

LAND & LIBERTY

MONTHLY JOURNAL FOR LAND VALUE TAXATION AND FREE TRADE

Fifty-second Year—No. 611

4 Great Smith Street, London, S.W.1

April, 1945

3d.

BERNARD SHAW'S POLITICAL WHAT'S WHAT

WE ARE left by Shaw himself without any doubt about one of the leading motives in all his social and political writings. This is his insistence on the importance of the Law of Economic Rent.

In his latest work, *Everybody's Political What's What*, Shaw devotes an early chapter to the Land Question. "Suppose we begin," he says (page 7) "with the Land Question. It is so fundamental that if we go wrong on it everything else will go wrong fundamentally." Economic Rent is, of course, due to the fact that a given application of labour and capital will yield different results on different sites of land, according to the advantages or disadvantages of the sites, and the measure of this difference in yield is the measure of economic rent.

It is this law that Shaw has insisted upon right through his public life as fundamental and all important. He pours scorn, for instance, in the preface to *Methuselah* (1921), on "the parliament man to whom political science is as remote and distasteful as the differential calculus, and to whom such an elementary but vital point as the law of economic rent is a *pons asinorum* never to be approached, much less crossed."

RICARDO'S LAW OF RENT

In an article in *John O' London's Weekly*, March 10, 1928, there is a similar dictum: "If as much pains had been taken a century ago to make us all understand Ricardo's law of rent as to learn our catechisms, the face of the world would have been changed for the better." The same year, in *The Intelligent Woman's Guide to Socialism and Capitalism*, we find the same stress laid on the importance of this law.

Bernard Shaw's explanations of the law of economic rent are amongst the clearest ever written by any economist. In the very beginning, in 1891, in the *Impossibilities of Anarchism*, Shaw wrote: "You may start in business as a crossing sweeper, shopkeeper, collier, farmer, miller, banker, or what not. Whatever your choice may be, the first thing you find is that the reward of your labour depends far more on the situation in which you exercise it than on yourself. . . . Your takings depend, not on yourself, but on the number of people who pass your window per hour. At Charing Cross or Cheapside fortunes are to be

made: in the main street at Putney one can do enough to hold up one's head: further out, a thousand yards right or left of the Portsmouth Road, the most industrious man may go whistle for a customer."

THE CRUX OF THE LAND QUESTION

Compare this with a quotation from his latest book, *Everybody's Political What's What*: "On suburban roads the house rents vary from mile to mile by the amount of the fare by tram, bus, or railway to the nearest market or business centre. If rents vary as they do from shillings a week to thousands a year, it is because the earth varies in fertilities, proximities, advantages and disadvantages of all descriptions. These are not views of the land question: they are facts."

Shaw insists that he is a Socialist, and he has given credit more than once to Henry George as the first inspirer of his political thought. In this latest book, on page 189, he says that in 1881 "I then had my attention diverted to economic science by Henry George."

Quoting again from *Everybody's Political What's What*: "I must insist that the crux of the land question is the classical theory of Economic Rent, dubbed by Ferdinand Lassalle the Iron Law of Wages. Like the roundness of the earth it is unfortunately not obvious. . . . Our politicians simply do not know of its existence. Karl Marx, by an absurd reference to it in *Das Kapital*, proved that he did not understand it. John Ruskin was stopped dead by it. . . . I am tempted to add, nobody who has not read my paper on the Economic Basis of Socialism in Fabian Essays should be allowed to write, speak, vote or agitate politically in any fashion in this unhappy country."

THE CAUSE OF INEQUALITY

This principle should be applied in our taxation practice, says Shaw. He told the *Intelligent Woman*: "If we had only had the sense and foresight to insist that all rents should be paid into a common stock and used for public purposes . . . there need have been no slums, no ugly mean streets and buildings, nor indeed any rates or taxes; everybody would benefit by the rent; everybody would have to contribute to it by work."

