

## Atkinson: An Ill-Informed Assailant\*

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Edward Atkinson, Boston laissez-faire liberal of the nineteenth century, delivered what he believed was a staggering blow to Henry George's single-tax theory in an exchange with George in the *Century Magazine* in 1890.<sup>1</sup>

Atkinson (1827-1905) shared *some* concepts and ideals with George, including limited government, free trade (or at least low tariffs, for revenue only), and a genuine nineteenth-century liberal optimism that reform is possible, resulting in making the world a much better place in which to live.<sup>2</sup> Besides delving into economics and politics, Atkinson was engaged in the cotton and fire insurance businesses, and was an avid inventor.

Atkinson held, and tried to show, that the single tax, even if it could be applied, would not abolish poverty, and would so disrupt the economy of the nation that very probably chaos would result. He used statistics—Gross National Product and taxes—to try to support his arguments. I shall deal with his arguments one at a time.

Using the United States Census of 1880, Atkinson estimated the Gross National Product of the U. S. to be \$10 billion, or \$200 per capita—which averaged \$600 per person gainfully employed. He broke this down to equal 55 cents per capita per day. He estimated total taxes, national, state, and local, to be seven percent of the Gross National Product, or \$700,000,000 per year, or \$14 per capita, which equaled four cents per day per capita.<sup>3</sup> He estimated that about twenty percent, or \$140,000,000, was raised from taxes on land values. From this he deduced that if taxes on land were to substitute for all government revenue, the land-tax rate would have to be increased fivefold. He said:

It might happen that the burden would become too great to be undertaken, except by persons who already possess ample capital from which they could advance the taxes. . . .

Could the poor farmer, the mechanic, or the artisan of moderate means, or in fact could anyone who did not possess ample capital, afford to accept

\*The reader will be well rewarded by examining another critique (or refutation) of Atkinson's arguments against the single tax, in Max Hirsch's *Democracy Versus Socialism*, 4th ed. (New York: Robert Schalkenbach Foundation, 1948), pp. 414-25.

the conditional possession of land under such terms? Each one who now occupies land can answer this question for himself by multiplying the present tax upon his land by five or at least by four.<sup>4</sup>

Atkinson apparently ignored two important things. One is the fact that people of low or moderate means rent homes or shops, and as a result pay the full market rental-value of the land sites involved. Substituting a single tax on land values for all other taxes would not result in taxes any greater than the rental value of land. In fact, George suggested that the tax be slightly less. The second point is that the abolition of all other taxes, including all indirect taxes as well as taxes on improvements, would in most cases amount to more than the increase in land taxes on persons of low or moderate means. One reason is that such individuals cannot afford to own valuable land, whereas their improvements are often worth several times the value of the underlying land. I shall have more to say about the burden of indirect taxes below.

Atkinson made a statement that shows a total ignorance of the incidence of taxation. He said:

Does it follow that if the whole tax of the country were assessed in a single tax imposed in the first instance upon land, this would be but an indirect method of deriving the whole tax from all products of labor and capital combined, without discrimination? If so, this would be but an indiscriminating mode of taxing all consumption.<sup>5</sup>

Henry George himself answered this point in the same issue of the magazine, and quoted John Stuart Mill (*Principles of Political Economy*, bk. 5, chap. 3, sec. 3) to the effect that taxes on land rent fall wholly on the landowner. Mill said: "A tax on rent falls wholly on the landlord. There are no means by which he can shift the burden to anyone else."<sup>6</sup> Of course, if he leases the land to someone else, that other person ultimately pays the tax, for it comes out of his rent, but his rent cannot be increased to accommodate the tax and still give the landlord the same net return.

This point can best be made in the context of modern economic theory. Tax shifting can occur, other things being equal, if the supply elasticity is very great. But since the elasticity of supply of land is essentially zero (supply is strictly limited), there is nothing in an increased tax on land that can decrease the supply of land. Neither will it increase the demand. Consequently, the equilibrium rent before the tax is the equilibrium after the tax is increased, and there is no way the landowner can pass it on. It stays squarely where it is placed. George himself recognized this principle.<sup>7</sup>

Atkinson went on to say (p. 387) that the land tax has to come out of the "joint produce of land, labor, and capital, by due process of law, from the people who do the actual work by which men subsist." In this he inferred that the earnings of labor and capital are reduced, as a result.

