

Author(s): Josiah C. Wedgwood

Source: *The Economic Journal*, Vol. 22, No. 87 (Sep., 1912), pp. 388-397

THE PRINCIPLE OF LAND VALUE TAXATION.¹

It is perhaps inevitable that professors of political economy and politicians of the market-place should approach such a controversial subject as the taxation of land values by very different avenues of thought and logic. Yet there is no pressing question of the day where want of co-operation and touch between the two elements that frame public opinion is more likely to be disastrous. While my method of argument differs from Mr. Bickerdike's in that I prefer to base myself on first principles, it is nevertheless extremely encouraging to find this form of taxation ably defended by economists on purely utilitarian grounds.

But in carrying on the discussion opened by Mr. Bickerdike's article in the March issue of *THE ECONOMIC JOURNAL*, I want to bring the other avenue into the writer's vista. I am not quite clear, and I do not think Mr. Bickerdike is quite clear, where his avenue is leading, or where he wants to go. He may want to go nowhere and direct no one; but human nature being what it is, that is improbable.

If I read him aright, however, his argument for the taxation of land values, and the one he conceives of as the politician's also, is the possible resulting increase of material prosperity. "Production is more efficient"; "there is an expectation, well founded, that the public will gain more than the landowners lose"; "the best development of urban life" is to be achieved when "towns are able to devote most of the rent of land to improving the attractions of the town." His only difficulty is "on grounds of equity" to the landlords. His aim is some conception of that indeterminable "greatest good of the greatest number," to achieve which he would commit a little injustice.

If I may speak for myself as a Land Taxer who has had some share in bringing this question into immediate English politics, I can safely say that this brand of politician has not the aims of

¹ A reply to Mr. Bickerdike's article, *ECONOMIC JOURNAL* March, 1912.

Mr. Bickerdike, and, if he had, would not try to achieve them at such a cost. It almost appears as though people who write as Mr. Bickerdike does are trying to put on what they think are modern spectacles,—or, to change the simile, are trying to come down to what they fancy is the politician's level of thought and morality. I think I prefer the honest indignation of Captain Pretymann or Lord Helmsley.

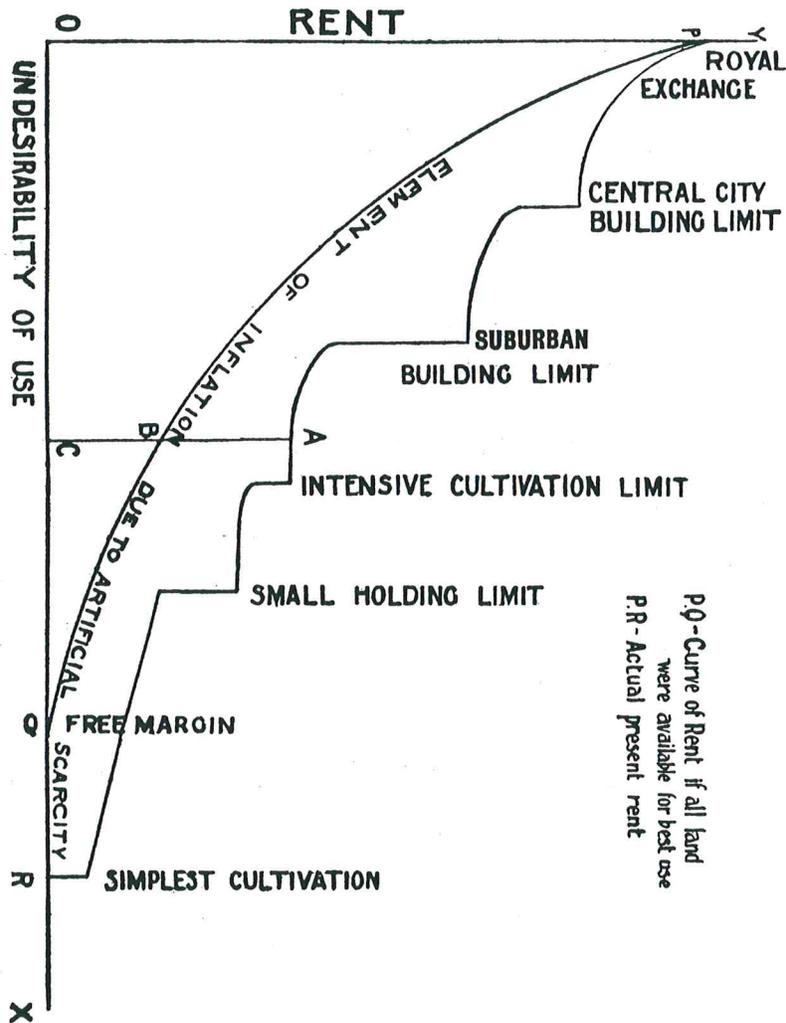
In a word, therefore, we do not seek to increase material prosperity; we do not aim at the greatest good of the greatest number; we regard that maxim as consistent with slavery and autocracy and State Socialism. Our object is to secure freedom; our method is by stopping injustice. We have a, possibly old-fashioned, prejudice in favour of the dictum of Aristotle that in the long run that which is unjust can never be expedient.

