it will stimulate it. Instead of adding to the burden of the manufacturer and the merchant, it will tend to reduce his rents or the price he will have to pay to secure a site for his store or his factory. It will shift a portion of the burden of supporting the government from the business interests in the country to the real estate speculators. It is a sound and sane tax because it is a tax easy to collect and because it will aid instead of injure productive enterprise.

IX

A COMPARISON OF THE NOLAN, GRIMSTAD AND KELLER BILLS

By JOHN R. COMMONS
(Professor of Economics, University of Wisconsin)

A recent article by my friend and colleague, Professor B. H. Hibbard, of the University of Wisconsin, in criticism of the Ralston-Nolan Bill, leads me to make a comparison of that bill with the Grimstad Bill, which was recently defeated by a narrow margin in the lower house of the Wisconsin legislature.

A comment made, not by Professor Hibbard but by the publishers of his article, The National Association of Real Estate Boards (230 Consumers Building, Chicago), says that it applies also to the Keller Bill (H. R. 6733) introduced in Congress in 1921. This is true only in part. Some of Professor Hibbard's criticisms would apply to the Keller Bill and others would not. The Keller Bill contains certain very important features not contained in the Nolan Bill, and since these features agree mainly with the Grimstad Bill which, in turn, was built upon the Nolan Bill, I will discuss the Grimstad Bill, and endeavor to point out what seem to me both the valid and the invalid criticisms of Professor Hibbard as applied to the latter. The Grimstad Bill is designed to apply only to the State of Wisconsin, but since the Keller Bill and the Grimstad Bill are identical in principle, with a few exceptions in detail, my discussion of the Grimstad Bill applies substantially to the Keller Bill.

The Need of Additional Revenue

Professor Hibbard starts with a brief statement which I should wish to develop more fully. He points out the necessity of tax reform and of finding new sources of revenue not now used or but partly used. This is, indeed, the purpose of the Grimstad and Keller Bills. The enormous increase in state and federal taxes has now reached the point where the existing taxes not only do not yield enough revenue, but the rates of taxation are so high that, if it is attempted to

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raise them higher, they will probably bring in less revenue because they will tend to dry up the sources from which the taxes are derived. It is possible that an increase in the income and excess profits taxes will yield an actually smaller amount of revenue than the present rates. This is not equally true of the inheritance taxes. The revenue from intoxicating liquor has disappeared. Some forms of taxation have already reached the point of saturation.

The Tax on Unearned Incomes—Its Desirability

The importance of this fact is, not only that less revenue is obtained, but industry and agriculture are burdened and retarded by increases in the present forms of taxation. What is needed in tax reform is such kinds of taxes as will yield revenue without burdening or retarding industry and agriculture. This kind of taxation is usually designated as taxes on unearned income. The Grimstad and Keller Bills are offered as one of the best and most accurate methods of getting at unearned incomes.

But this requires us to ask what is an unearned income? At this point Professor Hibbard's criticism of the Nolan Bill is sound but does not apply to the Grimstad or Keller Bills. What he wishes to attain is exactly that which the Grimstad and Keller Bills attain but the Nolan Bill did not. He says: "Some land values are the result of social development. If we are wise enough to take a portion of these increments for society well and good." It is these incomes which society creates but the individual does not create, that are known as unearned incomes, and the Grimstad and Keller Bills, as well as Professor Hibbard, propose to take a small part of those incomes.

Weakness of the Nolan Bill

The Nolan Bill had the same purpose, but it included very important forms of **earned** income as well as **unearned** income, which Professor Hibbard points out. For example, he mentions special assessments. If a piece of land is increased in value by a highway improvement for which the owner is assessed, evidently so much as the owner pays in the assessment is an earned and not an unearned income. It is of the nature of an invisible improvement of his land. The visible improvement is the adjoining highway. The invisible improvement is the increase in his land value, which the improved highway has produced. Insofar as he has paid for the visible improvement the increase in land value is an earned and not an unearned income. But, insofar as his land increases in value above what he has paid for this or other improvement, just so far has society and not the owner given value to that land. What society alone gives is earned by society but unearned by the owner.

The Grimstad Bill recognizes this principle and exempts from taxation the amounts paid as special assessments by deducting said amounts from the land value on a graduated scale for 33 years.

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Clearing, Draining, Etc., Are Improvements, Too

Professor Hibbard also suggests other expenditures for improvements which do not appear in visible form, yet are taxed by the Nolan Bill. He does not give details, but a most important one is the expenditures made in clearing the land, cutting down timber, draining swamps, blasting rock and excavating foundations for buildings. All of these greatly increase the value of the land, but they do not show themselves as visible improvements. A farmer buys cut-over land at $25 per acre. He spends $50 per acre to clear it ready for cultivation. The land becomes worth $75 per acre, but there is no visible improvement on that land to account for the $50 per acre which it has cost him. That $50 per acre is a truly earned income. The owner has added that much value by his own labor and expenditure. The Nolan Bill would tax it as unearned land value. The Grimstad Bill treats it the same as special assessments, with an exemption of 33 years on a graduated scale. Under the Nolan Bill the land would be valued for taxation at $75 per acre **after** the farmer improved it and only at $25 per acre **before** improvement. Under the Grimstad Bill it would be taxed at $25 per acre **after improvement as well as before improvement**, but at the end of 33 years it would be taxed at its then value, without any exemption for invisible improvements made 33 years before.

