

Land-Value Taxation
and
Contemporary Economic Thought

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BOULDER CONFERENCE COMMITTEE

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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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THE ETHICS OF LAND-VALUE TAXATION

BY LOUIS WASSERMAN

The question, briefly stated, is this: Should the owners of land whose rent and increments would be partially or wholly confiscated by a program of land-value taxation be compensated for their losses?

We are not bound here by what Henry George thought about the matter; nevertheless, there is probably no better position from which to launch our consideration. The answer given by the father of the Single Tax was clear and explicit: No, the landowners should not receive compensation.

Why not? Since George made so much of social justice — asserting it as the basis of his whole scheme — upon what grounds could he justify the confiscation of landed wealth? The answer is implicit in the very essence of his social analysis. Let us turn to his argument.

What, George asks, is the moral basis of property — any kind of property? And he replies that this basis is to be found in the use of a man's powers to produce something of value; once he has done so, the product is henceforth his to use, to dispose of, to exchange into any tangible or intangible form. The right to property, then, is the right to the fruit of one's labor.

But this, he continues, is precisely *not* the situation with regard to landed property. The raw land is not produced by any man's labor: it was there before the advent of man, it is the bounty of nature to all men in common, and it is literally the foundation upon which they exert their labors. And just as the raw land is created by nature, so the value it acquires as real property is due to society as a whole —

to the growth of the community with its services, its needs, and its uses. As community-created value, then, the rental and increment derived from the natural land ought to be appropriated by the community at large and utilized for public purposes.

Just as a man, then, has the full right to the products of his own labor — say a house he has built or has purchased with his earnings — so no individual has the right to the land itself, which he has had no hand in creating and whose value is due to the aggregate of community efforts rather than to that of any single person within it. The historical fact that land values have been privately appropriated and that this practice has been sanctioned for many generations does not alter its inherent inequity: an ethical wrong is not converted into a right by the benediction of time or of social sufferance.

This, in brief, is the rationale of Henry George's appeal for the socialization of land values. It is couched in terms of natural rights, and its fundamental premise is the labor theory of property, viz., that the only true source of private property, its ethical justification, rests in the labor by which it was produced, whatever direct or indirect form it takes.

That there are practical weaknesses in this view is, of course, apparent. The labor theory of property has been shelved, since the nineteenth century, in favor of more complex and sophisticated analyses of wealth production, and it can no longer be accepted as a self-evident proposition. Moreover, the theory of natural rights upon which it rests — although stubbornly recurrent in Western thought — enjoys at present only a limited vogue among moderns; there is too much disagreement on specifics and, no matter what its form, such a concept is regarded as too rigid for social purposes.

Nevertheless, if we are to seek for an *ethical* justification for private property it is unlikely that we can find anything better than the labor theory. It is no argument against the ethical rightness of that theory that it has been historically superseded by another, or that it is insufficient to account for the complexity of the productive process, or that the division of labor has made unintelligible the product of any individual worker. No matter how greatly production has become socialized or in what manner its rewards have come to be partitioned, the irreducible element remains that of individual labor, the contribution of the hand or brain of each producer to the material and equipment at hand. It is not enough for a theory of property simply to describe

its character and distribution; there must be an explanation to account for the phenomenon and some social ethical criterion to justify it. I am aware of no ethical theory, ancient or modern, religious or secular, which would deny explicit or implicit approval to the labor theory of property.

But perhaps it will be argued against any such ethical contention that private property is simply what a society has caused it to be, and that since a society is the sole source of its own ethics, the matter ends there. What then, it may be asked, is used to justify the institution: force, fraud, custom, tradition? Each of these may have its weighty explanation, but what can be said of its ethical sanction? At worst, that it has been imposed, willy-nilly; and, at best, that it represents a social arrangement sanctified by age, legality, and expectation. But the history of property, as idea, usage, and institution, is so heterogeneous among so many cultures of the past and present that the term itself can be taken to mean only that which current convention decrees it to mean. Perhaps, then, property may be best conceived, to use the phrase of Walton Hamilton, as "a conditional equity in the valuables of the community."