Freedom.—In our estimation men will be free when any man, or any body of men, are able to work for themselves and secure for themselves the full reward, each of his own labour. Such conditions are obviously attained where a man works on land paying no rent, rates, or taxes, with security of tenure, so that his improvements remain his own. If any land were available at the economic rent presupposed in Ricardo's law of rent, such conditions would be attained wherever a man works on land (with security and free of rates and taxes), provided always that he pays no more than the economic rent. At present no land is obtainable on such terms. No man can, at will, work so as to obtain the full reward of his labour. The absence of land obtainable at such a rent, the absence of security, the presence of rates and taxes deprive the worker of the full reward of his labour.

The free opportunity to work (whether on free land or on land at economic rent) will break down what we call (I do not know what economists call it technically) "the iron law of wages." Wages, we say, will be governed by what a man working freely for himself can get,—aping perhaps the language of economists, we say that wages will then be governed by "the marginal utility of labour."

The Ricardian law of rent in perfection involves a *gradual* slope or increase from the free margin, where rent is *nil*, up to the Royal Exchange. In practice the rent-slope ends not in a free margin, but in a wall, and every established change from one form of land culture to another involves a terrace wall. The rent demanded for the lower form of culture does not merge gradually into the rent demanded for the higher form of culture. There is no *free* margin for the higher form of culture. There is again

an artificial wall. Our system of rating and taxing assists in constricting the supply of land for every higher form of culture, as well as for the lowest form. The artificial scarcity throughout brings the curve of actual present rent far above the curve of



Ricardian economic rent. No man can get land at its proper economic rent, let alone escape rates and taxes.

The diagram given above shows the curve of present rent and of economic rent. The area intercepted between the two curves represents the element of artificial inflation due to artificial scarcity. To avoid injustice the worker wants to be at *B* paying rent *BC*.

He is at *A* paying rent *AC*. If he could get land at *B*, on demand, paying *BC* rent, he would both be free and enjoy justice.

Our present rating and taxing methods encourage the erection of terrace walls; they create artificial scarcity. We believe that the Single Tax would break down these walls and give us the Ricardian slope of rent, with its free margin where men can work in freedom.

I repeat that there would be a "free," or at least a just, margin for each form of land culture. The builder would have his "free" margin where he could get market garden land at market garden rents; the market gardener his, where he could get small-holding land at small-holding rents; the small-holder his where he could get agricultural land at ordinary farm rents. The miner, quarryman, and wood-chopper would have their free margins too. The economists may deny that the Single Tax would have this result in full; they cannot deny that it would have this result in part.

Justice.—Mr. Bickerdike believes that the repeal of the Corn Laws was justified by regard for the greatest good of the greatest number,—and hints that the landlords were robbed. It is here that we differ—the politician and the professor. Irrespective of what its results might be, the repeal of the Corn Laws was to us, and to Richard Cobden, an act of justice. The imposition of the Corn Laws gave to certain persons a privilege of value, akin to the value given to the owner of premises when they are licensed for selling beer. People bought and sold that privilege, just as they bought and sold rotten boroughs, just as they bought and sold public house licences. A privilege is very different from property. My title to a chair or a locomotive goes back to the man who made it; my title to a privilege goes back to the vote of a majority in the Houses of Parliament. If a man wants to use my locomotive he gets something he wants, and pays in effect the man who made it a price determined by the cost of reproduction. If a man wants to use my privilege, he gets nothing but a State permission, and pays me a price which is in effect a tax.

