

Some Recent Academic Criticisms of Land Value Taxation: Are They Intellectually Respectable?

By HARRY GUNNISON BROWN

A YOUNG ECONOMIST FRIEND who had become interested in Henry George and the proposal to appropriate the rent of land by taxation, once told me that when, as a graduate student, he had commented on the matter to one of his teachers, he received a friendly warning. He was informed that the land-value tax idea was not generally favored by economists and the suggestion was made to him that, as a young economist, he would do better not to give it too hasty support. Another professional economist, of somewhat greater years and experience, and joint author of a book in which a high land-value tax was favored, confided to me that, on that account, he had taken considerable "razzing" from colleagues.

But the question can certainly be raised—and I think it is *high time for it to be raised* among professional economists—whether it is really the advocates of a land-rent-taxation system who are properly to be considered beyond the pale of intellectual respectability. An unbiased scrutiny of the evidence may indicate that this distinction should be reserved rather for various professors of economics who argue sophistically against such a system.

Some of the evidence on this matter I have presented in my book on "The Economic Basis of Tax Reform,"¹ where what may fittingly be called the malapropisms of these professors are analyzed. Conservative economists who respect unduly the views and arguments of these professors are invited to examine this evidence.

¹ Columbia, Mo., Lucas Brothers, 1932.

In the present paper I shall comment only on some pronouncements appearing in one recent textbook. This is "Modern Economics—Its Principles and Practices,"² by Justin H. Moore, William H. Steiner, Herbert Arkin and Raymond R. Colton.

I

IN READING THE AUTHORS' comments on land speculation which precede by about a page their discussion of land-value taxation, one might, if he were unwary, almost suspect these authors of favoring the socialization of land rent. For in commenting on land speculation they remark:³

The land involved is usually bought by speculators and is thrown out of use as farm or truck land, and eventually subdivided into lots for sale to the public. There are often social losses incurred in this process of preparing land for urban use. First the services of the land as a farm are lost—and frequently for as much as 20 years; second the time and labor of the subdivider and his crew; third the capital invested as "improvements" may be lost if the city does not grow in that direction; in many communities there may be seen miles of sidewalks and curbing with no houses along the way; fourth there are losses due to dislocation of economic relations in the community. In Los Angeles in 1924 there were 256,557 lots vacant. Their estimated value, based upon an adjustment of assessed valuations, was \$1,100,000,000 and the annual carrying charge about \$100,000,000.

They then point out⁴ that "when, by reason of population growth, land rises in value the increment is frequently called the *unearned* increment."

"Ah! Now we have it," says the reader who favors the land-value-tax program. "Surely the authors are really starting to show us that private enjoyment of the rent of land should be done away with."

But the very next sentence apparently indicates a feeling of the authors that, on the average and in the long run, there

² New York, Thomas Nelson & Sons, 1940.

³ P. 338.

⁴ *Ibid.*

just *isn't* any *net unearned increment* worth serious consideration. For this is what they say: "Yet, in fact, for the fortunate few, or their descendants, who benefit from such an increase in value, there are many who took similar risks in buying and holding other land only to see it decline in value."

Just a little further down the page they express the same idea by saying: "Enormous *decrements* of land values have ensued."

And still later,⁵ under their summary of "Criticisms of the Single Tax," the authors say:

If unearned increment in land is to be discriminated against, it would be only fair to use the tax proceeds thus obtained for compensating other landowners for unearned decrements. There are thousands of owners of farm and urban land today who would not obtain as much for their property as they paid for it.

By this time it must be obvious to readers familiar with the writings of other economists that the authors are following the conventional pattern of opposition to the basic ideas of Henry George. And they seem to be exhibiting a conventional lack of understanding of Henry George's real proposal,⁶ notwithstanding they do say that "the object of the single tax is to tax away the unearned economic rent."

For the complaint which those who follow Henry George make against the present set-up is not at all about the "unearned increment" in the sense that some land will now bring a higher price than the owners paid for it.

To illustrate, let us compare the land problem in this regard with the problem of slavery. Those who have opposed human slavery have not put their opposition on the ground that some slave owners may find their slaves worth more than they paid for them or may be able to sell them for more than

⁵ P. 341.

