

CHAPTER III

THE RENT OF LAND AND ITS TAXATION¹

§1

Land Rent Considered as a Product of Land

In order to make clear the nature of land rent, let us suppose the existence of a piece of land on which the labor of five men working with the aid of improvements and equipment worth \$10,000 produces a yearly output above repair and depreciation costs, of \$4400. Of this \$4400, wages constitute \$3,000, interest, at 8 per cent, is \$800, and \$600 a year remains as rent. This \$600 measures, roughly, the amount of rent the owner could secure from a tenant. It is the surplus produced on the land, above the remuneration of the labor and capital used. But the interest on capital depends on the service of capital in the productive process. Capital is worth to the borrower, in interest, no more than it will yield, and the forces of demand and supply tend to fix the interest rate on the basis of the prospec-

¹This chapter is reprinted, with considerable changes, from Chapter VI of Part II of my *Economic Science and the Common Welfare*, fifth edition, Columbia, Mo. (Lucas Brothers), 1931.

tive net yield of capital.² In the same way, the wages of labor are fixed by the effectiveness or productivity of labor. Wages below what labor is worth to employers stimulate demand for labor, and competition among employers then tends to bring wages up. Wages above what labor is worth decrease demand, bring about unemployment and competition among wage earners for jobs, and wages then tend downward.³ To say, therefore, that a piece of land yields per year a surplus of \$600 over interest for capital and wages of labor is to say that it yields a surplus of \$600 above the product of such capital and labor. Let us suppose this particular piece of land to be non-existent. Then the labor and capital applied upon it must needs be applied on poorer or less well situated land not previously used, or this labor and capital must be applied to using more intensively land already in use. Applied in either of these ways, such labor and capital would produce \$600 less than could be produced if the labor and capital were applied to the \$4400 yielding land. In other words, the \$600 is the product of this particular piece of land *in the sense* that the existence and use of this piece of

²For a fuller explanation of interest on capital, see *Economic Science and the Common Welfare*, fifth edition, Part I, Chapters III and IV.

³*Economic Science and the Common Welfare*, fifth edition, Part II, Chapter V.

land make it possible for a product \$600 larger⁴ to be secured with no more labor and capital, simply because the land resources to which the labor and capital are applied are that much better than those to which the labor and capital in question must otherwise be applied. But although \$600 may thus be regarded as a contribution of the land to production (in technical economic language its *marginal* contribution), it is not on that account to be regarded as a contribution of the land-*owner* to production.

It is to be emphasized that the rent of city land is determined in just the same way as the rent of land in the country. The well-located merchant derives a larger return from his business as a retailer or a jobber by virtue of his superior situation. So, also, the manufacturer whose business is wisely located in relation to sources of power and to shipping facilities de-

⁴By way of qualification it may be said that this differential is not fixed but is greater for some potential users of the land than for others. Some users may be able to gain from the use of a piece of superior land much more than they have to pay. To others, the differential is less than the rent and they will presumably use inferior land. The marginal productivity of the land is its productivity to the user who is just induced to hire it and who, if rent were greater, would have to resort to poorer land. If A has to pay only \$1000 for the use of a piece of land because it is worth only that to his nearest competitor, B, while A would be willing, if necessary, to pay \$1200 because he believes he can use it to make that much of a differential gain, the extra \$200 may be regarded as the reward of A's efficient use of the land and so as really wages. Only \$1000 is to be reckoned as land rent.

rives from such a location advantages for which he may be willing, if necessary, to pay a high rent and for which, if the desired location is equally advantageous to others, he will have to pay such a rent. In the case of either country or city land it is here intended to regard as land rent only the amount which is the (marginal) product of the land as such. Interest on the cost of improvements, whether swamp draining and fertilizing in the case of farm land or filling and leveling in the case of city land, is not properly a part of the rent of land but is a return on capital investment.

✓ It is extremely important for the reader to grasp the idea that, of the income from land and improvements (whether in the form of buildings or otherwise), even though both are owned by a single individual, a certain part is really received *by virtue of* the ownership of the improvements and another part *by virtue of* the ownership of the land.

The amount of rent which landowners can get for the use of their land appears to be pretty definitely fixed by the conditions of demand and supply. Attention is commonly called, by economists, to the fact that a tax on land rent can not be shifted. The owner of the land can not, when a tax is levied, get any more rent. The tax does not increase the (marginal) product of the land. It

does not decrease the (marginal) product of capital or the (marginal) product of labor. It can not make interest lower or wages lower. It can not, therefore, increase the difference between the total product of the land and the amount going to capitalists and wage earners. It does not make land space any scarcer. The tax-paying landowner can even less afford to keep his land idle (assuming a tax based on the rent he *could* get) than the landowner who is untaxed. It does not decrease the quantity of goods produced on the land and does not increase prices. It simply leaves the landowner with a smaller income by the amount of the tax subtraction. If the landowners who lease their land charge higher rents for its use, tenants will endeavor to economize in the use of land and some of the owners will find their land idle and yielding no revenue. These will quickly reduce their rent charges, the more so if unused land is taxed at the same rate as used land, since only so can they avoid loss.

A tax on interest *might* diminish saving and make interest, eventually, higher. A tax on wages, especially if heavy, might diminish population and so make wages, in a later generation, larger.⁵ But a tax on rent can have no effect ✓

⁵This suggests the Physiocratic doctrine that all taxes must inevitably be borne by the landed proprietors of a country, through diminished population and lower rents. The conclusion may be

other than to diminish the amount of revenue received by landowners and give this revenue to the general public. It should be said, however, by way of qualification, that when the so-called "rent" results not chiefly from a favorable situation or other conditions independent of the owner's labor but in part from a fertility which has to be maintained by the owner, some shifting may take place. (Return on improvements due to labor, is properly *interest* on capital.) But a tax upon the *situation* rent or value of land, or upon the rental value resulting from any natural and indestructible advantages, falls upon the owner and upon no one else.

§2

Land Rent versus Capital Interest

A number of enthusiastic—perhaps some would call them fanatical—"single-taxers" contend that any tax other than a tax on the rental value of land is necessarily morally objectionable,

(and may not be) largely true, if we include owners of urban, etc., as well as agricultural land, as the Physiocrats did not. But a tax on wages thus shifted to landowners will fall upon them in very different proportions than a direct tax levied as a percentage of rental value. The former will fall much more heavily in proportion on the owners of near-marginal land and the latter will fall with equal proportionate weight on the owners of superior land. But except on the hypothesis of a subsistence level of wages or some other fixed long-run comfort standard, this physiocratic doctrine is not true at all.



that the state has no right, under any circumstances, to levy on the earnings of labor and capital, that the rent of land should suffice for all legitimate governmental expenditures, and that any governmental services which cannot be financed without drawing on other sources should be foregone.

I do not hold any view so extreme. The services of government are important to all of us, except, possibly, criminals. All of us benefit, though perhaps in varying degrees which cannot be precisely measured, from the existence of government. The so-called earnings of labor and capital are secured by their recipients, and can be so secured, only when there is the order and protection which government provides. The maintenance of settled government, and, if this government is democratic, of the social and cultural conditions essential to its operation, may be of supreme importance, therefore, to all of those who receive interest on capital and to most or all of those who receive only wages. If no better and adequate source of revenue is available, it may be proper, therefore, to demand substantial contributions from both capital and labor. Indeed, even though a more desirable source of revenue is available, but if popular ignorance and misunderstanding prevent its taxation, it would be better for capital and labor to

support government wholly from these earnings, however hard and fairly won, than to be deprived of its services. A system of taxation which is very bad and which is relatively unfair between individuals and classes, may yet be immensely better than no system at all.

Nevertheless, it is important that we strive for as good a taxation system as possible. And what is a good system is to be determined in the light of all the facts regarding sources, as well as amounts, of income and regarding the various consequences which different taxes and tax systems are likely to produce. It may be that, on the basis of the various relevant tests, taxation of the rental value of land will rank high enough to justify its use as the *chief* source—even though not the *only* source—of public revenue. ✓

An examination of the justice of special land-value taxation may advantageously begin with a brief consideration of the difference between rent and interest.⁶ It sometimes has been said that the rent of land is no less interest than the return on other capital, since the return on land can be viewed as a given percentage on a given valuation, while, on the other hand, the interest on

⁶This and the following paragraph of this section appear also in Chapter I, §5, but are repeated here because of their relation to what is to follow.

other capital can be viewed as an absolute amount in dollars per machine or factory, just as land rent is viewed as so many dollars per building lot or per acre a year.⁷ But more fundamentally there is a difference, despite the superficial resemblance, between situation rent and capital interest. The return on land should be looked at as an absolute amount measured and determined by the surplus over the (marginal) productivity of labor and capital. It is not determined by the value of the land. Neither has the value of land as such, i.e., *its situation value apart from improvements*, any relation to any cost of production, since the land was not humanly produced. On the contrary, the value of land can be arrived at only by capitalizing its expected future rents or returns at some previously found rate of interest. Thus, a piece of land which would yield \$5,000 per year net rent (above taxes, wages of labor employed, interest on the capital invested in buildings and other improvements, insurance, etc.) would be worth, if interest were 5 per cent, \$100,000. Were the current rate 10 per cent, such a piece of land would be worth but \$50,000.

With equipment of the producible and reproducible kind, however, the relation between

⁷This view seems to be definitely presented by J. B. Clark in *The Distribution of Wealth*, New York (Macmillan), 1899, pp. 334-337.

capital and income value is not the simple one above outlined. The value of such capital, though not unaffected by the value of its expected services, is very directly related to the cost of its production. Buildings of a type costing \$5,000 each will hardly be put up to sell for much less, as a rule, by the builders. Nor, so long as the alternative is open to him of supervising the construction of a similar building, will a possible buyer care to pay a great deal more.⁸ The value of a building is determined then, in large part, by the expenses, such as wages, of producing the materials and of putting it up; and these wages are determined, in the last analysis, by the existence of alternative lines of activity open to the wage-earners, while the other costs are determined by the alternative uses to which the *land* or *capital* which must be used in producing the materials might be put.

↓ Since the value of produced and reproducible capital is thus in large part fixed directly by its cost of production, the assertion that interest is in large part determined by the rate of productivity of capital does not involve reasoning in a circle. Interest is 5 per cent because, for one and perhaps the most important reason, capital worth \$10,000 will produce an annual net in-

⁸If he purchases a building already constructed he pays, in its cost, for the supervision of its construction.

come of \$500. It therefore appears, to sum up our conclusions thus far, that the value of produced capital depends in a considerable degree on cost of production, that the ratio between the value of capital and its income is an important factor in determining the general long-run rate of interest, and that this rate of interest is an essential element in the valuation of land.

§3

*Land Rent as an Unearned Income*⁹

It is but a short step to the conclusion that the accumulators of produced capital may—and in many cases probably do—add to the volume of the annual aggregate income of society as much as they take out of this income in interest; while the owners of land, as such, contribute no service in return for their income. Whereas, in the case of produced capital, the public (except in certain cases, numerous enough no doubt, where the capital is wastefully or injuriously used) pays the owner for a service which, without his saving (or the saving of someone whose right to payment has been transferred to him), would not have been enjoyed; in the case of land the payment is made for a benefit which is dependent

⁹This section is in part repeated from Chapter I, §5, because of the bearing of the repeated paragraphs on the immediately succeeding discussion: These paragraphs and those in the preceding section (§2) are believed to be both fundamental and important.

on no individual's saving or effort and a benefit for which, therefore, no individual is responsible.
 J In the one case the community pays for a service which is actually rendered to it. In the other case it pays people who have, in the capacity in which they are paid, rendered no service.

* The view presented in this book that incomes received not in payment for service rendered lack social justification will not, of course, be accepted by the ultra-conservative type of mind. More or less plausible arguments may again be advanced as they have often been before, in favor of incomes to privileged classes. It will be alleged that members of these classes, not having to worry about their livelihood, will become efficient officers of state, scholars devoted to research, and, in other ways, profitable social servants. To the argument that if a class is to be supported without definite regard to a special service for which their income is received, in order that such results may accrue, the public might select in a better way the individuals who should make up this class, it will doubtless be replied that, in practice, the public will not select in any such manner as to give equally good results. Or the supporters of a privileged aristocracy may go a step farther and defend its existence, not by virtue of any alleged superior social service, but as being good in itself, as a class for

the good of which other classes exist, as constituting "the backbone of the state." To one who accepts either view above outlined, no argument against exploitation will be convincing, especially if the exploitation is of an ancient sort and has the prescriptive sanction of long usage, as is the case with land rent.

