BOOKS

THE TAXATION OF LAND VALUES.

Taxation of Land Values: As It Affects Land Owners and Others. By John Orr, M. A. Preface by Mary Fels. London: P. S. King & Son, Orchard House, Westminster, 1912.

Mr. Orr contends for the economic identity of taxes and land values. To disregard this identity is in his view to encounter an impassable psychological barrier to the movement for land value taxation and to ignore a tactical opportunity. For land-users look upon "the sums which they pay in rent to land-owners, and in rates and taxes to the local and national governments, as one payment for the services rendered to them by the community," and will as willingly "give in another form tomorrow" what "they are willing to give in one form today." Consequently, as Mr. Orr argues, the transfer of taxes to land values will not lessen the net income of land owners, but will tend to increase it to the extent of the advantage in reduced friction of the direct land value tax over the present indirect ones.

In support of that view, British experience affords abundant example, which might be cited. Local taxes there, technically called "rates," are usually paid by tenants. They are estimated on actual annual rentals, and do not vary much from 33⅓ per cent on the rental. It is quite customary, therefore, for a tenant who pays his landlord for rent, say $75, to pay to his local government about $25 in addition for "rates." If, however, as not infrequently happens where buildings are put up in bunches, a landlord commutes the "rates" for a lump sum annually, his houses command higher rentals—about $100 for a "rate free" holding that would otherwise rent for only $75. That this tendency is the same regarding other kinds of taxation is doubtless true. Simply as the statement of a persistent tendency, then, Mr. Orr's identification of rent and taxes as two parts of one fund, either part rising as the other falls, may be conceded.

But if that tendency is to persist with equitable precision, social adjustments must be so perfect as to permit Ricardo's law of rent to operate normally. We are not referring to Ricardo's agricultural illustrations, which have led some students to identify economic rent exclusively with "the original and indestructible powers of the soil." Mr. Orr's criticism of the Ricardian law, in that view of it, is just. Nor do we find fault with his own restatement of the law of economic rent, that it "is the value of public services which assist the occupier to produce wealth, plus the value of public services which provide him with a market for his produce," unless to suggest that "public services" is an ambiguous term which might be so interpreted as to exclude much of the common service that Mr. Orr evidently intends to include. Our own reference to the Ricardian law is to that broad sense of it which Mr. Orr formulates. This is the same, we take it, as Henry George's at the close of chapter ii, book iv of "Progress and Poverty," where economic rent is attributed not only to a lowering of the Ricardian "margin of cultivation," but (this being probably the more important) also to the bringing out in land of special capabilities otherwise latent and the attaching of special capabilities to particular lands"—such as "social," "common" or "public" services, advantages or opportunities." Considering Ricardo's law thus broadly, and as identical with Mr. Orr's formula, social adjustments must be sufficiently perfect to permit the law to operate normally, or Mr. Orr's conclusions may fail.

Operating normally, the law of economic rent would, as Mr. Orr contends, distribute individual earnings and community earnings in two funds, "wages" and "rent," with substantial precision. In those circumstances all taxes would be "rent" under another name, as Mr. Orr also contends; and, as he further contends, the transfer of taxation from land-users to land-owners, would probably not increase the incomes of the former nor lessen those of the latter. The principle seems to be the same as that to which Henry George directs attention in chapter i, book ii, of "Progress and Poverty."

But the law of rent is not now permitted to operate with the normality necessary to distinguish "wages" from "rent" with automatic precision. By making the "rent" fund private property, we have set up a land lottery. As society advances and "rent" increases, men appropriate land in order to draw land-value prizes. Land is therefore so generally monopolized on speculation that the rent margin is greatly depressed and "rent" accordingly increased. Instead of resting at the point of the best *unused* land, that margin is lowered to the point of the best *unowned* land.

So long as this condition remains, a transfer of taxes from production to land would indeed come under the influence of Mr. Orr's principle. But this condition ends the moment the transfer of taxation from production to land has the effect of discouraging monopolization of unused land. For at that moment, unused but monopolized land would tend to become a drug in the market, and all land would begin to fall in value. The "rent" margin would have a tendency to rise from the point of the best *unowned* land to that of the best *unused* land. "Rent" would therefore tend to fall, and "wages" to rise.