Other Improvement Values

A similar treatment is given for swamp land. I know a farmer who bought swamp land at $25 per acre, and the part of it which he drained rose in value to $250 per acre, while the undrained part remained at $25 per acre. The Nolan Bill would tax the two parts respectively at $250 and $25 per acre, but the Grimstad Bill would tax them both at $12.50 per acre, both before and after drainage, until the expiration of 33 years when they would be taxed at $125 and $12.50 per acre (as will be explained later). The drainage is an invisible improvement so far as the land is concerned. The visible improvement stretches out perhaps several miles away. But the owner has paid for it, and to that extent the added value of his land is earned and not unearned.

The same is true of city lands, for example, when high rocks must be blasted to bring the land down to street level, or piles must be driven down to solid rock or clay. The improvement greatly increases the value of the land, but it is an invisible improvement, and the Grimstad Bill exempts it the same as special assessments, for 33 years, by a sliding scale.

Keller and Grimstad Bills Exempt Soil Fertility

But these invisible improvements are not the only kind of improvements that are taxed under the Nolan Bill but exempt under the Grimstad and Keller Bills. If you compare city land with farm land, you find, of course, that city land for building purposes has **no soil**

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fertility. The bare land rises in value to as high as a million or even 10 or 20 million dollars per acre in favored spots. But the farm land has a great, or even the greater part of its value, in the form of soil fertility. Now this soil fertility, in older communities, is as much an improvement as a building on the city lot or on the farm. The farmer has had to maintain and improve that fertility every year. Most of the farm lands in this country would already have been exhausted had the farmers not kept rebuilding the fertility every year. The value of that soil fertility is as truly an earned income as the value of the buildings. The farmer has earned it and keeps on earning it by adding that much to the wealth of the country through his own labor, his intelligence, thrift and foresight in keeping up and increasing the fertility. The Nolan Bill makes no distinction between the value of bare land and the value of soil fertility. The value of bare land in cities is, except for the invisible improvements just mentioned, a social value contributed by the entire community, but the value of soil fertility is an individual value contributed every year by the owner of the land.

Soil Fertility on Farms Valued at One-Half of the Land

The Grimstad and Keller Bills recognize this distinction and hence are not open to Professor Hibbard's criticism of the Nolan Bill. Under these bills the soil fertility is exempt, the same as all visible and invisible improvements. This is done by a simple method of valuing the fertility, if kept at par, at one-half the value of the farm land. In this way one-half the value of a kept-up farm is bare-land-value subject to the tax, and one-half is soil fertility exempt from the tax, the same as buildings, or special assessments or other improvements, visible and invisible.

The Case Illustrated

That this is a practicable and familiar principle with farmers can be found by inquiry. I know a farmer who bought a run-down and exhausted farm at $100 per acre. He expects to bring it up to par in about 10 years by scientific agriculture. "Par" is the value of a farm restored to its original fertility, and, in this case, it is easily ascertained, because just across the road is such a farm and it is worth $200 per acre. In other words the "bare land" for both farms is $100 per acre, but the one has, in addition, soil fertility and invisible improvements worth $100 per acre, bringing the total up to $200 per acre. The other is "bare land" at $100 per acre and will require much labor and expense to bring it up to $200 per acre. The Grimstad Bill would tax both farms at $100 per acre, the value of the bare land. This is a pure situation value, contributed by society and not by any owner, past or present. But the fertility and other invisible or semi-visible improvements are contributed or maintained by the farmer, and are, therefore, valued as earned improvements. Hence, when the farmer who bought at $100 per acre brings his farm up to $200 per

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acre he will not be penalized by doubling his taxes, and the one whose farm is now worth $200 per acre will not be penalized because he has improved and maintained the fertility or made other visible or invisible additions to the wealth of the community.