If—setting aside the natural-rights theory—the ethical test of land-ownership and increment is taken to be a matter of social convention or utility, the whole issue is, of course, thrown open for social evaluation by each generation.

The present condition is that most of the usable raw land in the United States is held privately; it has been obtained by purchase, gift, or inheritance; it enriches its owners by way of direct use, rental income, or profitable sale; the community siphons off part of this income in the form of an annual property tax or, when the land is sold at a profit, by a capital gains tax.

Now, the most extreme land-value tax proposal provides that this levy upon the rental value of the raw land be increased gradually until it approximates the full rental income; at the same time, tax levies on personal property, improvements, and as many other taxes as possible would be abolished.

What ethical considerations are involved in this proposal? If we are to reject any "higher law" criteria, such as that of Henry George, we must revert to the test of "social utility" or some restatement thereof. How are the ethics of social utility to be tested in our society? The answer is quite simple: *Social approval* of any established practice is

expressed by sheer inertia or by the rejection of proposed change; *the reform* of any established practice is engineered by the majority through democratic procedures. To put it starkly, the ethical judgment with respect to any social change is transformed into a political decision.

We are all, of course, familiar with the democratic political process, but it is worth recapitulation to see how a social consensus may be reached on such an issue as land-value taxation. We start with the theoretical foundations of popular sovereignty and government by consent of the governed. The working machinery includes representative bodies, private-interest groups, freedom of expression, and the media of communication employed to shape public opinion. Since every tax proposal is a matter of public policy, it must necessarily be discussed and legislated by the appropriate public body — i.e., the state legislature, county board of supervisors, city council, or the like. Sober attention must be paid in all such cases to the variety of interests, needs, motives, preferences, and other relevant factors in the affected community in order to shape a policy which attains its purpose and yet does not alienate too seriously any important segment of the population. The final result, as registered in the legislative chamber or at the polls, is what we come to accept as public policy.

It would be too harsh a judgment to infer from the foregoing description of the democratic process that the sheer weight of numbers overrides all consideration of private preferences. What happens instead is that personal convictions, individual ethics, and material interests are mingled and measured and tested against each other in the give-and-take of public controversy; the result is a kind of rough-hewn, but acceptable, consensus which alone can make a community viable. It is this broad consensus — the specified or implicit assumption that the policy to be enacted is a contribution to the common welfare — which defines the realm of social ethics in public policy making.

Nor is this political approach to be regarded cynically or derided as unworthy of decent folk. The social ethic of American society is tightly bound to the prescriptions of our prevailing Judaeo-Christian and democratic-humanistic traditions, and we may draw from that source as much in the form of ideal moral principles as we are humanly able to practice. If we cannot agree upon common aims, we are at least the inheritors of a tradition of fair play as to means; and if the nature of justice is a matter of great dispute among us, we are still guided by what Edmond Cahn describes as the "sense of injustice" — that is, a

consciousness of wrongdoing and the commitment to abstain therefrom.

The social ethic of a democratic society is continually being created and revised through public dialogue, political action, and law. It is necessary only to mention such illustrations as our attitudes regarding crime and punishment, treatment of our Negro population, the status of labor unions, sex information and birth control, the training of children, the prerogatives of women, and indeed the ameliorative role of taxation, to have us realize its progressively changing character. Through the use of the democratic process the social ethic emerges as a sort of mean between the extremes of private ideals and private irresponsibility. And it is worthy of mention that not infrequently the law itself nudges us into forms of behavior more ethical than we would exercise if left to our own dispositions.

Now, taxation policy inherently affects the general welfare of a community; and the social ethics of our society have for a long time recognized a distinction (despite certain weaknesses in definition) between earned and unearned incomes. Taxing policies in the form of differential rates and other incentives have been used here and in many other countries deliberately to foster, or to discourage, certain social-economic developments. A strong case can be made, in general, for taxation as a social instrument.