To avoid any possible misunderstanding, let it be emphasized that land rent as here defined does not mean merely the sum paid by a tenant to an owner, for the use of land, but equally the amount received by the person who himself uses his own land, in excess of wages for his labor and interest on his capital. This rent comes to him in money when he sells the goods or services which the land produces. He is paid, thus, by others, for benefits which not he but the land renders. The community, in buying from him, pays him for more than the service he and his capital render them. ✓

Thus, income from land, purely as such, is not at all in the same category as income from improvements on land or from other capital. It is, rather, income from privilege. Suppose the land to be a mine of iron ore. The owner derives an income from it, not on account of anything he does, not because of the productivity of capital he has saved, not through any contribution of his to the output of industry, but solely by virtue ✓

of his having the exclusive legal right to withdraw or to grant or refuse permission to others to withdraw, the ore which geologic forces long since deposited under the surface of the earth. The owner need not do any work at all or provide any equipment at all. He may merely charge those who do the work and provide the equipment necessary for getting out the ore which men need, for the privilege of taking the ore out.

There is an ancient story to the effect that when Alexander the Great saw the cynic philosopher, Diogenes, sitting in his tub out-of-doors in order to enjoy the sunshine, the king asked if there was anything that he could do for the philosopher. The reply of Diogenes is said to have been: "Only step a little out of my sunshine."

But suppose the king had had an exclusive right to the sunshine and had been able to say to Diogenes and to any of the people of Greece: "If you would enjoy any sunshine you must pay me for the privilege. For I have the exclusive right to use, or to grant or refuse permission to others to use, the sunshine which nature provides." Then the king would have been in a position analogous to that of the mine owner. He could have been rich perhaps beyond the riches of the famed King Croesus, and that without rendering any service to human kind.

It is the same in the case of an owner of city lots. He does not make the lots. And it is the general growth and development of the community, rather than any contribution on the part of the owner, that makes their situation value high. The owner, nevertheless, can derive an income, over and above what he earns by his work and what his capital yields, because he has an exclusive privilege of using a part of the surface of the earth. He is in a position to make others pay him for the privilege of living on or of working on this special part of the earth's surface. And the amount that he can get from them is measured, not by any contribution of his own to industry but by the value of situation advantages which nature and society have produced.

§4

Improvements by Special Assessments and the Right of Landowners to a Rental Return

Nevertheless, to assert that in practice the landowner, as such, never performs any service for which he is entitled to a return in payment for the use of his land may be going too far. If he is entitled to nothing else, he is usually entitled to a return on the cost, to him, of improvements (such as cutting through and paving streets) met by special assessments. These assessments are customarily made on all owners

of land where a street is to be put through or paved, on the theory that they derive a special benefit from the improvement, a theory which is generally in accord with the facts. It would seem that there is much the same reason for the owners of land which is, in effect, improved by such expenditures, to meet them as there is for farmers to pay the cost of fencing and fertilizing their own land.

That the benefit of this street building (as of social growth) goes to the landowner as such, and not to the owner of buildings on the land, should become apparent when it is realized that a building, apart from its situation, can hardly go much above the cost of putting up another like it. Suppose two building lots side by side, each worth \$2,000. On one, a \$5,000 house is put. The other stands vacant. If the building of a street or the growth of the community makes the combined house and lot worth \$9,000, is not the added \$2,000 an increase in the value of the land? If there is no change in the cost of putting up such a house, will not the adjoining land (on which an exactly similar house can be built for \$5,000, to sell, with the lot, for \$9,000) immediately come to be worth \$4,000? A house or other building unwisely located where it cannot be used may come to have less value than its cost, by the necessary expense of moving it, or, if it is not

movable to a desirable locality, by an indefinite amount. But a house, as such, can hardly increase in value much above its cost of duplication. Analysis seems to show that the increase inheres in the site.

If, then, on the basis of this fact, the owner of land is compelled to bear the cost, or most of the cost, of the improvements made, it seems but reasonable that he should be allowed to enjoy some return on his investment in the expense of paving or other improvement, if any such return is forthcoming. This does not mean that he is entitled to secure all the value that results from social growth, or, indeed, any of the value so resulting, but it may mean that he should be regarded as the owner of, and is entitled to interest on, the difference between what the value of the land in question would be to a prospective purchaser by whom the costs of improvement had still to be met, and the value to a purchaser after such improvements have been made. In short, the investor is entitled to a return—if the land can ever be made to yield it—on the expense to him of the special assessments.

It seems to me sufficiently clear that a not very excessive rate on such expenditures for street-making, etc., will compensate owners on the average for any risks that their land may,

in certain contingencies of population-shifting, yield less than an average return on such expenses. If, however, a group of lot-owners take steps to have a street cut through long before there is need of it and therefore find that a return on this cost cannot for some time be had, it does not follow that these owners are entitled to get, out of the increased value which later may result from social growth, all the interest lost during the interval of waiting.

That the value of city land usually includes more than can be accounted for by the expense of such improvements is evident if we call to mind the value of well-situated land where such local improvements have not yet been made. A piece of land in a great city, situated where the building of a street was contemplated but not begun, might well be less valuable by only about the cost of the necessary assessments than if the street were there. Without doubt it is sometimes true that improvements such as street construction *start the fashion* of living in a given section of a city and so bring up the value of sites there by far more than the cost of the improvements. But it is also true that the outward pressure of population or the building of a railroad or trolley line gives value to the unimproved land in the absence of streets, and makes the putting through of the streets worth while. In

this latter case the causal influence runs the opposite way. It is the conditions leading to increased value, and the contingent possibility of deriving from the land an income previously not obtainable even if improvements had been made, that give rise to the street-cutting movement.

Our conclusion seems to be that owners of land are entitled to a return on their investments in improvements, such as special assessments for cutting streets, in the same sense and to the same degree that they are entitled to a return on the cost of building houses or factories; that, however, they are no more entitled to a socially guaranteed return in the one case than in the other;¹⁰ and that there is no reason why they should be allowed more than enough, on the basis of such expenditures, to make the expenditures worth while. It does not follow that the sums required as special assessments or purposely invested by land speculators in street building,

¹⁰Except as the community compels them to make improvements at their expense in advance of their own desire to do so. Even then no absolute guarantee can be fairly expected. See remainder of paragraph.

What has been said in this section would seem to include all that is the least bit cogent in Ely's discussion (*Outlines of Economics*, fifth edition, New York—Macmillan—1930, pp. 446-449) of what he chooses to call "ripening costs in land utilization." But Ely appears to be using this phrase as part of an attempt to blur, if not to discredit entirely, the idea of a distinction between land and capital.

etc., are not fairly subject to tax in the same way as any capital is subject to tax, but only that whatever reasons there may be for *special* taxation of land values in general do not apply to the part of land values clearly due to such investments any more than they apply to the part of farm land values due to the owners' expenditures in fertilization.

An alternative to street construction by special assessments would be to meet all such expenses by a city-wide land-value tax, or, if borrowing were resorted to because of a large initial expense, to use the land-value tax for paying the interest on and, ultimately, liquidating the bonded debt.

§5

Other Services of City Landowners

Are there any other expenses met or services performed by the city landowner which are to be regarded from the viewpoint of the land-value-taxation philosophy as entitling him to some exemptions? Does the landlord, for instance, perform a service worthy of a share of economic rent by "managing" the land? Is the joint activity of landowners in a given section, in determining the class or race of tenants who may live in such a section, or attending to other matters of common interest, a service entitling them

to the enjoyment of rent? Some of this activity or attention is needed only when the land is used for residential purposes, and perhaps might be given, under some arrangement for a percentage consent in favor of new residents, by tenants instead of by landowners as such, or, as is sometimes the case in a limited degree, by municipal ordinance. The desired protection of tenants in the matter of neighbors is but inadequately given when even two or three landlords, by departing from a general understanding, choose, for a profit, to admit undesirables as tenants or purchasers. Municipal protection might not, in a democratic community, be much better, but it probably would not be much worse. At any rate, any service of this sort yielded by landowners does not entitle them to more than a very small fraction of the annual rent of the land. To say that it is worth all the rent in every case is to say that it is worth much more in a metropolis than in a small town. And to say that all the rent is earned by such service is to say that the cost and trouble of rendering the service so offsets the rent as to make the value of the land (the amount that a purchaser would pay for the future enjoyment of the rent) zero.

Another view is that the rent of land, instead of being, aside from interest on special assessments, altogether an unearned increment, is

partly a compensation for risk and a stimulus to seek out and bring into use desirable locations. In such a view, it might be argued that the real estate dealers who develop a new section of a city or a city suburb for residential purposes risk getting but an inadequate return; or the capital put into improvements may be, if the new section proves to be wholly unpopular, entirely lost. Must there be a chance for a corresponding gain of the so-called unearned-increment variety in order that the improvements desired shall be made?¹¹ And if the possibility of surplus gain needs to be kept open to the land speculator, must this gain include all the rental value of the land for all future time? Is the fact that a given speculator foresaw, earlier than others, the possibility of developing certain sites, and thus hastened the flow of business or population to them, a reason why later generations of business people or of residents, to whom the early bringing into use of the land is no advantage, should have to pay him for the privilege of working or living on it? Of what service is such earlier development to these later generations, that they should have to pay an extra rent for the space used, in order to compensate, for an early risk of loss, landowners or the descendants of landowners

¹¹Cf. Hadley, *Economics*, New York (Putnam), 1896, pp. 287-291.

who took risk by, possibly, premature building in a new section? So long as this section is now built up and available for business or residence, its having been built long before their use of it is probably of no advantage to present users. If these present users must pay more in consequence of such early development, the landowner is presumably receiving payment from persons to whom neither he nor his predecessors have, as landowners, rendered a corresponding service.

In the case of inventions and patents, we limit ✓ the time during which the inventor is to enjoy a special profit on his idea, our philosophy being—partly, at least—that after a few years the general progress of knowledge would be likely to bring the essential idea involved to someone else or to several, and that the general public or that part of the public using the invention cannot be regarded as perpetually indebted to the patentee. May not the discovering of, and the calling of the community's attention to, the value of new sites be a service of this limited kind? Can it be supposed that the residents of a city would forever, and despite increase of numbers, be indifferent to the advantages of living in "Hillcrest," "Riverview," "Country-side," or "Eastville"? For how many generations ✓ must the public pay the descendants of, or the purchasers of land from, those who first empha-

sized or advertised the advantages of these sections for the service of thus advertising them? It is, indeed, quite possible that the land speculators who first, by their advertising, induced population to move into a new section, have sometimes performed a disservice rather than a service, by unduly hastening a movement which would have normally come somewhat later.

✓ Another point sometimes emphasized in the case of patents is that a limited period of special profit is enough to induce the invention and its exploitation. It is unnecessary, therefore, to make the public pay this excess profit forever. May not the same conclusion apply in the case of the service of landowners in calling attention to the advantages of special sites?

Even if we should decide that this particular kind of service was of no value and that we did not wish population or business location to be affected by the activities of land speculators, and even if, therefore, we allowed no part of the rental value of land to go into private hands to pay for such services, there would need to be no fear that houses and other structures would not be built. Obviously, a certain intensity of demand and willingness to pay rent for houses, etc., on the part of tenants, would yield a sufficient average return on the cost of building to make investors willing to take the risk of building in

places where there was reasonable probability of the use of the houses, and this without any prospect of realization of situation rent as an offset to possibilities of loss.

While we are on this general topic, one point should be particularly emphasized, viz., that foresight, purely as such, deserves nothing whatever. The man who, foreseeing a rise in certain land values from a probable increase in, or shift of, population, puts himself in a strategic position to profit by it, is not thereby rendering any service to those from whom he derives return.

✓ Foresight used to give a service may earn remuneration. Foresight used to get something for nothing seems hardly deserving of any special protection.

✓ In this connection it should be pointed out that the hope of profiting from a rise in land values often causes speculative owners to hold lots out of use for many years, while streets are built past them, while telephone wires and water and gas mains are extended beyond them, while transport service must operate for longer distances because of the presence of these unused lots and while home seekers settle farther out from the city's center than would otherwise be necessary; yet the unused lots are poor substitutes for playgrounds and parks. Here is definite waste and loss from the attempt of

speculators to profit from their "foresight". Would a land-value tax high enough to prevent such speculation be an unmixed evil!

§6

The Increment of Land Values in Relation to the Settlement of the American West

The expectation of an increase of land values is commonly, as we have just seen, a cause of keeping land *out of use*. Considered as an inducement to bringing new land *into use*, under certain special conditions which will, presumably, never recur in America, it has sometimes been brought up in connection with the settlement of the West. It has been asserted, for example, that the lure of the "unearned increment" was instrumental in inducing the settlement of the West.¹² However, it must be noted that, in order to acquire title, the settlers to whom the land was given by the government, had, ordinarily, to *live on it*, and this the land speculator usually does not do.

It has also been argued, in the same connection, that the stimulus to settlement of the West and its earlier settlement because of this prospect of an increasing value of the land, benefited not only the settlers but also those remaining in the East, and that, therefore, the unearned incre-

¹²See J. B. Clark, *The Distribution of Wealth*, New York (Macmillan), 1899, pp. 85-87.

ment was "diffused" throughout the country.¹³ Many have doubtless drawn from this contention the conclusion that the descendants of the early settlers in the West are clearly entitled to any increase that may have come to the value of their land. The argument regarding the diffusion of the increment is based upon the belief that the prospect of rising land values, by inducing a movement of the labor supply westward and its settlement upon the farms, prevented the labor congestion in the East, in the cities, and even in the agricultural West from being as great as it might otherwise have become. Hence, it can be argued, the settlement of the West prevented the (marginal) product of labor from being so small and wages from being so low, in the East and elsewhere, as might otherwise have been the case.