He ignored the economic facts of distribution. The rates of wages, interest, and rent (rewards respectively for labor, capital, and land) are determined by market forces. The active factors of production (capital and labor—including, if you wish, entrepreneurship) must already pay the market-set rent to private landowners, whether annually or in a capitalized (selling price) form. If government takes part or all of this rent in taxation, it would in no wise

decrease the rewards of the active factors (land is the passive factor, being acted upon). If an individual or firm owns land, it changes nothing, since part of the income is implicit rent, and should be so distinguished. Taxing owner-used land takes nothing from the earnings of either labor or capital.

Atkinson did admit that indirect taxes are largely regressive, and that eliminating them would increase effective disposable income. He said:

To the extent to which the necessary cost of living is increased while wages are reduced by these taxes, they are without question a cause of poverty. To the extent to which [they] may be removed poverty may be alleviated; but that is all. This is something very different from the extravagant expectations of the Antipoverty societies that advocate the single tax on land valuation as a panacea for all poverty.<sup>8</sup>

George answered this by pointing out that taxes pyramid as they go from one stage of production to another, with each firm or entrepreneur adding a markup. He cited the case of the whisky ring that "spent money like water" to oppose the reduction of the whisky tax, and the cigar manufacturers "working like beavers" to prevent the repeal of the cigar tax. George estimated conservatively that such profits on indirect taxes amounted to *at least* as much as the taxes themselves, and so made the burden of indirect taxation twice as great. Speaking of their regressive nature, he said: "Considering that indirect taxes fall with greatest weight on the poorest of our people, this direct saving ought to be quite an alleviation of poverty."<sup>9</sup>

Another scholar of the period, Thomas G. Shearman, estimated, partly with the aid of data previously compiled by Atkinson, that indirect taxes amounted to about twenty-five percent of national income, over a twenty-five year period, including the pyramiding mentioned above. And, assuming that such taxes reduce savings by this much, he estimated that they represent seventy-five percent of the savings of the masses of the people, as against only three percent of that of a few multimillionaires.<sup>10</sup>

Atkinson asserted, quite correctly, that land, labor, and capital are the three factors of production. He said, however:

Is it not. . . manifest that it may be injudicious to put the whole burden of taxation in the first instance upon only one of the three necessary factors of production? Why not put part of it on the other two factors? Why not tax, at least in part, the result or income—i.e., the product which has been derived from land by the application of labor and capital to its use and occupancy—when such product is in the process of consumption rather than to tax the source of all production at the point where such taxes may prove to be the greatest obstruction to an abundant result?<sup>11</sup>

This statement shows practically no knowledge of tax incidence and effects. If you tax labor directly, you discourage it or make working people poorer. If you tax capital, you tend to drive it away or discourage its production. And if you tax consumption with indirect taxation, taxes often pyramid, with resultant price increases of a regressive nature.

But if you tax the value, or economic rent of land, the result is complete neutrality in taxation. This is because the land-value tax is in effect a tax on a surplus, and has no effect on marginal cost. What would be the optimal use of

given land sites, without any taxes at all, remains the optimal use with the land-value tax. This is the only major source of taxation of which this is true. A tax on buildings or other improvements is definitely nonneutral, and does affect the marginal allocation of resources. It discourages construction, reduces the supply of buildings, and raises rents to consumers. The land-value tax cannot raise rents, as explained above; and, in fact, it may initially lower them by discouraging land speculation and encouraging land sites to be put to their highest and best use. This, coupled with the stimulus to construction resulting from the elimination of the improvement tax, may even result in lower rents.

Atkinson went on to claim that neither land area nor land value bears any proportional relationship to the final product. Then, through his illustrations, he proceeded to ignore land *value*, and concentrated only on land *area*. Since farmers occupy a larger proportional land *area*, he concluded: "If land only is taxed, the farmer must pay the larger part of the tax and recover it from consumers in the best way he can devise. If he cannot recover it, he must stop work."<sup>12</sup>

George himself answered this point quite well in his reply to Atkinson in the same publication by pointing out that it was land *value*, not land area, that he proposed to tax; and that farmers owned relatively lower land *values* compared to urban landholders. This is still true today. It is also true that farmers are burdened, by and large, by mortgages based often on speculative land values, which values would tend to fall, under a land value tax, because of the tax capitalization effect. Further, farmers are also burdened with indirect taxes on practically everything they buy and use. Under land-value taxation farmers could acquire land a great deal more cheaply, and with the elimination of all other taxes would be relieved of the indirect levies they now pay.

