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METHOD OF TAXING THE UNEARNED INCREMENT
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The main contention of Professor Davenport in his article on "The Single Tax in the English Budget,"¹ that the single taxers should logically advocate a tax on land rentals rather than on land values, is undoubtedly correct. In their use of phrases they have been influenced by their leader, who proposed "to abolish all taxation save those upon land values." How careless George sometimes was

¹ Quarterly Journal of Economics, February, 1910. Two typographical errors in the article may be noted. On p. 283, line 29, "ten per cent" should read "ten dollars." Lines 2, 3, 4 of page 284 should read "a tax of \$47,610 would leave a net unappropriated rental of \$2,381, itself a basis for a value of \$47,610."

in his use of economic terms may be seen in his claim that the application of the single tax would increase land values! When George spoke of taxing land values he really meant rents.¹ There need be no quarrel here between Professor Davenport and the single taxers.

Though right in insisting on the rent of land as the proper basis of taxation from the single tax point of view, Professor Davenport falls into some errors. Thus he says, "The state, it is evident, can by its ad valorem effort to appropriate the rent get no further than to appropriate one half." On the previous page he gives an example in which \$47,619 of a gross rental of \$50.00 goes as taxes, while \$2.381 remains as net income. Assuming five per cent to be the current rate of net income on investments, the annual taxes would be one hundred per cent of the selling value and the state would get twenty times as much revenue from the land as the owner.

"At the utmost," says Professor Davenport "the ad valorem method can extend no further than to impose a one hundred per cent tax upon the market value as it finally adjusts." 3 There is theoretically no reason why the ad valorem tax should be limited to one hundred per cent of the market value of the assessed object. A tax of 995 per cent in the assumed case would yield a revenue of \$49.75 on a land valuation of \$5.00. The net income to the owner would be \$.25, or five per cent of \$5.00. Of course in the case of such high rates the market value of the land would be very small. The methods of valuation are so imperfect as to make that a bad system which will cause a change of one dollar in the basis of assessment to produce a change several times as great in the taxes.

Professor Davenport is unwarranted in his conclusion that the increment tax in the English budget will not work. It is also clear that, assuming a constant rate of interest, the amount of the decline in the selling value will be the sum of the present values of all the future increment taxes so far as they are anticipated. Every pound by which the selling price in land is reduced thus means a pound put at interest for the government treasury. The tax will bring in revenue if there is an increase in (gross) rentals or a decline in the rate of interest.

Since in England sales of land are few, it is one of the unfortunate features of the new law that it will tend to discourage transfers. Professor Davenport, however, exaggerates the influence that the law will have in preventing sales. He says: "In truth, if the Liberal statesmen of England were devising a scheme for guaranteeing the perpetuity of the landed gentry nothing more effective than this could be invented." 1 The tax will furnish a motive for retaining rather than selling land only in proportion (1) as there has been an increment in value, and (2) as there is a prospect that a long time will elapse before the increment tax will have to be paid. If, for example, a man has a piece of land whose value has increased from £1000 to £1250 he would have to pay a tax of £50 if he sells. The land would then net him £1200. By keeping the land he saves the tax for a time and has the use of property which is worth, at least to others, £1250. However, soon after a transfer of the title has taken

place there will be little, if any, increment of land value and the tax will have but little influence in preventing sales. The same will be true of all cases in which, irrespective of the time since the last transfer of title, there has been little or no increase in values. Again, when it is plain that a payment of the tax is imminent, as by the approach of death or dissolution of a partnership, there will be little motive for postponing a sale. If the tax were made due at stated intervals it would have no effect whatever in discouraging sales; since its payment would not be dependent upon such transfers.

While a carrying out of the complete program of the single taxers would require taxation based on rental income, a more moderate application of their principles does not demand this. Indeed there are some unearned increments which such a method would quite fail to reach. Take the case which Professor Davenport mentions, of a man whose land increases in value solely because of a fall in the rate* of interest and without any increase in rent. Land (and capital) represents to its owner both a means of income and a store of value. In the given case, the land has come to represent, without any effort, on the part of the owner, a greater store of value. Professor Davenport admits the claims of the single taxers concerning unearned increments and yet asks why such a man should be "fined." 1 His position is correct only if taxation should be based on income, irrespective of the value of property which is owned.

In saying that "these tax burdens must always stand as a vista of endless prospect, and must themselves be effective to depress each new appraisal,"² Professor Davenport apparently forgets that the entire burden of the tax is suffered by the present landowner in the lowering of the selling value of his property. In hinting that "the death duties may be so feared as to prevent any increase in valuation" he falls into the same fallacy as that employed in proving that Achilles could never overtake the tortoise. The tax would reduce selling value, as has already been said, by an amount equal to the sum of the present values of the indefinite number of increment taxes which are foreseen; but the sum of an infinite series may itself be quite small. Moreover, the fact that land owners and land buyers may not expect to appropriate all the increase in values is no reason

why they will not appropriate all the law allows. Eighty per cent of a loaf is better than no bread.