

A QUESTION FOR DEBATE.

EDITOR SINGLE TAX REVIEW.

It is not an uncommon occurrence to find in printed matter relating to tax reform the expression of the assumption that land values are very much higher than they should be, that they constitute a tremendous burden upon the people, that they increase the cost of goods and living, and that in the case of city locations land values are double what they should be, placing in the way of business enterprise a handicap equal to fifty per cent. of current location values. Omitting for the present all reference to the relation of cost of goods and living to land values, I suggest that some of those who believe city land values are double what they should be undertake to show how this can be.

One explanation I have received is that speculation, leading to the withholding or poor use of valuable locations, increases values so much that it is a conservative estimate that land values would be cut in half by the adoption of the taxation of land values to the full extent.

How can this be the case? The well established explanation of the working of the law of economic rent is that there is a tendency for land value premiums to equal—not to exceed, and not to be less than—the difference in productiveness—or potentiality for use—between any given location and those available at a nominal price. If the best land to be got without price is ten bushel land, then all of greater productivity or potentiality than ten bushels will command a premium. Thirty bushel land will be worth in rent twenty bushels, and so on. Now, if speculation in locations results in depressing the margin of cultivation so that labor has to resort to five bushel land, the net return to labor will be cut in half—from ten to five bushels—but the rent of thirty bushel land will not be doubled. Not at all. It will be increased simply in proportion to the difference between the potential returns at the margin. This is for illustration assumed to be five bushels. Thirty bushel land rent will, by the assumed effect of land speculation, be changed from twenty

bushels to twenty-five bushels. That is all.

Now the difference between the potentiality of locations in cities and at the margin very much exceeds any reasonable variation in the capacity of land for wheat production, so that if we attempt to apply the reasoning used in kindergarten explanations of the law of rent we get into figures that look ridiculous, but for the sake of illustration it can be done, nevertheless. If we assume that the land now in this year 1912 in this country which is at the margin of cultivation is ten bushel land, we may also assume that land in cities is 60,000 bushel land, and we may assume that speculative withholding of usable land exists to the extent of forcing the margin down from thirty bushel land to ten bushel land. We here concede that speculation in land has resulted in cutting down wages at the margin from thirty to ten bushels, or in other words has cut wages two-thirds. Does it follow that city land values are in any similar ratio changed. It does not so appear to me. A change in net return to labor at the margin of twenty bushels will make a change only in same proportion at the most valuable locations in potentiality. The 60,000 bushel land will still bear a rent of 59,980 bushels.

In other words, to assume that the economic rent of extremely valuable locations is doubled by speculation in land is to set up a claim that land values do not depend upon the difference in potentiality between locations above and at the no-rent margin, and if this claim is set up some sort of kindergarten proof should be offered.

As at present advised I prefer to believe that economic rent is not materially changed at the most valuable locations; that the greatest change is quite near the no-rent margin; and that as land in possibility of use develops wider differences as compared with land at the present or at what may be assumed to be the normal margin, the change caused by land speculation becomes less and less of consequence.

However, I am no authority, and am willing to be shown as in error.—GEORGE WHITE, Hackensack, N. J.