

**Chapter V: The Economic Basis and Principles of Taxation**  
**Of the book: Principles of Justice in Taxation**  
**By Stephen Francis Weston**

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**I. The Physiocrats And The Single Taxers.**

It was the theory of the first school of scientific economists—the Physiocrats—and is the theory of their modern representatives—the Single Taxers—that the whole expense of government should be met out of the proceeds from the land, from the *produit net* or the "economic rent." Let us attempt to ascertain the economic basis and the economic principles underlying this theory. Although they reach practically the same result we shall find that the earlier and the later representatives of this theory employ somewhat different lines of argument.

I. The Physiocrats. According to the doctrine of the Physiocrats land alone produces a *produit net*, a net surplus above the expenses of production; therefore upon whatever form of property or income a tax may be imposed its ultimate incidence must be upon this *produit net*, as otherwise production must cease and starvation follow. Hence, to avoid unnecessary expenses of collection and added costs due to the advancement of the taxes, all taxes should be imposed in the first instance upon the landed proprietors. Moreover, as only the proprietors of land obtain a net product, they are the only class that has any interest in a stable government. Indeed, a net product and a stable government mutually condition each other. For "without good government and tranquility there will be no net product, and without a net product no government and no society." Security and tranquility increase the revenue of each. Because, therefore, of the mutual interest and mutual dependence of proprietors and the government they should share about equally in the net product.

The doctrine of a *produit net* as applied to taxation is most fully developed by Turgot who assigns several reasons for a single tax on land. His argument we may summarize as follows: The object of a tax "is for the preservation of property, not to lose it,—and hence should be upon income, not upon property;"<sup>1</sup> but "the proprietor of land is the only one who has a true income"—a *produit net*—and therefore "he alone has an interest in preserving the permanent order of society," for to the industrial class any change of ownership would be but a change of employers. The tax should, therefore, be paid out of the "true income," and to force it from any other income, or to make it exceed this income, would check production and so dry up the source of the revenue of the state. Moreover, any other tax is always shifted to the proprietor by being added to the cost of production; and to cause the laboring and industrial classes to advance the tax is to produce their ruin, since they have no disposable income. On the other hand, "it is impossible to make the consumers, who are not proprietors, pay a tax upon

consumption, because from the moment it is established they are forced either to restrain their consumption or to diminish the price which they can offer for the production which they consume; and because either method will throw the tax upon the producers, or sellers, of those productions." Finally, a single tax on the produce of land is demanded because an indirect tax—that is, any tax except that upon the *produit net*—leads to frauds, condemnation of goods, loss of the labor of the great number of men who are necessary to collect it, a war of the government with its subjects, a disproportion between crime and punishment, and " attacks liberty in a thousand ways."

Thus we find that according to the doctrine of the Physiocrats the economic basis of taxation lies in the relation which a certain class of society sustains to the government. This class is that of the landed proprietors who alone can have any interest in the government, since land alone produces a net product over and above that which is necessary in order that there may be any production at all. But as the net product that attaches to land would not exist but for the government, the landlord should share it with the government in the form of a tax. Not only has no other class any interest in the government, but the net product of land is the only fund out of which a tax can ultimately be paid. As the net product is equally conditioned by landlords and the government we have, further, as the principle of its distribution, as the economic principle of taxation, that the net product should be distributed equally between landlords and the government. Or, as the basis of the tax is the economic interest which the proprietors of land have in the government, the principle of its distribution is the extent of the interest in the joint economic result—the *produit net*—which is assumed to be a half interest.