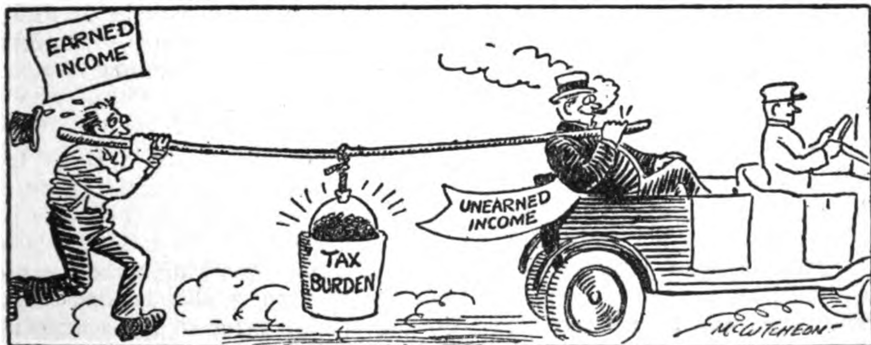
The Confusion of Professor Hibbard

This illustration brings out more clearly the economic distinction between earned and unearned income. Professor Hibbard confuses the two when he says: "To hold that land values in general, the values of farm lands and of town lots, are unearned **so far as the people now holding them is concerned,** is to close one's eyes to the facts. What have these lands cost the owners in the way of **purchase price,** expenditures for improvements, **taxes** and special assessments?" I have **italicised** the words to which I wish to call attention as instances of the way in which the economic concept of **unearned** income is confused with the economic concept of **earned** income.

Distinction Between Earned and Unearned Incomes

The economic concept always takes the public point of view. It asks whether the individual has added something to the wealth of the

WHY NOT THE OTHER WAY AROUND?



—McCutcheon in the Chicago Daily Tribune.

state or merely has compelled other people to pay him something without having added anything. This distinction is well known and is expressed in many familiar terms. It is the distinction brought out by the word "privilege," or "special privilege." If I own a public utility franchise that cost me nothing, but is a mere gift of the legislature or municipal council, I can sell that franchise for good money just as well as I can sell a building or factory for good money. But the franchise does not add to the wealth of the community—it is a mere power to tax the community above the actual cost of the service. On the other hand the buildings, or power stations, or embankments, or steel rails, did add real wealth to the community. The **franchise,** insofar as it has value above the legitimate cost of acquiring it, re-

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presents **unearned** income. The buildings or physical plant, insofar as its value represents the cost of constructing and maintaining it, represents **earned** income. Yet, in both cases, a "purchase price" is paid when the franchise or building is sold by one private owner to another private owner. From the standpoint of private ownership the buyer has taken his earnings and bought something. But, in one case he has bought something whose value is contributed solely by society—in the other case he has bought something whose value has been contributed by previous owners.

Private Wealth and Common Wealth

This distinction has come to be well known in the case of public utilities, and it is exactly the economic distinction between **unearned** and **earned** income. It is also the distinction which economists, since the time of Ricardo, have recognized between the "unearned" and the "earned" increment of land values. It is the distinction between "private wealth" and "common wealth." A franchise, insofar as it has value above what it cost, is private wealth but is not common wealth. A building is both private wealth and common wealth. The income derived from it is unearned, from the public point of view. So with land values. The value of land insofar as its value is determined solely by what the community has done, is private wealth but not common wealth. But its value, insofar as it consists in fertility and visible or invisible improvements, added by the labor, enterprise and thrift of individuals, is **both** private wealth and common wealth

When Wealth Is Earned; When Unearned

Hence, private wealth may be either earned or unearned. In either case it is a power to require others to pay a price for the private wealth. In either case it has a "purchase price." But if the price is paid for something that **adds to the commonwealth** then the private wealth is earned. And if the price is paid for something which is **no** addition to the commonwealth, then the private wealth is **unearned.** The terms earned and unearned income always refer to the economic relation between the individual and the community and not to the transactions between individuals. Hence, to classify "purchase price" along with "expenditures for improvements" is to use the term earned or unearned, as the case may be, with the double meaning of private wealth and common wealth.

Soundness of the Keller and Grimstad Bills

This does not mean, of course, that anybody can, with justice, be suddenly deprived of the values that he has paid to other private persons, even though those values are unearned from the social point of view. The purchaser has bought in good faith, on the strength of existing laws which hold out the expectation that these laws will continue to be enforced. There are three ways of reconciling this contradiction between private wealth and common wealth. One is by the

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process of eminent domain, where an individual's property is forcibly taken but he is compensated out of taxes. Another is by the police power, where the state reduces the prices charged, as in the case of railroads and other public utilities, so as to take away the unearned part of the income. Another is by taxation, especially progressive taxation which distinguishes between **taxes on earned incomes and taxes on unearned incomes.** The Grimstad and Keller Bills make use of both of these principles of taxation. They propose a **progressive tax on unearned incomes.**

Another Error of Professor Hibbard

Professor Hibbard also falls into another curious confusion when he includes "taxes" previously paid as something on account of which the owner should not be taxed just as he should not be taxed on his "expenditures for improvements." I never before heard that a person whose property is valued for tax-assessment should be permitted to deduct from that valuation whatever he had paid in the past by way of taxes. Taxes are not investments, nor purchase prices, nor expenditures for improvements, nor debts owed to the individual by government,—they are simply a person's compulsory share of the expenses of government. And they have already been discounted when a person buys a piece of property. The value of property is the present value of whatever expected income is left over after the present value of the expected taxes has been discounted.

