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Tax Relief—Pretence and Reality

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It frequently happens that an economic group succeeds in devising a slogan so captivating, and constructing an argument so plausible, as to gain the support, for the legislation they desire, of millions who are sure to be injured by it. Indeed, the interested group are themselves, often, in part self-deceived. For those who desire that public policy shall favour their own narrow class interests can urge such a policy with more comfort to their own consciences and, even, on occasion, with a thrilling sense of being public-spirited supporters of a glorious cause, if they first persuade themselves by one or another sophistry that the policy which is good for them is good for the general public and that it is only the public good which concerns them.

The advocacy of tax relief for land is a case in point. We are told that removing taxes from land lightens the tax burden on agriculture and industry. In truth it increases this burden. It increases the burden in two ways. First, it necessitates heavier taxes on labour and capital, on those who make a real contribution to agriculture and industry as distinguished from those who are merely supported thereby. Second, by relieving land, it greatly lessens the penalty on the speculative holding of land out of use, thus introducing an artificial scarcity of good land, raising the rents and sale prices of land, forcing resort to inferior and relatively unproductive land and bringing about unnecessary crowding and congestion.

“Tax relief for land” always means higher taxes of other kinds than would be necessary if the community-produced rental value of land—or the major part of it—were retained for the people. There must be greater taxes on capital or greater taxes on specific lines of production or on transactions or greater taxes on the incomes earned by labour and saving.

One of the great difficulties in the approach to this subject lies in the fact that land and the improvements in and on land are commonly lumped together under the name “real estate.” Many owners of real estate never seem to get it into their heads that they are owners of two distinct kinds of property, land and improvements, and that their interests as landowners and their interests as owners of improvements on and in the land are largely antagonistic. And so, when it is proposed to tax land value more heavily, the owner of real estate which is four-fifths or seven-eighths improvements, and who would therefore gain tremendously by the abolition of taxes on improvements (or the income from them) even though the tax on land value were then to take all the economic rent, is likely to become bitter in his opposition. For he does not realize—and frequently it is most difficult to make him realize—the inherent opposition

Tax Relief—Pretence and Reality

of his interests as an owner of improvements to his interests as an owner of a site or piece of land.

There is another inherent opposition which is no less likely, and perhaps is even more likely, to be overlooked. This is the opposition between the interests of the landowner as an owner and his interests as a worker. Many owners of land possess no more than a small site (or a not superlatively located bit of farm land) of very little value, on which rests a house or other improvement, while their principal source of income is their labour. It is clearly advantageous to these that land should be taxed at a high rate, high enough, indeed, to appropriate the entire annual rental value for the public, if thereby taxes on the income from their labour or on commodities they purchase (chiefly, of course, with such income), can be lower. "Tax relief for land" means, for such persons, a definitely heavier burden, however advantageous it may be to a few who draw large incomes from valuable business sites in the larger cities and whose incomes from work are relatively less important. Yet those owners who are primarily workers and only incidentally landowners, will often be found, so keenly conscious are they of their tiny ownership, among the eager adherents of tax "relief" for land.

What to do? It would seem that there is nothing for us, who feel that the annual community-produced rent of land should be appropriated by the community, except to stress the distinction between land and capital and the distinction between income from land and income earned by labour and saving, as often, as clearly and as dramatically as we can, in the hope that thereby we may win a wider acceptance of our views. And it may well be that the blundering attempts of our opponents to gain tax reduction on land at whatever cost in other taxes that must sooner or later arouse wide resentment, will be the determining influence in getting favourable attention for the reform we seek.

We cannot hope to get the support of those beneficiaries of privilege whose political and economic opinions are merely the reflection of their own economic interests. But, if we can state our case effectively, we should be able to get increasing support from the public-spirited even among large landowners and we should be able to get overwhelming support from those who live chiefly by their labour, whether they be tenants or home-owners.

Most basic to the understanding of the land rent problem and yet little noted—in the United States, at least, perhaps as little noted by supposedly radical groups as by conservatives—is the distinction between land and capital and the correlative distinction between the income from land (rent) and the income from capital (interest). Capital is brought into existence not through labour alone but through labour *and* saving. Men could labour hard and efficiently to the end of time yet without bringing into existence any capital, if they consumed as rapidly as they produced. Saving, the consuming of less than is produced, is essential. And it is important, too, to see how, in our present-day economic organization, saving by one person enables capital to be constructed by other persons. Consider the building of a great ocean-going vessel, such as the *Queen Mary*. The workers who spend their entire time on the work are not producing food or clothing. They cannot eat the ship or wear it. Yet food and clothing they need and must have. If they do not enjoy some other source of income they certainly cannot spend their entire time constructing the ship, unless other persons provide them with the food

and clothing they need. These other persons produce more than they themselves require and, by *saving*, make the surplus available for the support of those who build the ship. The process is, of course, not direct. There is the intermediation of money or bank cheques and of stocks or bonds. Indeed, all four of these may enter the picture. Those who produce the excess of food and clothing sell it and use the money (or bank accounts) thus realized to purchase (invest in) stock or bonds of the navigation company which in turn spends the money in hiring the workers* to build the ship, and these workers spend the money for the desired food and clothing. But it is the saving which makes the building of the ship possible. Hence, if the ship is useful, if it adds to the effectiveness of commerce and thereby to the production of wealth, those whose saving has made its construction possible are not, when receiving interest or dividends, robbing labour, but are taking from the output of industry only that additional product which, except for their saving, would not be available at all.