But may we not, in some degree, question the conclusion that an unearned increment, or any substantial amount of it, was necessary to get the West settled? After all, relatively few of the settlers were fortunate enough to take up land which afterward became part of the sites of cities and it is probable that most of them did not seriously expect such fortune. May we not conclude that, for the most part, they might have been willing, for the possibility of enjoying

¹³*Ibid.*

homes where the (marginal) product of their labor gave promise of being high, to go and take up new land even though the value of the bare land, as such, could not be expected greatly to increase?

If not, however, if, on the contrary, the prospect of an increasing land value was an essential part of the invitation of the West, then the question arises whether settlement was hastened, to the temporary economic loss of those who went first and to the later loss (through rent payments) of those who followed, and whether a more gradual spreading of population westward, when a real need rather than an artificial inducement began to operate, would not have been economically better.¹⁴

As to the question whether the early comers or their descendants are entitled to rent compensation for being earliest because of any service that they thus rendered, we must bear in mind that any such compensation, under our present land system, does not come from those easterners whose wages are conceivably higher because of the drawing off of surplus population to the West. Nor will it probably come, for the most part, from wage-earners in the West whose wages have been made higher by the movement to

¹⁴Cf. Professor H. J. Davenport's article entitled "Theoretical Issues in the Single Tax," in the *American Economic Review*, March, 1917, especially pp. 22-26.

the land so stimulated by the prospect of securing a profit from its appreciation. Under the present land system, the rental compensation to the western landowners comes from people living in the West, and mostly from people who came a little too late to get land for themselves, or, in some cases, from people who had other ambitions. It is these people whose coming and whose demand for the use of the land bid up land rents. To them, as persons who have come to be inhabitants of the West, any artificially induced scarcity of labor in the East is no longer—if, perchance, it once was—an advantage. Their wages are not higher, but lower, in the long run, than if the West were less fully appropriated. For the (marginal) product of western labor is presumably less. The old alternative of taking up new and good land is gone. Of course, so long as there was still other new and good land to be had, even western wages must have been kept up by the rush of labor to this land, but this would not continue to be the case when, through appropriation and speculative holding, the available free land became progressively poorer.

In what sense, then, and how far, were the benefits of rising land values diffused? Was it in such a sense that the descendants of those who did not take up land must, in justice, pay the descendants of those who did, for the privilege of

living and working on it? Are the descendants of those who did not acquire the land to be regarded as having so gained from the possibly slightly larger labor incomes of their grandfathers or to have so lent their moral sanction to the system, as to be under obligation not to change it, even where cities have grown up and have made land which was worth its hundreds of dollars now worth millions? Is it their social duty to go on paying indefinitely for the use of land which would be equally available and which would be about equally desirable if any individual owner to whom or to whose descendants the payments for its use are made had never lived? Or can society in general be regarded as having ever even impliedly pledged itself that the increase in land values resulting from social growth should go entirely to individuals and should not be subject to any considerable taxation by states or cities?

Is it not, indeed, clear that we are very definitely maintaining a land system which makes part of the public pay large sums annually to the rest of the public for no service that the recipients of these sums, or their ancestors, or any other landowners as such have ever rendered to the persons from whom their rental incomes are derived? Why are those who thus pay without getting, under an obligation to maintain the

system and to continue paying through all future time? Must countless generations of the disinherited be held under obligation to pay for a somewhat problematical "diffusion" benefiting some of their ancestors, a diffusion from which most of the descendants of those who may thus have somewhat benefited have very likely realized nothing whatever? We do not allow the creditors of a father to require payment for the father's debts from the labor income of a son, however much the father may have gained—in his lifetime—by his borrowing, nor do we insist on "compensation" to a creditor who is therefore unable to recover. We adhere to this policy because we do not consider it socially desirable to make one class partially the slaves of another class, to compel them to spend part of their time working for that other class without return from the latter, even though the latter class may conceivably have rendered a real service to the ancestors of the class that pays. May it not be as much contrary to good public policy to recognize any implied contract by which, as an offset to the possibly temporarily larger incomes of one class, the descendants of that class have to pay others for the use of the earth? Is not the recognition of any such implied contract equivalent to recognizing the right of men to sell their children or their grandchildren into slavery? We

would not recognize the latter right, in our society, directly and avowedly, even if the children were sold to get food to save their lives. Must we recognize the former? It is true that, in the case of land rent, we *associate* the payment made with a material thing, the land, but are we not, nevertheless, in essence, dealing with a payment for which no service is rendered?

If it is said that the western homesteaders sometimes had to fight the Indians, it can also be said that they frequently and largely received protection from the United States army paid for out of the general tax fund; and it may well be that men who served in the army and gave such protection, or men who contributed in taxes to maintain it, afterward came to have to pay, for the use of land, persons so protected. It is to be questioned whether any service of the pioneers, still less of the droves of later settlers, who followed them while the land was still cheap, and, in some cases, was being given away by the government, but when relatively little fighting remained to be done, was so important and far-reaching that their descendants can be held to have acquired a right to receive tribute for all future time because of this service, and that the millions of dollars of situation rent in the cities of Chicago, St. Louis, Denver, Los Angeles, and San Francisco really all represent legitimate pay-

ment from later comers and their descendants for the *equivalent* services to these later comers and their descendants, of those who chose to come first. Surely, one who holds this needs take but a short step farther to prove that the whole idea of the unearned increment is a myth, or the product of diseased imagination, and that, really, anything that anyone gets is earned by equivalent service to the one who pays it.

§7

*Ownership of Land by Small-Family Groups
versus Increasing Population in Other Groups*

A special phase of the land problem arises in connection with the rights of small holders of land whose land has been handed down to them by ancestors who have deliberately, when population was increasing, kept their own families small, and who have hoped, thus, to bequeath to their children a sufficiency of land for the latter's use. We may advantageously approach this problem by considering a related one—that of immigration. There seems to be a growing opinion that a highly civilized and prosperous country having a low birth rate may properly protect its standards of living and of wages by excluding from its shores the teeming millions of more prolific races whose multiplication reduces them to poverty at home and whose invasion

of other and happier lands tends to make such poverty world-wide. To let them enter may only make room for new millions in their native country, relieve the poverty of that country but slightly, and add to it the poverty, due to immigration, of the low-birth-rate country. Yet the latter country, if it practices exclusion, is maintaining a monopoly of its land for its relatively sparse population, and is shutting out from any possible use of this land the millions who are eager to come.

What now of the thousands of families in a country who have each just enough land for the efficient application of their own labor and for comfortable subsistence and who, by limitation of offspring, are preventing the undue subdivision of such land into small plots—who are doing their share in keeping up the general level of comfort by trying to prevent too great an increase of population in relation to available land? If the rest of the nation multiplies quite without regard to natural resources or land space and so forces down labor's productive effectiveness, does society's right to land space justify redividing the land equally, thus directly depriving the families which have kept down their numbers of the standard of comfort which would naturally result from their low birth-rate? Or does this right of society justify a system of taxation of

rental values which indirectly accomplishes the same result? For it should be clear that if the land so held by individual families comes to be more valuable, not by virtue of its yielding more, but solely because pressure of population increases the demand for it, then to take the greater annual value in taxation will leave less to the owners than before. To express differently the same thought: if the policy of state appropriation of land rent is consistently applied, so that individuals get only the earnings of their other capital and the wages of their labor (employed or self-directed), then an increase of population which lowers the (marginal) product of labor will not only enable the state to collect more than previously from individual landowners, but may leave less to them as individuals and families than before. Such an increase of population may leave less than before even to those families which are in no way responsible for the population increase from which flows their new family poverty. For this reason—viz., because it would remove a stimulus to desirable limitation of offspring, because it would penalize the far-seeing, because it would give to families whose ideals tend toward universal misery the inheritance of those families whose ideals, if generally adhered to, would bring universal plenty—such appropriation of all rental values

of land might not be a desirable social policy. Much of the rental value of land, even of agricultural land held by actual cultivators, may, indeed, fairly be taken, but not necessarily all.

To illustrate the principle involved, suppose a piece of land capable of supporting a man and his family, a piece of land just large enough to utilize one man's time to the best advantage. Further labor than he could give would then be attended with diminishing returns. To make the illustration quantitative, we will assume that on this land the labor of one man will produce 1000 units (e. g., bushels of wheat), of two men, 1800, of three, 2400. If, at the start, the land is valueless, the occupant and owner will enjoy 1000 units of labor income. If population increased to such a point as to force wages for this grade of labor to 600 or less, he could afford to hire, perhaps, two other men, since the second would add just 600 to the product; he would therefore pay 1200 in wages to the two men, would receive 600 in labor income for himself, and would have 600 left as rent.¹⁵ The owner's total income would then be 1200. We could take 200 of this in taxation and still leave the owner's combined rent and labor income at 1000, which he was getting as a labor income, with no

¹⁵For simplicity we are eliminating income on constructed capital from consideration.

more total effort, before. But if we take all of the rent in taxation, we leave him only his 600 labor income, which is not much over half of his previous income; and we have subjected him to deprivation through an increase in population for which he was not responsible and which was clearly undesirable from the point of view of general welfare.

However, in practice the increase of land values is usually in large part an increase in the value of special sections of land which growth of population causes to become more advantageously situated in one or more ways. As the country grows, certain places come to have new and special advantages as market centers, as ports, etc., and thus acquire an increased rental value not dependent on a lowering of the productivity of labor. Increase of population in a fertile, unsettled plain, containing a great deal of land of approximately the same fertility, might not for many years lower the (marginal) product of labor. To be sure, the later settlers might have to go farther, but the more distant points would be no more isolated than the first-taken land was at an earlier date, and the extension of roads and railroads might make them less isolated and more productive. Rent would rise, not because of inadequate land resources, but because the situation of a part of the land

relatively to markets, population centers, etc., has become better. Still more clearly does this fact stand out when at some point on the plain a city develops, called into existence by the increasing number of those whom its merchants, artisans, *et al.*, can effectively serve. Its growth is, possibly, an advantage even to the owners of rentless land, but confers a special advantage on those whose near-by location enables them to reap exceptional profit from supplying the city needs as to produce. The growth of the city confers a still greater advantage on those whose land comes to have value for distinctly urban uses. The occasional settler who, or whose descendant, finds that his land is in the center of a thriving city may become a millionaire as a consequence of conditions to which his own contribution was negligible if anything at all. In this case and, in general, in a country like the United States, land rent has certainly grown much more largely by the increase of the possibilities of special land, thus creating a differential between it and rentless land, than by forcing cultivation to a lower level of productiveness. In short, any desire that we may feel to protect small landholders who limit their families, from being made to suffer through the general increase of population, need not prevent us from taking, in taxation, most of the rental value of land,

including that of mines and power sites, and nearly all of the rental value flowing from its situation of city land. And indeed, even the slight theoretical qualification suggested in this section may come to seem of still less practical significance in view of considerations yet to be discussed.

Before concluding this section it may be well to illustrate by reference to the case of the American metropolis. The great rise in the rental value of the land of New York City since its early days by no means signifies a corresponding reduction of the (marginal) product of labor below what it would be were population smaller. It may, indeed, be true that, assuming the population in the rest of the United States and, possibly, in the rest of the world, to be constant (and the stage of the industrial arts to remain unchanged), an increased number of persons concentrated in New York would bring decreasing proportionate returns. That the law of diminishing returns applies to increase of numbers on city land is as true as that it applies on agricultural land. But the virtues of city land for industry are, in a peculiar degree, virtues due to situation. And the situation of such land is, in large part, so far as it has economic significance, a matter of its relation to the location of other places and of the density of population of and types of

industry in these other places. If, therefore, the United States as a whole grows in population, the number of persons whose services are wanted in and about New York City, to handle the larger import and export trade of this larger population, becomes larger. And the (marginal) productivity of labor there may be, therefore, as great as or greater than before despite a larger local population. In short, if population is most advantageously distributed within a country, diminishing returns do not set in for any part of it until they set in for the country as a whole. So if, with increasing population thus advantageously distributed, the (marginal) productivity of labor in the country as a whole is no less than if population were smaller, and if the rent of land in and about New York City greatly increases, this increasing rent is clearly an addition to the output of industry and a social product. Is it undesirable that such a product should contribute heavily to the expense of maintaining, through government, favorable conditions for social life?¹⁶

¹⁶The question may be asked why, if increased population may thus, within limits, add to the effectiveness of industry, this fact should not be reflected in higher wages. Might it not reasonably be expected that the owners of land, as employers of labor, would be ready, *if necessary*, to give *almost* all of this additional value to laborers (or for labor *and* capital) in order to secure the additional labor (and capital) which thus adds to the rental value of their land?