It is different with special assessments, which Professor Hibbard rightly classifies with "expenditures for improvements," but wrongly classifies with "purchase price" and "taxes." A special assessment is a price paid for a highway improvement or a drainage improvement, and it is paid because the increased value of the taxpayer's land is greater, or at least as great as the amount of the special assessment. It is for this reason that the Grimstad Bill exempts, for a limited period of years, the value of land insofar as already paid for under the form of special assessment. It rightly classifies special assessments with "expenditures for improvements," whose income is an **earned** income.

The Grimstad Bill and Soil Fertility

At this point it should be noted that the Grimstad Bill separates itself entirely from the usual single-tax arguments. It exempts one-half of the land-value even in the case of original fertility, as well as exempts it in the case of improved and restored fertility. Cut-over land, for example, which sells at $10 an acre, is estimated, in the Grimstad Bill, to have $5 per acre of fertility and $5 per acre of bare land value, and is taxed only on the latter, $5 per acre. The same is true if the land in its original state is worth $200 per acre. In that case the fertility is valued at $100 per acre and is exempt, while the bare land would be valued at $100 and be subject to the tax. The customary single-tax argument, implied in the Nolan Bill, would not make this distinction. It would hold that the original fertility was a

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gift of God or of Nature to man and that its value was therefore as much "unearned" as the other half of the land value.

Utilitarian vs. Natural Rights Theory

The difference turns on two different theories which are usually distinguished as the natural-rights theory and the utilitarian theory. The natural-rights theory looks to the past—the utilitarian theory looks to the future. The utilitarian theory asks, What will be the best form of taxation in order to induce owners to increase the fertility of the soil, or increase the supply of buildings and improvements in the future—in other words, to enlarge the common wealth as well as private wealth? The natural rights theory asks, What did God or Nature do in the past?

Utilitarian Theory the Only Practical One

It is quite evident that Professor Hibbard takes the utilitarian point of view, and this is, in fact, the only point of view on which people of different views can ever hope to get together in matters of taxation or other legislation. Anybody can set up a claim of natural rights or God-given rights to anything whatever that he wants, and when he sets it up there is no listening to other people who set up an opposing natural right or God-given right. The slave-owners believed honestly that they were as much within their rights as their anti-slavery opponents. Land-owners believe themselves entirely within their rights when they claim what others call the unearned increment, and they certainly are within their rights when they have bought their land on the basis of existing rights of property which give them a lawful claim to the unearned increment.[1]

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[1]) It is unfortunate that Professor Commons did not here elaborate further on his important distinction between the utilitarian and the God-given or natural-rights theories, for the reason that what he has just said may be taken by many readers to be in conflict with what he has stated elsewhere. A little examination however will show there is no conflict.

As Professor Commons has expressed it: "The utilitarian theory looks to the future; the natural-rights theory looks to the past." The utilitarian theory asks "What is best for the people from now on;" the natural-rights theory asks "What did Nature do in the beginning." The utilitarian theory is therefore of higher order and superior to the natural-rights theory in the promotion of industrial welfare and the advancement of national well-being.

The illustration of the slave-owners, as given by Professor Commons, is an apt one. According to the natural-rights theory the slave-owners who had bought their slaves, could, and did claim, a natural and legal right to appropriate to themselves the wealth that their slaves produced. But the utilitarian theory, which looks to the future and asks what is best for all the people held "No!" "The continuous living of one class upon the sweat of another class," said the utilitarian theory, " is bad. It is bad for the slave owners themselves; it is worse for the slaves; and it is dangerous to the peace and well-being of the whole nation. Let the slave owners keep the wealth they have appropriated from their

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According to the single-tax notion of natural rights, as contained in the Nolan Bill, the entire value of the farmer's land, both bare land and fertility, should be taken away from him by taxation, and only the value of his buildings and similar improvements left to him. If

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slaves in the past; but from now on this appropriation must stop. Slavery, regardless of legal or natural rights, must cease!"

Piracy, as conducted in the Middle Ages, could well have been used by Professor Commons as another illustration of the superiority of the utilitarian theory over the natural-rights theory. Pirates there were, it is said, who through long custom, peculiar habits of thought, and the granting of favors by dissolute nobles, believed and claimed that they had acquired a natural right to rob merchantmen, loot ships, and scuttle the vessels of traders on the high seas. In fact, had the natural-rights theory much longer prevailed in many parts of the world, ocean-going commerce would have been practically wiped out.

But the utilitarian theory which considers the future welfare of everybody, came to the rescue. It said: "A further continuation of piracy on the high seas cannot be tolerated. It is hampering development; it is injuring business; and it is destroying the trade and commerce of the world. Let the pirates keep the wealth they have stolen in the past, but from now on the business of stealing must cease. Piracy, regardless of natural rights, must end!

It is plainly this idea of the natural-rights theory yielding to the utilitarian theory that Professor Commons has in mind when he refers in this passage to the claim of landowners to the unearned increment. "Landowners," he says, "believe themselves entirely within their rights when they claim what others call the unearned increment, and they certainly are within their rights when they have bought their land on the basis of existing rights of property which give them a lawful claim to the unearned increment."

