

Nine questions submitted by Harold S. Brown, editor of *The American City*, were published in the December *Henry George News*. The first three were answered in the February number by Gilbert M. Tucker and Harry Gunnison Brown. Questions IV, V and VI are dealt with in this issue, and the remaining three will appear in April. Read the question first—stop and try to answer it—then read the answers to see if you agree with the experts. . . .

IV.

If land were the only source of taxation, would not much land be abandoned by present owners, thus depriving local governments of much revenue now derived from vacant land held for speculative purposes? And would not the necessary result be higher taxes on land productively used?

Harry Gunnison Brown: Rather than attempt to give a complete answer to this question, I prefer to re-emphasize a point made in my first paragraph under Question III [February issue]. We cannot go on the principle that the rent of land must always and necessarily provide us all the public revenue we may want or think we want, and that all we have to do is to raise the tax high enough to get it. The rent of land (better, the annual *rental value* of land) is determined by the facts of productivity ("marginal" productivity is fundamental in the explanation). When and if we attempt to get more by taxing land than the excess over the marginal productivity of capital and labor, i. e., more than the actual rental of land, we are *really* taxing interest on capital and wages of labor, however we may try to hide from ourselves this fact.

It is because our opponents rarely understand what are known as the laws of "imputation" (and many followers of Henry George are "in the same boat") that they raise such objections. On the basis of the principles of "imputation" these objections can be answered thoroughly and conclusively, but the explanation of the principles of "imputation" itself requires many pages. My own discussion is in Chapters XII to XV, inclusive, of my *Basic Principles of Economics*.

Gilbert M. Tucker: The only land which would be abandoned would be that held for speculation for, with production and use untaxed, the tenure of land would be more valuable to user-occupants, and this is shown by Danish experience. It is doubtful if much land which pays taxes today would be abandoned and there would be less forfeiture of land if the tax system did not virtually prohibit the profitable use of land.

V.

What is the best method of taxing timber land, coal land, oil land, etc., to prevent depletion of natural resources on the one hand, and monopoly of profits on the other?

Harry Gunnison Brown: In deciding how to tax (for example) oil land, we might look into what the oil companies do when they drill wells on land they do not own. They pay *royalties* to the owners of the land. A royalty is a rent. The term "royalty" seems to be customarily used when the payment is for a wasting asset and is in proportion to current output. When the owner is not and was not a "prospector" and so did not himself discover the oil, this royalty is *certainly* not wages for any work by him nor interest on any capital he has invested. The royalty-paying company hires the labor—including geologists—invests in the necessary capital equipment, and may reasonably expect to recover enough to pay such wages and to make a return on the invested capital. To do that, it must get enough from the wells that flow, to offset losses in drilling wells that do not flow

or that yield hardly any oil. If they have no hope of doing that, we cannot expect them to serve us by drilling and pumping oil. It is the income of the *owner of the land* who enjoys a

royalty which is most clearly and obviously land rent, along with, of course, as much return on the wells a company itself owns as it *would* pay in royalties to an independent owner from whom it leased.

To make sure that such resources be not held out of use by owners whose royalties are taxed away and to prevent uncompensated loss from destruction of view or gardens or even buildings, there might be an advantage in permitting such owners to retain royalties up to some rather low limit; or compensation for actual losses might be permitted with a law that owners would not be *permitted* to withhold their land from drilling; *or*, if landowners were permitted to refuse the privilege of drilling, the law of assessment might be such as to allow (and instruct) the assessor to value the land *as if* it were already known to contain oil. Then it would be taxed heavily as *vacant* or under-used land *unless and until* the owner permitted such drilling, after which it would be taxed on the basis of the royalties. Of course the assessor

should consider what the royalty or royalties would be under *normal contracts* and not consent to an unduly *low assessment* on the basis of some pretended *lower-than-normal* royalty.

If there is any reasonableness in the view that actual prospectors should be allowed to receive royalties to compensate them for *finding* gold, silver, copper, coal or oil, it may properly be urged that the case is almost identical with that of inventors. Inventors are not allowed (under our patent law) a *perpetual* monopoly. A temporary monopoly suffices to stimulate invention and to make industrialists willing to undertake the new method or make the new article. Irving Fisher tells that Herbert Spencer invented an invalid chair which he refused to patent because he wished to donate it to the world; but, claims Fisher, no one would undertake to push it, because any man who might do so felt that to introduce it to public attention and favor would cost a good bit, which cost he would have to face, and that then others, without facing that cost, could come in and capture much of the

business. That is Fisher's defense (or part of it) of patent monopoly. But it does not, in any case, need to be more than temporary.