⁶ See my paper, "Anticipation of an Increment and the 'Unearned Decrement' in Land Values," *AM. JOUR. ECON. SOCIO.*, Vol. 2 (April, 1943), No. 3, pp. 343-57.

the price at which they bought them. For example, suppose that Smith has bought a young slave for \$1,000 that he is able to sell later for \$1,700. The real exploitation involved is surely not to be measured by the *increase* of \$700 in the value of the slave. Though the total value of any slave or of all slaves may indeed be an indication of the amount of exploitation going on, the question whether slaves are *becoming* more valuable—or *less valuable*—than at some previous date has little or no relevancy. The real question is not whether Smith has got more for his slave from Jones than he formerly paid in purchase price to White. The question is rather, aside from the matter of deprivation of personal liberty, whether Smith is getting more *from the slave* than he pays *to the slave*.

The principle is similar in the case of land. Whether a particular piece of land or land in general has now a higher sale value than it had at some specific date in the past, is not the important question. The really important question is whether some must pay rent to others for *permission* to work on and to live on the earth in those locations which geological forces and community development have made relatively productive and livable. It is, expressed in reverse, whether a part of the people shall have the exclusive privilege of collecting this rent. The sale price of a piece of land or a site—as distinguished from any improvements on it—is but the capitalization of the expected future rent to the owner. And so *any sale price at all*, even though it be lower than some previous sale price, so that there is what our authors call a *decrement*, nevertheless indicates an expectation that the private owner of the land may still collect tribute merely for giving his *permission* to make use of advantages due not at all to his efforts but to geological forces and to community development.

II

IN THE FIRST OF their "Criticisms of the Single Tax," the authors say,⁷ among other things: "The imposition of such a tax would cause a major panic which would profoundly upset all business."

The contention that a panic would ensue from "the single tax" is reminiscent of the contention often made by Republican politicians just before and after the turn of the century, regarding "Democratic free trade." For years, one of the principal campaign arguments used by the Republicans was that, if given the power, the Democrats would reduce the tariff and that such reduction would cause business depression and unemployment. The panic of 1893 and the succeeding depression were thus explained, notwithstanding that the Democrats did not pass their tariff reduction bill until late 1894 and notwithstanding that the reduction then made was so inconsequential that President Grover Cleveland referred to the law as "an act of party perfidy and dishonor." And when the objection was raised to this Republican argument, that a tariff reduction late in 1894 could not cause a panic in 1893, the reply was made that the *fear* of this imminent reduction occasioned the panic. Indeed, I distinctly recall running upon an even more extreme form of this argument in connection with the causation of the panic of 1907 and the ensuing depression. The statement here was, not that there had been a reduction of the tariff and not, of course, that a *different party had come into power* with the *intention* of reducing the tariff, but that there had been *criticism* of the tariff as too high. Men had *talked* about the tariff rates adversely. Hence, the business interests were *frightened* and depression followed!

The authors of "Modern Economics" do not say *why* the adoption of "the single tax" program "would"—or even why

⁷ P. 341.

it might—bring a panic. They do not say whether or not they think a gradual adoption of it would have precisely the same effect as its sudden adoption. They make no attempt whatever to show, by reference to the steps which have been taken toward such a system in Australia, Northwestern Canada, New Zealand and Denmark, whether there is the slightest factual basis for their statement. They merely assert (for the benefit of such students as might otherwise find the land-value-tax idea an appealing one?) that the imposition of such a tax “would cause” a “major panic.” And whatever they may mean by this statement, most readers will naturally assume that they mean business depression in the usual sense, with unemployment and reduced output.

Yet in the second of their “Criticisms,” they say:⁸ “If all vacant land were utilized,”—presumably because of a high land-value-tax—“the result would be to bring about an overproduction of crops or goods.”

Do the authors mean, therefore, that the application of Henry George’s remedy would at the *same time* decrease output and *also increase* output,—that it would at the same time *decrease* employment and *increase* employment? If this is not what they mean, then what do they mean? Could it conceivably be that, in their view, the substitution of a desert like the Sahara for much of the better land of the United States would make us *more* prosperous by preventing “overproduction?” Is it their opinion, perchance, that by *producing less* and having less and thus avoiding “overproduction,” we avoid depression and thus have more employment and have more to enjoy and, therefore, really *produce more*?

