk a feeling that something should be done about land rent. But how can something be done without interfering with the sacred rights of ownership intuitively determined? The answer of many economists is, to tax *future increases* in the value of land. To do this, it is supposed, would not interfere with vested rights because it supposedly would not lower the salable value of land. In the simple phraseology of Professor Fairchild's book, written for high-school pupils, "there is nothing unjust about this."[1]

And yet, this also resembles "changing the rules of a game, while the game is in progress, to the disadvantage of one contestant." For the adoption of such a policy on any extended scale would be likely, as the present writer has several times pointed out,[2] to lower the present salable value of land in comparison with other goods. Indeed, considered as a mathematical proposition, the argument is just as convincing for reduced present value of land consequent upon a definitely promised tax on *future increment* of value as for reduced present value consequent upon a definitely promised increased taxation rate upon the entire value of the land. The purchaser of a piece of land, in buying it and in determining the maximum price he can afford to pay—as, also, the seller in determining the minimum price he can afford to take—considers as well the possibilities of future increases in value as the present rental yield. A piece of land may sell for about $1,000, not because of any present yield, but because of the estimate that, after fourteen

[1] P. 527. [2] See article and books referred to earlier in this paper.

years, it will yield a net annual income of $100 and be worth (capitalized on a 5 per cent basis) approximately $2,000. Suppose that, on the day after a purchaser has possessed himself of such a piece of land at a price of $1,000, it suddenly and unexpectedly becomes evident that half of the increment in value, at the end of fourteen years, is to be taken in taxation! Would not the present salable value at once fall to $750? And if the increment tax were to be 100 per cent, would not the present value at once become $500? Yet economists like Professor Fairchild—who is here referred to not as an isolated errant writer but as *following the beaten track*—can say on the same page[1] that discriminatory taxes on land "would be an injustice" and, of a tax on future increases in value, that "there is nothing unjust about this"!

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

Professor Taussig seems clearly to understand that the value of a piece of land is affected by its expected future rent. Thus, he states[2] that in a growing city "an advantageous site will

[1] P. 527. [2] *Principles of Economics*, II, 98, 2d rev. ed.

command a price more than in proportion to its present rent; because it is expected that the rent will increase still further as the years go on." A little further on,[1] referring specifically to "the problem of vested rights," he says:

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

And yet, after having thus pointed out that present values are affected by prospective future increases of rent, and after having indicated his respect for the doctrine of vested rights, Professor Taussig proceeds to defend the taxation of future increments![2] "The question is different," he says, "as regards the rise in rent that is still to come. There is no vested right in the indefinite future. In strict theory, the whole of this increase might be taken through taxation."

Professor Bullock argues in a somewhat similar vein. He points out that Henry George advocated seizing "gradually the present economic rent of land" or enough of it to defray all public expenditures.[3] He then proceeds to insist upon the confiscatory and unjust nature of the reform.[4] Following after this he contends that "to adjust municipal taxation in such a manner as to intercept a considerable part of the future unearned increment from land would be a safe and probably a desirable policy."[5] But Professor Bullock has not left unconsidered the possibility that purchasers of land have paid, in the purchase price, for anticipated future increases in value. For he goes on to say:

> The purchase price paid for land in a progressive city is somewhat greater than its capitalized present rental value, since the purchaser can and must pay more in view of the prospective increase of the rent. Some part of the future increase, therefore, is reflected in present capital values, and should be left to the present owners.[6]

[1] *Ibid.*, p. 102. [2] *Ibid.*

[3] *The Elements of Economics*, pp. 324, 325, 2d ed.

[4] *Ibid*, pp. 326–28. [5] *Ibid.*, p. 329. [6] *Ibid*, p. 329, footnote.

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

Except as we suppose that landowners, owners of monopolies, etc., *underestimate* the future possibilities of income from their property—and they are, perhaps, as likely to overestimate—there is certainly no possibility of ever giving the non-landowning and non-monopoly-owning public *anything whatever*, even through purchase, without trenching on the "vested rights" of the owners.[1] The landless must continue to pay owners for the privilege of living on or working on their land or they must pay the owners, in advance, not only the capitalized value of the present rent but the capitalized value of any future increases in the rent which the owners may have a reasonable prospect of being able to charge.[2] Similarly, consumers must continue to pay monopoly prices to the owners of monopolies or else they must pay such owners, in advance, the capitalized value not of the present monopoly profits only but, if increased prices may be looked for in the future, of the estimated additional future profits also. Why must professional economists continually try to evade

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

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

the issue, insisting at one moment that vested rights—which are merely rights to expected future income—must be respected, and in the next moment discussing sympathetically the proposition to take a part of such expected future income for the public? Is economic science now where the physical sciences were before the days of Newton, Kepler, Galileo, *et. al.*?

## SUMMARY

In concluding our brief and somewhat limited review of the opinions of professional economists on the single tax, we may, perhaps with advantage, glance back at some of our discoveries. We have found the claim set up, by very clear implication, that to tax pure land rent rather than improvements would disourage thrift and improvements more than to tax land and improvements together at a lower rate on their combined value. We have met with the claim, from the writings of a specialist on taxation, that bare-land values and improvement values cannot be distinguished because "it is quite impossible" to do it and because "no attempt is ever made" to do it, and from the writings of both this specialist and another, that there is not much distinction, anyway, between gifts of nature and products of labor. We have met with the claim that the single tax (the *impôt unique*) was "abandoned" in France, because of its "injustice," although it was never tried in France. We have examined the contention that additional taxation of land values would be unjust, but have found other "vested rights" receiving, usually, less sympathetic consideration from professional economists. Finally, we have found that economists who are well known among their fellows in the craft are capable of both opposing increased general taxation of land values as infringing on vested rights and, simultaneously, favoring special taxation of *future* land-value *increments* as not infringing on such rights. As to whether these economists, and others, are objectively minded as would presumably be, for the particular study, an investigator into, say, the physical properties of radium, or as to whether they are led by prejudice to conclusions they might not otherwise reach, no definite expression of opinion will here be hazarded.

The likelihood of our being unduly influenced by class prejudice or, even, by preconceived opinions, is one which faces all of us, and he would be a bold person who would venture to declare himself free from so common a human weakness. As Professor Robinson has said:

> We like to continue to believe what we have been accustomed to accept as true, and the resentment aroused when doubt is cast upon any of our assumptions leads us to seek every manner of excuse for clinging to them. *The result is that most of our so-called reasoning consists in finding arguments for going on believing as we already do.*[1]

The reader is asked not to consider this paper as an argument for any particular kind of taxation as such, but as a discussion of methods of investigation and of the state of mind of some investigators. The writer does not mean at all to deny his belief that certain consequences which seem to him desirable would follow from relatively increased land-value taxation. But it is no part of his present purpose to demonstrate beyond cavil the advantages of such taxation—still less to establish the view that no taxes other than taxes on the economic rent of land should ever be levied. Such arguments for greater land-value taxation as are presented or referred to in this paper are so presented primarily, if not solely, for the purpose of showing that they are misapprehended or ignored by the economists cited.

HARRY GUNNISON BROWN

UNIVERSITY OF MISSOURI

[1] *The Mind in the Making*, p. 41. Cf. the present writer's statement regarding what be believes to be the proper attitude of mind of the student of economics, in *Economic Science and the Common Welfare*, pp. 9, 10.