Everyone knows that, usually, the invention would eventually be made by someone else, so that all we owe to the particular inventor is our ability to have it *earlier* by ten or fifteen or twenty years. Surely, in view of the work done by Langley and others, we cannot believe that *never* would we have had the airplane even if the Wright brothers had never lived. The case of natural resources is similar. It is not necessary to give to the person who happens to be the first discoverer, millions of dollars; nor can it be assumed that without him we could *never* have learned of the particular resource. If there is good reason for rewarding prospectors, such

reward should certainly, as with patents, have a limit in *time*. Also, to avoid the temptation to exhaust the coal or oil or copper or silver hastily and wastefully and completely, there should, in the case of natural resources, be a limit on the total amount that such a prospector could receive. (See, also, on conservation, footnote on pages 472-3 of *Basic Principles of Economics*, or page 218-9 of *The Economic Basis of Tax Reform*.)

Gilbert M. Tucker: Tax natural resources by a severance tax. Some Georgists say this is heresy but such a policy recovers resource values to the people just as truly as does any other method, and enables the government, representing the people, to benefit by these values as wisdom dictates, avoiding waste and reckless depletion. This the writer has already discussed in *The Henry George News* [Taxing Natural Resources, July, 1948].

VI.

How should sites be assessed which a municipality desires for future schools, parks, playgrounds, etc., but which it is not now ready to buy?

Harry Gunnison Brown: So far as I can see, there should be no reason for assessing such sites differently than if they were not so desired. Such different assessment certainly would be viewed by many as utterly discriminatory and unfair.

Gilbert M. Tucker: Probably the best answer is for the city to take such land under eminent domain and, in cases like much-needed parking lots, lease the lands by competitive bidding specifically for controlled and regulated use. Mr. Bottenheim speaks of land which the city "is not ready to buy"—I believe, however, that with many improvements such as he mentions, being self-liquidating (or even very profitable to the city), it will be far safer to go ahead with such undertakings which would today represent a heavy drain on resources.

"If land were the only source of taxation," wrote Oscar H. Geiger in 1932 as published in *Land and Freedom*, "land would tend to come into use whether present owners abandoned it or themselves became users." He believed that land would pay rent whether used or not and the entire rent going to the government would mean greater revenue than if a part were retained by owners for speculative purposes. "Land that is being held for speculative purposes has a selling value only because its actual or potential rent is not collected by government," wrote Mr. Geiger, founder of the Hen-

ry George School. "The selling, or speculative, value of land is virtually nothing but capitalized uncollected rent. Land rent does not depend on productive *use*, but on productive *usability* and therefore cannot be burdened beyond its true value."

Regarding Question VI, which also stumped the experts in 1932 as it does today, Mr. Geiger's comments were: "Once land rent is collected by Government, there will be no need for a municipality to *purchase* sites. It will purchase merely improvements. These it will always have the right to purchase — and condemn if need be—as it has now to purchase and condemn both site and improvements."

To give you a preview of the final installment, Oscar H. Geiger wrote in the issue of *Land and Freedom* previously referred to, that the answer to the seventh question was "Yes." [See your December News for the question]. "The ground rent will be divided among the people of the United States according to the needs of government," said Mr. Geiger. "The Federal government will apportion its budget among the states in the proportion that the amount of rent collected in each state bears to the Federal budget. The states will each add their share of the Federal expenditures to their own budgets and apportion their total budgets among their local taxing centers according to the rent each collects; the local bodies will collect the rent which thus will bear everywhere its just share of the total expenditures of government. If there ever should be a United-States-of-the-World, or its equivalent, whatever its expenditure would be, would be rightly apportioned among the adhering countries according to the total rent each collected."

"It is true that taxes levied upon land values cannot be transferred by the owner to the purchaser or tenant," he wrote in reply to Question VIII, and added, "it is equally true, however, that unless the entire rent of land is taken by the government there is a part of land value left which will translate any community improvement such as mentioned in the question, into private gain to landowners. If the full land rent were taken in lieu of taxes, there would be no *purchasers of land*, and the value of houses or improvements on land are not determined by what the community does, but by the cost of reproduction. Land-value taxes are the only taxes that do not increase the real value of land."

With reference to the final question, Mr. Geiger believed the rent of land, if collected by the government in lieu of all taxation, would be sufficient to defray all governmental expenditures, Federal, state and local and that no additional taxation would be necessary. In fact, he pointed out that the very act of collecting other taxes would delay the total land rent from rising to meet the expenditures.

"If the substitution of land rent for taxation is to take place over a period of time," he wrote, "naturally present methods will be largely retained during the transition. During such period of transition I am in favor of abolishing all indirect taxes at once and retaining direct taxes. Those mentioned by Mr. Bottenheim are direct taxes."

(More next month)