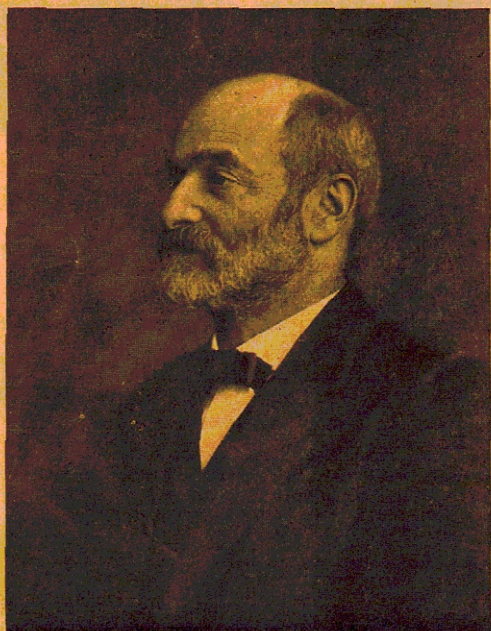


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Unearned Increments

Soap, Cows and Land



BY

JOSEPH FELS

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UNEARNED INCREMENTS—SOAP, COWS AND LAND.

Perhaps the term "unearned increment," as applied to ground rents or the community-made values of land regardless of improvements, is unfortunate.

Many intelligent men misunderstand or misinterpret it.

Speaking precisely, that increment is not "unearned;" it is earned by the industrial population. What is meant is that it is not earned by the land-owners who are permitted by law to take it. This is evidently what John Stuart Mill had in mind when he first used it.

✱

There are intelligent men who believe, or say they believe, that the value of a building, of a cow, a painting, soap or any other product of labor is a social or community-made value in the same sense and to the same degree that the value of a vacant city lot or unimproved country acre is community-made. A typical instance of this highly intelligent confusion occurred last February in Los Angeles, when I spoke on the single tax before the City Club. A prominent business man, one who has become wealthy by appropriating community-made land values, put this question to me: "If it is right to socially take the 'unearned increment' of land because it is created by, or is due to, the presence of population, why is it not also right to take the 'unearned increment' of soap, which is also due to the presence of population—for without the presence of population the soap would have no value?"

Questions stated orally do not always express the thought in the mind of the questioner. They seldom do, and I guess it was so in this case.

I had said that organized society, by its industrial activities, creates every year a fund sufficient for all public purposes; that this fund belongs to society as a whole, and not to individuals, but is appropriated or legally confiscated by landowners to whom it does not morally belong; and that society, permitting that wrongful appropriation of

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what it creates, takes for its public purposes a part of the annual product of labor—meaning all productive labor, whether performed by carpenter, banker, manufacturer, farmer or merchant; and thus the burden of taxation is thrown upon production, while the whole expense of maintaining government, and of doing all the things that should be done “in common” should be met by taking for public purposes the annual value given to land by the industrial community. As it seems to me, the questioner must have reasoned to himself in this way: “Soap and other products of labor have an ‘unearned increment’ that is created by the people who use those products, as much so as the rental value of land; therefore, if we should tax the ‘unearned increment’ of land, which is created by society, we should tax soap and all other good things, because they would have no value without population.” I am assuming, however, that the Los Angeles business man was sincere in asking his question, but that he was confused as to the distinction between “increment,” “unearned increment” and “value.”

Of course, there would be no value without population, as there would be no sound if every creature were stone deaf, and no color if every creature were stone blind.

But we need not take an excursion into metaphysics. I will give some simple illustrations to show the difference between the “unearned increment” of land and the alleged “unearned increment” of labor products.



Last winter, while in Portland, Oregon, I saw a block of land, 200x200 feet, or 40,000 square feet, the property of one of the owners of the Oregonian. I use this illustration because the Oregonian, bitterly opposing the single tax, asserts that there is an “unearned increment” in a town cow, and argues that if land is taxed on its “unearned increment” the cow should be taxed in the same way.

That block of land, less than one acre in area, was bought fifty years ago for \$240 and had upon it an improvement valued at \$350, as I was told. It is interesting to follow the rise and progress

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of the unearned increment in this case, in regard to which I obtained some official figures.

Fifty years ago the block was bought for 6 mills a square foot, which is equal to \$261.36 an acre. The improvement was on one of the eight lots constituting the block. Now, for simplicity, let us assume that the \$240 value of the block, and also the \$350 value of the improvement, were produced by the former owner, and that the subsequent assessed values of land and improvement were true values. They probably were not, but I make no point of that.