But, he should have explained further, this constant appropriation of the unearned increment by landowners—this perpetual getting of "something for nothing" by one class, necessarily means the perpetual getting of "nothing for something" by another class. In other words, the enrichment of the landowning groups through the unearned increment, necessarily means a corresponding impoverishment of the capital and labor groups—the daily giving up by them, without their getting anything in return, of a large share of the food, clothing, and other wealth which they jointly produce. This is especially true of the rising unearned increment in our cities and mining regions. The wholesale appropriation of the unearned increment in these centers is now rapidly worming its way into the vitals of business and industry; it is crippling trade; it is shrinking the profits of merchants and manufacturers; it is sucking up the purchasing power of wage earners, salary-workers and consumers; and, reaching its long arm out into the rural districts, it is fast driving the farmers of the nation into complete bankruptcy.

So while the landowners, under the legal or natural-rights theory, may, as Professor Commons says, claim a perfect right to continue the private appropriation of the unearned increment, the utilitarian theory which looks to the future good of all, says "No! Let the landowners keep the unearned increment that they have appropriated in the past, but from now on, and as rapidly as our laws and good judgment will permit, this private appropriation must stop!"

That this is what Professor Commons means, but neglects fully to make clear, may easily be gathered from a reference to his previous writings, and particularly to his valuable book "The Distribution of Wealth."—E.O.J., EDITOR.

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this were done, it doubtless would result in the complete exhaustion of the soil, for nobody would put back anything into the soil if its value were to be taken away in taxes as fast as he put it back. This is the significance of the utilitarian theory.

Now, this is just as true where the original fertility is worth $100 per acre as where it is worth only $5 per acre. Practically all fertility can be exhausted in course of time, and the exceptions are so small in number as not to be significant.

This, again, is the utilitarian theory. It looks to the future good or bad effects of the tax and not merely to what God or Nature has done in the past.

Justice of the Grimstad and Keller Bills

But, although the Grimstad Bill is not based on natural rights, it is based on a sense of justice. Justice is comparative. It seeks to treat all people alike under similar circumstances. A study of the

LOOK WHAT CAME BACK!

—Brown in the Chicago Daily News.

assessed values of urban lands and farm lands in Wisconsin as well as other states and foreign countries, as far as available, shows that about 80% of farm values are in the form of land value, **including fertility**, and 20% in the form of buildings, while only 40% of urban real estate values are in the form of land value, **excluding fertility**, while 60% is buildings. To exempt urban improvements, therefore, means an exemption of 60% real estate values in cities, while to exempt farm improvements means an exemption of only 20% of the farmer's real estate. The Nolan Bill, which taxes both soil fertility and bare land, practically exempts 60% urban real estate and only 20% of farm real estate. But the Grimstad and Keller Bills correct this injustice by exempting soil fertility at one-half the land value. This

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works out that the farmer's exempted buildings, etc., at 20%, added to his exempted soil fertility at 40% of his total real estate value, are quite nearly equal, on the average, to the exemption of 60% in the case of urban real estate.

Utilitarian, But Equitable

This theory of the Grimstad and Keller Bills is, therefore, both utilitarian and equitable, though not based on natural rights. It is utilitarian because it encourages people to invest in and to develop agriculture and industry instead of making a profit by the mere rise of land values, and it is equitable because it treats farmers substantially like urban owners of real estate.

This explains why, in the Grimstad Bill, soil fertility, if kept at "par," is valued at one-half the farmer's total land value, rather than, say one-third, or one-fourth of that value, or another figure. In a sense, it is an arbitrary line between fertility value and land value, but it is arbitrary only in the same sense that all efforts to obtain justice are arbitrary. In the income tax an arbitrary line is drawn at $2,000. It might have been $1,000 or $3,000. So in this case. The line is drawn at one-half the total land value because tnat figure places the farmer on a substantial equality with the urban owner of real estate who has no fertility to be exempted.

Professor Hibbard Sees a Ghost

The foregoing indicates an agreement in general with the utilitarian basis of Professor Hibbard's criticism of the Nolan Bill, but shows that those criticisms are taken into account and substantially guarded against in the Grimstad and Keller Bills according to the principle of equality of treatment. They also guard against another criticism by Professor Hibbard which is applicable mainly against those who follow the single-tax philosophy of natural rights. He charges against the advocates of the Nolan Bill that they look upon their measure as "an entering wedge" to "the absorption of the full economic rent on all land by the government." Farmers and laborers are warned against the Nolan Bill, because if they once accept it, they cannot hope to escape when the "whole philosophy" is in operation.

Grimstad and Keller Bills Practical and Conservative

I am willing to concede that, according to the natural rights theory of the single-taxer-unlimited, Professor Hibbard's inferences are justified, and that is the reason why I have never been a single-taxer in the sense in which I understand that theory.[1] But the objec-

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1) Again it is to be regretted that Professor Commons did not make himself sufficiently clear to his audience and so has laid himself open to some misunderstanding. His proper and emphatic denial that he is a single-taxer-unlimited should not be taken to mean that he is not in full sympathy with what the more reasonable and practical singletaxers stand for.