There was a time when the income tax did not exist at all in this country; then it was voted in, first as law, later as a constitutional amendment. At its present steeply progressive rates, the income tax may "confiscate" up to 91 percent of excessively high earnings. But, whatever the rate applicable, it is levied predominantly upon wages, salaries, and other forms of productive enterprise. Would an increased tax upon the socially created value of the natural land be less equitable or less lacking in ethical propriety?

I am, accordingly, unable to find any ethical barrier—either of higher law principles or of social utility—raised against the proposal to recapture more fully the rental income and increased increment of the land. There is, indeed, a strong rationale in its favor, especially since it would lead to the reduction of more burdensome taxes. The problem is one of social engineering; it is a decision to be reached solely upon its merits in the political realm.

That there is now, and will be, strenuous opposition to such a program is of course only too clearly evident. Without assuming the mantle of righteousness in prejudging the conduct of others, I would never-

theless venture to say that the main difficulties in enacting land-value taxation will stem principally from the following groups. First, and most importantly, opposition will come from those who derive their incomes wholly or primarily from landholdings and from speculative profits thereon. No argument concerning indirect, long-range benefits to them and others would suffice to soften their antagonism unless they stood to gain equally from a lightening of other taxes. Then there is the large group whose simple *inertia* would inhibit any such contentious reform in taxation policy. It is difficult to enlighten and energize this inert portion of any community unless the immediate benefits are made clearly, directly, and concretely self-evident to them. For this group there is no sharp sensitivity to the ethics of land-value taxation, pro or con. Finally, there are those in every community who have no vested interest in the change one way or the other but whose notions of propriety, of ethics, of the right to profit-making, or of general antipathy to government and reform would lead them to reject such a proposal on what are essentially ideological grounds.

If the result at the ballot box is to approve a measure to increase the tax rate on land values, it could not be denied that the social ethics had thus been expressed in a democratic manner. Similarly, if the tax increase is defeated (as has been true most often in the past), it would properly imply that the social ethics of the community did not then sanction such a proposal.

But we have so far left untouched the critical issue with which we began this discussion: that is, whether compensation should be paid to landowners whose rental incomes or increments are seriously impaired or expropriated as a consequence of the increased tax. Even if it be granted that land values ought, *ab initio*, to have been recaptured in full by the community for public revenue, the fact remains that they were not. And upon this practice of private ownership and appropriation there has been reared an institutional complex long approved and sanctioned by law. The present owners of land, it may be assumed, received or purchased their land in good faith and contractual expectations, often with capital acquired through alternative income channels. Are they, then, to be penalized for an ancient wrong — if wrong it was — which has been sanctified by the common usage of earlier generations?

But the counterquestion to this is even more cogent: If the present generation becomes conscious of an old injustice, is it powerless to seek redress? "New time," it has been said, "oft makes ancient good uncouth."

The answer, in practical terms, is to be found in the equity which can be extended to those who suffer most from social-political innovations. This is a matter to be determined by a commission of inquiry into the effects of the legislation; it should be in the minds of the legislators who draft the reform proposal; the nature of the equity to be granted will depend upon the provisions of the tax measure; and it will be affected by the give-and-take of the political process in which opposing groups make themselves heard.

Every public policy confers differential advantages and disadvantages upon those who are touched by its provisions. A decent respect for equity in the present matter, then, requires that the proponents of land-value taxation exercise their utmost ingenuity and technical skill — not to provide direct compensation as such, but rather to devise fiscal and administrative measures to cushion the shock and to ameliorate the condition of those who stand to lose most severely by the action contemplated.

I do not make this suggestion in a spirit of vague and wishful penance for what is not certain, in practice, to be realized. Rather, I would recall to us all the wide range of creative and imaginative variations already proposed or practiced in fiscal policies and their administration, through which provision might be made without penalty to the community, for economic equivalents, direct or indirect, to land-owners adversely affected by proposed land-value taxation.

The adoption of such provisions, I believe, would not only satisfy our social conscience but would do much to make land-value taxation politically possible.