MANUFACTURERS AND MERCHANTS DEMAND LAND VALUE TAXATION

A United States Report

We have received from the Manufacturers' and Merchants' Federal Tax League (U.S.A.) a very remarkable volume* containing a report extending to 75 pages of the speeches delivered at the National Tax Relief Convention of that body held in Chicago last November, supplemented by an appendix of 280 pages containing a catechism on taxation, and a series of selected articles and extracts from various works on taxation. The whole volume (which is profusely illustrated by cartoons and diagrams) contains most effective arguments in favour of the lighter taxation of industry and the heavier taxation of land values. It is specially directed to the attention of the average business man and merchant who is actually producing or distributing commodities and adding to the wealth of the world, and also to the farmer. The land speculator and monopolist receive no sympathy.

Admirable accounts are given of the New York Tax Exemption and of the "Pittsburgh Plan of Taxation." According to the latter, in 1913 a law was passed by which the tax rate assessed on buildings was reduced by 10 per cent every three years below the tax rate levied on land value until it should reach 50 per cent of the rate on land value. The land continues to be assessed all the time at full value. The 50 per cent exemption for all buildings came into force this year, 1925. The New York Tax Exemption Law applies only to *new* houses erected before a given date and the exemption continues only until January, 1932.

There are two other articles to which we must particularly refer. The first is by Mr. Harry Gunnison Brown, Professor of Economics in the University of Missouri, and is entitled : "What shall we tax—earned or unearned incomes ?" The terms "earned" and "unearned income" are, of course, very familiar in this country, but Prof. Brown's definition of these terms is very different from that with which our income tax payer is familiar. He says : "My notion of an earned income is an income for which a person renders a service to those from whom he derives his income, so that his income is not realized at the expense of society in general or any part of society. And my notion of an unearned income is an income received by a person who does not give an equivalent service to those from whom he derives his income. . . . There is a very widespread notion that interest on capital is not earned as truly as the wages of labour. This notion is wrong. Much more wealth can be produced with capital than without it. And capital comes into existence only by saving. So, the person who works and saving part of his proceeds puts it into capital, *adds more to the annual output of industry* than the person who works but does not save. To give him a larger income, in the shape of interest on capital, is not to rob anyone else. It is merely to give him wealth that but for him would not be brought into existence.

"But the case is not the same with regard to land and sites. They are not brought into existence by the owner. The rental yield which he derives from them is, in general, neither the product of any owner's labour or of any owner's saving. Land is valuable because of the natural advantages of location, etc., and because of community growth."

On the Taxation of Land Values Professor Brown says, "the tax that in no way discourages efficiency, business activity or thrift is a tax on bare-land value, on the so-called economic rent of land. . . . The tax which the owner would pay would be in proportion to his advantage of situation—a community-made or natural-made advantage. In this sense the tax is on an unearned income." He then points out, in a passage so admirable that we must quote it at length that "such a tax is from the point of view of the poor man who is thrifty and hard working and who wants to get started in life the best possible kind of tax. Such a tax makes land cheaper. It discourages speculation in land. There is a very important difference between land and capital. If houses are taxed this will not permanently much lower their value. For houses wear out and new ones have to be built and *no one will intentionally build them to sell for less than they cost.* In the long run capital cannot be made cheaper than the cost of making or constructing the capital. But of land it may be said, without important qualification, that *it has no cost of construction.* Its value depends only on what the income owners expect it to bring them. If the income is less, the saleable value is less. So if the rent of land is taxed, land values are lower. In so far as speculative holding of land is discouraged, the taxing of land values tends even more definitely to lower selling values."

A paper by Mr. John R. Commons, Professor of Economics in Wisconsin University, deals with certain Bills introduced in various American legislatures, and particularly a Bill drafted by Professor Commons himself and introduced in the Wisconsin State Assembly by Mr. Grimstad.

Dealing with the argument that the object of land value taxation "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," Professor Commons says :—

"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. 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."

British farmers and land reformers might well bear this in mind.

The Report of the National Tax Relief Convention is a valuable and comprehensive work. We have not been able to do more than indicate a very small portion of its contents. We hope it will have the wide and influential circulation it deserves. F. C. R. D.

* Report of THE NATIONAL TAX RELIEF CONVENTION. Held in Chicago, 9th and 10th Nov., 1923. Supplemented by 200 answers to pertinent questions: (*a*) Why industry should be taxed *less*; and (*b*) Why land values should be taxed *more*. Manufacturers' and Merchants' Federal Tax League, 1346 Altgeld Street, Chicago, U.S.A. Price $2. (8s. from LAND & LIBERTY Offices.)

One need but note in passing that he (Mr. Lloyd George) spoke of landowners in very different terms during and after the war—and that his complaint of favour to a special class comes oddly from the ex-Prime Minister who passed the Corn Production Act, with its expensive scheme of guarantees.—BIRMINGHAM POST, *18th June, on the Finance Bill Debate on the exemption of agricultural land from increased death duties.*