Criticism of this theory may be brief. Not only is its theory of incidence utterly erroneous,' but so also is its theory of a net product upon which its theory of taxation rests. Other factors of production than land yield a net product upon which a tax may ultimately fall, and which is equally with the net product from land conditioned by the existence of government. It follows, therefore, even from the view-point of the Physiocrats, that other classes than landlords have an interest in the government, and that the government has interest in other products than the net product from land. Moreover, because a government is a condition of a net product, or for that matter of any product, it does not follow that the product must be distributed between the producer and the government on the basis of the share of each in its production. Indeed, if this were so the government might claim the whole product beyond the barest necessities of life. Because a government conditions production it is not therefore a factor in production in the sense that it should share in the product in proportion to its interest in it. The fact is that the income of government bears no relation whatever to its part in production. Its income, and therefore taxation, depends upon its character and upon the functions it assumes. And whether or not a tax should be determined according to the principle of interests, it certainly is not to be determined by any joint interest in an

economic product. But above all, government does something more than condition production. It is the condition of the satisfaction of all of our wants, and therefore interest in it is general and not special; and for the maintenance of these general interests—the interests of civilized life—government requires economic support from every citizen of the state.

2. *The Single Taxers.*—The doctrine that the whole expense of government should be met by a single tax on land was revived in more recent years by Henry George' whose doctrine is now known as that of the "single tax." By its modern advocates, however, the argument for a single tax takes on a somewhat different form from that of the Physiocrats. By George and his followers the justice of a single tax rests upon the Ricardian theory of rent; only emphasis is given to the social factor as producing differential advantages that give rise to the phenomenon of rent, quite as much as do differences in natural advantages. This rent is akin to the *produit net* and is called the *unearned increment* of land. But land is the birthright of man, a " gratuitous gift of Nature to men, the free bounty of the Creator to his children." Therefore, the *unearned increment* from land, the whole increment that is not produced by the labor of any given individual, belongs to mankind, to society, and should not be monopolized by any one or several individuals.\* Indeed, the government has a double claim upon the unearned increment: both because the land belongs to society, and because a part, at least, of the unearned increment is due to society, or is produced by it. Moreover, government has no right to touch any part of the increment of production that is due to human labor, since by " natural law " the product of one's own labor belongs to himself. " Whatever a man brings forth, whatever he adds to the common stock of wealth, belongs to him alone; and it is wrong to take from him any part of it."

According to this view of the single tax, there is in reality no taxation, as the government simply appropriates to itself the wealth accruing from natural advantages and from social growth—wealth to which the individual has no valid claim, but which of right belongs to the people as a whole, that is, to their government. But as the *unearned increment* comes first into the hands of individuals—the landlords—the taking of it from them by the government maybe regarded as nominal taxation, the landlords being the natural tax collectors.<sup>4</sup> The economic basis of the tax thus comes to be the relation subsisting between the government and the individual arising from the possession on the one side, and the ownership on the other side, of the source of unearned increment.

As the privilege of possessing the source of the unearned increment is regarded as an advantage to its possessor, it is laid down as a principle of taxation, that " we ought to tax men according to the special advantages they receive from the community, thus putting all men on an equal plane." This is the principle of taxation according to benefits, and is common to all " single taxers," who repudiate the principle of ability as unjust or as an appeal " to sentiments of benevolence and philanthropy." The principle is purely an economic one, as the "

advantage" is measured by " the market value of the benefits conferred by government and by human society," the market value of ground rent. As the benefit is measured by the extent of the ground rent, and is " conferred by government and by human society," the tax, according to George, should absorb the whole increment of land that is not due to human labor; but Shearman, assuming that such a tax would be in excess of the needs of government, less consistently holds that the government should take only such part of the ground rent as it needs, leaving the rest to the landlords. If, indeed, it is true that the whole ground rent, the unearned increment, belongs of right to the government, it is difficult to see the justice of any part of it being retained by any class of society. The only just method of distributing the surplus would be to distribute it *pro rata* to every member of society.

That the doctrine of the " single tax" has the merit of simplicity cannot be doubted, nor that it contains some desirable features. We must, however, discredit its claim as a *panacea* for all social ills, as the fanciful dream of an enthusiast. Nor can we grant that the " single tax," as a theory of taxation, solves the problem of justice. Granting the validity of the theory of social values, and assuming its sufficiency for purposes of public revenue, we would still have the following criticisms to offer to the theory, as a theory of taxation:

(1) It assumes as an economic basis for taxation, that only one class in society bears such an economic relation to the state that there rests upon it the obligation to support the government, to pay taxes, to wit: the proprietors of land; whereas, in point of fact. the economic relation and the consequent obligation rest upon every class of society, upon every citizen of the state.