§8

The Taxation of Future Increments of Value

Hesitating to accept the more radical proposal of Henry George in favor of sweeping into the public treasuries situation rent in its entirety, some writers have contented themselves with advocating the public taxation and use of

In other words, should not the anxiety of landowners to get some of the rent make them willing—if necessary!—to give *most* of it to labor, as wages (and to capital, as interest), in order to draw to the land the labor (and capital) the increase of which tends to raise rent?

We have already prepared the way for an answer. It lies in the fact that what raises the rental value of any *individual piece* of land is not, in any appreciable degree, the settlement and development of, and labor on, that *piece* of land, but is rather the settlement and development of land which is economically tributary to it. As we have just seen, it is the growth and development of the rest of the country which chiefly makes valuable the land in and around New York City. So, *if the entire area of the United States were owned by one person*, this owner could afford to pay as wages to a worker in (say) the Middle West, *if otherwise this worker would not stay in the United States*, not only this worker's productive contribution on the specific piece of land where he was working, but also an added increment for the slight addition to the rental value of New York City (or other) land, of which this worker might be regarded as the cause. But no one does own the entire land of the United States or even most of the land in any one state. Most land is held in relatively small parcels. And to the owner of any individual piece of land, the value of a single additional laborer is only the additional (marginal) product which will result from his labor *on that land* (and similarly as to the value of the use of an additional unit of capital). For each landowner, the conditions in the rest of the country are, at any time, relatively fixed, and, under these given conditions, increasing numbers of workers on his own land (and similarly with increasing capital), will bring diminishing proportionate output. Wages (and likewise with interest) must tend to be low enough so that, with each such owner of land

future increases in the rental value of land.¹⁷ This advocacy, they seem to have felt, frees them from the necessity of urging anything that looks like confiscation. But there are reasons for thinking that if the more radical proposal involves confiscation, the other does also, though it may be less in degree; and it is doubtful if the more moderate plan can be successfully defended without raising a presumption that the more far-reaching scheme has also something in its favor. Indeed, an attempt to tax only *future increases* in land value, making no tax subtraction from present rents, might be said to resemble an attempt to deal with slavery by passing a regulation that slave-owners must not work their slaves any *harder* in the future than they had done in the past, *but might continue to work them as hard!*

hiring no more men than have, *for him*, a productivity estimated as, at the margin (i. e., what the last man hired adds to the output), not less than the wages paid, the labor force of the community will be entirely or almost entirely employed. The rent enjoyed by each landowner whose land has appreciable rental value will then be the *surplus product* of labor and capital *on his land*, consequent mainly on the *settlement and development of other land*. How can this value be secured for any but the class of landowners,—unless through land-value taxation?

¹⁷See, for example, Taussig, *Principles of Economics*, third edition, New York (Macmillan), 1921, Vol. II, p. 108. This scheme was suggested by John Stuart Mill in the middle of the last century. See his *Principles of Political Economy*, Book V, Chapter II § 5.

A tax on increases in the value of land, when included as part of a tax system, is usually levied whenever a seller of land disposes of his land at a profit. Such a tax has the disadvantage of discouraging transfers. An annual tax on the value of all land does not.

To the proposal that only future increases in rental value be taken by the state, it has been answered that to take future increases without compensating landowners in the case of future decreases in the value of their land unfairly deprives them of the chance to gain while still leaving them the risk of loss. In the words of F. A. Walker, "the game of 'heads I win, tails you lose' is not one in which the state can, in fairness and decency, play a part."¹⁸ If one believes that the *present* rental yield of land, as well as future increases of this yield, should not go to the private owner, this contention will not disturb him. Otherwise it may seem to be convincing.

There still remains the argument, however, that in a growing country increases are frequent and decreases rare and that, therefore, no large injustice would be done by the scheme. But what if the opposition contends, as it plausibly may, that the present owners of land have, in

¹⁸*Political Economy, Advanced Course*, New York (Holt), 1887, pp. 416, 417.

many cases, bought it at prices which they were willing to pay only because of the prospect of future increases? The opposition may contend, in other words, that expected future yields have been discounted into the present prices of the land, and that, therefore, to tax heavily these future yields will deprive such purchasers of an income they paid to receive, and will depreciate the value of their land below the price at which they bought it. Some increases, to be sure, may come as unforeseen luck, but many must be anticipated or over-anticipated. Is a tax on such increases any less "confiscation", so far as the capitalized value of land is concerned, than would be a moderate increase in tax which would take away a part of the constant annual rent of a piece of land bought with no expectation of a rise, but bought in the belief that its owner would be left undisturbed in the enjoyment of the entire rent?

Without now pursuing this comparison further, we may note that a doctrine according to which the public has no right to take by taxation future increases in land values, increases not earned by any service rendered by the landowners, must, logically, be opposed to other governmental policies of which most of us are in favor. Such a doctrine would mean, for instance, that the purchaser of stock in a company which con-

templated—or the purchaser of whose stock foresaw the likelihood of its undertaking—selling out to, or becoming part of, a monopoly and so securing monopoly profits, since such purchaser paid more for his stock because of his expectations, must be allowed to enjoy these monopoly profits, or, if they are taken away from him, must be *compensated*. Has the purchaser of stock under circumstances of this kind any such claim even if the policy of limiting monopoly profits is one which was not previously in force but was adopted after he purchased the stock?

§9

Land-Value Taxation in Relation to the Theory of Vested Rights

The principal objection actually felt, if not the one chiefly emphasized, by opponents of land-value taxation, is an objection based upon respect for vested rights, viz., that such a scheme of taxation would take away from the owners of land a large part of the capitalized value of their property by making it impossible for them to enjoy from it the expected future income. If a piece of land yielding \$1,000 per year is valued on a 5 per cent basis, its selling price would be \$20,000. To take \$200 a year would mean, since a tax on land rent cannot be shifted, that the selling price of the land must fall to \$16,000.

Hence, it is said, since such taxation takes from the owner a fifth of the value of his property, it is confiscation and a denial of vested rights. Of course what we definitely take is a fifth of the yearly income, but since the value is dependent upon the income the establishment of such a tax as a *permanent part of the tax system* in effect takes one-fifth of the capital. But how is it if through indirect taxation we take \$100 a year from the family of a workingman whose annual income is \$500? If the man's expectation of life is thirty years, would not the capitalized value of his income be well in the thousands of dollars, supposing it to be salable? And would not this capitalized value be reduced one-fifth by a tax of \$100 per year if such a tax were adopted as a permanent part of the tax system? To be sure, workmen are not in the habit of thus capitalizing and selling the right to their future incomes, but is the injury to them from a tax any the less for that, or the fundamental nature of the problem essentially different? If a need of increased revenues were thus met, there might be sympathy expressed for the working classes and objection to the tax as an undue hardship upon them, but the word "confiscation" or the expression "vested rights" probably would not be used. No complaint would be made that the fundamental rights of property were being in-

vaded or that society had violated any implied pledge.

It seems to be this last notion, that of an implied pledge or sanction given by society, which makes many thinkers regard so askance any proposal for radical changes. We must not take rent in taxation because the enjoyment of it is a vested right. "Society" has allowed individuals to appropriate nearly all of rent in the past and various persons have bought land, relying upon the continuance of the system. Hence the private enjoyment of land rent must always be allowed unless compensation is paid by the dispossessed to the possessors.

If we are perfectly frank in our adoption of this vested-rights argument as a reason for refusing to take from those enjoying them incomes not earned by service given to those who pay them, we shall have to admit very frankly that several types of incomes ordinarily objected to by economists must be continued indefinitely. Thus, in consistency, we must protest against any regulation of monopoly which will do away with the monopoly prices on which any monopolists had counted, and particularly so if the monopolists have bought stock at a higher price because of the expectation of monopoly profit. "Society" has permitted this profit in the past, has lent its "sanction" to it, has allowed people

to buy stock in the expectation of realizing an exceptional profit. May society, therefore, by its regulations cut down this profit? Must it not pay the monopoly prices indefinitely or else *compensate* the monopolists by paying them in advance the capitalized value of their expected future monopoly profits?

So, again, if we would be perfectly consistent, we must not remove the protective tariff on goods when those who have invested in the companies producing such goods have paid more for their stock than they would otherwise, in the expectation of deriving protected profits. In other words, since, largely through the influence of those engaged in protected industries, the policy of protection has been maintained for a limited number of years, society at large owes such industries a continuance of favor. In still other words—for this is the inescapable implication—those who wish to consume the protected goods may properly be required to pay for these goods an excess price, a price above the real value of the service given. In this view of the case, the taxed class, being part of society, has some sort of responsibility for what society has done, even for what the class that profits by protection has influenced society to do, and has no right suddenly to refuse longer to pay tribute to the protected class.

The foregoing is a view which I cannot bring myself to accept. Society is under no obligation nor is any class in society under an obligation to pay tribute to any person or group of persons for all future time. Still less is a class which, *while another class has controlled government*, has been exploited, under obligation to continue to let itself be exploited if and when it is able to get into the saddle. Society as such has given no pledge, and is not in a position to give a pledge, that its policy will not change. Those who buy stock in a monopoly or invest their money in a protected industry must be held to have done so, not under any guaranty of permanence, but at their own risk, knowing it to be the right of the rest of society to cease paying the excess prices and adopt a new policy at any time.

How does the matter stand in the case of land values? Is it correct to think of land-value taxation primarily as a system of taxation that infringes on vested rights by taking something away from landowners? Is it not more enlightening to call to mind that, indeed, the rest of society is continually (weekly, monthly, or annually)¹⁹ paying tribute to the owners of land, tribute for which neither these owners nor any

¹⁹Cf. Henry George, *Progress and Poverty*, Book VII, Chapter III, particularly pp. 362 and 363. (Page reference is to edition of 1905, Doubleday, Page & Co.)

previous owners as such have ever rendered a return to those who thus pay them? Even if the land was bought from government and the purchase price distributed to all members of the community, it is *not* distributed to the *next generation* whose presence gives value to the land and most of whom are nevertheless compelled to pay a few owners for the privilege of working and living on it. (When we say that for the public to take in taxation most of the rental value of land would be to confiscate the "property" of those who had previously enjoyed this rent, do we not express the fact the wrong way about? Would it not be nearer the truth to say that the rest of society simply refuses longer to have its earnings confiscated by the landowning class? Does the situation value of land, the value apart from improvements, represent anything else but the estimate, in a present valuation, of the future tribute, the future payments without corresponding services, which the owners are in a position to get from others? Are not the masses paying a perpetual tax to the owners of land for the privilege of living upon, and making use of, sites which were neither produced nor rendered valuable by the owners?) Suppose the masses who are thus paying tribute without receiving either labor services or more capital equipment for production than would otherwise be available

or indeed anything else worth the price, simply decide to stop paying this tribute! Would their doing this be confiscatory? And must they, if they are to cease paying, compensate the land-owners by giving to the latter interest-bearing bonds worth as much as the land, and payable finally, as to interest and principal, by the same persons who now pay rent? Is this not equivalent to saying, not only that those who are slaves in the sense that they devote much of their labor to the support of a parasitic class, cannot be freed without provision for compensating the parasitic class, but also that the compensation must be provided by the slaves? Could we reasonably expect the slaves, once they were in the saddle politically and thoroughly understood the matter, to take this view of it?

As an analogy to the payment of tribute for the use of land to persons who are in no way responsible for its existence, let us suppose that an ancient king or a small ruling caste has somewhere given to a favorite or to some one of political influence the negotiable privilege of collecting each year a certain amount of the taxes and turning them to his own use. The favorite later sells his "right" to another for a large sum of money which that other had honestly earned by hard and faithful work at a useful task. Some time after this second arrangement is

made, the taxed class overthrows the power of the king or aristocracy and establishes itself in power. Must this class go on contributing the tax because the would-be recipient paid to get it, notwithstanding he paid nothing to those whom he now expects to pay him? And if they refuse, using the money in question instead as part of their general tax fund for common purposes, are they guilty of an immoral act? Must not the would-be collector of tax money be assumed to have made his purchase subject to the condition that society could in its own good time make such changes as its members might see fit? And if the remainder of society came to believe that, in the long run, *the greatest good to the greatest number* would be attained by establishing a system in which, in general, each should profit according as he served, and in which, *except as some special social reason justified the apparent exception*, no one might receive tribute from those he did not serve, would not society have a moral right to establish such a system?

Public policies are constantly changing in such ways as to disappoint the expectations of persons who have invested on the supposition that policies would not change and to affect the salable value of their property. Tariffs are raised and lowered. Prices of monopolized services are first left to be fixed by the monopolists and are

then regulated. The business of manufacturing alcoholic drinks is at one time permitted and at another time outlawed. High inheritance taxes are suddenly imposed after wealth has been accumulated in the expectation that it may be bequeathed without appreciable diminution. Taxes are increased on some goods and decreased on others. In a few communities, indeed, taxes have already been made higher on land than on improvements. May purchasers of land, then, fairly make the presumption that the one thing which society cannot rightly do is to discriminate in taxation against land, *no matter how gradually taxation policy is changed in this direction?* (May not society, on the contrary, presume ✓ present owners to have purchased their land knowing that public policies frequently change, knowing that tax policies change, knowing that taxation systems frequently discriminate among the consumers of different goods and otherwise, and realizing that a change may some time be made and can legitimately be made in the direction of heavier relative taxation of land?)