It is significant that singletaxers in America, during recent years, have

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tion against either the Nolan or the Grimstad or Keller Bills on the ground of what might ultimately happen if they are successfully put into operation, is unsound. This objection has not stood in the way of other reforms in taxation, although it has been brought up against some of them. The socialists, for example, want to abolish inheritance, and a 100% tax on inheritances would turn over all private property to the government in the course of a generation or two. Yet the inheritance tax of 6% to 20% or so, has not been headed off by the objection that it is "socialistic." It is simply one of several kinds of taxation, taking its part in a well balanced system, and though it works successfully there is no possibility, as far as we can see, that the rates will be advanced to 100%, or even to one-half or one-third of that figure.

Illustration of the Income Tax

Something similar is true of the income tax. Socialists might welcome a 100% tax on incomes from property, since it would take the entire income, and thus take the entire value of the property, but the fear that the rate might be raised to 100% or even to 20 or 30% of the income, has not prevented sensible people from accepting a tax

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divided into two distinct and well-defined groups.

In the first group—the minor group—are the "idealists" and the "radicals;" in the second and major group are the "rationalists" and the "conservatives."

The minor and radical group wants the "single-tax-unlimited"—that is to say, this group wants not only enough unearned increment of land to run the government, but it demands the "full economic rent of land"—its chief objective being "to make land common property."

The major and conservative group does not believe that the "full economic rent of land" should be taken, nor does it believe that land should be made "common property." While it believes that the pure speculation itself in land is harmful and should be stopped, it holds that the private ownership, use and tenure of land is the basis of our civilization and must so remain if civilization is to continue. Hence this group advocates only what is called the "single-tax-limited"—that is to say, it wants ultimately only enough of the unearned increment to take care of the economical needs of government, letting the landowners keep the remainder in their own pockets. What is equally important this group proposes that the government shall take the unearned increment that it needs by easy and gradual stages so as to give ample time to make any adjustment, solve any problem, or meet any condition that may arise.

It is the first group that Professor Hibbard in his criticism of the Nolan bill naturally, though quite needlessly fears, and to which group Professor Commons takes pains to explain that he does not belong. That Professor Commons' full sympathy lies however with the second and conservative group of single-taxers may be readily seen from the closing remarks of his book "The Distribution of Wealth," (page 249):

"Tax reforms should seek to remove all burdens from capital and labor and impose them on monopolies. Public policy should leave capital and labor and business ability free and untrammeled, but endeavor to widen and enlarge the opportunities for their employment."—E. O. J., EDITOR.

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of 2% or 6%, with progressive rates on large incomes. A point of saturation is reached where a higher rate brings in less revenue. And it is the part of good sense and a sense of justice, agreeable to both the utilitarian and the equitable theory, to make the rates high enough to bring revenue, but not high enough to retard enterprise or confiscate the property.

Professor Hibbard's Objections Not Valid

The same is true of a progressive tax on unearned incomes as proposed in the Nolan, Grimstad and Keller Bills. If the tax were placed at, say, 5% or 6% on the value of the land it would take 100% of the income from land. But it is placed at 1% on the excess above $10,000, which works out considerably less than 15% of the income on the largest holdings, and shrinks to total exemption on the smaller holdings. An objection against this tax on the ground that it is an "entering wedge" towards taking the entire economic rent of land may be valid as against the customary single-tax philosophy, or against a socialistic philosophy, but has no validity whatever as against the part that an unearned increment tax might have as a part of an all-round balanced system of taxation.

Professor Hibbard Dodges the Issue

This applies to Professor Hibbard's suggestion that there are many other kinds of unearned increments, such as railway stock, bank stock, manufacturing and commercial enterprises which attract the Vanderbilts, Goulds, Morgans, and so on. Yet this is a fallacious way of diverting attention from the question in hand. The unearned increment tax on land is not proposed as a substitute for unearned increment taxes elsewhere—it merely supplements them—they are to be taken care of by other forms of taxation. And the other forms do not reach that one immense source of unearned income which, in our modern cities, sends bare land values up to millions of dollars per acre as against farm lands that, including fertility, range around $50 to $200 per acre.

Nolan Bill and the Farmer

Professor Hibbard sets forth statistics of values and taxes showing that the Nolan Bill would bear heavily upon farmers. In seven states for which he has given figures he shows that 24% of the farms would be taxed, going as high as 77% in the case of Idaho. This may be true of the Nolan Bill but is not true of the Grimstad or Keller Bill. The Nolan Bill exempts the first $10,000 of land value from the surtax of 1% and places that surtax on only the excess above $10,000, including the fertility. Thus a farmer having $2,500 in buildings and $10,000 in land value, total $12,500 including fertility, would not be taxed under the Nolan Bill, except as he is already taxed by the existing local and state taxes. His buildings and improvements, $2,500, would not be taxed additional, no matter whether they went up to $5,000 or

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$10,000. But if his land value, including fertility, is $15,000 instead of $10,000, he is taxed 1% on the $5,000 land and fertility in excess above the $10,000, that is a tax of $50. In this way every farm, under the Nolan Bill having more than $10,000 in **land value including fertility,** would pay an additional tax, and Professor Hibbard estimates the number at 24% of all farmers, leaving 76% who would be exempt.

