

Why 'Rent of Ability' Must Not be Taxed

By A. J. CARTER

SOME modern economists believe that, just as the return to land in excess of what can be earned on the least productive land in use is rent, so the return to human ability above a minimum, and the return to capital above the smallest rate of interest obtainable, are what they call quasi-rent. Consequently the proposal for a single tax on land values is sometimes countered with the question, why not also tax quasi-rent? Surely, it is argued, to tax rent of land and not rent of ability or rent of capital is to penalise one factor of production while making no imposition on the others.

There is, however, a vital difference between land on the one hand and labour and capital on the other, in that man cannot live without access to land whereas, unpleasant though it might be, he could live away from other men's labour and without capital (which he would soon manufacture). Since every man has a right to life, all men have equal rights to the use of land; but to assert that all men have equal rights to one another is to deny that a man has a right to himself—it is to acknowledge that society, through the State, has complete jurisdiction over the individual. People have held this view, but it makes every man a slave, and because he is the property of the State the individual can enjoy no right to life, liberty, private property, or the pursuit of happiness.

Natural justice dictates that what a man gains by his labour is his personal property; and that, capital being stored-up labour, what he gains from his capital is his personal property. But where land is treated as if it were private property, one man can command part of the wealth produced by another man; and because the landowner takes what should rightly flow into the Treasury the labourer has part of his wealth—his personal property—confiscated by the government in taxation. Thus the private ownership of land violates not only the equal rights of men to life (and so their rights to liberty) but also the right of true personal property. Let every honest man gain as much reward as he can for his ability, provided he does not exact a toll from others—let Mr. Tommy Steel earn all that his fans think him worth, for no-one is compelled to pay to hear him; but, because without access to land man cannot live, the landowner's demand for rent is a blackmail that *must* be paid.

EVEN if the difference cannot be seen between land—which is a gift to mankind—and that for which man works and is therefore entitled to have ownership, to tax "rent of ability" would be folly. The land-value tax is simple to collect and stimulates production by ensuring that land is put to its best use; the tax on "rent of ability", if in a form similar to the present income tax, would be very complicated, accompanied by a profusion of claims and counter-claims, and would retard production.

If the difficulties of determining what constitutes "ability"

and of differentiating natural from acquired ability could be overcome, and "rent of ability" evaluated without reference to income, to tax it fully would involve direction of labour. As the land-value tax encourages the best use of land, so the "rent-of-ability-tax" would presumably be designed to encourage the best use of human resources, and would fall on ability whether or not it was being used. A man working at a job he enjoyed who possessed the ability to produce more would therefore be compelled to change his job to use his ability to the full, for only by doing this could he afford to pay the tax. Civil servants, for example, and probably many others would have to be exempt from the tax.

If the tax fell on all ability, both natural and acquired, no-one would study, or try to increase his skill, and society would retrogress.

A TAX on "rent" of capital would be equally absurd: the immediate result would be the withdrawal of capital from all industries except those where the rate of interest was lowest, and to prevent the capital-bereft industries from disappearing the State would be obliged to take them over—no doubt by investing the proceeds of the tax on interest, though minus the cost of its collection. Communists are recommended to place a tax on "rent" of capital—it is a splendid means of making nationalisation appear to be in the interest of the people. The flow of capital from industries in which the return was high to industries where it was low would reduce the marginal rate of interest, and capital would earn so little that it would become unprofitable to invest it or even to produce it. Eventually there would be no capital at all.

It is plain that whereas the tax on land values is direct, and not necessarily on the income of the landowner, it would be impossible to levy complete and direct taxes on human ability or on "rent" of capital. To be tolerable such taxes would have to fall on all wages and interest received as income, and could be partial only. A graduated income tax is a very crude method of taxing ability, open to evasion and full of inconsistencies. It violates a number of the accepted canons of taxation—it bears on production, it can be collected neither conveniently nor cheaply, and it is not certain.

The aim of a just society is an equitable—*not* an equal—distribution of wealth. Every man should earn wages in proportion to the skill, the efficiency, and the hard work that make up his labour. If a man increases his labour he deserves an increased reward; if his labour lessens he deserves less reward. All capital is embodied labour, and if a man be prudent enough to devote part of his labour to creating capital he is entitled to a return on that capital—interest is only delayed wages. Because of the private ownership of land, the returns to labour and capital are taxed, and equitability is upset.