This difference between privilege and property is well known and accepted. The State did not compensate the owners of rotten boroughs in 1832; the State did not compensate the landlords in 1847; the State did not compensate the public-house owners in 1904, it arranged for them to compensate each other. These privileges which a majority of the Houses of Parliament has given are private rights to tax the community. The granting of

the privilege was unjust; its revocation was just, and not robbery.

It may be that some day there will be a protective tariff levied in this country, whereby certain protected industries will flourish. The ever-changing shareholders will enjoy a privilege, a legal right to tax the community. Will those who afterwards get the tariff reduced and the privilege diminished be acting unjustly? Further, suppose that, as in many foreign countries, the protective tariff is raised every five years; that this process continues so long that the purchaser of shares in the protected industry may well have bought in expectation of a continual intermittent increase in the tariff. Is it conceivable that it could be considered unjust to say that there should be no further rises in the tariff? Yet that in effect is Mr. Bickerdike's complaint against the Increment Duty.

So that when we advocate the alteration of our system of rating and taxation, with a view to securing the free margin, and find that the alterations involve the destruction of certain privileges, enjoyed of old time as the result of legislation, we still support the alterations. We believe that injustice consists not in the destruction of privilege, but in its continued existence.

The Method of Securing Freedom.—What are the privileges which will be destroyed? How do the politicians seek to destroy them? On these points, too, there are explanations to be made by the politicians to the political economists of the schools.

The second point must be taken first. What steps do the politicians advocate? Mr. Bickerdike concerns himself with the Increment Duty. This duty is not properly a land value tax at all. It makes land no cheaper, no easier to get; it in no way frees the margin. It has all the disadvantages of a tax partial in its application and accidental in its incidence. Its chief advocates only recommend it as a weapon to secure a "full" valuation, and, as soon as it has fulfilled that more or less useful purpose, it may well be buried without any regret on the part of even moderate land taxers. Looked at from the mere Treasury point of view, "there is no money in it." Something of the same sort may be said of the other land value duties as imposed in 1909. They were only a makeshift at first. They are only a nuisance now, and may well give place at an early date to the general annual tax asked for by the politicians.

The Land Values Group in the House of Commons which focuses political opinion on the question have a very definite programme, on which the next election will be fought if the signs

of the political weather may be judged. The Memorial, signed by 174 Liberal and Labour members and endorsed by the National Liberal Federation, asks for :—

(1) A general tax on "Full Site Value" in town and country alike; part of the proceeds to go to relieving the ratepayers of certain burdens which are national in character; part to abolish the food taxes.

(2) Power to be given to local authorities to adopt full site value as the standard of rating, instead of the annual value of land and building, *rebus sic stantibus*.

Mr. Bickerdike confines his approval, somewhat illogically, to the Local Rate on Land Values, and I will only touch on the general tax (to be spent in relief of local burdens), to say that it is necessary, if only to get round the great and obvious difficulty of boundaries. Some municipalities have within their range of taxation wide areas of suburban unbuilt-on land to whose value they and their citizens largely contribute; others have a restricted area already built over and are creating and maintaining the land values of external urban districts. It is only by a general tax that you can deal at all fairly between the two classes of municipality.

I too, however, prefer to deal with the change in the assessment of local rates, rather than with the general tax, both because it involves the complete change to single tax for local rating, and because it enables one to show exactly what are the privileges which will be destroyed. But theoretically a national tax on land values is justifiable by every argument which justifies the local rate.