The truth is that few of those who advocate large taxation of land values, even of the single-taxers, urge any but a gradual change in the rate of taxation of land. A sudden break with the past is not sought for. Nor, if it were, would there be any serious likelihood of its coming.

Though we may work for the change with ardor, it will probably come through compromises and little by little. But even if the tax change, as such, were suddenly made, its being preceded by a long period of agitation and of growth of the land-rent-taxation sentiment would forewarn landowners and operate to ease the transition for those who were likely to lose by it. Indeed, it is not unlikely that by the time such a change goes into effect—if it finally does go into effect—many landowners will have come into possession of their land more or less expecting the change and will have allowed for it in the price offered for the land they have purchased. And a fall in the price of land, though it may involve loss to a person who sells his land for current gratifications, does not involve such loss to a person who sells one piece of land in order to buy another.

Again, even if, here and there, a town or city increases rapidly the amount of tax it puts upon land, this may not, while the new system is not general, cause very considerable loss to landlords. For it will be likely to mean that in those cities business and individuals are relieved of other taxation which elsewhere they have to meet and the policy will therefore probably cause those towns to be more rapidly settled (by the drawing of population away from other towns)

and land rents in them to go up.²⁰ This is a result which would not be brought about if the equally rapid increase of land-value taxation in other places kept the balance.²¹

Furthermore, even if the tax were generally applied, no great loss would fall on small land-owners who have improved their land and who themselves live on it, persons who own their own homes and little else,²² and many such would clearly gain. But to persons owning land and buildings which are used by others or for the production of goods to be sold to others, a tax on land rent might eventually involve a considerably heavier burden, since such a tax clearly cannot be shifted (if general), while the tax on buildings very possibly can be, at least to some extent.²³

²⁰Suggested by Professor H. J. Davenport's *Exercises*, printed to be used with his *Economics of Enterprise*. Cf. pp. 28 and 29 of Professor Davenport's article in the *American Economic Review*, March, 1917.

²¹Some may regard it as an objection to a purely *local* application of anything approaching the single tax and the local use of the funds derived from it, that such a policy gives to labor in the town adopting it a benefit more than it receives elsewhere and therefore induces labor to come to such a city when otherwise it would stay away, and, by inducing surplus labor to come, brings diminution of the product of this particular labor.

²²Cf. Henry George, *Progress and Poverty*, Book IX, Chapter III.

²³Whether a tax on all the earnings of capital regardless of the line of investment could be shifted and to what extent, would depend on whether and how far such a tax diminished saving. See the discussion of the effect of interest on saving, in my *Economic Science and the Common Welfare*, fifth edition, Part II, Chapter III, §5 (last three paragraphs of section).

✓ The removal of taxation from all capital and its concentration on land values would of course involve an increased burden to those whose property was chiefly in land values. But the immediate loss to the person who owned both land and capital would be minimized by the fact that he would be enjoying relief from taxation on his capital²⁴ (the interest from which, if the capital was itself earned and was being used in socially advantageous ways, would be earned), at the same time that he was being made to pay heavier taxes on his land (the situation rent of which was principally unearned). In the end, the removal of taxation on capital would presumably reduce interest rates if the leaving of larger net returns to owners of capital operated to encourage capital accumulation. But for some time the average property owner would probably be largely compensated in his greater net interest on capital, for the reduction by taxation of his net rent on land.

✓ In truth, when all is said regarding confiscation, we must recall that government cannot possibly raise revenue without taking something from somebody. And if we have to choose be-

²⁴If the shift in taxation from capital to land were great and sudden, therefore, the *rate* of interest would be temporarily higher and whatever was left to landowners of site rent would have to be capitalized, for a while, at this higher rate.

tween taking an unearned income already being collected by part of us from the rest of us, or allowing part of us to enjoy such an unearned income and taking something more, in taxes for common purposes, from the rest of us, the choice should not be difficult.

To be relieved of the burden of supporting social parasites by rent payments while at the same time supporting government out of taxes, and instead to let the rent serve also as the taxes, would mean a clear and large net gain to the classes previously exploited. Yet many of the exploited, understanding little what is happening, and failing to distinguish between property incomes based on service and property incomes purely exploitive, prate pseudo-learnedly of "surplus value," the "class struggle," and the prospective evolution from capitalism to socialism. Eternal children in their comprehension of the working of economic forces, unwilling, for the most part, carefully to examine any other economic philosophy than their own, the majority of socialists are ready to follow the Marxian doctrines wherever they may lead, as the dancing feet of the care-free children of Hamelin followed into the dark mountainside the enrapturing music of the Pied Piper. The socialistic theory in outline is simple. To the mind unused to analysis it seems to be both a com-

prehensive and a conclusive account of the nature of exploitation. But its doctrine regarding the nature of interest on capital is utterly fallacious²⁵ and the prospect that its program could be put into effect and made to work is exceedingly dubious.²⁶ The classes which profit by privilege, are, in their understanding of economic and social phenomena, but little superior to the exploited masses. Were this not the case, and were there not the fear of Bolshevist violence, we might well expect them to be exultant at the relative strength of socialism among reform movements. For socialism almost hopelessly diverts the minds of those who might be the principal protestants against the receipt of unearned incomes into an indiscriminate opposition to earned and unearned incomes alike. And it therefore serves to prevent recognition of facts the recognition of which by the masses might mean to those who hold economic power based on privilege rather than service, real danger of its loss. The one chief virtue which socialism, as currently preached, does have, is its insistence that evils exist, that present conditions are far from ideal and that the doctrines and propaganda of the privileged classes are not to be accepted as final

²⁵See *Economic Science and the Common Welfare*, fifth edition, Part II, Ch. III, §5 and Ch. IV, §10.

²⁶See Chapter I, §2, of this book.

truth. And it must be admitted that a few prominent persons calling themselves socialists, though hardly of the orthodox brand, have come to see an especial significance in the problem of land rent.

Nevertheless, most socialists have no real understanding of our economic system and are unable to trace its evils back to their specific causes. Hence they are not to be trusted to show us what needs to be done to remedy these evils. They have no comprehension of the relation of credit contraction to business depression,²⁷ no understanding of the real nature of interest on capital as a reward for the thrift that can be clearly shown to benefit the community, no appreciation of the distinction between capital and land. Their solution for our economic ills is not to study the economic system we have until they thoroughly understand the specific causes of the evils manifested in it, and thus learn to remove those causes while still retaining the good elements in the present system. On the contrary, they desire to introduce an altogether different system operated on substantially different principles. Thus, these dreamers of Utopias, including the adherents of so-called "scientific" socialism, though having no fundamental compre-

²⁷See my *Economic Science and the Common Welfare*, fifth edition, Part I, Chapter V, especially §7.

hension of the underlying principles of our present economic system, are nevertheless extremely confident that, if we would but trust ourselves to their guidance, they could both devise and successfully operate an entirely different system. It is indeed regrettable that those whose influence among the discontented and radically-minded poor appears to be the greatest, have no more understanding than have most socialists, of the principles which are an essential basis of sane and effective economic reform.

But let no conservative, opposed to any thorough-going change in the economic system, congratulate himself on being intellectually superior to the socialists, or cast any aspersions on sound economic proposals as "mere theory" just because he has not penetration enough to understand their import, or preen himself as a "practical" man who knows from his "practical" experience how our economic system should be run. The course of events should long since have pricked the bubble of conceit of our "practical" men of affairs, if the bubble did not have too thick a skin to be pricked! For they do not know—and, so far, seem unable to learn—how to run the economic system so as to avoid recurring periods of business depression with unemployment and distress for millions, with losses—even bankruptcy—for many of themselves. As for the

inequalities and unfairnesses of the system, it is probably true that many men of the self-styled "practical" sort do not even *wish* reform!

§10

The Ability Theory of Taxation

There are some who contend that the taxation of incomes in general is to be preferred to taxation of the rental value of land, on the ground that it conforms better to the so-called "ability" principle. But it is yet to be established that taxation ought to be in proportion to ability. Taxation ought to be arranged with a view to societal welfare, and this may or may not mean that it should be in proportion to ability. Societal welfare may be better furthered, for instance, by preventing exploitation and the consequent receipt of unearned income, than by mathematical precision in apportioning taxes to total income of all sorts.

The ability theory of taxation rests upon much the same ground as the theory of charitable relief. In the case of charitable relief it is argued that the sums thus expended have a greater (marginal) utility to the poor and helpless who receive them than to the relatively prosperous who contribute them (voluntarily or otherwise). In the case of taxation it is argued that a large requisition from one who is prosperous may in-

involve less deprivation and sacrifice than a small requisition from one who is comparatively poor, or, otherwise expressing the same idea, that to take money from the well-to-do, even though they have fairly earned it by giving equivalent service, and to expend it for public purposes so that a large part of the benefit from its expenditure is received by the relatively poor, will increase utility and will increase the sum total of happiness. By taxing lightly those whose incomes are earned by labor and are small, we may even make easier for them the accumulation of capital as well as increase their possible daily consumption of enjoyable goods. Assuming wants to be equal, one might with some plausibility argue that the maximum of aggregate human happiness could only be attained by carrying this principle to the point of equalization of incomes. But long before incomes had been equalized the effects on efficiency of labor, perhaps, also, on the rate of accumulation—for who would save if the state guaranteed equal income to the thriftless?—and, possibly, on biological selection, resulting from neglect of the principle of making incomes received depend on services rendered, would become serious. The greatest welfare would *not* be thus secured, *in the long run*. If, therefore, we do venture to make some *partial* application, in our tax system, of the

principle of equalizing incomes, we must *sharply limit our application of this principle* in the taxation of *earned* incomes lest we depart too far from the principle of *proportioning incomes received to services rendered*.

But whether or not there are classes which, because of their poverty, ought to receive from the community in personal incomes and in services from government, more than they contribute, in taxes and otherwise, to the community, it seems quite certain that the recipients of situation rent, as a whole, do not constitute such a class. And whatever justification there may be, from the point of view of maximizing utility, in providing that the poor should exploit the rich, it is doubtful whether there is any equally plausible justification for provisions which enable the rich to exploit the poor.²⁸ This, it is believed, is mainly the direction which is taken by the exploitation growing out of our present land system. If, then, among the owners of land who profit by the exploitation which is inextricably bound up with the present system, are to be found the ubiquitous "widows and orphans"

²⁸I am not unaware that such exploitation has been suggested as a means by which savings may be made which the poor, having many unsatisfied needs, would not make. See an article by Alvin S. Johnson in the *Political Science Quarterly*, XXIII, pp. 221-241 on "Protection and the Formation of Capital."

whose anticipated distressful state has been made the basis of opposition to many other necessary reforms, it is better that society should make special provision for them in those exceptional cases (assuming that there are any such) where the shifting of the tax burden from other values to site values threatens them with poverty, than that it should forever maintain a bad system. Indeed there must be many widows and orphans who are victims of this system, of which some of their class may be beneficiaries.

✓ Similarly, if, to abolish land rent exploitation, a system of taxation is necessary which shall place chief reliance for public revenue on the rent of land, it is no sufficient objection to such a reform that it might reduce the tax burden of a few wealthy persons whose property happens to be chiefly not in land and whose "ability" to pay taxes is nevertheless considerable.

* And if, whether on the basis of ability or for any other reason, we choose to levy special taxes on large incomes just because they are large and regardless of their source, such taxes should in no degree be a substitute for the appropriation by the public in taxation of the greater part of the community-produced rent of land. They should in no degree serve as an excuse for leaving land rent as a considerable source of private

income or for maintaining a system under which a majority must pay a few for the privilege of living and working on those parts of the surface of the earth where life is relatively supportable and labor relatively productive.

The fact is that any study of taxation policy ought to envisage *all* of the important effects likely to result from a given kind of tax or tax system, not merely whether the tax is in proportion to "ability" or would involve "equal sacrifice" or (more communistically) "*least sacrifice*". Among these other effects are the possible stimulus to, or encouragement of, efficiency and thrift, effects on land speculation and, therefore, on industrial productivity, and effects, which may have tremendous economic and social significance, on the sale value of land. To center attention exclusively on the matter of "ability" or the immediate personal sacrifice to the taxpayer, is consistent neither with a properly scientific method of inquiry nor with common sense.

§11

Some Probable Effects of Making Land Rent the Chief Source of Public Revenues ✱

If taxes were removed, for the most part, from other capital and were concentrated on land, several consequences would follow. The net ✓

returns to owners of capital would be greater, because less taxed, and this would mean a higher rate of interest to them on the value of their capital. If this higher rate of interest resulted in increasing accumulation, the rate might eventually somewhat decline. So long, however, as the net rate of interest remained higher than before, there would be two reasons for a decline in the selling value of land. Land would decline in value because the net rent to its owners would be reduced by the tax. And it would decline also because its future rent would be capitalized, for a time at least, at a higher interest rate. For the value of land, unlike the value of capital, has no relation to its cost of production. Land, as we have here defined it, has no cost of production. Its value can be arrived at only by knowing or estimating its future rent (or surplus yield over interest and wages) and capitalizing this future rent at the market rate of interest.