Keller and Grimstad Bills vs. Nolan Bill

Now the Grimstad and Keller Bills exempt soil fertility, which the Nolan Bill does not exempt, and this soil fertility is valued by the Grimstad Bill at one-half the land value. Hence, where the Nolan Bill exempts the first $10,000 of farm land value, the Grimstad Bill exempts the first $20,000 of farm land value, as well as all fertility no matter how great. The surtax of 1% begins on the excess above $20,000 of farm lands, because of the total exemption of fertility, as well as the initial exemption of $10,000 bare land, whereas in the case of urban lands which have no soil fertility, the tax begins on the excess above the initial $10,000. Nevertheless, all of the bills are alike in the case of bare-land values starting with the excess above $10,000, but the Grimstad and Keller Bills, by exempting soil fertility, start at $20,000 for farmers, and $10,000 for urban lands which do not have fertility.

Exempts 99% of the Farmers

It will be found, I think, that this provision exempts at least 99 per cent of the farmers who own each only a single farm, instead of 76% of all farmers exempted under the Nolan Bill. Statistics are not complete, but I have taken all the farms in the richest township of Dane County, Wisconsin, and I find that less than 6 per cent of the farmers would be taxed under the Grimstad Bill, and these are mostly farmers who own more than one farm. In this particular township there are 230 farmers, and only 15 of them, that is, about 6%, own land in excess of $20,000, including fertility but excluding other improvements, and this is largely because they own more than one farm. Ninety-four per cent of the farmers in that wealthy section would be exempt, and practically all of the one-family farms would be exempt. Very few farms in Wisconsin, operated as one-man farms, are worth as much as $20,000 in the value of land, including fertility. Practically all one-man farms, operated by the farmer and his family, are exempt under the Grimstad Bill.

Touches No Farm Under $25,000

Practically, also it must be noted, this means that the Grimstad Bill exempts all single farms worth $25,000 or less, as against the $12,500 of the Nolan Bill. For, it is found on the average, as already stated, that 20% of the farm value is in the form of improvements, while 40% is in the form of fertility and 40% in the form of bare land. It is only the excess above this 40% bare land value that is

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taxed, and a farm will, on the average, have to be worth $25,000 before 40% of its value is equal to $10,000.

The advantage to the farmer is really greater than this, because the Grimstad Bill is proposed as a substitute for certain existing state taxes on land, so that, counting what is deducted by the repeal of these existing taxes as well as what is added by the Grimstad Bill, a farm will have to be worth about $45,000 before the Grimstad tax increases the farmer's tax above what he is now paying as real estate taxes.

Professor Hibbard Objects Again

Professor Hibbard makes another argument which is inconsistent with this one. He says that the advocates of the Nolan Bill promise an exemption to 90% of the farmers (which he says, however, is 76%), not because it is a matter of justice but because it will get political support and tend to unite the farmers and laborers in a movement to tax the rich. This criticism, if valid, is even stronger, it must be admitted, against the Grimstad and Keller Bills than it is against the Nolan Bill, for these bills exempt at least 99% of the farmers who operate single farms, while the Nolan Bill exempts 90% (or 76%). Professor Hibbard holds that this initial exemption of $10,000 is illegal, because "there is likely to be just as great a percentage of unearned wealth in the first as in subsequent accumulations." And he goes on to say that "it is much like saying that all thefts under $10,000 will be winked at in case the petty offenders help to catch the bigger thieves."

Weakness of this Objection

This criticism, if valid, is valid against all kinds of progressive taxation. Income taxes exempt the first $2,000 of income and this exempts perhaps 99% of all farmers and laborers. The income tax is placed on the excess above $2,000 and increases progressively. Inheritance taxes exempt the first $20,000, $30,000 or $50,000 of an inheritance, as the case may be, and this exempts perhaps 90% of the inheritances. The exemption of small incomes and small inheritances may perhaps be criticized as a mere political expedient in order to get support of farmers and laborers for high taxation of the rich. But generally it has come to be recognized that these exemptions of small holdings are sound in economics and just in ethics. Two reasons are usually given. The cost of collecting millions of small amounts is greater than the amount of tax collected, while the cost of collecting from the smaller number of large incomes and inheritances is low compared with the amounts collected. On the other hand the principle of imposing taxes according to "ability to pay" is now well recognized, and this means that large incomes and large inheritances pay a higher rate than small ones. This is the principle of progressive taxation which has become firmly established within the past 25 years in this country, and the Nolan, Grimstad and Keller Bills apply this

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same principle to the tax on land values. A moderately progressive tax is no longer considered to be unjust or merely political clap-trap.