The seventh point⁹ in the authors’ “Criticisms” includes *two* points! The first is that “the Single Tax is not a cure-all,”—as if anyone would claim that it is! The second of the

⁸ P. 341.

⁹ P. 342.

two is that "it would cause such an upheaval in established ways of doing business, that a major panic might ensue." This second part of Point Number 7 seems to be essentially (but substituting "might" for "would") a restatement of the first point mentioned in Number 1. However, there is added to it, and without explanation, reference to "an upheaval in established ways of doing business." "Upheaval" is a rather startling word and it is natural to ask for a bill of particulars. Will retailers disappear? Will business men cease to borrow from banks? Will barter take the place of transfers of goods in return for money and checks? Just what sort of "upheaval" do the authors think would result from such a change in our system of taxation and *why*?

III

AN ALLEGATION by the authors that returns on improvements could not be distinguished from land rent appears in Point Number 3 in the form of a statement that¹⁰ this would be "impossible" and that, therefore, "the single tax would either be in excess of the economic rent, in which case capital would be taxed, or less than the economic rent, in which case the single tax would fail of its purpose."

Isn't it a bit startling to see a statement that, in case every last cent of rental value is not taken in tax, the "single tax" must "fail of its purpose?"

In Point Number 6 of their "Criticisms" the authors have in essence repeated the point made in Number 3 about the difficulty of distinguishing land rent from the yield of improvements. True, the authors do not say in Number 6 that improvement returns *could not* be separated from rent and they do not again use the word "impossible." What they say in Number 6 is that there would be "great difficulty" in "ascertaining the value which had been added to the land by

¹⁰ P. 341.

improvements, such as draining, clearing, fencing and cultivating.”¹¹

Clearly, if we were to tax only land values and were not to tax improvements at all, there could be no reason whatever for “ascertaining the value which had been added to the land by improvements,” unless the reason were that to do this would help in estimating how much of the value of a piece of property was pure land value. Either, therefore, Number 6 is altogether irrelevant or else it is, for all practical purposes, just a restatement of Number 3.

Besides the statement that the single tax “would cause a major panic,” a conclusion for which, as has been noted above, the authors give not a scintilla of evidence, Point Number 1 contains also the assertion that “The present owners of land would find it impossible to sell their holdings. The present capitalized value of land would melt away due to lack of purchasers willing to assume new burdens.”¹²

In the second sentence quoted above we find stated as a “criticism,” a point that those who urge the socialization of land rent consider a very great advantage. For a falling sale price of land, coupled with removal of taxes on improvements and commodities, makes for greater ease in securing ownership of land by those who would use it and, therefore, for a substantial diminution in tenancy. Also, a high speculative price of land stands in the way of every scheme to provide low-cost housing for the poor. The fact is that high sale prices for land are not at all to be desired but are, rather, an economic and a social calamity.

The authors’ hodge-podge of “criticisms” under *seven* headings, with the same point given under headings 1 and 7 and another point given under both 3 and 6 and with, in at least two cases, a number of separate and distinct points under

¹¹ P. 341.

¹² *Ibid.*

a single heading, surely is not very impressive. Indeed, perhaps the least uncomplimentary interpretation of their presentation would be that the authors really believe in the principle of rent socialization, that, however, they somehow fear to confess their sympathy directly and openly, and that they are, therefore, trying to support the principle by indirection, *viz.*, by making the case of the opposition look ridiculous!

But there are reasons for concluding that this least uncomplimentary interpretation of their treatment of the problem is not the correct interpretation. For the fact that the authors are definitely opposed to the land-value-tax program is made sufficiently clear in their chapter on rent and elsewhere. Thus, they refer to Henry George's "Progress and Poverty" as having "received wide acclaim from socialists."¹³ Why mention *especially* the socialists, since Henry George's economic philosophy is essentially individualistic, since many who are not socialists have "acclaimed" him, since his professed followers are generally opposed to socialism and perhaps more so on the basis of their general economic philosophy than almost any others, and since not a few socialists have been contemptuous of his proposed reform? Can it be that this emphasis on "wide acclaim from socialists" is given with the idea—and the wish—of discrediting Henry George among the anti-socialist majority of American college students!