If, then, a piece of land is expected to yield \$100 a year for an indefinite future, in excess of the wages and interest expended in making use of it, and if the market rate of interest is 5 per cent, the land will be valued at \$2,000. A tax which should take each year \$75 from the \$100 previously left to the owner, leaving him a net rent of only \$25, would reduce the value of the land in as great a proportion, i.e. to \$500. The

Annual yield to the owner, after the tax, would be as large a percentage as before of the price at which his land could be sold. Hence he would have no more motive to sell the land than he had before and he would continue to do with the land exactly what he would do with it if there were no tax. The speculative holder of land, however, would find the tax a reason for not holding his land idle and, if he could not use it, would have to let it go to those who could.

But if the removal of taxation from capital means that the owner of capital enjoys even temporarily a higher net interest than before, because an untaxed interest, the fall in the selling value of land will be more pronounced. For the prospective \$25 a year of rent left to the owner if the land is taxed, which, if net interest is 5 per cent, makes the land worth \$500, will, if net interest is (say) 8 per cent, make the land worth only \$312.50. And if the tax, by discouraging speculative holding of land and so putting more land into use, brings the net rent to a figure below \$25, the sale value will go below \$312.50.

Let us consider, now, the effects likely to be produced upon different classes by a change in the tax system which should remove the burden of taxation, in large part, from capital and commodities and concentrate it on land. The typical small farmer would very likely have considerable

to gain from a system of securing public revenues which avoided taxing him on his buildings, machinery, stock, orchards (except the bare land), fences, drainage improvements and the fertility put into the soil by his own efforts,²⁹ which

²⁹For the purposes of taxation, it is not to be assumed, however, that the rental value of agricultural land, as distinguished from the interest on capital, necessarily includes only the rental value which the land might have if the exhaustible fertility elements of the soil were entirely withdrawn. In most cases the land would become unusable without some restoration of fertility elements, before this point had been reached. Land which has been so far exhausted that it will not yield to labor and to the capital invested in buildings, machinery, etc., the ordinary wages and interest, *unless its fertility is wholly or in part restored*, and which would therefore be abandoned if restoration were not feasible, might not be altogether without fertility elements capable of further exhaustion. *But no one could afford to live on the produce of his labor on this land*, while thus carrying the exhaustion further. The minimum of *practically* exhaustible fertility has been reached. If, now, a piece of agricultural land exhausted to this degree is so well situated that a would-be tenant could afford to pay rent for it, provided he were assured either a perpetual lease or, on termination of the contract, the full cost value of his refertilization, this rent would measure the rental value of the land as distinguished from interest on capital. That land which is so far exhausted as not to be practically usable without some degree of restoration, may nevertheless be so well situated as to yield, *if restored*, something in excess of the wages of labor and the interest of capital employed upon it, *including in "capital" the restored fertility of the land*, will be readily admitted. Such a yield is clearly *rent*.

Gas and oil wells and mines, like farms, are exhaustible. But they differ from farms in that exhaustion is necessarily permanent. The owner never replaces what he takes from them. There is, consequently, no problem of distinguishing between the rental value given by nature and any interest return on elements replaced by the owner. The rental value of the ore of a mine as distinguished from the interest on machinery, shafts, corridors, etc., is all, clearly,

avoided, also, taxing commodities of which he was a purchaser, and which taxed only the value of the unimproved land. His net annual returns ✓ would frequently be larger, although the selling value of his property would be smaller. Considered as a potential land speculator he would be worse off. But considered as a farmer who in-

unearned (except so much as may fairly be conceded as reward to the discoverer of the mine for making it available somewhat sooner than it might otherwise be found—cf. §5 of this chapter), and may be taxed with justice at a very heavy rate, perhaps up to 100 per cent a year. This conclusion need not interfere with a governmental policy designed to conserve mineral wealth for future generations. Either inducements could be made to owners to conserve by a policy of remission or partial remission of taxes on unused mines (which policy might, however, offer temptations to speculative holding of some mines so inducing all the greater use of others, or to monopolistic restriction of output), or the government could buy mines outright for the purpose of conservation, being able to buy them more cheaply because of this policy of taxation than if private individuals were permitted to appropriate all the income from natural mineral resources. This will be an unwelcome conclusion to the owners of our mines of gold, silver, copper, lead, zinc, iron, coal, etc., but from the point of view of the masses it is a just conclusion nevertheless. For that a few men should be permitted to derive tribute from the remainder as a condition precedent to the enjoyment by the latter of nature's subterranean gifts, tends neither toward equality of opportunity nor toward general wellbeing.

In passing, attention may be called to the fact that there is nothing ✓ in the scheme to tax land rent which need at all militate against the forestation of land. Under this scheme idle lands can be the more cheaply secured by government for forestation purposes. Under it, the additional value due to an individual's forestation goes untaxed. And under it, as now, special exemptions from taxation can be given, if it is believed that private forestation is of general benefit, to encourage such forestation.

tended to remain such and to pass the farm on to his children, he and they might easily be better off. Such a farmer, if he owned his farm free of debt, could accumulate wealth the more rapidly because of the assumed change. And if, previous to the tax change, the farm had borne a mortgage, the new system would enable the farmer more easily to get out of debt. Indeed, there seem to be a very large percentage of farmers who, with good management and industry, can hardly get incomes which amount to fair wages for their labor and interest on the cost value of their improvements. Such farmers *get no land rent at all*, or an insignificant rent, and, therefore, *would pay no tax at all if no property but land were taxed or would pay a merely nominal tax of a few cents an acre*. Those economists who favor confining increase of taxation of the rental value of land, to cities, for local purposes, might well be objects of suspicion to such farmers. For it appears often to be in the cities that the receipt of large incomes from the rental values of land is most important; and it is very clear that the high values of the city lots from which these incomes are drawn are sometimes due in great degree to the growth of environing farm communities. At all events, it may properly be asked why the large rental incomes from city lands may not be taxed to meet the cost of state functions in the

benefits of which farmers share, as well as for purely local expenses.

To tax community-made land values rather ✓ than labor and thrift would, in general, give relief to those farmers who most need it. It is not the wealthy owners of prairie land well situated on a concrete highway not far from a railroad station, whether they direct their own operations or live off of the rents paid by tenants, who most need relief. The farmers who most need help (leaving out of consideration, for the present, tenant farmers and farmers so heavily mortgaged as to be almost in the tenant class) are those whose farms yield almost no economic rent and who would, therefore, pay no, or almost no, tax if only the community-produced economic rent of land were taxed to meet public needs, i.e., if community-produced bare-land values were the sole source or nearly the sole source of taxation.

The bare-land value of a farm is what would be left after subtracting the value of buildings, of fruit trees, of fences, installed drainage, growing crops, tools and machinery, horses and cattle, and *fertility also* in so far as it has been built up or maintained by fertilization and careful cultivation. A tax on the bare-land value of a farm would therefore be, really, a tax on the "run-down" value of the land, after the value of all the so-called improvements had been subtracted.

Where such "run-down" value is zero, a tax on the bare-land value of the farm, no matter how high the rate of taxation, would be a zero tax!

Another way of expressing the matter is to say that a bare-land-value tax certainly should not take more than the entire *economic rent*,³⁰ and

³⁰A question which is, in my opinion, worthy of some discussion is whether a tax on the rental value of land is the exact equivalent of a tax (at, of course, a sufficiently lower rate) on the salable value, and, if not, whether there is any significant difference in effect between such taxes.

The first point to be made is one with which the reader is probably quite familiar. It is based on the recognized relation between the rental and the salable value of land. That the salable value of a piece of land is arrived at by the process of capitalizing its expected future rents is generally recognized. A tax on rent high enough to take all the rent the land was yielding, and which was confidently expected to continue to take all the rent throughout the future, would make the salable value of land zero. Hence, no finite rate of taxation on the salable value of land can possibly be high enough to take all the rent. The indicated solution would seem to be, in case it is desired that taxation shall absorb *all* the rent, to base the tax on the rent or rental value (at a rate of 100 per cent) and not on the salable value.

Yet it might be administratively possible to levy a tax equal to 100 per cent of the rent while still levying it *ostensibly* on salable value. There would be, in the market, in the theoretically perfect case, a zero salable value. But assessors could put upon land a *constructive* salable value to be arrived at through capitalizing the rent which would be received by a private owner if the land were not taxed.

There is, of course, a difference, even in the taxation of rent, between taxing only the rent actually received from a piece of land and taxing its rental value. In the one case, no tax is levied on land held out of use for speculative or other purpose, however high may be the rent which such land *would* yield if used. In the other case the tax on unused land from which no rent was being received by the owner would be as high as if the land were yielding its entire potential rent.

the entire *economic rent*, in the case of many farms, is *nothing*. For what is *economic rent*? Suppose a man owns a farm which he leases to a tenant by the year. Before we know what is the *economic rent*, we must subtract from the yearly payment made for the farm by the tenant, not only enough to cover depreciation of improve-

Hence, in this latter case there would be a definite penalty against the holding of valuable land out of use.

The question which is here chiefly to concern us is whether a tax based on salable value would be the same and would have the same effects as one based on rental value. It is obvious that either—and in case of rental value the fact has just been commented on herein—differs from a tax on actually received rent, by virtue of its falling on unused, as well as on used, valuable land.

Clearly there is no difference between a tax of 100 per cent on rental value and a tax on “constructive” salable value levied at a correspondingly high rate. Or, in other words, it would be possible to levy a tax on such “constructive” salable value at such a rate that it would be exactly equivalent to a tax of 100 per cent on the annual rental value.

However, due consideration will disclose a difference between an actual-salable-value tax and a rental-value tax if not all but only a part of the rent is taken. For a tax on rental value means that marginal and below-marginal land is not at all taxed, since such land not only yields no rent but has no present rental value. On the other hand, a tax on the salable value of land does mean that land at or below the margin—or, at least, some of such land—is taxed. For there is some land which, although not now capable of yielding rent, will, it is confidently expected, yield rent in the future. And this expected future rent is capitalized into a present salable value. Any piece of land, no matter how poor from the viewpoint of present use, may have a salable value based on estimates regarding its future.

It may be thought that in the foregoing considerations lies serious objection to the use of a tax on salable value; that a tax on the salable value of land, since it rests in some degree on marginal and even sub-

ments, but also a reasonable percentage of interest on the value of all improvements, including fruit trees and including the fertility value built up or maintained by fertilization, careful crop rotation, etc. Only the surplus above such interest is *economic rent* or rent of the bare land. A tax on bare-land value could not take

marginal land, might be shifted at least in part; and that a tax on rental value is much to be preferred.

The difference in practical effect between a tax on salable and one on rental bare-land value is, however, with certain possible qualifications, to be mentioned at the end of this note, unimportant or negligible. And what difference there is does not seem to be clearly against the tax on salable value. Let us consider the problem point by point.

The first consideration seems to tell rather in favor of taxing salable as against rental value. When land is speculatively held, this is likely to be for the reason that its value is thought to be rising. In such a case, the salable value is usually higher than the current rental value will justify, being based largely on the expected larger future rent. To tax salable value, therefore, tends to tax at a somewhat higher rate land held out of use for speculation than to tax rental value. This will the sooner force speculators to disgorge. Of course, where the land held out of use is below or barely at the margin of use, such speculation is, if not entirely harmless, at worst relatively so. And where it is well above the margin a rental value tax, if at a high rate, would sufficiently discourage speculation.

What, now, of the difference between these taxes in the case of land which is used? In this case, too, the prospect of a higher future than present rental value will make a tax on *salable* value relatively the higher. (Though, also, a prospect of lower future rent would make it lower.) But this will involve no additional burden to the user of such land, as user, although the owner, as such, pays a somewhat higher tax. The owner cannot charge as rent, to a user, any more in the one case than in the other. Nor will there be any additional burden to any prospective purchaser of the land. For the higher tax,

anything beyond such economic rent. If it did, it would be a tax on improvements, too, and not just a tax on bare-land value.

Let us look at the matter in still another way. If the owner runs his own farm—i. e., if he is a typical American working farmer—what really is his *economic rent* which is all that would be

present and prospective, on a piece of land the rental value of which is expected to rise and whose taxable salable value is, therefore, higher, will be capitalized into a somewhat lower salable value for the land than such land would otherwise have. For whenever the expectation of a rise in the value of a piece of land is widespread enough to affect its market value (which is whenever it affects the estimates of two competing potential owners, of whom one may be the actual owner), this expectation must, if assessment is based on actual market value and is known to be so based, carry with it also the expectation of the corresponding future and near-future taxes. The expectation of these higher taxes will keep the land from rising as high in value as it would rise if only the higher future rent, and not the higher taxes due to their being based on the higher salable value of land, were envisaged by owners and prospective buyers of the land. Obviously the very fact of a higher rate of tax on such land will in some degree lower the salable value on which the tax is based, but the capitalization of whatever part of the expected larger future rent is not to be taken in taxation will make the salable value of land the rental value of which is expected to increase, higher than that of land the rental value of which is expected to be constant or to decrease, and will so make the tax on it higher compared to the tax on such other land than if the taxes were based on rental value.

