

A DEFENSE OF THE UNEARNED INCREMENT TAX

(For the Review.)

By **MARION MILLS MILLER**, Litt. D.

The *Square Deal*, of Toronto, the official organ of the tax reform leagues of Canada, a professedly and universally recognized Single Tax paper, in its issue of April, 1915, contains the following editorial:

THE UNEARNED INCREMENT TAX.

"The idea that the increased selling value of land should be appropriated for public purposes looks upon the face of it as a sound economic proposal. It seems as though a value such as this, manifestly created by the people, should be taken by the people for public purposes. To many people this is synonymous with Single Tax, but it is far from the case. This idea in so far as it applies to the increased selling price of land is based upon a misconception and as a practical measure it will do harm to genuine reform.

"In the first place, the selling price of land, when not a speculative price, is simply the annual rental, or production, after taxes have been paid, capitalized at the current rate of interest. Thus, a lot which rented for \$50 a year and taxes, money being worth five per cent., would sell for \$1,000. If the rental increased to \$100 it will sell for \$2,000. It is evident that this is a prospective value, not a tangible one. For if, through any change in circumstances, such as the migration of population, or loss of productiveness, or even increase in the amount of taxes, by which the annual net production is lessened, the selling value will decline. Should the State levy an increment tax and take, say, the whole or even half the increase, they would be levying not on present production, but would be placing a mortgage on future production, which labor would have to pay.

"Such a measure would tend to increase the monopoly of land instead of reducing it, for if the tax was only paid when the land was sold it would operate to prevent sales and also to force up the price, and if exacted periodically it would be considered so great a handicap as to be next to impossible to collect if the percentage taken was high and the increase in value great. Relief would be certainly sought for from the Legislature and inevitably granted, and except for an increase in the public revenue we would be no better off.

"Nay, we would be worse off, even if relief was not granted, for land monopoly would then be shared by the State, and though the community got a share in the plunder, all the evils of land monopoly, low wages, idle land, and restricted employment would remain. While the socialistic tendencies of the times, coupled with the fact that the Government were partners in the matter, would make land monopoly harder to be got rid of than under the present system. The Single Tax is a different measure, and has for its object not, primarily, the right adjustment of public revenues, though

that is involved in it, but to restore the right of all to the use of the earth. It would produce ample revenue for all public requirements, and that with the minimum of cost and without burdening industry; but these are the least of the benefits. It would destroy the monopoly of land and make labor free. By taking the annual rental of land in taxation all unused land would be forced out of the hands of speculators and become immediately available for productive purposes. As a result all land rents would fall and there would be an immediate increase in the demand for labor, and wages would rise. This, of course, would hit the monopolists hard. All who were living without working would find their power of taking the earnings of others through special privilege disappear. No one would then seek employment in vain. A man would no longer have to pay a large lump sum before he could get an unimproved farm to work or a vacant lot to build on. Any vacant land could be got for paying the annual rental value, and there would be no taxes. This would solve the labor problem, the land problem, and the taxation question, and there is no other way to do it."

As a number of prominent Single Taxers uphold the view here expressed that the unearned increment tax would tend to increase the monopoly of land, I feel it my duty to express my opinion that this is not true, but, on the contrary, that it would diminish such monopoly, and to state my reasons for this contention.

Before doing so, I wish to express my hearty approval of all that the editor of the *Square Deal* says of the nature and results of the Single Tax, and my acceptance of his statement of what the unearned increment tax is, and his declaration that it is not synonymous with the Single Tax. I claim, however, that it is a partial application of the principle of the Single Tax, and, as such, has all the virtues of such an application and is open only to those objections which apply to any other partial application of the principle, such as the taking by the Single Tax of only a part of the annual economic rent.

The chief objection to the latter process, or "Single Tax limited," as it is called, is that, by the remission of the other taxes, and the forcing of formerly idle land into use, the productive power of land is so greatly increased that the annual return to the owner is greater than it was before the Single Tax was laid, even after the amount of the tax has been deducted. Nevertheless, this increase of wealth is also shared by the laborers and the capitalists (owners of labor products applied to the creation of wealth), and therefore the "Single Tax limited" is in every way an improvement on former conditions, granted that nothing else is wrong with our economic system (such as, for example, our money) which would give unjustly acquired wealth an opportunity to purchase oppressive power.