And what shall we say about the statement that "the cult has not completely died out?"¹⁴ Or about the authors' later pronouncement on what is desirable tax policy:

The only safe rule is to institute a mixed system of taxation, including both direct and indirect taxes, levied on property, income and consumption, the whole conforming, so far as possible, with the various theories already discussed.¹⁵

¹³ P. 339.

¹⁴ P. 340.

¹⁵ P. 433.

These "various theories already discussed" are "the benefit theory," "the faculty theory," "the social theory" and "the equality of sacrifice theory." And nowhere do the authors reveal any real understanding of the reasons why the rent of land is an especially desirable source of public revenue.

IV

"THE PRACTICAL EFFECTIVENESS and sufficiency of the Single Tax to pay the increasing costs of government," say our authors, "have never been demonstrated. . . . To declare the hotels, skyscrapers and other buildings immune from taxes, and to levy only upon the land beneath them would leave a fiscal gap so serious as to bring government to a standstill."¹⁶

Assuming it to be proved—and here again our authors merely *assert*, though they certainly make their statement sufficiently horrendous!—that the "single tax" would be insufficient to meet all the revenue needs of government, this would be *no argument whatever* against the socialization of land rent. It would be *no argument at all* against using the annual rent of land as *the* chief source or *a* chief source or the *first* source of revenue, to be supplemented by other taxes in the order of their desirability. *Why don't the authors say so?* Why do they *insist* on tying up, throughout their discussion, the fundamental problem of the socialization of rent with the relatively unimportant question whether such socialization would take care of *all* public needs?

But note, nevertheless, how very "liberal" and broad-minded these authors are! For they are willing to admit that, after all, Henry George may have done some good in the world. Of course there was nothing in the main idea on which he spent much of his life! It is simple to show, in just a few well-chosen words, how fundamentally fallacious and utterly impracticable his main idea and his program of action

¹⁶ P. 341.

were, so that any elementary student of economics can easily see that Henry George was altogether wrong-headed! But George was quite a man for all that! As our authors put it, he "did not live in vain, for his ethical ideas were pure and noble and served to convince the following generation that economic problems cannot be solved unless reasoning, observation and experience be animated by a driving moral force."¹⁷

And just think, young men and women in the college classes in economics, Henry George really helped, too, to bring some "practical" reforms or, anyway, *one* practical reform. The authors of "Modern Economics" say it like this: "One practical reform which he indirectly set in motion was the Torrens system of registering titles to real estate."¹⁸

As the authors' story proceeds, however, it appears, first, that the Torrens system was introduced into South Australia by Sir Robert Richard Torrens in 1857, which was more than twenty years before Henry George's "Progress and Poverty" was published and some years before he arrived at his conclusions in his own thinking. And it appears, second, that, although the Torrens system is on the statute books of eighteen states of the United States, it is a dead letter in most of them so far as actual operation is concerned, and that this is because "the influence of the title companies, lawyers and mortgage companies has been too strong for it to supplant the long-established procedure."¹⁹ But, anyhow, Henry George "indirectly set in motion" this "practical reform!"

So you see, do you not, young men and women of the college economics classes, how very great Henry George was, what practical influence he had, how this practical influence really came to nothing, how very wrong he was in all his analyses, and how "pure and noble" were his ethical ideas!

¹⁷ P. 342.

¹⁸ *Ibid.*

¹⁹ *Ibid.*

Truly a remarkable combination of fundamental lack of comprehension—not to say of stupidity—of practical influence which was at the same time practical futility and of moral greatness!

And thus we come at last to the exciting climax—or is it rather the almost unbelievable anti-climax or the stunning ideological debacle?—of another college textbook presentation of the land-value-tax question!

But there are still, it seems, numerous members of the economics professoriate who believe that those who argue in *favor* of the land-value-tax policy thereby put themselves intellectually outside of the “best circles” and that the analyses of those who *oppose* any appreciable relative increase of taxation of land values are intellectually on a higher plane!

University of Missouri