We conclude, then, that to tax salable value instead of rental value cannot discourage the use of land which is expected to yield higher rent in the future and which is therefore assessable at a higher value than its present rental yield would justify. It cannot so discourage the use of such land for, first, it discourages speculation in the land (holding it unused) even more than would a tax on rental value; second, it cannot enable owners to charge more rent to tenants,

taxed under a bare-land-value tax? To find what is his economic rent we must first subtract from his total income as pay for his work all that he would make as a tenant if some one else owned the farm. Then, second, we must subtract from the remainder enough to cover not only depreciation but also a reasonable percentage return

and, third, prospective purchasers can buy it at a sufficiently lower price, because of the capitalization of the higher tax, to offset the burden of such increased tax.

To tax salable rather than rental value cannot even discourage the use of marginal (i.e., no-rent) land although, in case the land in question were expected soon to be above the margin the former system would cause it to be taxed now and in the near future and the latter not until rent began really to emerge. If the would-be user of such a piece of land is unwilling to buy it, the tax does him neither good nor harm. The owner gains nothing by letting it be used as against holding it out of use, since, the land being marginal, he can charge no rent. But, as we have seen, as soon as the land comes to be the least bit above the margin, to tax it on the basis of salable value (when the entire rent is not taken) puts more pressure on the owner to let his land be used than to tax it on the basis of rental value. And in case the would-be user desires to buy the land before using it, the owner will sell it for a lower price if the tax is on the basis of salable value than he would if it were on the basis of rental value. Nor will it do for a possible objector to say that marginal land is not worth using if the owner must buy it. For the price the buyer is paying is not given for present-use value but is given for the privilege of enjoying rent from the land in the future when, he believes, the land will be above the margin of use.

Our general conclusion can be stated in a very few words: There is a difference between a tax levied according to rental and one levied according to salable value. But in neither case is there any shifting. (See, however, qualifications in my book, *The Economics of Taxation*, New York—Holt—, 1924, pp. 221-32. These qualifications had previously been discussed in an article, "Is a Tax on Site Value

as interest on the value of all improvements. And in these improvements must be counted the fertility value built up or maintained by wise cultivation and proper fertilization. Only what is left after making these subtractions is economic rent. A tax on this remainder would be a tax on bare-land values. And a tax on bare-land values alone could *not* take *more* than this remainder. A tax taking more than this would not be a tax on bare-land values alone but on improvements also. A bare-land-value tax is a tax on the *run-down* value of the land not counting any improvements.

But let us consider the case of the prospective farmer, or of the tenant farmer who desires to

Never Shifted?" published in the *Journal of Political Economy* for June, 1924.)

Neither a tax on salable value, nor one on rental value, resembles, in this regard, a tax on land according to area (an acreage tax) notwithstanding the fact that a tax on salable value involves some tax on some land which is, at the time, of marginal or lower grade. And neither a tax on rental nor one on salable value discourages the use of land. While both tend to encourage such use by making speculative holding unprofitable, the tax on the basis of salable value, when only part of the rent (considering an average of present and future) is taken, tends to discourage speculation even more than the tax on rental value. On the other hand, objection might be raised to the tax on salable value as being relatively burdensome to owners of marginal or near-marginal land having, thus, no present rental yield or an insignificant yield, but which land, because of real or imaginary speculative possibilities, might have a considerable salable value.

become a farm owner. To him there is a still greater benefit as to which there can be absolutely no question. For a tax on land or land rent causes land to be obtainable more cheaply than before. A farm the net rental value of which is \$100 a year is worth, capitalized on a 5 per cent basis, \$2,000. But, as we have seen, a tax upon it of \$75 per year, leaving the owner \$25 while raising the rate of interest (unless and until the stimulus to greater saving again lowered the rate) to 8 per cent, would reduce the selling value of the land to \$312.50. The purchasing farmer would, to be sure, have to pay each year thereafter the \$75 in taxes, but this he could pay and more than pay out of the interest on his saving of \$1,687.50 in the purchase price, even if this interest remained only 5 per cent. For 5 per cent on a saving of \$1687.50 would be \$84.37½. And besides this, it is to be noted that the farmer would now get not 5 per cent, but, for a while at least, a net return of 8 per cent on his investment in capital. Let it be noted that just as the acquisition of farms would be facilitated in the country so would be facilitated the acquisition of homes in the *cities*.³¹ But half

³¹There is no intention to argue that all land ought to be used when it is not all needed. Neither is it intended to deny that the holding of well-situated land out of use for a few years may sometimes render easier the possibility of a better use (See Fisher, *The Nature of Capital and Income*, New York—Macmillan—, 1906, pp. 253-54), that

measures will not suffice. To tax only future increases of land values is not very appreciably to cheapen land and so make the acquisition of farms and homes more easy. It can do little more than prevent such acquisition from becoming more difficult. If such a tax is moderate it may not, in the long run, accomplish even this. In connection with this problem, attention may

speculation in city lots may yield a service by preventing land from being built on too soon and so saving it for prospective high buildings without necessitating the tearing down of old and lower ones. But if any economic waste is ever so avoided it is probably more than equalled by the waste involved in constructing longer streets, in walking and riding longer distances past vacant land by thousands of city dwellers and in transporting goods farther from store to store and from stores to homes than would otherwise be necessary. Individual estimates of gains and losses do not tend to result in the most economical arrangements when the gains and losses do not accrue to the same person. Furthermore, in practice, the notion that money can be made by speculation in real estate, probably operates as would a partial combination among holders of vacant land, thus forcing up rents and the price of land. Also, such unused land is raised in value not only by road and street construction but also by other improvements and services paid for from community funds. Hence to tell the owners of land that the improvements will be paid for chiefly by those owners who build upon and use their land, is not merely to avoid discouraging the speculative holding of land. *It is to offer a distinct encouragement to such holding.* As to those economists who argue that the free play of individual speculation in land will usually keep land from present use only if there are probabilities of a better future use (which the poorer present use is assumed to negative), would any of them deny that when owners who build on and use their land are therefore forced to pay higher taxes which in part are so spent as to increase the value of idle land, the tendency will be for land to be uneconomically and wastefully held out of present use?

be called to a serious objection to the extensive use of the now very popular income tax. In so far as the income tax is largely relied upon as a source of revenue, land values tend to be relieved of taxation. As a result, the salable value of land is high; ownership of farms and homes becomes difficult except for the well-to-do; and tenancy is unnecessarily accentuated. *Thus, indirectly, may the income tax, which many have hopefully advocated as an aid to the attainment of greater opportunity for the common man, prove to be an obstacle.*

Since the salable value of land is lower in proportion as land values are more heavily taxed, therefore the taxation of land values, above all other economic reforms, tends to diminish tenancy and to give all who are hard working and thrifty the opportunity of owning land. If incomes, commodities and capital saved are less taxed, it is easier for a poor man to accumulate a competence. And if land is taxed more, then it is cheaper and can be bought at a lower price. The greater cheapness of the land fully offsets the higher tax on it, and there is to be reckoned, also, the reduction or removal of other taxes. Thus there is a clear gain to any person intending to buy land for a home or other use, but no gain to the mere land speculator.

Many persons, and among them some pro-

fessional economists, have never succeeded in getting a thorough comprehension of this point. Thus, I have heard the objection advanced that the greater cheapness of land is no advantage to the poor man who is trying to save enough from his earnings to buy a piece of land; for, it is said, the higher taxes on the land after it is acquired, offset the lower purchase price. What such objectors do not see is that even if the lower price of land does no more than balance the higher tax on it, the reduction or removal of other taxes is all clear gain. It is easier to save in proportion as earnings and commodities are relieved of taxation. It is easier to buy land, because its selling price is lower, if the land is taxed. And although the land, after its purchase, continues to be taxed, not only can this tax be fully paid out of the annual interest on the saving in the purchase price, but also there is to be reckoned the saving in taxes on buildings and other improvements and in whatever other taxes are thus rendered unnecessary. It would seem, then, that those economists who can see no advantage to the common man in ease of becoming an owner of property, from the taxation of land values rather than of other things, are lacking in the ability to make a very simple mathematical calculation. And if to tax land values rather than other values would aid the

propertyless person to acquire a competence, it would obviously make easier the economic rehabilitation of those to whom fortune has dealt heavy blows, or of their children who must begin, at the bottom, the struggle to restore their broken family fortunes. Thus, this reform may be likened to the abolition of debt slavery and of imprisonment for debt and to the establishment of bankruptcy laws. Men could not sink so hopelessly low in the economic scale as is now possible.

The taxation of land values rather than incomes, commodities and capital is not communistic, as is a part of our present tax system. Land-value taxation does not penalize the efficient. It provides no royal road to wealth for the lazy and the thriftless. It does not attempt to reduce all to a common level. It is essentially individualistic. It leaves to the individual all that he can acquire by labor and saving. It takes for society a value which is in a peculiar sense a social product. But no system of taxing commodities, incomes, and property in general can possibly be so good for the common man, do so much to encourage ownership as against tenancy, make the opportunities of getting a start in life so hopeful, as a system of relying chiefly on the rental value of land for the provision of public revenues. ✓

My own impression has been and still is, that among the so-called spokesmen of the farmers in the contemporary period of agricultural depression, there are almost none who understand the fundamental principles involved and are seeking a remedy which is fair and at the same time goes to the root of the difficulty. The current complaint about low land prices proves this. If those who think that a high salable value of land and high taxes on other values are the things to be desired, have their way, we shall likely end with a tenant population perhaps reduced almost to the status of serfdom.

There have been periods before of low prices for agricultural staples. Such periods may occur again. Even if by some kind of favoritism of government these prices could for a time be made abnormally high, there is no guarantee that they would stay high. But while they were high would be just the time that many farmers would buy farms at high prices, mortgaging themselves with high interest payments for years ahead. Then any fall of the prices of products would again, as so often heretofore, bring bankruptcies and foreclosures, spreading ruin among those who might, under saner taxation, have continued solvent and relatively prosperous. For a tax levied only on the rental value of land would be a lighter burden on farmers in a decade when low ✓

prices of their products made the rental value of farm land low; and always, whether prices of products were high or low, it would keep down the salable value of land and facilitate the change from tenancy to ownership, without compelling the assumption of heavy mortgage indebtedness certain to bring bankruptcies and foreclosures with every price recession. Here, then, is a reform, *not* of a *temporary* nature, serviceable only to our own generation, but one of *incalculable benefit to our children and our children's children*.

There are many persons who are, or think they are, of a liberal cast of mind and who are desirous of contributing to the welfare of common folk, who nevertheless make no substantial contribution to this end because they have not learned—though some of them may have grown gray in social studies—how to relate cause and effect, clearly and without bias, in the field of economics, or to distinguish significant influences from trifles. Of what use to hold conferences and make social surveys and carry on extended investigations of the evils of farm tenancy (or of tenancy, crowded slums, and other evils in our cities!) when the investigators never by any chance stress the effects of our inept land and taxation policy in producing a high salable value of land and so making ownership as against

tenancy, as difficult for the masses of men as possible? Of what use for students of social affairs of "liberal" persuasion to plume themselves on their support of high taxes on the rich, as such, without distinction as to the sources of their incomes, when such taxes are *in place of* high taxes on land values, and so would leave the salable value of land high, land speculation unchecked, and congestion and tenancy, including farm tenancy, little relieved?

On propositions which farmers do not, as yet, generally understand, and against which large numbers of them are still prejudiced, so-called farm leaders are apt to be of but little help. Like the "leaders" of other groups, they are afraid really to lead, lest they thus lose their popularity and their "leadership," but content themselves instead with eloquent repetitions of what their constituents already believe. Thus, the farmers enjoy too little chance of having placed clearly before them facts most vitally important for the future of agricultural opportunity and for the preservation of the bases of American democracy. If tenancy, heavy mortgage indebtedness, bankruptcy and foreclosure and other related evils are the lot of many American farmers in the decades to come, surely those farm "leaders" and "educators" who do not understand the economic facts or who dare not sponsor their

frank presentation, cannot be held entirely without responsibility. *High land values are not to be desired.* Rather are they *an economic and a social calamity.*

* To sum up, the change here discussed would remove heavy tax burdens some of which rest in large degree on wages; it would add to the net returns on capital; it would discourage speculative holding of land; it would make more easy the acquiring of land for production or for homes and so would facilitate the change from tenancy to ownership. Those who were ambitious to get farms and homes for themselves would have larger (because untaxed or less taxed) earned incomes to buy with, and they would not have to pay in advance, in a high price of land, the capitalized value of exploitation, although only in case all rent were taken in taxation would even unimproved land be obtainable for nothing. It may be added that a population of home owners would be a substantial bulwark against such irrational revolutionary economic changes as are advocated by many radical socialists. On the other hand, in a country where the few own nearly all the wealth and the many are but tenants or laborers possessing nothing except their labor, a parasitic class can maintain the *status quo* under the forms of democracy only by corrupting the voters or

their elected servants or by controlling the avenues of information.