It is the only path, along which we can escape from the present

state of things, described by Shaw in his 1891 Fabian Tract: "Up High Street, down Low Street, over the Bridge and into Crown Street, the toilers may sweat equally for equal wages; but their product varies; and the ground rents vary with the product. Competition levels down the share kept by the workers as it levels up the hours of his labour; and the surplus, high or low, according to the fertility of the soil or the convenience of the site, goes as high rent or low rent, but always in the long run rack rent, to the owner of the land."

"Class monopoly of capital follows class monopoly of land as inevitably as winter follows autumn," says GBS in his recent book, and it may well be that the spring and summer of social freedom will follow if we learn and act upon the law of economic rent of which George Bernard Shaw has been so constant an exponent.

SHAW CONTRADICTS HIMSELF

When we come to practical politics Shaw's proposals do not square with the theory he has expounded, and are open to serious criticism. After explaining that he is himself an absentee landlord and in effect a robber "for I make my tenants yield up to me a part of their hard-earned incomes without doing them, or having ever done them, any service whatsoever," he asks: "How, then, is the nation to get rid of me?" Here is his answer:

"The solution in my separate case is simple enough. As soon as the municipality of the city in which my property is situated needs my land for, say, an electric power station, for public baths, for schools, for a tramway terminus, for the police or the fire brigade, for a new town hall, post office, labour exchange, or what not, all it needs do is to purchase it from me at its rateable value, and obtain the price by levying a rate on all the rateable values in the city, including my own. Thus my bit of land would become public property at the expense of the whole body of landlords, I bearing no more than my fair share of the expropriation instead of being ruined by it whilst my fellow landlords get off scot free . . .

"This apparently customary transaction need only be repeated often enough to transfer all the land of the town from

private to public ownership and exterminate the local landlords as such painlessly. It is equally possible as between the National Government and the holders of great estates." (p. 17.)

RATEABLE VALUES

Let us consider this. In the first place municipalities do not buy land at its rateable value. They buy it at whatever price they can negotiate, or, if the owner's demand is too exorbitant, they take the risk of what the official arbitrator may think to be the market value of the land. Our pages have recorded case after case of high prices being paid for land which has no rateable value because it is unused or is de-rated as being agricultural land.

In a later chapter Shaw makes it quite clear that he does not expect to be paid a price based upon the rateable value. "I am strongly in favour of this little estate of mine being municipalised; but I expect to be paid as much for it as I could obtain from a private purchaser." (p. 105.) In this he is right, for no Parliament can be expected to treat one landlord differently from another.

Now let us turn to the suggestion that the burden of compensation will be borne by the landlords as a body. It is true that the local authority would obtain the purchase price by levying a rate on all the rateable values in its area. But what Shaw means by the phrase "including my own" is a little difficult to follow. He has already sold his land, and he will not in any event contribute any rates upon it.

WHO PAYS THE RATES?

The assertion that the land "would become public property at the expense of the whole body of landlords" is based upon an assumption which is made clear in the chapter dealing with compensation. It is that the rates, as they are now levied, are a charge upon landlords and not upon tenants. According to Shaw "our classical political economists proved that rates fall finally on rent." (p. 105.) Perhaps some passages which assert this can be found, but it is certainly not the general opinion.

Let us take John Stuart Mill as a typical "classical economist." He says: "A tax on rent falls wholly on the landlord. There are no means by which he can shift the burthen upon any one else." (*Principles*, Bk. V, Ch. III, Sec. 1.) By rent here Mill clearly means the rent of the land itself (land value) and not the rent of improvements made to the land.

A little later Mill deals expressly with a tax, such as the local rates, which is levied on the rent of both land and buildings. He says: "The rent of a house consists of two parts, the ground-rent, and what Adam Smith calls the building rent. The first is determined by the ordinary principles of rent. It is the remuneration given for the use of the portion of land occupied by the house

and its appurtenances; and varies from a mere equivalent for the rent which the ground would afford in agriculture to the monopoly rents paid for advantageous situations in populous thoroughfares. The rent of the house itself, as distinguished from the ground, is the equivalent given for the labour and capital expended on the building. . . . A tax of so much per cent. on the gross rent falls on both these portions alike. . . . The incidence, however, of these two portions of the tax must be considered separately. As much of it as is a tax on building-rent must ultimately fall on the consumer, in other words the occupier."