Between 1860 and 1882 the owner erected a new building, doubtless employing labor to do the work. In 1882 the building was worth \$3,150 and the value of the block of land was \$7,500. Thus in 22 years the value of the land increased from 6 mills a square foot to $18\frac{3}{4}$ cents a square foot, or more than thirty fold. Was that increase due to the direct action of labor, which increased the value of the building less than ten fold? Does it seem reasonable? We all know that a piece of vacant land in a city often increases more than thirty times in value in fifty years; but where are there any instances of buildings, untouched by labor, increasing in value as population and industry increase about them?

In 1909, or 49 years after the block was sold for \$240, the value of that little piece of land was \$339,750, which is \$9.99 a square foot, or at the rate of \$435,164.40 an acre, and the value of the improvement was only \$2,250. Thus in 27 years the value of the land increased \$392,750, or at the rate of \$426,996.90 an acre; the value of the improvement decreased \$900 in that time. Why the increase of one and the decrease of the other, if the industrial community creates the value of labor products in the same way that it creates land values? If the corroding tooth of time ate up \$900 of the value of the improvement in 27 years, why did it not at the same time gnaw the value of the block down to \$5,357.25, or as much in proportion as it damaged the improvement?

Did the weather damage the "unearned increment" of the building? The land was equally exposed to the weather.

Coming to 1910, I found the improvement still

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valued at \$2,250, but the value of the block of land had increased to \$502,000. Thus in one year the value of the land increased \$102,750, or \$2.56 a square foot, which is equal to an increase of \$111,513.60 in the value of one acre in one year. Some force or cause increased the value of that piece of land 25.57 per cent in a year. The same force or cause, acting in equal degree upon the improvement, would have increased its value from \$2,250 to \$2,825.32 in the same time; yet the value of the improvement remained stationary from 1909 to 1910.

If the same force or cause that increased the value of the block of land from \$7,500 to \$502,000, in 28 years, had acted in equal degree upon the improvement, the value of the building would have increased from \$3,150 to \$207,690.21 in that time, even if the hand of labor had not touched it. Isn't it obvious that the force or cause by which the value of the land was increased did not act upon the building? Yet the same industrial activity surrounded both land and building.

If industrial activity creates the "unearned increment" of the building as well as of the land, how shall we account for a decrease in the value of the former at the same time that the latter increases in value? Here we find a small plot of ground worth \$240 fifty years ago when the population of Portland was 2,000, and on one corner of it at that time was a little house worth \$350. Twenty-two years later, the population having increased from 2,000 to 18,000, and labor having been employed directly to erect a new building upon a corner of the block, we find the land worth \$7,500 and the building worth \$3,150. Then, after a lapse of 28 years, during which the population of Portland grew from 18,000 to 210,000, the value of the land increased 5,229 per cent, while the value of the improvement decreased more than 28 per cent.

How can the advocates of the theory of "unearned increment" of labor products explain that? Why did not society apply the "unearned increment" yeast to the value of the building in those 28 years? Did society neglect its duty? That cannot be, for the community-made value of land

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increases without conscious effort on the part of the community, by a sort of economic catalysis.

From 1909 to 1910 the industrial population of Portland added \$102,250 to the value of that block, giving it a value of \$502,000 for the land alone. The 1910 tax on the land was \$11,094; on the building, \$49.50. Thus, after having added \$102,250 to the value of the land, the people took \$11,094; so there was a net gift of \$91,156 to the land-owner in one year, after deducting the tax on the building. The people taxed the land-owner \$49.50 on the building and \$11,094 on the value of the land; and then permitted the land-owner to tax them \$91,156 net. Is that good business?



The foregoing is not an exceptional case. We know that city lots and blocks do increase in value as population and industry increase; we know that this increase takes place regardless of any labor performed upon the particular lots or blocks; we know that a building does not increase in value unless additional labor is performed upon it; and, therefore, we know that any increased value of a building is a labor value, not a social or community-made value. It is not a social increment, but a labor increment; it is not what John Stuart Mill meant by the term "unearned increment," a confusing and inexact term that has come into common use.



But perhaps there is an "unearned increment" attaching to other products of labor; to a town cow, for example, as the Oregonian insists is the case.

Now it happens that the Oregonian is speculating in city lots. I learned while in Portland that in addition to the two "inside" lots on which its splendid building stands, it owns six outside lots on which there are no improvements. Four of its six outside lots were bought in 1903 at \$25 apiece; at least, they were assessed at that figure, and the Oregon law requires that all property be assessed at its market value, so we may assume that the assessed value was the true value. In 1910 the lots were worth \$700, or \$175 apiece,

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which is an increase of 600 per cent in the seven years, or an average of 75 per cent a year.

