

ECONOMIC SCIENCE AND THE UNEARNED INCREMENT TAX.

By **PROFESSOR DR. ADOLF WAGNER.**

(Translated for the Review by Grace Isabel Colbron.)

Two years ago, at the Stuttgart Convention of the League of German Land Reformers, I undertook to speak on the subject of a government unearned increment tax. It was the first time I had publicly formulated the thought. The idea awakened interest but met with opposition as well, an opposition which came principally from the representatives of the various communities within the Prussian State.

And yet it must be clearly seen that if we consider a tax on the unearned increment in land values as in any way just and right, its results should first of all go to the largest communal body—in our case to the Empire. It is this thought that has now become a law in Great Britain, for instance.

We owe our national progress to a large extent to the Empire. The Empire is the first source of law and of security for internal and foreign affairs. It is the Empire which has given us a united economic policy, upon which our present great industrial and commercial development could be built up. It was the German Empire of 1871 which made over the uncertain and indefinite association of the German States into an enduring bond and thereby laid the foundation for the tremendous development of the nation since that date. And out of this tremendous development has grown the enormous increase of the land values in our country. Therefore the Empire is to a large extent responsible for this increase.

Apart from the justice of the foregoing it is much to be desired that on this new field of economic legislation we should as soon as possible achieve a united code of law. Some of our States have gone ahead with legislation on their own account and many others would have followed them. One can judge of the possible resulting confusion by what we have already experienced in the different civil codes throughout the various German States before they were gathered into one by Imperial action.

Take for instance the astonishing development of the city of Berlin. It is not the result alone of the growth of the city in the narrower sense, nor even of the development of Brandenburg or of Prussia only. It is a result of the development of the entire German Empire. The enormous increase of land value resulting from the increase of the population of Berlin is really due to the entire German nation; or to put it in another way, the entire German nation has worked to bring it about.

In my opinion therefore the assertion that it is not the Empire but the individual State and community which has the right to the increment tax is not quite correct. Mere justice demands that the people in the smaller German States should have their due share, through an Imperial tax, of the

enormous increase of values in the great centers of population, Berlin, Hamburg, Leipzig, Munich, Kiel, etc., for which they are directly and indirectly responsible.

Of course I acknowledge that the communities themselves have a great interest in the unearned increment tax and should enjoy a large portion of it. But it cannot be denied that it is not the community alone which has brought about our great economic development. The community is carried upward through the development of the State in which it lies, and the development of the State is carried on in its turn through the larger activities of the Empire. Therefore it seems to me that the Empire may in justice demand the larger portion of the return from such taxation for itself. Economic science will sooner or later find a way to unify the rights and demands of the various bodies. There is something to be said on each side. Personally I believe the Imperial unearned increment tax to have the best reasons in its favor and I am very glad to see that the thought is being taken up in greater and greater measure and that it has already practically resulted in a bill backed by the Allied Governments.

On the other hand, we have a rapidly growing industrial development, a development which is made necessary by the civilization of today. Through this industrial development the population of our cities is growing tremendously. This increases land values in the centers of population in an equally rapid fashion, resulting in an enormous increment which can really be called "Unearned." In rural districts the increased land value comes as a rule from the actual application of labor to land, but in the city it is the contrary which is true.* We cannot look upon the plans and hopes of the land speculator as "work" which has increased the value of the land. Of course I do not demand that he shall go entirely unpaid; but the return demanded by the land speculator is entirely out of proportion to any mental or physical creative labor on his part. He expects his profit because he has had a chance to buy the land, the land which, however, cannot be sold for a much higher sum unless the population of that particular spot increases. Herein lies the justice of a high taxation of land values. The profit made by the land speculator is only in a very small measure a return for actual work on his part; for the greater part it is a return from the work of others. The late Dr. Paul Voigt, killed recently by an accident in Switzerland, made a calculation of the value of the building lots in that portion of Berlin which stretches from the Zoological Gardens down to the suburb of Halensee, the Kurfurstendamm, one of the newer residential streets. The result of his calculation was that these lots must have been worth altogether about 50,000 marks in 1830, and

*The land values of rural communities are due to the same cause as the land values of cities. Economic rent arises in neither case from the application of labor to land but from the competition for the most valuable lands. There is something unconsciously *naïve* in the contention that the land speculator should not go "entirely unpaid," for if he is entitled to any part of economic rent he is entitled to the whole of it.—EDITOR SINGLE TAX REVIEW.

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that fifty or sixty years later the land had risen to the value of 50 million marks. Is this tremendous increase in any way due to the activity of the land speculator? Would we not rather say that it is due to the development of the city and of the Empire? That it is due to the tremendous development of our political, economic, and social life? The value of this land is very much greater today than at the time the tabulation was made. And all this increase, thanks to our principle of private ownership in land, has gone to the individual owner or to the land speculator. It would seem as if the community had some right to a part at least of this increase in value.

It would not be possible of course to take the land away from the private owner, but we can at least take a part of the increase of value, an increase which is due to the general development entirely, for the needs of the Empire, the State and the community. I therefore have come to the conclusion that an Imperial unearned increment tax on land values would be justifiable, feasible and beneficial. The assertion that it would be beneficial has been disputed. And yet this taxation, wherever introduced, has shown valuable results not only financially, but from the point of view of social welfare. For it is certainly conducive to the social welfare to take a portion of these values for the public revenues, so that public needs may be satisfied and useless burdensome taxation done away with. When one considers the question from all sides it would seem as if economic science in Germany, in England and America must understand how absolutely justified is a taxation of the increasing value of the land. We cannot expect that scientists in the Romanic countries will come to the understanding as yet and of course there will be dissenters everywhere.—(From the "Year Book of Land Reform, 1910").

Prof. Wagner's acknowledged preeminence as a thinker in the field of economic science in Germany renders his open espousal of these doctrines of great importance. Holding the Chair of Political Economy in the University of Berlin, Prof. Wagner is in a position to give weight to any belief he may adopt. The foregoing article appeared in the Year-book two years ago. The Imperial Unearned Increment Tax became a law in April 1911.—EDITOR SINGLE TAX REVIEW.

PENALIZING PROGRESS.

The Liberal party in Ontario has adopted as a platform plank the principle of taxation of land values. The *Ottawa Citizen*, a Conservative journal, commenting on this, expresses the regret that the government has allowed the opposition to forestall it. Public thought and sentiment are, without doubt, running on the benefits to be derived from this form of taxation, and it would be well if the government of Alberta should recognize this as a matter for adoption throughout the province. . . . The ordinary thinker cannot but fail to see the injustice of the owner of land being taxed for improving it. It must appeal to him in the nature of a fine for being progressive. And so it really is.—Lethbridge, (Canada) *Herald*.