In those circumstances the transfer of taxes to land values would *not* take as much in rent from land-users as they formerly paid in rent and taxes together, nor give as much net rent to land owners as before. From no defect, however, in the principle or tendency that Mr. Orr appeals to. This tendency would remain. But another tendency, more powerful under the circumstances, would have been stimulated. Although land owners would still try to get their accustomed rent *net,* and land users would still be inclined to yield, the falling land market would paralyze the powers of the former interest and augment those of the latter. These considerations explain the instances that Mr. Orr brings to bear in support of his somewhat reactionary deductions from a valid general principle. As to rentals of "rate free" holdings, there is nothing in the circumstances to affect the general market levels for land. And as to rising land-values in Australasian, Canadian and American localities where local taxes have been transferred from production to land-values, the same principle operates. The land-value taxes are not yet high enough to take up the increase of land-values consequent upon greater incentives to production. But with taxes shifted to land-values in sufficient degree to make it unprofitable to hold land out of use and profitable to use it, there would be a different story to tell. The land market would then be so glutted as to bring "rent" to that normal point at which it would represent common earnings in contradistinction to private earnings, and at which Mr. Orr's principle of distribution in "rent" and "wages" would apply with approximate precision.

At present, however, the important question is not so much the correctness of the economic ideal Mr. Orr holds up, as it is of the path to pursue in realizing it. He thinks that the taking of future "unearned increment," as proposed by John Stuart Mill, would be better than Henry George's Singletax. This may be true of Great Britain. It may be true of Germany. It may be true of scattered places over the world. We are sure it is nowhere true of the United States or Canada. We should be surprised if it were true of Australasia. We doubt if it appeals very strongly to the land restorationists of Great Britain, with whom Mr. Orr has worked. But it is not for us—nor very wisely for anybody anywhere—to tell friends in distant places just what they ought to do locally and just how they ought to do it. When they are doing their best according to their own lights and their own circumstances, the rest of us, if we cannot help them, may at least refrain from bothering them. Standards of orthodoxy on general principles may be regarded as world-wide, but not methods of local realization.

One other of the points made by Mr. Orr should not go unnoticed. He makes the statement that "rent varies *directly* with wages and not inversely." Mr. Orr is himself a student of Henry George, and not an unsympathetic one. Yet the proposition at the very roots of the Georgean philosophy is the reverse of what Mr. Orr seems at first blush to mean. George states that rent depends on the rent margin, *rising* as it falls and *falling* as it rises; whereas wages, depending on the same margin, *fall* as it falls and *rise* as it rises. If this is true, it follows that rent varies *inversely* and not directly with "wages." But Mr. Orr probably refers to "rent" and "wages" quantitatively and not as proportions of product. If so, he is not at variance substantially with Henry George on the point, as a study of chapter iv, book iv of "Progress and Poverty" will show. Increasing "rent" as an *absolute quantity,* and increasing "wages" as an *absolute quantity,* are quite compatible. It is probably the normal process, and would doubtless be the result of taking approximately all land values for common use and leaving wages to the earners. But increasing "rent" and increasing "wages" *as proportions of product,* is probably not a normal process. It could hardly be if both depend upon the "rent" margin, any more than the two arms of a lever swinging on the same fulcrum could rise and fall together.

The considerations which seem to us to be lacking throughout Mr. Orr's book are principally those of the chapter in "Progress and Poverty" which we have just cited, and in which the influence of speculation in land is characterized as "the force, evolved by material progress, which tends constantly to increase rent in greater ratio than progress increases production, and thus constantly tends, as material progress goes on and productive power increases, to reduce wages, not merely relatively but absolutely."

BOOKS RECEIVED

—The Task of Social Hygiene. By Havelock Ellis. Published by Houghton Mifflin Co., Boston and New York. 1912. Price, $2.50 net.

—Child Labor in City Streets. By Edward N. Clopper. Published by the Macmillan Co., New York. 1912. Price, $1.25 net.

—How to Analyze Railroad Reports. By John Moody. Published by Analyses Publishing Co., 35 Nassau St., New York City. 1912.

—Principles and Methods of Municipal Trading. By Douglas Knoop. Published by Macmillan & Co., St. Martin's St., London. 1912. Price, $3.25 net.

—The New Immigration: A Study of the Industrial and Social Life of Southeastern Europeans in America. By Peter Roberts. Published by the Macmillan Co., New York. 1912. Price, $1.60 net.

—Progress and Uniformity in Child-Labor Legislation: A Study in Statistical Measurement. By. William F. Ogburn. Whole Number 121, Studies in History, Economics and Public Law. Published by Columbia University, Longmans, Green & Co., Agents, New York. 1912. Price, $1.75 net.