How different is the case of the rent on land or sites! Land is not brought into existence by labour or saving. And its advantages for business—therefore its value—are rarely in any appreciable degree the result of the activities of the individual owner. Rather are they the result of geologic forces determining the location of harbours, etc., a result of the way human beings have settled around and in the neighbourhood of the piece of land in question, and the result of such *community* expenditures as those for the building of streets, bridges and subways and the erection of schools and public buildings. (Railroad extensions and the like also benefit owners of adjacent land who have themselves made no contribution to the necessary construction.) When an individual collects from others a rent payment for these advantages, may it not fairly be asked: “Why should the many have to pay to the comparatively few, billions of dollars or pounds or marks per year, merely for *permission* to work and to live on the earth, in those locations which community development and growth have made desirable? Why not use the (chiefly) community-produced annual rental value of land for community needs? Surely the distinction between income from capital and income received for granting permission to live and work on the earth, is sharp enough so that neither conservative defenders of capitalism nor Marxian socialists can be entirely excused for ignoring it.

It is important that the public understand what “tax relief” for *land* really means. Tax relief for land, as urged by its modern advocates, means that, of the rent collected by the few for granting permission to work and live on the earth, even more than now will remain in the possession of these few. Less, even, is to be taken in taxation by the general public than is now taken. Hence, if schools, courts, police, etc., are to be adequately supported, larger sums must be extracted from the earnings of enterprise and labour or both. And this is true whether the added taxes on capital and labour come in the form of property taxes or income taxes or taxes on commodities or sales or on any kind of transactions.

Taxes on property—other than on the value of the land—penalize those who would build houses or factories, plant orchards, fertilize land, drain swamps, construct railroad systems, automotive trucks, steamships or machinery.

* And, of course, paying for the materials, the use of necessary equipment, etc. See my *Economic Science and the Common Welfare*, Sixth Edition, 1936, Part II, Chapters III and IV.

Tax Relief—Pretence and Reality

How can it "relieve" thrift and capitalistic production to tax capital *more heavily* so as to reduce taxes on land?

Taxes on income withdraw for public use a part of the earnings of labour (salaries, etc.) as well as a part of the earnings of thrift. How can it "relieve" thrift and labour and enterprise to tax earned incomes more heavily in order to reduce taxes on those who charge others for permission to work and live on the earth?

Taxes on commodities and sales are a subtraction from the real incomes of all consumers, with no distinction as to the sources of their incomes. How can it "relieve" those who earn their incomes by performing the functions of work and saving necessary for carrying on industry, to tax them on everything they buy, in order that more of the community-produced rent of land may remain in the hands of individual landowners?

If the community-produced annual rental value of land were wholly or almost wholly appropriated by the community to meet community needs, land would be less expensive to buy. For the sale price of land is but the rough capitalization, at prevailing interest rates, of the annual rent which is allowed to go into the pockets of private individuals. Furthermore, if the rent of land were to go wholly or mainly to the public, less would have to be taken to meet public needs, from the earnings of labour and capital. Then the possibilities, for the ambitious and thrifty poor person and for the economic rehabilitation of those whom fortune has dealt heavy blows, would be, in at least four ways, made more favourable. First, since good land and sites could no longer be profitably held out of use, labour would not be forced to so low a margin of productiveness but could use the better sites and resources, thus producing more, and, therefore, earning more. Second, from these larger earnings less—conceivably nothing—would have to be taken in taxation, since land rent would be taken instead. Third, as the thrifty worker saved and accumulated capital, he would be further advantaged by a low rate of taxation on his capital—perhaps no tax at all on it—so enabling him to live better and accumulate capital faster. Fourth, the great reduction—possibly to zero—of the sale price of land, would enable him easily to acquire title to land for a home, a farm or any other purpose. Yet the annual tax on land would make it unprofitable for anyone to acquire for speculation land which he did not intend to use.

"Tax relief" for *land* is, from the point of view of the general public and of the common welfare, a delusion and a snare. It is a *pretence* of relief masking a pathetically heavy increased burden on the people. Real tax relief would be reduced or abolished taxation on consumers, on all transactions, on all capital improvements and other capital, on incomes truly earned by useful labour and by saving and accumulation of capital.

In the United States, during recent years, there has been continual reiteration of the slogan "tax relief for real estate," with no distinction between land values and improvement values. The rate of taxation on real estate—including land—has been, in several of the states, very appreciably reduced, and in some cases there has been a legislative or a constitutional provision definitely limiting the rate of taxation of real property. To a large extent the deficiency of revenue has been made up by the general sales tax, applying to practically all retail transactions. The Federal government has levied somewhat similar taxes in connection with the Agricultural Adjustment Act (now

declared unconstitutional by the Supreme Court). For the funds used to pay benefits to farmers have been raised by the so-called processing taxes, such as those on the milling of wheat, the manufacturing of cotton cloth, etc. Not content with levying these taxes on consumers to help farm-owners, the government has given the help in the form of a payment to farm and plantation-owners for *holding part of their land out of use!* Shall we next have a demand from owners of vacant city lots that they be encouraged in their speculation by being *paid for holding their lots idle!*

In our present society the dominant groups of reformers appear to be permeated by the Marxian ideology. And these reformers, along with conservatives and along with the literary intelligentsia who, on the basis of some desultory reading of socialist literature and some training in belles-lettres, undertake to instruct the more "intellectual" public from the pages of "high-brow" magazines, on the complexities of economics—these all fail to glimpse any important distinction between sites and natural resources on the one hand and capital brought into existence by individual work and saving on the other hand. In such a society it is hardly surprising that there has been extended clamour, first, to take taxes off of land and make it easier to hold land out of use and, second, actually to *pay* owners of certain kinds of land for withdrawing the land from use. Nevertheless, approval of these policies has not been unanimous; many of those injured by them are bitterly and, it may be hoped, increasingly conscious of their injury; and the very adoption of such extreme and silly policies may turn out to be an indirect means of arousing a more general interest in the taxation of land values. "Whom the gods would destroy they first make mad."

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