As far as their property taxes are concerned, often their taxes on houses, barns, fences, livestock, orchards, vineyards, and the like are today as high as, or higher than would be a land-value tax based on land rent. The great mass of nonowning farmers—tenants and sharecroppers—would be infinitely better off. They already pay rent, which in many cases is higher than the land tax would be, besides all manner of indirect taxes. With the fall in land prices, they could afford in many cases to acquire land of their own.

The next criticism of the single tax advanced by Atkinson concerned the problem of correctly valuing all land within the country at a uniform rate so that all levels of government, including federal, could be funded from the tax. He alleged that land assessments would have to be equalized nationally by a board of assessors. He said: "At this point, the theory begins to break down by becoming impracticable. Such a national assessment could not be made."<sup>13</sup>

He then went on to say that if the land-tax rate appropriated the entire rental value of land in taxation, the selling price would disappear and it would be difficult, if not impossible, to value land—that such valuation, tax, rent, or whatever it was called, would have to be made arbitrarily by assessors appointed by the national government. The implication was that this would give rise to all manner of favoritism and corruption.<sup>14</sup>

First, it is theoretically true that if one hundred percent of land rent is taken in taxation, the tax will be completely capitalized, and the selling value will fall

to zero. George admitted this in what he called the application of his theory to the point of "theoretical perfection." He did say, however, in his answer to Atkinson, that if such point were reached, all that would be necessary would be to adopt the British system of valuing the annual, or rental, value, instead of the selling, or capitalized, value. He said, "With speculative values gone, and with public attention concentrated on one source of revenue, there could be no difficulty with this."<sup>15</sup>

George, however, in *Progress and Poverty*, proposed leaving to landowners a small percentage of rent (somewhat like a real estate broker's commission) for their service in collecting and turning over rent to government. He said: "By leaving to land owners a percentage of rent which would probably be much less than the cost and loss involved in attempting to rent lands through State agency, and by making use of this existing machinery, we may, without jar or shock, assert the common right to land by taking rent for public uses."<sup>16</sup>

If this were done, land would retain a small capitalized, or selling, value, which, even if it were taxed up to one hundred percent, would still fall slightly short of the entire economic rent. And the assessment of such value could be done as easily as—in fact, *more* easily—than is currently the case with combined land and improvement values.

In Australia and New Zealand most municipalities and some higher levels of government tax land values only, and exempt improvements and personalty from property taxes. The rate, however, is not high enough to capture for public use anywhere nearly all of the economic rent. Their assessors, however, vastly prefer to value land only, claiming that it is easier and cheaper than to assess both land and buildings, according to J. Bruce Brown, valuer-general of New Zealand.

The assessment of the unimproved [land] value only, involves by far the least amount of work, both administratively and in terms of time spent in making each valuation. For one thing, the value of urban land can generally be updated without recourse to regular inspections of the property. In arriving at an assessment of capital or annual value [meaning, respectively, the capital value of both land and improvements, or the rental value of both], however, the position is very different. A great deal more work is involved. . . . The technical content of the valuation process is much more detailed than for land alone.<sup>17</sup>

J. F. N. Murray, prominent assessor and author of a leading textbook on appraising in Australia, said that: (1) equity in valuation is much more easily achieved when assessing land only rather than both land and buildings, (2) considerable economies are possible if land only is valued, and (3) most of the errors in valuation involve buildings, not land.<sup>18</sup>

Atkinson contended that the single tax would redound to the benefit of large capitalists, who could then invest all of their capital in improvements on the land. He said, further:

If land should be taxed at its "site" value, without regard to the capital or value of the buildings or improvements upon it, then the poor man who may now be in possession of a small house must pay as much as the rich man who owns a large house in the next lot of the same site value, or an expensive warehouse in the immediate neighborhood on another lot of the same site value.<sup>19</sup>

In claiming that large capitalists can get land cheaper, or without purchase price, under land-value taxation, Atkinson would have to admit that entrepreneurs or capitalists of lesser means would also benefit, even more in proportion. This is because those of small means may not be able to afford expensive land at all now. But, granted that large capitalists would be able to devote *all* of their capital to improvements on the land, what is wrong with that? The building and maintenance of such improvements create jobs and benefit the community, whereas the mere ownership of high-priced land by some titleholder does not.