THE OCCUPIER PAYS

Mill then proceeds to consider what happens when a new tax is imposed upon the rent of houses. He explains that it might temporarily fall on the owners of buildings as distinguished from the tenants, but if so it would discourage building, and ultimately rents would rise. In the end, therefore, "the occupier bears that portion of a tax on rent, which falls on the payment made for the house itself, exclusively of the ground it stands on."

If Mill had stopped at this point it might have been inferred that he thought that part of the tax on the combined rent of land and houses did fall on the ground landlord, but he goes on: "At first sight one would be inclined to suppose the case to be different with the portion which is a tax on ground-rent. As taxes on rent properly so called fall on the landlord, a tax on ground-rent, one would suppose, must fall on the ground landlord, at least after the expiration of the building lease. And such would really be the case, if with the tax on ground rent there were combined an equivalent tax upon agricultural rent; but not otherwise."

Thus the "classical political economists" do not afford much foundation for Shaw's assertion. In fact, his proposal is merely one for imposing the cost of public land purchase upon the occupiers of rateable property. It is this very fact which renders proposals for large scale municipal land purchase so noxious and objectionable.

THE TRUE SOLUTION

Even if it were true, that the landlords paid the rates, the repetition of the process proposed would not result in "the whole body of landlords" bearing the expense of land purchase. On the contrary, those whose land was first purchased would bear none of the cost. At the other end, when the number of landlords had become very small, those who remained would bear a greater and greater share of the cost.

The "solution" advocated does not accord with the diagnosis which Shaw himself has made. He demonstrates clearly in his latest book, as he did in the *Fabian Essays*, that the rent of land is not the result of what the owner has

done, but depends upon its advantages of fertility, or mineral content, or situation. As the community grows and develops, so do certain plots of land command higher and higher rents; the distribution of wealth becomes more and more unequal. The remedy for this evidently is to take the rent of land for common purposes in substitution of existing burdensome and repressive taxation. In fact it is to do what Shaw assumes is already done, to impose rates (and taxes) upon the owners of land in proportion to its value. In doing this care must be taken not to tax the value of the houses or other buildings and improvements on the land, and to assess all land upon its economic rent regardless of whether it is well used or badly used or not used at all.

Shaw does well to put the land question in the forefront of political questions. In doing so he once more acknowledges his debt to Henry George. Let him not forget the simple and practical solution which Henry George gave of the problem.

THREE CONSIDERATIONS

THE SOCIAL and economic effects of raising public revenues by Land Value Taxation would be threefold.

In the first place, all taxes that now fall upon the exertion of labour or use of capital would be abolished. No one would be taxed for building a house or improving a farm or opening a mine, for bringing things in from foreign countries, or for adding in any way to the stock of things that satisfy human wants and constitute national wealth. Everyone would be free to make and save wealth; to buy, sell, give, or exchange, without let or hindrance, any article of human production the use of which did not involve any public injury. All those taxes which increase prices as things pass from hand to hand, falling finally upon the consumer, would disappear.

In the second place, a large and constantly increasing fund would be provided for common uses, without any tax on the earnings of labour or on the returns of capital.

In the third place, and most important of all, the monopoly of land would be abolished, and land would be thrown open and kept open to the use of labour, since it would be unprofitable for anyone to hold land without putting it to its full use, and both the temptation and the power to speculate in natural opportunities would be gone. The speculative value of land would be destroyed as soon as it was known that no matter whether land was used or not, the tax would increase as fast as the value increased; and no one would want to hold land that he did not use. No matter how much the growth of population and the progress of society increased the value of land, this increase would go to the whole community, swelling that general fund in which the poorest would be an equal sharer with the richest.