There is no intention to argue that every farmer would find his tax burden lightened if land rent were made the principal or the exclusive source of public revenue. Some farmers there doubtless are whose incomes are in considerable degree made up of rent. But these are farmers who realize a good surplus above fair returns for their work and their investment in capital. These are farmers who can, as a rule, easily bear a heavier tax burden. Under our present system of taxation we tax the earned incomes—interest and wages—of farmers, manufacturers, laborers and all other persons. We diminish the profitableness of making improvements in soil and drainage, of erecting buildings, of planting orchards, of accumulating machinery and stock. But we tax land rents so lightly as to leave land values, i.e., capitalized prospective rents, high, and so make it seem easy and relatively worthwhile for discouraged users of land whose labor and interest incomes are highly taxed, to sell their land and *live out their money*. In brief, our policy of taxation gives almost the maximum encouragement to speculation in land, keeps the price of land high and so makes it hard to acquire except by the wealthy few, keeps earned incomes derived from the use of land relatively

low and tempts users of land to sell. We pretend to desire widespread ownership. We repeat unctiously the dictum of Arthur Young that "the magic of property turns sand into gold." But we adopt a policy which works in the direction of tenancy.

Even those property owners whose personal pecuniary interests cause them to object to putting taxes chiefly upon land rent might well, perhaps, give thought for a little while, to the interests of their sons and daughters in case, as often happens through the mistakes, miscalculations and accidents of life, their family fortunes come to be dissipated and their children fall into the tenant class. Do such property owners wish to make economic rehabilitation and home ownership for their children, under such circumstances, as difficult as possible? Yet this is the consequence to be expected from high salable value of land. And just as it is much to be preferred that no one of us should be permitted to own slaves, rather than that, in case of misfortune, our children should be able to sell themselves into slavery, so likewise it is better far that the landed property of each landowner should have a smaller salable value than that the children of many of them should be able to sink into a tenancy made hopeless by high land prices.

Before quitting the general topic of this section, let us inquire what would be the effect, in any large community which should first adopt it, say the State of Missouri, of a tax system such as the foregoing argument suggests. Clearly, the value of land, as such, would rapidly fall. The mere speculative holder of idle land would not be able to collect the toll he now collects from those who desire to build homes or to launch business enterprises. The ownership of homes and farms would be made easier. The return on capital investment would be increased. Persons in other states who had accumulated capital would be more inclined to invest or lend it in Missouri. The inflow of capital would tend to an increase in the number of buildings and in the amount of machinery, fruit trees, cattle, etc. The increase of buildings would eventually tend to reduce the charges to tenants. The increase of capital in general would tend to make labor more effective and to raise wages. Missouri would perhaps first become a more desirable state for the average capitalist to invest his capital in; but it would quickly become a more desirable state for the average non-capitalist to live in. The inflow of capital and of population, together with the force of example, would then be likely to start a movement for a similar tax reform in those neighboring states from which the capi-

tal and the population were flowing. In that case the relative increase of capital and population in Missouri would be checked, but thrift and industry in all the states would gain a larger reward.

Business, as such, is supposed to be indifferent to and suspicious of humanitarian considerations. Perhaps this fact and the fact that the advocates of land-value taxation have based their advocacy largely on expected benefits to wage earners, account for the indifference of business men to this reform. Yet it ought to be possible to make ✓ clear to many thousands of business men that the removal of taxes from improvements, from commodities and from the earnings of enterprise, and their concentration on land values, would be an immense stimulus to enterprise and production in any sufficiently extended section which would adopt such a policy. If any dozen of the states of the United States were to adopt such a plan, business men would eagerly establish their enterprises where, thus, land speculation was discouraged and land made cheap and easy to buy and where capital construction and its necessary financing could be carried on without any tax penalty. While the other states would, of course, not be entirely deserted, there would certainly be a tendency for industry in them, at least relatively, to languish. This conclusion is a

mere matter of arithmetic. Sober and non-emotional business men ought to be able to see it. Conceivably, though not probably, there will some day be active efforts on the part of "big business", using the appeals to the masses which it knows well how to use and which, in this matter, can be truthfully and fairly used, to get established, somewhere in this country, such a place of refuge to which legitimate enterprise will be able to flee from the exactions alike of the land speculator and the tax gatherer! But how many of those connected with "big business" are so largely interested in the gains from mere land ownership as to make them fundamentally opposed even to a reform which, for productive enterprise, would be of the greatest advantage?

§12

Summary and Conclusion

At the beginning of this chapter it was shown that land rent is fixed by the (marginal) productivity of land and is a surplus over the interest received on capital and the wages of labor, a surplus the amount of which cannot be increased by the owners of land to make up for the taking by taxation of any per cent of it. The attempt was then made to distinguish briefly between rent of land and interest on other capital. The situation rent of land we found to

be an absolute amount, not determined by the value of the land or by its cost of production, but an essential element in the determination of the value of the land. The value of reproducible capital, however, was found to be directly determined, in large part, by cost of production, analyzable into alternative returns of the productive factors used. The productivity of capital appeared to be an important influence, perhaps the most important direct-acting influence, fixing the rate of interest. It further appeared that the interest on capital, when this capital is brought into existence by effort and by saving, and when it is used in socially desirable ways, is earned. The interest is earned in the sense that the effort and saving done by the producer and saver of the capital secure for the community as much of wealth as the capitalist receives in interest. On the other hand, the situation rent of land appeared to be a payment for benefits due to natural conditions or to social growth and not for services brought into existence by the owner of the land. Thus, the rest of the community is perpetually under taxation to support a class of landowners from whom, as such, no equivalent return is received. The landowner who has bought his land, though he has given an equivalent for it in value of something else, nevertheless cannot be said to give a service to

those from whom he derives rent, which would not equally have been available had neither he nor any other landowner ever lived. When one person buys land of another, he simply buys the privilege of collecting a periodic income from the landless masses without giving any service in return. So far as these masses are concerned, the purchase of land by one person from another is but a change of masters, *a change of parasites of which the landless masses are the multitudinous collective host*. Hence the private receipt of rent violates the utilitarian principle that each should receive remuneration or income only in proportion to service rendered to those by whom the remuneration or income is paid.

In the course of our study, however, it became necessary to make certain criticisms. The so-called rent of land is not all an unearned income. Part of it is really interest on the cost of street-cutting, paving, etc., usually met in whole or in part by special assessments on owners of contiguous land. Since these owners of land chiefly benefit through a resultant increase in the rental and salable value of their land, it seems just that they should bear special assessments. But the justification of their having to pay these special assessments depends upon their being allowed to receive, in higher rental value of their land, a return on the cost of the assessments.

Various alleged services of city landowners, such as exercising control over the class of tenants in any locality, or seeking out, developing, and advertising new sites, were next considered. The first did not seem to be a service for which we are necessarily dependent on landowners, or, in any case, a service so costly to them in effort as to justify much of rent. The seeking and advertising of new sites and bringing them into use at an earlier date than their advantages would otherwise be realized may sometimes be a service to the present generation, but is not clearly a service to later generations who would eventually, with growth of population, have taken up this land anyway. Hence, if this is a service justifying rent payment, it can justify such payment only for a limited time. It is like the service of an inventor who gives us, somewhat sooner than we might else have it, the benefit of a new idea in mechanics, and to whom we give a definitely terminable right to receive royalties. So, also, we were unable to conclude that the early settlers in the American West had rendered any such economic services as to entitle their descendants and successors to receive rent for all future time from the descendants of later comers. For there seemed no clear indication that any benefit was received or is being received by the later comers or their descendants, from either the

present or the former owners of the land. If the "benefit" of rising land values was "diffused" in any sense, the diffusion was not clearly to those of the present generation who now have to pay rent to use the land. They may well regard themselves, if they choose to recognize the authority in the matter of those who did it, as "sold out" by a previous generation.

Nevertheless we concluded that increased value of land resulting from increasing population which forced down (marginal) labor productivity ought not to be made an excuse for so taxing land rent as to leave with incomes smaller than their previously earned incomes families which, to avoid overcrowding their own land, had refrained from rapid multiplication. The increase of those whose habits or ideals would eventually tend toward general misery ought not to result in so reducing the available space for cultivation or in so increasing the tax on the land owned, as to greatly reduce the incomes of a non-parasitic class with ideals of a different sort. This last consideration, however, seemed to tell with but little force against the high taxation of city or near-city land, or of any land in a country not unduly crowded, since the value of such land is due mainly to increase of its special advantages rather than to a lowering of the (marginal) productivity of labor.

√ A consideration of the probable effects of high taxation of rent indicated that such a policy would tend in the direction of wide distribution of home ownership and away from tenancy. Ownership cannot be stimulated by a policy which makes land high in price.

To avoid the objection of infringement on "vested rights," some advocates of land-value taxation have proposed that only future increases in the value of land should be specially taxed. But this proposal seems to ignore the fact that purchasers often pay a higher price for land in the expectation of these very future increases. How then, can special taxation of these increases be anything else than an infringement of "vested rights?" (In truth, however, too great a respect for the "vested rights" of individuals comes perilously near to meaning no rights for society. It might be interpreted to mean that society could never modify any policy in the expectation of the continuance of which individuals had acted, without giving compensation. It might be interpreted to mean that when we undertake to regulate monopoly price, we must compensate the purchasers of monopoly stock, and that when we choose to remove tariff protection we must compensate holders of the stock of protected industries. If society is not bound to do these things, neither is it bound to go

on, through all future time, paying landowners for services which not they but nature and society render.) The community has frequently discriminated, in taxation, among different kinds of commodities and, therefore, among consumers of such commodities. It is under no pledge never to discriminate between land and other property. In some places a certain amount of such discrimination has already been practiced. Purchasers of land should be presumed to have bought their land on the understanding that tax systems may be changed in this direction at the option of the public. It may be desirable that any great change should be made gradually. As a matter of practical politics such a change can hardly come otherwise. But that society or the non-landowning part of society, because it has paid in the past for no service received, must either go on doing so forever, or must buy itself free with no expense or loss to landowners, is a doctrine which even those who favor it prefer not to state, and doubtless will not now state, frankly and without equivocation.

The truth seems to be, substantially, that no system as a result of which some profit at the expense of others can be abolished *without* infringement of "vested rights" unless the victims of the system which is to be abolished themselves pay for their own relief. Many people say

with regard to slavery that the ideal way to have freed the slaves would have been to pay the slave owners their full value. But *who* should have paid this money to the owners? If the property of non-slave-owners had been partially confiscated by taxation—or the future income of this property heavily taxed—to provide the requisite means, would not the “vested rights” of non-slave-owning property owners have been disregarded? Should the slaves then have been paid for by the proceeds of a bond issue which they themselves would have had to redeem, principal and interest? In other words, was it not necessary, if “vested rights” were to be fully respected, that the victims of the system of slavery should buy themselves free? May we not, then, as already suggested, lay it down as a *general* truth that if and when persons owning property the value of which depends upon exploiting power have made their plans and purchases on the supposition of the indefinite continuance of such power, practically nothing can be done to relieve the victims of the exploiting system, *except as these victims pay for their own relief*,—unless we *are* willing to permit *some abatement* of vested claims? Must the victims, therefore, remain victims forever? Surely not every reader will say so.

The distinction between interest on capital (an

earned income) and rent on land (an unearned income) is slurred over by socialists. They, as a rule, class both together. They would abolish both as private incomes. But our most conservative citizens, though many of them would be shocked and perhaps angered to be classed with the socialists, seem to share in some degree the socialist notion. They, also, see no distinction between interest on capital brought into existence by work and thrift, and rent from sites made valuable by community development. They, also, see no essential difference between land and capital. Although they would not abolish private income from either, they profess to favor taxing the income from both—and at equal rates.

But what shall we say of a so-called liberalism which does not note the effect of taxing the rental value of speculatively-held vacant land as well as of used land, in discouraging land speculation and so reducing land rent; and which does not understand how both the direct reduction, through taxing it, of the net rent privately received, and its indirect reduction through discouragement of land speculation, operate to lower the salable value of land? What shall we say of a so-called liberalism which has no least suspicion of how the resultant possible untaxing of capital may, by increasing the net

rate of interest on it to those who save (unless and until increased saving again lowers the rate) further bring down the salable value of land through causing the capitalization of its reduced rent at a *higher interest or discount rate*? What shall we say of a professed liberalism which thus utterly fails to comprehend how important is land-value taxation from the point of view of the common man and how poor a substitute is any system of taxing all kinds of property or of income, even though such taxation be made progressively higher on the rich? May we not characterize the "liberalism" which favors taxing different kinds of property or of income at the same rate as a *liberalism innocent of arithmetic!*