Tax Is not on the Land, But on the Land Value

As a matter of fact these bills are not taxes on land at all but are taxes on the privilege of holding large amounts of land value. It is a progressive tax on large ownership of land values, just as the income and inheritance taxes are taxes on the privilege of receiving large incomes and large inheritances. **The land is not taxed as such but the value of the land is taken as a measure of the ability of the owner to pay taxes.** This may be readily understood if we notice the way in which the tax is proposed to be levied. It is levied by the state tax commission or by the federal treasury department. Owners of lands make a return showing all the lands they own, no matter where

WHERE THE LAND VALUES ARE

(From Congressman Florian Lampert's Speech: House of Representatives: July 25, 1922.)

Marshall Field store, Chicago (assessed value of land only), $11,823,474
Value of 1,000 average farms in Wisconsin, 1920 census (buildings included), $11,558,000

32 blocks in Chicago (80 acres) (value of land only), $231,583,255
Value of 20,000 average farms in Ohio, 1920 census (buildings incl'd), $207,700,000

"Loop" district in Chicago (½ section) (value of land only), about $800,000,000
Value of 100,000 average farms in Michigan, 1920 census (buildings included), $731,900,000

New York City (assessed value of land only), $4,938,332,177
Value of all (156,114) farms in the six New England States, 1920 census (buildings included), $316,468,584

25 largest cities in the United States (estimated value of land only), $19,119,-000,000
Value of all (2,519,301) farms in 34 States, 1920 census (buildings included), $18,740,252,761

Water powers, fishing grounds, harbors and water fronts (estimated value of land only), $4,000,000,000
Value of all (436,033) farms in Texas, 1920 census (buildings included), $3,717,-799,544

Timber rights and timber lands (estimated value), $10,000,000,000
Value of all (478,273) farms and ranches in the 11 Mountain and Pacific States (buildings included), $7,823,238,616

Franchises, pipe lines, stock yards, railroad rights of way, terminals, and Government land grants (estimated value of land only), $15,000,000,000
Value of all (2,721,839) farms in 23 States, 1920 census (buildings included), $12,786,447,331

Coal, oil, iron, copper, lead, zinc, gold, silver, marble, granite, and all gas, stone, and mineral lands (estimated value of land only), $75,000,000,000
Value of all (6,448,366) farms in the United States, 1920 census (buildings included), $67,795,865,384

they are located. One owner, such as the United States Steel Corporation, may own coal lands, iron lands, urban lands, in a dozen states. One owner in Milwaukee, for example, owns a dozen pieces of land scattered over the city, whose total value exceeds $10,000,000. The assessed value of all these pieces of land are added together, no matter where the land lies, and the total is the value of the land holdings of that person or corporation. **It is not a tax on land at all—it is a tax on the privilege of holding large amounts of land value.**

And this is the reason why the small farmer or small home owner is exempt. His portion of the unearned increment is so small that the expense of collecting it would be prohibitive, and it is an insignificant part of his own income. The exemption of $10,000 land value is equivalent, at 5% to an exemption of $500 annual income from the land, and this is not excessive in comparison with the exemption of $2,000 from the income tax and the $20,000 to $50,000 exemptions from the various inheritance taxes.

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Would Greatly Increase the Market for Farmers

There is one other argument by Professor Hibbard, growing out of what precedes, to which attention should be given. He says that the object of the Nolan Bill (and the same would be true of the other bills), is to force unused lands into cultivation, and that this would work against the farmer by increasing competition and bringing down the prices of farm products. This argument appeals to farmers because they are accustomed to think of land as the **area** of the land and not the **value** of the land. And it overlooks the fact that these bills place the tax on urban lands in greater proportion than farm lands. The enormous values of lands are in cities, where they run often to several million dollars per acre. A single acre in Milwaukee, for example, owned by a certain estate, is worth $3,000,000 irrespective of improvements, and this single acre of bare land is more valuable than the total bare land value of 4,000 to 6,000 acres of the best farm land in the state. If the Grimstad and Keller Bills will force unused farm lands into cultivation they will even more force unused or partly used urban lands into use. If this increases the supply of farm land and farm products, it will, all the more, increase the supply of industrial lands, urban homes, factories, and manufactured products. The increased agricultural products would be met on the market by a still greater increase in manufactured products. This would increase the demand for farm products even more than the increase in supply of farm products. It may be admitted that the Nolan Bill would work to the disadvantage of farmers because it would increase farm taxes more than urban taxes, since it taxes fertility as well as site value, but this does not apply to the Grimstad and Keller Bills which would increase the taxes on unearned incomes in the cities where they rise in amount far more than they do in the country.

Real Purpose of the Grimstad and Keller Bills

This is, indeed, the real purpose of these bills—to take the burdens off of **both** industry and agriculture and shift those burdens to the holders of large amounts of land value. The incomes from industry and agriculture are earned, because the manufacturers and farmers produce an equivalent, but the incomes from pure land values are unearned in the sense that the owners and their predecessors have not produced an equivalent.

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