The change in local rating, as recommended by the Select Committee on the Land Values Taxation (Scotland) Bill of 1906 and supported by the signatories to the Memorial, will not be an additional burden, but will afford a substitute for the present rates on improvements. The same sum total will be raised from owners and occupiers of property in any locality, the same people will pay, but their contributions will be measured by the full site value of the premises they own or occupy, instead of by the annual letting value of the hereditament *rebus sic stantibus*. Those persons whose property is now improved above the average¹ will contribute less than at present, those whose property is average will contribute the same, those whose property is not now improved up to the average will pay more. But all will be able to

¹ By "improved above the average" I mean those in which the ratio of "improvement value" to "unimproved land value" is above the average of the ratio in the case of all the hereditaments in the district.

improve their property, build, cut up into small holdings, open up minerals, &c., without being penalised for doing so. Even the man whose land is "ripe" and unbuilt on, has only to build and improve up to the average to set right his balance sheet with the community.

It is true that contributions will not be according to ability to pay. They will be measured by a juster rule, they will be levied according to benefits received.¹ They will be measured by that land value which arises not from the personal activities of the owner, but from the activities and needs of the community.

The Destruction of Privilege.—What, then, is the privilege of which landowners will be deprived? As a whole in any locality they will pay in rates no more than at present. Every individual landowner, by improving up to the average, can be sure of being no worse off than any other, and as a whole they will pay no more. One could quote good authority, the late Lord Goschen and Sir Robert Giffen among the number, to show that ultimately the incidence of all rates is upon the landlord, whether those rates be raised on land value or not.²

How, then, will the landlord suffer? What is the privilege of which this change will deprive him? It is this:—In the case of house property the present rating system, which checks the free construction of houses, will be abolished. There will be, therefore, a large increase in the supply of houses. Therefore, the rents and prices of *all* houses will fall. The same reasoning applies to all factories, to mineral royalties, to small holdings. The increase in the supply, due to the exemption from taxation, will lower the rents obtainable at present for houses already built, as well as those to be built; for mines already open as well as for those that may be opened. It will lower the prices obtainable for the product of factories and small holdings already in existence, and therefore reduce their partially protected profits or their rent.

The present rating system is, in fact, in its operation exactly

¹ All wise expenditure of the ratepayer's money results in increasing land value, whether the money be spent on a park, a tram line, a sewer, free schooling, or poor relief. Because of any of these conveniences, the users of land and houses compete more keenly, and are willing and able to pay more rent—*i.e.*, land values are higher and more benefit is received by the landowners. This can best be seen if one contemplates the effect of the abolition of any one of these public services. If there were no poor relief, for instance, the insecurity of property would be increased and orderly labour would be reduced, the two circumstances together diminishing land value. Poor relief is a "business proposition" just as much as a sewer or a gaol.

² Professor Marshall maintains that only that part of the present rate which is proportionate to the amount of land value in the hereditament falls upon the landlord. No doubt, so far as the immediate incidence is concerned, that is the correct view.

similar to a protective tariff. It checks competition with houses, factories, or mines, that are now in use, by penalising all new competing production, and by benefiting the withholders of the land and natural resources which might be used for such production. All landowners will lose a privilege and a valuable one. They will lose the protective tariff which makes competition restricted, and which limits the free supply of land which might compete with theirs. They will lose the privilege of being helped to erect the terrace and marginal walls with which they now obstruct the smooth flow of the rent curves to the margin postulated in the Ricardian theory.

If it is unjust to deprive them of this privilege, then it was unjust to deprive them of the Corn Laws; it was unjust to allow the invention of steamships and railways to bring us cheap wheat; it was unjust to allow the free competition with our established industries of the newer industries of Germany and Belgium.

"But," say some, and I think I see signs of this idea in Mr. Bickerdike's article, "such a change as this would tax landlords out of existence. You are not merely depriving them of a protective tariff; the rate will be 20s. in the £; you are depriving them of their property." That is not so. Real estate consists of land and buildings. Real estate owners as a whole will pay no more than at present. So far as direct effect is concerned, what they lose on the swings they gain on the roundabouts. They only lose the artificial protection, the privilege of restricting the market.