By the taxing body, or government, it might be agreed, tacitly or expressly, with the landlords, to retain the Single Tax at the rate which causes the maximum increase of annual rental value, and of its capitalization, the

selling value of land, especially as it has been found that the amount of taxes so received is sufficient to pay public expenses of the kind heretofore incurred by the government. It may be proper to call this agreement a "partnership in land monopoly." Nevertheless, it is a monopoly partly shorn of its present power to oppress labor and capital. Such a partnership between the government and the landlords now exists, and so there is no new oppression brought into operation by the Single Tax, but, as shown, the old oppression is lessened. Otherwise Single Taxers would be compelled to drop their present programme of agitation for the removal of one oppressive tax on labor and capital after another, with consequent gradual increase of the tax on economic rent, and to demand the instant removal of all the oppressive taxes and the instant imposition of a tax on economic rent equal to its entire amount. "The whole hog or none" would then be our motto. It is well that nature does not work in such an anomalous manner—that economic laws on the contrary reduce such an ultimatum to an exhibition of childishness and perversity.

But, it may be urged, we do not want to have the operation of the Single Tax stop at the point of the greatest return to the landlords; we wish to have the rate of the tax increased at least to the percentage of diminishing returns to the landlords, and, if possible, to the percentage when there will be no return to them at all. How can we entirely destroy the partnership between government and landlords?

In answer I would say that the tendency of advancing civilization is to increase expenditure for public purposes, and the need of greater revenue will inevitably cause the taxing government to take more and more of annual economic rent, which though the amount remaining in the hands of the landlords is lessened apace, is correspondingly augmented in its aggregate by increasing public improvements, population, etc. Then too there are organized interests both of a capitalistic enterprise and special kinds of labor which are opposed to the landed interest, and with which the government, even considered as a political ring, can as profitably to itself in single cases, and more profitably in the aggregate, enter into partnership. Indeed, in their totality these interests form the interests of the people, opposed only to one interest, that of landlordism. Development of democratic government, the rule of the people, by such reforms as direct legislation and equal suffrage will combine with the need for greater public expenditure, and the demands of class interests possessing political influence to break up the alliance of government and the landlords, and to advance toward the Single Tax ideal.

Now I claim that the same objections and these only apply in the case of the unearned increment tax, and the same causes prevail and the same remedies are available to destroy whatever partnership might result between the government and the landlords.

I admit that, from a scientific point of view the unearned increment tax

is an unnecessary tax, since the application of the Single Tax beyond the point of diminishing returns to the landlords will accomplish more simply and effectively its results. But it may be a more practical tax in that its adoption by the people will be more readily obtained than that of the Single Tax. The term "Single Tax" is an obscure and unattractive one—it doesn't define its essential nature, nor does it present any argument in its favor. Even "land-value tax," a proposed substitute, while the term is more definitive, doesn't present any reason for its adoption. But "unearned increment tax" is both definitive and persuasive. It assumes, and the assumption is granted by the acceptance of the term, that the possessors of the value taxed have no moral right to it.

For the sake of fairness as well as for economic comparison it must be assumed that, as in the case of the Single Tax, all public revenues are to be raised from the unearned increment tax. What will be the result? The opponents of the tax, represented by the editor of the *Square Deal*, admit that it will take value created by the people for the use of the people, and, by inference, since the tax cannot be shifted, will correspondingly reduce the value of the land for purposes of exchange by private owners.

But, say they, this value is prospective and not tangible, and the tax would therefore be placing a mortgage on future production, which labor would have to pay. This I deny. Suppose the tax were laid to the extent of taking all the increase of land value (capitalized rent), would not this wipe out all the prospective or speculative value? Who would then speculate in land? And, in so far as it approaches this point, the tax will diminish this prospective value. In short, the critic is blaming upon the tax the results of not applying it—making sins of omission sins of commission. Granting, however, the critic's contention, cannot the same be said of our present inadequate tax upon economic rent, and also of the Single Tax when this is limited to the rate that will produce the maximum of land value, prospective as well as present? Indeed, the "Single Tax limited" and the unearned increment tax are essentially and practically the same thing. This is true because the capitalization of a value does not change the character of the economic results in taxation. If it was land value before capitalization, it is land value after it, and obeys the same laws of the incidence of taxation with like results. If it was a privilege value before, it remains so afterwards, subject to the same increase or diminution by taxation. And privilege value is always speculative value. The editor of the *Square Deal* writes as if he thought economic rent was the actual excess of productivity over that at the margin of cultivation, the "tangible" value he calls it, and not the potential, and that it did not become potential or speculative until it was capitalized into land value. Would he not tax vacant lots? If by "tangible" value, he means actual rental value (not economic), does not this exist in the case of the capitalized actual rent, to be secured from long leases in which the lessee takes a speculative chance? This potential value differs from year to year,

and, under the Single Tax, would be assessed accordingly. A logical application of the unearned increment tax would cause the annual increases in the capitalized value of this rent to be annually assessed also. The proposal that assessments should be made only upon sales or at long intervals may be rightly criticized as unjust to the community, but this is a matter of programme and not principle, as it is also in the case of the uncapitalized economic rent. From the standpoint of expediency it is admitted that in every respect but, perhaps, securing popular approval, the Single Tax is better than the unearned increment tax.