(2) Not only does the theory assume a limited economic relation, but it assumes as the basis of this relation that land alone yields an unearned increment, which, while it belongs to society, or to government, comes in the first instance into the hands of the possessors of land; whereas, land is not the only source of an unearned increment—a rent or a *quasi-rent*—that arises from social conditions, and therefore the rent of land is not the only wealth, or source of revenue, which comes into the hands of individuals, but which, according to the single tax doctrine, belongs to the government. Apart from the question of a *quasi-rent* in other factors of production than land, there are legal and capitalistic monopolies that produce unearned increments quite as much as does the monopoly of land. Moreover, there is no form of industry that is not benefited by social growth.

(3) It is further assumed that the advantages of government lie in the possession of the source of the unearned increment, and that this advantage is the only ground for the imposition of a tax; and therefore, that a tax according to the benefits received from the government is the true principle of taxation. But as other factors than land possess these advantages (which are made the basis of taxation) it is difficult to see by what justice the possessor of land alone should pay for the advantage of obtaining an unearned increment. Besides, there are other

economic advantages produced by the state that equally demand a recompense—as the maintenance of the social conditions necessary to the pursuit of a livelihood. Moreover, in assuming that the unearned increment is the price of a special advantage it is assumed that the advantage is proportioned to the amount of the increment, a position whose absurdity is at once seen when we reflect that the ultimate advantage is confined to the privilege of gaining a livelihood. Then, too, this privilege is common to all. More than this, there is in reality no payment for any special advantages, as the government simply takes the unearned increment, and upon this the landholder has no claim.

(4) In fact, it is a special feature of this theory that no individual should undergo any burden of sacrifice for the purpose of maintaining a government; that, indeed, the government has no right to touch any part of private wealth that results from one's own labor, but should support itself on the economic values that belong to society as a whole, which is to assert that there should be no taxation. But such an assumption is opposed to any rational conception of the 'nature of the state, and misconceives the nature of the "natural right" to the product of one's own labor, since the payment of a portion of this product to support the government is a condition of its own existence. Yet, in the first instance, a tax is imposed upon the present holders of land who are made to pay penalty for the sin of past governments in permitting private property in land—a species of confiscation, in spite of all refinements upon the word,<sup>1</sup> that is repugnant to all sense of justice.

Various other forms of a single tax have been promulgated by different writers, though not so much from any peculiar notion respecting the relation of the state to the economic life of its members as from the conviction that a single tax best realizes the ideal of a tax according to ability. Such theories belong to the discussion of systems of taxation, and need not be dwelt upon here. There is one theory, however, that may be briefly touched upon, as it assumes a certain economic relation between the individual and the state as its economic basis. I refer to the theory of Menier,<sup>1</sup> who would obtain public revenue by a single tax upon capital.

The argument of Menier is as follows: Capital is a national product and therefore out of it alone should the state derive its income, "the tax representing the expense of giving value to, and the exploitation of, the national capital." Moreover, since the state exists to further individual liberty and human personality—"the enfranchisement of the individual"—it should not lay any tax burden upon the individual as such. "The tax," says Menier, "ought not to know man, but only the national fortune. But since this fortune is held by individuals they should pay a tax in proportion to what they hold."

The position is not wholly unlike that of George, since he would take the tax out of the national capital upon which the state has a claim because exploited by itself, the principle of taxation being a proportion to the amount of the national

capital individually possessed, no tax being imposed upon the individual, *as such*. But does not Menier confuse a nominal and a real tax on capital, thus leading to the untenable position that a tax on capital does not, while a tax on income or other form of wealth does, interfere with individual rights and individual liberty? Besides, income quite as much as capital is a national product, and quite as much as capital is given value by the government. Not the least error of Menier, however, is the assumption that a tax is upon property, not upon the person. Only persons can have a responsible relation to the state, or be under obligations for its support. The state, it is true, demands property, that is, economic goods, but the demand is and can be only upon persons. Then, too, Menier falls into the error of supposing that one's interest in the government and obligation to it is directly proportional to the amount of capital that he possesses.