This, too, is our answer to those who say that *land value* is not sufficient to meet the needed land value rate. Land value now, to-day, is land value with the amount and incidence of present rates taken into account. (If the same services were rendered by some external millionaire and no rates at all levied, land value to-day would be higher by the capitalised amount of the rate remitted.) Land values, in future, will be land values with the amount and incidence of the future land values rates taken into account, and I pre-suppose all through that the total amount of the rates levied is the same after as before the change. It is the increased supply of land available for use, for every form of land culture, that will alone reduce land value.¹

I have endeavoured to show, so far as local rating is concerned, what is the privilege we seek to destroy and how we propose to

¹ Some reservation is needed here. As the margins are freed and wages rise, men will be driven less hard to work, will probably work less hard; and there will be in consequence a smaller surplus for the monopoly owner. The surplus registers itself automatically as land value, which will accordingly diminish *pari passu* with the increase of freedom.

go about it. Its justification is that we *are* destroying a privilege. Our aim is to secure "free" access for man to those natural resources which he requires in order to be free,—to which men have equal rights, and without access to which man cannot be free. Incidentally, it happens that our every step towards that goal is likely to increase the material prosperity of the workers by increasing the opportunities for productive employment, and therefore raising wages and the purchasing power of wages.

If the change in local rating is justified and makes for freedom, exactly the same arguments will apply to justify a similar change in general taxation. Its defence on principle is the same and its results lead the same way. So far as Schedule A of the Income Tax is concerned, a change in the standard by which the tax is measured, from the annual value of the combined hereditament to land value, would obviously be precisely the same in effect and justification as the change in local rating. But just as, in the long run, all rates may be said to be incident on the landlord, so, too, in the same long run all taxes are incident upon the landlord¹ also, *so long as the iron law of wages is in operation.*

Some amplification of this point may be permitted here. The value of the product of labour (away from the margin) is shared by labour, capitalist and landlord. The share of capital, the price demanded for the use of capital, depends on world-wide conditions of supply and demand. A tax on capital (in the economic sense) checks the creation of capital, reduces the supply, and increases the price that is charged for it. The capitalist shifts the tax, for the supply is reduced and he can charge more in the first place for the use of his taxed capital. He does not actually receive more after the tax is paid. The share of labour depends on the labourer's cost of subsistence, if the "iron law" is in full operation.² Therefore, though for a different reason to the result of a tax on capital, taxes on the labourer's necessaries, increasing their cost, will ultimately increase his share of the product in proportion to his share of the tax. He, too, does not actually receive more after the tax is paid. Labour and capital, therefore, both increase their apparent share in the product, in the long run, by the

¹ This, I am told, is the exploded doctrine of the physiocrats. It is also the doctrine of Henry George who has picturesquely described the landlord as "the robber who takes all that is left." Turgot and Henry George are good enough company to be in. But the acceptance of the doctrine does not seem to be essential to the case, argued from the side of either justice or freedom.

² One should perhaps say that under present conditions wages tend to sink, not to subsistence level, but to that level below which revolution or a general strike is certain—a level dependent on an accepted standard of minimum comfort, and the spirit of the people.

amount of their tax. There is the less visible surplus for the landlord, less by the amount of the taxes on the other partners. But though the ultimate incidence of the tax is thus on the landlord in any case, it may be borne in mind that, in so far as the money is economically spent, he is at the same time the sole beneficiary. If, for instance, labour is fed and clothed and housed out of taxes, the level of such of his subsistence as is dependent on wages is lowered, and the labourer's direct share in the product is diminished, and the landlord's increased. Therefore, unless you break through the iron law of wages by giving to the workers an opportunity to freely employ themselves, all jugglings with forms of taxation that do not free the margins must work in a vicious circle. Such juggling is, in the long run, economically futile, and the only arguments for or against such changes must be based on considerations other than their ultimate economic effect.

But, one may ask, what is the meaning of this claim to throw local and national taxation upon land proprietors, seeing that they already bear the full amount of it in the long run? The reply obviously is that they will not indeed be taxed more, but whereas they now receive in return for their taxes the enslavement of the whole population, under the Single Tax they will not find slaves,—neither they nor other people will find slaves to work for them on the old terms.

JOSIAH C. WEDGWOOD