Modern research, including that of the writer, gives the lie to Atkinson's assertion that land-value taxes are regressive. The opposite is true, as the following should indicate. The writer's doctoral dissertation in economics included a computer simulation of a switch from real and personal property taxation to a base of land values only, which would have raised for each of the 1,800 taxing agencies in Los Angeles County the same total revenue for the 1971-72 fiscal year. The percentage change in tax impact was summarized for some ninety land-use categories in seventy-seven cities and the unincorporated area. The following results were noted for Baldwin Park, a working-class Los Angeles suburb, compared with Beverly Hills, an upper-middle-class and wealthy suburb.

In the 1971-72 tax year, the total tax rate in Baldwin Park, owing to a relatively low tax base, ranged from fourteen to fifteen percent of assessed value. The twenty-five percent assessment ratio (to full value) listed land at \$19.3 million and improvements at over \$42 million. As a result, Baldwin Park homeowners would have experienced an average tax *decrease* of almost thirty-four percent, with over ninety percent of them having their property taxes fall by forty percent.

In contrast, consider Beverly Hills. Owing to a high tax base, the tax rate there ranged from slightly less than 9 up to almost 12 percent. Assessed land values were almost \$162 million, with improvement values assessed at only \$132.5 million. The shift to site-value taxation would have resulted in the average homeowner in Beverly Hills having a property tax *increase* of 15.4 percent, or \$546.<sup>20</sup> This is a case in point to indicate that land-based property taxes are progressive. Other studies have tended to show that ownership of land *value* tends to increase in greater proportion than income.

Another case in point, from the same source, concerns the community of Watts, a south-central Los Angeles neighborhood, almost entirely black, and generally poor. Assessed values for land were almost \$4 million, while those for improvements were about \$7 million. The result of land-value taxation would have been an average property tax *decrease*, over *all* types of land use, of over 19 percent.<sup>21</sup>

One of Atkinson's final arguments is that the single tax was tried in France before the French Revolution, under the physiocrats, led by Turgot, and proved a miserable failure.<sup>22</sup> However, in a slightly later issue of the *Century*, replying to a communication from James Middleton, he admitted that he had been incorrect, and that the single tax had never been tried in France.<sup>23</sup>

Atkinson was sincere and well-intentioned, even if much of his reasoning proved shallow and ill-informed. In retrospect, he joins the long list of those who verbally dueled with George and came out worsted.

## Notes

1. Edward Atkinson, "A Single Tax Upon Land," *Century Magazine* 40 (July 1890): 385-94, 403-5.
2. Harold Francis Williamson, *Edward Atkinson: The Biography of an American Liberal, 1827-1905* (Cambridge, Mass.: Riverside Press, 1934).
3. Atkinson, "A Single Tax Upon Land," pp. 385-86.
4. *Ibid.*, p. 386.
5. *Ibid.*, p. 387.
6. Henry George, "A Single Tax on Land Values—Reply to Mr. Atkinson" *Century Magazine* 40 (July 1890): 396. Hereinafter cited as "Reply."
7. *Ibid.*, p. 399.
8. Atkinson, "A Single Tax Upon Land," p. 387.
9. George, "Reply," p. 399.
10. Thomas G. Shearman, "Henry George's Mistakes," *The Forum* 8 (September-February 1889-90): 44-45.
11. Atkinson, "A Single Tax Upon Land," pp. 388-89.
12. *Ibid.*, p. 389.
13. *Ibid.*, p. 390.
14. *Ibid.*, p. 391-92.
15. George, "Reply," p. 401.
16. Henry George, *Progress and Poverty*, 75th anniversary ed. (New York: Robert Schalkenbach Foundation, 1954), p. 405.
17. J. Bruce Brown, "The Incidence of Property Taxes under Three Alternative Systems in Urban Areas in New Zealand," *National Tax Journal* 21 (September 1968): 251.
18. A. M. Woodruff and L. L. Ecker-Racz, "Property Taxes and Land Use Patterns in Australia and New Zealand," *Tax Executive* 8 (October 1965): 57.
19. Atkinson, "A Single Tax Upon Land," p. 392.
20. William B. Truehart, "The Impact of Real Property Versus Land Value Taxation in Los Angeles County," Ph. D. dissertation, Claremont Graduate School, 1973, pp. 108-9.
21. *Ibid.*, pp. 112-13.
22. Atkinson, "A Single Tax Upon Land," p. 393.
23. Edward Atkinson, "Mr. Atkinson's Correction," *Century Magazine* 41 (November 1890): 158.