The land-value tax does not discourage but stimulates production, is easy to assess and collect, cannot be evaded, and is simple, direct, and certain; but the rough-and-ready taxes on ability reflected in income are not only inferior practically to the land-value tax but are wrong in principle. They may be thought necessary if an abnormally high level of government spending is required, but the ideal (which

involves the single tax) is for each individual to enjoy what he produces—wages and interest—and for the community to enjoy collectively what they have produced collectively—land rent. Judged by this clear principle it can be seen that a tax on land values does not in fairness imply, but on the contrary prohibits, a tax on “rent of ability” and “rent” of capital.

BOOK REVIEW

By HARLAN TROTT

Public Power and Private Interests

THE CONSERVATION FIGHT — From Theodore Roosevelt to the Tennessee Valley Authority: By Judson King. Public Affairs Press, Washington, D.C. \$6.00.

WHAT Mr. King calls “the conservation fight” has its roots deep in what is fundamentally the land question. We heartily commend his book in those terms. As a study in applied history in the half century between “T.R.” and T.V.A., the author separates the myths from the facts throughout some 300 significant and often exciting pages.

One of the myths that have grown up around the folklore of American politics is that one way to tell a Democrat from a Republican is to find out where he stands on the question of public v private development of the nation’s natural water power resources.

The book explodes this one—as though it really ever needed to!—by citing these forthright words by Borah of Idaho: “I am in favour of absolute public ownership.” And in case there is any doubt where that staunch Republican stood on the question that is being agitated today in the guise of “partnership” between government and private companies, Borah is quoted as saying: “The leasing system is a delusion so far as our natural resources are concerned—the lurking rendezvous of incompetent service to the public and corruption... The republic may be in some instances strong enough to destroy monopoly, but it will never be strong enough to regulate it and control it... Wherever private gain has ceased to be under the law of competition the business must then come under public ownership, where private gain will be eliminated. Whether it is a railroad or a coal mine. Some will say this is State Socialism, and so far as it is, and to the extent it is, I am for State Socialism. Names have no terror for me. I am for results.”

It was Senator George Norris, who pioneered the fight for T.V.A., of course. But such a conspicuous Republican target as that had to be written off as a renegade, a Socialist in white Republican robes. But it is fun to see how Mr. King musters up men like Borah and the big California landlord, Republican Congressman William Kent.

It was Kent who wrote Louis Post about the time Judson King was taking up his work as a Washington lobbyist for the water conservationists that “I have been brought to

do a lot of thinking about this land-owning privilege which seems to me as absurd and as unjust as a privilege can be.” Kent was a tower of strength in the legislative battle for San Francisco’s Hetch Hetchy water supply, one of the two statutes Congress enacted in the Wilson administration which had major effects on national water power policy. The other was the Federal Water Power Act of 1920.

To appreciate the integrity and the importance of this book, you have to realise the high calibre of Judson King. His work as a crusading publicist for public ownership of water power resources spanned the era covered in his book from Teddy Roosevelt to enactment of the Tennessee Valley Authority Act. He was courageous, intelligent, articulate to a high degree. Nothing points up Judson King’s perception more eloquently, his conviction that the public power question was basically a land question, than his reference to the focus held by Associate Justice Hugo Black of the U.S. Supreme Court. During what historians dubbed the Muscles Shoals Delirium, foes of the measure protested against the entire nation footing the bills from which a single region would benefit. It was seen that the plan would not only provide flood control on the Tennessee but would ease the flood danger in the Mississippi Valley, too.

Mr. Justice Black, then a Senator from Alabama, interposed: “But suppose it raises the price of lands bordering on the Mississippi River or in the Mississippi Valley, then we ought to have a legislative decree that the increased profits which come from the raising of the value of those lands by flood control shall be equitably distributed among all the other states.”

Here Mr. King goes on to observe that “it is manifestly unjust that land holders should, without turning a hand, profit from investments by the state or federal governments to promote the general welfare; or, indeed, from the investments and labour of the citizenry. That is an untapped, legitimate source of revenue with which the future must and doubtless will deal as soon as the American people come to understand the nature of fundamental democracy.”

Shortly after laying down his pen, Judson King died. It is no overstatement to regard his book as a public legacy—as a monument to its author and an inspiration to its readers.