Now suppose the Oregonian, in 1903, when its four lots were worth \$100, had bought a \$100 cow, or two \$50 cows, placing it or them upon the four lots, the object being to reap the benefit of the unearned cow increment at the end of seven or ten years; would the one or even the two cows have been worth \$700 in 1910? Remember, the Oregonian did not feed its lots during those seven years. But to make conditions exceptionally favorable for the bovine unearned increment we may suppose that the Oregonian fed its one or two cows. The industrial population of Portland was feeding the Oregonian's four vacant lots during those seven years, and fattening their value to the extent of 75 per cent a year. Would the industrial population have fattened the value of the cows to the same extent—or even 25 per cent or 10 per cent a year?

If so, why do not cattle feeders buy feeding yards in the hearts of great cities? Or why don't the owners of valuable inside city blocks, held vacant for speculation, use them for feeding cattle, and thus reap two "unearned increments" where they now reap one?



But perhaps the advocates of the town-cow increment theory don't mean that cows increase in value in proportion to the increasing value of the land. Then what do they mean? In what degree should the value of a cow increase with growth of population and industry? How much more rapidly will a \$50 cow increase in value on a vacant city lot that is increasing at the rate of 75 per cent a year, than on a country acre that is growing in value at the rate of 7.5 per cent a year, all other conditions being equal?

However, since civilized man has a high regard for soap, would not that article gain an "unearned increment" if placed under favorable conditions.

Let us go back to 1903, and on each of the four \$25 lots of the Oregonian place \$25 worth of soap in an air-tight casket, making the value of the soap upon the lots equal to the value of the lots. Let the lots be fenced in, so that no man shall set foot upon any of them until the year 1910. In

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1909 each lot was worth \$140; would each parcel of soap have been worth \$140? In 1910 the four lots were worth \$175 apiece, or a total of \$700; would the soap have been worth \$700? Would any grocer in Portland have offered \$125 for it?

Try something else.

Suppose at the time that Portland block was bought for \$240 in 1860, a \$240 diamond had been buried in the center of the block; would its market price have increased to \$7,500 by 1882, or to \$502,000 by 1910? Of course not; nor would it have increased to \$502.

But take a painting worth \$240 in 1860, the work of a young and comparatively unknown artist who becomes famous about 1880 and dies in 1900. The picture, enclosed in a water-proof case, is placed in the center of the block, and watchmen are hired to guard it day and night. The cost of guarding it will not add to its value any more than such cost would increase the value of the block or of a 15-cent chromo. It is not unreasonable to suppose that in 1882, two years after the artist becomes famous, the painting has a market value of \$7,500; that that sum is actually offered for it, but is refused; and that in 1910, ten years after the death of the artist, the picture is sold for \$502,000, a sum equal to the value of the block. Is the increase in the value of the painting due to the same cause that increased the value of the block of land from \$240 to \$502,000? Obviously not. Pressure of population and increase of industry have nothing whatever to do with the increased value of the painting. The value would have been the same if the picture had been kept during all the fifty years in a steel vault on a New York lot worth \$300 a square foot, or in a cache on top of Mt. Hood, where land has no selling value—and no rental value.

Try another point of view.

Suppose this is the year 1910, and I buy that Portland block for \$502,000; then I make this proposition to the Los Angeles gentleman who asked the question about the "unearned increment" of soap: "You buy \$502,000 worth of soap, and distribute it evenly, in weather-proof cases, over my vacant block, where it must remain two or

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five or ten years, as you prefer. As long as it remains on my block I will pay you the 'unearned increment' of the soap and you are to pay me the 'unearned increment' of the land."

Would any bank, syndicate or bonding company underwrite his end of the contract? Would any bank, syndicate or bonding company refuse to underwrite my end of it?

Perhaps the Oregonian would like to try that experiment with its theory of the "unearned increment" of a cow. If so, let it buy a good cow, and I will buy a Portland lot of the same value for the experiment; and I'll agree to pay for the feed of the cow.



I return to the original contention.

What the individual produces belongs to him absolutely; society has no right to take any part of it for public purposes. Certainly not until it has exhausted the land-value fund. The laborer's right to himself carries with it the absolute right to his product. The land-value fund created by society belongs to society, and no individual has any moral right to claim or take any part of it. That fund is ample for all public purposes, and should be used for public purposes; its appropriation by individuals is confiscation, as the appropriation of any part of the individual product for public purposes is confiscation.

The products of individuals are private property; the values created by society are public property. The right of the individual to his private property cannot be secure while society permits individuals to claim and appropriate for themselves the public property of the community. The great conservation movement in America is a "Hands Off" warning to the confiscators of public property. How suddenly inactive in the grab game the grabbers will become when we abolish all taxes upon labor and labor products, and take for public purposes the community-made value of land.

JOSEPH FELS.

THE JOSEPH FELS FUND OF AMERICA Cincinnati, Ohio

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