The editor of the *Square Deal* says that the unearned increment tax, if exacted annually, would be considered (evidently by the landlords) so great a handicap as to be next to impossible to collect, if the percentage taken was high and the increase in value great. Does not this objection, if admitted, exactly apply in the case of the Single Tax also? Desire not to pay, without the power to resist payment, is inoperative, and neither tax, since both cannot be shifted, presents any new means of resistance. Relief would certainly be sought for from the Legislature, he says. Is not this what the opponents of the Single Tax threaten? And is it not as idle a threat?

And then, what becomes of the critic's argument of partnership of the government in land monopoly in the case of the unearned increment tax, if the land monopolists are certain to resist the tax and overthrow it? Would they not rather endorse a system which he says "would make land monopoly harder to be got rid of than under the present system?"

There is another argument, advanced by other opponents of the unearned increment tax than the editor of the *Square Deal*, that it would work so well that the people would be inclined not to accept the better Single Tax. The very statement of this fear, I think, refutes itself, for the new principle in it, indicated by its name, the return to the community of values created by the community, would be so apparently the cause of its working well that the people, especially as the need of new revenue increased, and the tax had been raised beyond the point of diminishing returns to the landlords, and still did not suffice for desired public expenditure, would seek to apply the principle in its radical, scientific, more practicable and more productive form, the Single Tax, and would be enabled, by the weakening power of the landlords, to put it into execution.

I do not advise Single Taxers to drop their work for the full remedy in order to secure the half one, except in cases where this is clearly an obtainable measure, and the Single Tax is not. Even then there will be enough advocates of the unearned increment tax outside of Single Tax ranks to secure its adoption. Our duty is to educate the people in sound economic principles. But such education is not advanced by opposing sound economic principles as principles, when they are presented in the form of legislation of which we do not approve. We should oppose the forms only.

The term "unearned increment" cannot be too widely used, or the principle it represents, of taking the community values for community purposes, be too strongly endorsed for the good of the cause. "Names are things." Get the people into the habit of using correct terms, and they will think correctly. Single Taxers have done far more and better work in this respect than most of them realize.

Thirty years ago, when I became a convert to the Georgian economy, the people in general were unfamiliar with the term "unearned increment," as with most of the terms used in that economy. The catchwords of Socialism were much more in vogue. Yet, owing to persistent education by Single Taxers, joined with the inherent and easily understood truth in their doctrines, and the appeal to the moral sense in their economic terms, these latter are generally accepted, while Socialistic terms, such as "class consciousness," "surplus value," etc., have dropped back to the position of shibboleths of a narrow school of economic thought, and are rarely heard outside of such connection. Now acceptance of terms leads inevitably to acceptance of the doctrines involved in them. From the propagandist standpoint, therefore, we should fight for the retention of that logically apt and rhetorically effective term, "unearned increment," and even try to broaden its meaning to present all phases of its essential principle. As used by its coiner, John Stuart Mill, and by economists since his day, it applies only to the increase of the capitalized value of annual economic rent. We should strive to have it apply also to economic rent itself, an unearned increase of wealth to the landowner, in which case the objection of those who would oppose the moral implication in the present use of the term by asking, "How about the unearned decrement?" would appear as palpably absurd as it is really so, since the "decrement" would be clearly seen to be a minus quantity, and the term would resolve itself into an "Irish bull."

THE GROWTH OF HOUSTON, TEXAS, UNDER PARTIAL APPLICATION OF THE SINGLE TAX PRINCIPLE.

(*For the Review.*)

By **W. E. WALTER**

(The following article is by a new man in the movement, a close student and one who has traveled widely. Mr. Walter is a resident of Rutherford, N. J., and this article is therefore interesting as the impressions of an outsider).

With banking statistics equalling or nearing those of Atlanta, Houston is pressing close in second place for financial honors of all southern cities. The figures of but four cities are used in making the comparison in the Reserve Bank organization committee report, which are as follows: