

Land-Value Taxation
and
Contemporary Economic Thought

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FOREWORD

The taxation of land values has played an important role in the tax structures of state and local governments of the United States. This role has not been given the prominence it deserves because the taxation of land values in the United States is submerged in the general property tax. Many writers of the eighteenth and nineteenth centuries saw special merit in the taxation of land values (usually measured on an annual basis as economic rent). However, writers of the twentieth century have failed to carry on this tradition. One wonders whether special merit in the taxation of land values has disappeared or whether the subject is simply being ignored.

This volume constitutes a modest attempt to resume the dialogue on land-value taxation. It includes studies relating the concept of land-value taxation to micro- and macro-economic theory. It also relates land-value taxation to the problem of monopoly power in the United States. It concludes with a reexamination of the ethical question inherent in the taxation of land values.

The papers which make up this volume were developed out of a conference on "Land-Value Taxation and Contemporary Economic Problems" at the University of Colorado, Boulder, Colorado, in August, 1961. The purpose of the conference was to provide an opportunity for a group of academicians, primarily economists, to examine the idea of land-value taxation in connection with various economic problems of the 1960's.

The conference was initially planned by a small group of academicians (the Boulder Conference Committee) interested in seeing the resumption of intellectual activity and the production of literature with respect to the taxation of land values, after a lapse of almost half a century. The financial sponsor of the conference was the Robert Schalkenbach Foundation. The Conference Committee, however, exer-

cised complete independence and freedom in arranging for the conference as well as in preparing this volume.

The conference revealed that "land-value taxation" is an elusive concept. Its basic meaning is not really known and understood by many economists. Moreover, even land-value taxation, correctly defined, may have many forms and a variety of effects—all of which helped to corroborate the view that renewed thinking and writing in the field are sorely needed among economists.

I wish to acknowledge the valuable assistance of Weld Carter in planning and making arrangements for the conference and in the publication of this volume. In addition, Miss Violetta Peterson, Executive Secretary of the Robert Schalkenbach Foundation, was most helpful in many ways concerning both projects. Lastly, special thanks must be given to Mr. Albert Pleydell, President of the Robert Schalkenbach Foundation, for his encouraging support in materializing the conference and this publication.

The views expressed in this volume are those of the authors and do not reflect the views of the other participants in the Conference, or the Boulder Conference Committee, or the staff members, officers, members, or directors of the Robert Schalkenbach Foundation.

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LAND-VALUE TAXATION AND THE THEORIES
OF LAND RENT AND VALUES OF SILVIO GESELL
AND FRANZ OPPENHEIMER

BY LUDWIG H. MAI

The writings of Henry George on land rent and values had a remarkable effect on European economic thought. They stimulated further studies, helped in the development of new theories, and influenced land-reform movements which, in part at least, were created specifically to put such new ideas into reality.

The first association for land reform was founded by Michael Fuescheim (1844-1912), who was inspired clearly by the thoughts of Henry George. In his book, *In a Peaceful Way*, he demanded a first-hand right for the State to purchase the land at a price which would remain the constant price forever. The land would be leased and the rent, a revenue for the State, would be used in the interest of the people. Adolph Damaschke (1865-1935) became the leader of the Bund Deutscher Bodenreformer. He proposed a land-value tax which would seize all surplus value of land. Such a tax would be beneficial not only to the State and the public, but also to farmers and landowners. Damaschke rejected the idea of nationalization of land propagated by another strong land reformer, the founder of the Lausanne Economic School, Leon Walras (1834-1910). He planned to compensate landowners from the surplus value of land. Also, Philip Henry Wicksteed (1844-1927) in England argued in favor of land nationalization. Theodor Hertzka (1845-1924) wrote his utopian *Freeland*, Eugen K. Dühring (1833-1921) declared vigorously that landed property is un-

free, and Werner Sombart (1863–1914) in his book, *The Modern Capitalism*, developed the theory of the early accumulation of industrial capital from the rent of land.

The list of writers and of their ideas could be extended easily. Here, however, it seems preferable to concentrate on the theories of two men, Franz Oppenheimer and Silvio Gesell—who are generally less known but who are still significant for the further development of land-tax and land-value ideas.

Franz Oppenheimer (1864–1947) was Professor of Economics in Frankfurt but also made himself a name as a sociologist. He was Ludwig Erhard's teacher. Oppenheimer acknowledged clearly his indebtedness to Henry George but did not agree with him on all points. He was a liberal in the traditional sense of the word, seeing the source of exploitation not in private property or in the market economy, but in monopoly. For him, the most important legal monopoly was the landed property rights. Here, in his opinion, is the innermost root of monopoly. This land monopoly is the result of violent expropriations which have taken place in the past. Rent is the gain of land monopoly and has a distorting influence on the whole economy. He traced these property rights back to the feudal system and observed that these rights have managed to survive under capitalism. In a free society of equal men, so he argued, each man would appropriate the land which he and his family could use and till and no more. Only under conditions when serfs and slaves are available will he strive to secure more land than he himself can care for. The abolition of landed property is, therefore, essential for a free society and the only assurance for the natural functioning of the market economy. The land monopoly can be broken by the acquisition of the unused land by the public. There is plenty of unused land available everywhere, but it is in private hands. Oppenheimer proposed it be handed over to cooperatives, starting with the existing large estates.

Silvio Gesell was one of the economic writers of whom Schumpeter said, "Many of them were little noticed or completely forgotten." Gesell, however, was rescued from oblivion by Lord Keynes, who wrote in his *General Theory of Employment, Interest and Money* (p. 353), "It is convenient to mention at this point the strange unduly neglected prophet Silvio Gesell (1862–1930) whose work contains flashes of deep insight and who only just failed to reach down to the essence of the matter."

Gesell was a successful German businessman in Buenos Aires, Argentina, who retired to Switzerland in 1906. He wrote on currency reforms, employment, and interest. His most remarkable book, however, is *The Natural Economic Order* (translated by Philip Pye, published by Peter Owen, Ltd., London) dealing with the theories of Free Land and Free Money. In consequence of this book, a Free-Land Free-Money Association was founded in Switzerland. After Gesell's death the main strength of this movement moved to England and to some extent to the United States, where Irving Fisher, alone among academic economists, has recognized Gesell's significance.

In his book Gesell defined carefully the meaning of the term *free land*. He started out with the statement that all men, without exception, have an equal right to the earth. No private individual, no State as such, no society may retain any kind of privilege over the land. Competition among men may be carried on only if all special private or public rights over land are abolished. The land is to be administered by the State and is to be leased to the cultivators by public auction in which every inhabitant can compete. The rent so received goes to the public treasury. The parceling of the land is governed entirely by the needs of the cultivators; small lots for small families, large lots for large families, special tracts for cooperatives, religious, or similar groups.

To make this possible, Gesell suggested that the State purchase all private land-property. The present landowner would receive full compensation in the form of government securities. The purchase price is to be based on the rent which each piece of land hitherto yielded or would have yielded. The rent is capitalized at the mortgage rate of interest, and this amount is paid to the landowner in interest-bearing State securities.

The interest payments are made from the rent income from the land, as received by the State. Clearly, the State would incur a risk in connection with this land administration since the rents are determined by fluctuating economic factors, whereas the rate of interest and the debt itself are fixed. In order to eliminate or reduce this risk, the rate of interest on the State securities must be adjustable; it must rise and fall with the market rate of capital interest. In addition, Gesell proposed the introduction of a monetary reform which is designed to reduce the market rate of interest.

This, he thought, would make the financing of free land relatively simple. If the rents of a country amount annually to 10 billions of a

currency and the interest rate is 5 percent, the State pays to the land-owners 200 billions in State securities. The State also would pay 5 percent interest on this securities amount—i.e., 10 billions—using the full amount of rent revenue for this purpose. But if the market rate of interest declines to 4 percent, the total interest payment would be only 8 billions; whereas the rent revenue remains at 10 billions. The differences of 2 billions could be used to cancel a part of the debt, and as the interest rate declines further the repayment of the debt would accelerate until all State securities are fully paid.

Then the rent revenue becomes freely available for other uses by the State. Gesell wished to see the amount distributed monthly and in equal shares to mothers, according to the number of young children. No mother would be excluded from this distribution. This national rent is paid to the mothers for their services in rearing their children. Gesell argued that, after all, mothers give birth to the population which, in turn, gives rise to rent. He believed that there is no mother so utterly destitute of all natural resources as the proletarian women of Europe. According to his calculations, admittedly incomplete, about \$12 (1920 value) a month from the rent on land could be distributed for every child below the age of fifteen. Women, much more independent than before, would recover the right to choose their mates, considering mental and physical qualities and not merely for economic factors, "moneybags," as he called them.

The nationalized land would be divided according to the requirements of agriculture, housing, and industry. The agricultural land would be leased to the highest bidder by public auction for terms of one, five, ten years, or for life. To the leaseholders would be given certain assurance in regard to the stability of the economic factors upon which they have based their offer. Misuse of the soil by the tenants would be prevented by special clauses in the contract and by the lease of the farm for a lifetime.

In mining, the State could invite employers and cooperative societies to tender for working the mine. The State would accept the lowest tender per ton of output and would sell the output to the highest bidder. The difference between the two prices is rent and goes into the public treasury.

More difficult, Gesell admitted, is the nationalization of the land on which towns are built. He suggested the lease of the building site for an indefinite period of time at a rent adjusted in accordance with a

reevaluation of ground rents to be undertaken by the State at regular intervals.

Rent on land is the starting point for all legislation initiated by governments, said Gesell. It is the axis on which the thoughts of the party in power turn. All the small natural liberties, he stated, that we enjoy today — freedom of movement and settlement, the abolition of slavery and serfdom — had to be won from the landlords by force of arms. With the nationalization of the land, all these troubles would disappear and so would all political fights. The antagonism of town and country would cease. Agriculture and industry would no longer find their interests conflicting. Manners, customs, character, and the relationship of man to man would become freer and nobler. Free land is the fundamental condition for peace. Only by the free-land reform is it possible to do away with what he called the puppet show of armaments, frontiers, and tariff barriers. It would be possible to live free, without communism, without affiliating all nations into one great World-State, without abolishing the national independence of the separate peoples.

Thus, Gesell goes much farther than Henry George, who did not propose the nationalization of land but of the rent of land by taxation, framing his suggestions in such a manner as to cause the minimum injury to the efficiency of the private-enterprise economy. George planned to absorb all land surpluses and by this remove fiscal burdens.

Gesell felt that this alone cannot produce the complete solution to the existing problem. He was of the opinion that economic crises and unemployment are not problems of distribution but problems of exchange and commerce. Interest also is merely a problem of exchange. Only with rent is it different. "Here," he stated, "no exchange takes place, the receiver simply pockets the rent without giving anything in return." "Therefore," he said, "the study of land value and rent alone can offer no basis for the solution of the problem of interest, which is essential." Gesell claimed that Henry George did not undertake the full and complete examination of interest, unemployment, and economic depressions. He was convinced that land reform and even land nationalization alone cannot solve these problems, and therefore proceeded to examine the conditions under which capital-interest, economic depressions, and unemployment are produced. He arrived at his theory of Free Money.

Gesell distinguished between the rate of interest and the marginal

efficiency of capital but was not aware of the liquidity premium attached to money. He stated that the growth of real capital is held back by the money-rate interest. He defined the term *real capital* as assets other than money. Since the total demand for loan money and real capital exceeds supply, interest comes into existence. Real capital would grow rapidly if the money-rate interest were zero. Hoarding of money would no longer be profitable to reach this goal. He suggested "stamped money"—i.e., currency notes to be stamped each month—and proposed a stamping charge of one per mill per week, which equals 5.2 percent per year. Through the use of such stamped money, capital assets would become so plentiful that the interest rate would drop to zero.

Whether these charges are realistic or not may be doubted and debated. But undeniable is the fact that Gesell did not recognize substitutes, like bank money and precious metals, which could endanger the stamping system. Even if Keynes called the idea behind stamped money sound, it must be admitted that Gesell's theory on interest and free money is incomplete. Nevertheless, it is this theory which attracted Keynes's interest foremostly and caused Lord Keynes to give Gesell five pages of his famous book by writing, "I will give to him, what would be otherwise a disproportional space," at the same time fully recognizing "the part which derives from Henry George is doubtless an important source of the movement's strength."

Gesell tried to establish an anti-Marxian socialism and to unchain competition. He was guided by a passion for social justice. Keynes hopefully concluded, "I believe that the future will learn more from the spirit of Gesell than from that of Marx."

Still, to us, Gesell's ideas are alien. They were developed at a time which differs greatly from ours and they were meant for another environment. They prove, however, how seriously European writers considered the problems of land value and rent, and it seems to be worthwhile to dig into these observations and theories while discerning our own related problems today.