

## CHAPTER VI

### THE RENT OF LAND AND ITS TAXATION

#### § 1

##### *Land Rent as a Marginal Product of Land*

In the previous chapter<sup>1</sup> we had occasion to suppose the existence of a piece of land on which the labor of five men working with the aid of improvements and equipment worth \$5,000, produced a yearly product above repair and depreciation costs, of \$2,200. Of this \$2,200, wages constituted \$1,500, interest (at 8 per cent.) \$400, and \$300 a year remained as rent. This \$300 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 waiting used. But we have seen that the remuneration of waiting, the interest on capital, is fixed by demand and supply at a point where it equals the marginal productivity of waiting.<sup>2</sup> We have likewise seen that the remuneration of labor is fixed by demand and supply at a point where it equals the marginal product of labor.<sup>3</sup> Hence, to say that a piece of land yields per year a surplus of \$300 over interest to waiting and wages of labor is to say that it yields a surplus of \$300 above the marginal product of such waiting and

<sup>1</sup> Chapter V, § 1.

<sup>2</sup> Chapter IV.

<sup>3</sup> Chapter V, § 1.

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 \$300 less than could be produced if the labor and capital were applied to the \$2,200 yielding land. In other words, the \$300 is the product of this particular piece of unimproved land *in the sense* that the existence and use of this piece of land makes it possible for a product \$300 larger<sup>4</sup> to be secured with no more labor and waiting, simply because the land resources to which the labor and waiting are applied are that much better than the margin at which the labor and waiting in question must otherwise be applied. But although \$300 may thus be regarded as a contribution of the land to production, 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

<sup>4</sup>By 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.

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 derives 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.

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 cannot, 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 waiting or the marginal product of labor. It can not make interest lower or wages lower. It cannot, 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 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. 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.<sup>5</sup> But a tax on rent can have no effect other than to diminish the amount of revenue received by landowners and give this revenue to the general public.<sup>6</sup> 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

<sup>5</sup> This 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 (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.

<sup>6</sup> To appropriate rent in taxation provided land is used for some purposes but not if it is used for other purposes, would discourage the former kinds of uses and encourage the latter. See the author's *Principles of Commerce*, New York (Macmillan), 1916, Part III, Chapter III, § 4. Such a tax must, therefore, result in a degree of shifting.

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*

An examination of the justice of special land-value taxation may advantageously begin with a brief consideration of the difference between rent and interest. The distinction between them has been elaborated elsewhere<sup>7</sup> and need not, perhaps, be long dwelt upon here. It is sometimes 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 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.<sup>8</sup> 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 production on the extensive or intensive margin. 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

<sup>7</sup> Chapter IV, §§ 3 and 5.

<sup>8</sup> This view seems to be presented in Fisher, *The Nature of Capital and Income*, New York (Macmillan), 1906, pp. 184-188.

humanly produced. On the contrary, the value of the land can be arrived at only by discounting 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, and insurance) 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 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.<sup>9</sup> 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

<sup>9</sup> If he purchases a building already constructed he pays, in its cost, for the supervision of its construction.

uses to which the *land* or *capital* which must be used in producing the materials might be put.<sup>10</sup>

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 income 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*

It is but a short step to the conclusion that the accumulators of produced capital may—and in many cases doubtless 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

<sup>10</sup> Cf. Davenport, *Economics of Enterprise*, New York (Macmillan) 1913, pp. 61-66.

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 on no individual's saving or effort and a benefit for which, therefore, no individual is responsible. 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.<sup>11</sup>

To avoid any possible misunderstanding, let it be emphasized that land rent as here defined does not

<sup>11</sup> The view presented so consistently in this book that incomes received not in payment for service rendered lack social justification will, of course, not be accepted by the Junker 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.



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 "waiting" render them.

But, it may be said, at least many of the present landowners are persons who have made their savings from what they have earned and have chosen to invest their savings in land rather than elsewhere. Have they not, in their savings, given the community as much value as they draw in rent? The answer may well be that they have given, to that part of the community from whom their rent income is derived, nothing whatever. If A, who has saved \$10,000, uses it to buy a piece of land from B, he is merely paying B for the privilege, previously enjoyed by B, of receiving rent from others for the use of something that neither he nor any other individual produced and the use of which would be equally available had no owner or purchaser of land ever been born. In turn, B has now the \$10,000 of accumulations and it is quite possible that he may use it in some way that will increase the annual product of industry. If so, the community, or some members of the community, will come to be paying B, in interest on capital, for services which,

without A's saving, would not have been available, while they will be paying A, in rent, for benefits from the use of land, which are not due to any individual's work or savings. If, before, the community was paying the landowner B a rent while getting no service that could fairly be regarded as coming *from him*, now it is making payments to both A and B, as rent and interest respectively, and receiving services in return from only one. If, before, B the landowner was a pensioner to whom the community gave something for nothing, now A has become the pensioner, having bought out B, and is receiving, from the rest of the community, something for nothing. For it should be clearly evident that the \$10,000 paid to B for the land is not a service rendered to C, D, or E, who are the persons that have to pay A for the use of the land. Yet much of emphasis is commonly directed to the assertion that the land-using part of the community ought to pay rent to landowners *because* these landowners have in many cases paid previous landowners for the land and despite the fact that none of the landowners in the series can be said to have rendered any service to those from whom they collect rent payment. In other words, it is asserted that C, D, and E ought to be obliged to pay A for no service rendered by him or by anyone, simply because A previously paid \$10,000, not to C or D or E, but to B. Is such a doctrine good utilitarianism? Is its application good social policy?

## § 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 is 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 manuring 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, perhaps, 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 clear enough to the writer that a not very excessive rate on such expenditures for street-making, etc., will compensate owners on the aver-

age 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;<sup>12</sup> 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, etc., are not fairly subject to tax in the same way as any property 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.

#### § 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, per-

<sup>12</sup> Except as the community compels them to make improvements at their expense in advance of their own desire to do so.

form 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 assess-

ments, 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?<sup>13</sup> 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 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

<sup>13</sup> Cf. Hadley, *Economics*, New York (Putnam), 1896, pp. 287-291.



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," "River-view," "Countryside," or "Eastville"? For how many generations must the public pay the descendants of, or the purchasers of land from, those who first emphasized 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.

§ 6

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

The expectation of an increase of land values, considered as an inducement to bringing new land into use, 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.<sup>14</sup> 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 who remained East, and that, therefore, the unearned increment was "diffused" throughout the country.<sup>15</sup> 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

<sup>14</sup> See J. B. Clark, *The Distribution of Wealth*, New York (Macmillan), 1899, pp. 85-87.

<sup>15</sup> *Ibid.*

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 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.<sup>16</sup>

As to the question whether the early comers or their descendents 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 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 completely settled. For the marginal product of western labor is presumably less. The old alternative of taking up new and good land is

<sup>16</sup> Cf. Professor H. J. Davenport's article entitled "Theoretical Issues in the Single Tax," in the *American Economic Review*, March, 1917, especially pp. 22-26.

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 as the land filled up and as the available free land became progressively poorer.<sup>17</sup>

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

<sup>17</sup> Furthermore, the consequent inflow of new labor from the East and of immigrant labor into both East and West tended, by rapidly filling any vacuum, to prevent any considerable realization of such a gain in wages.

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?

Let no one conclude that our argument tells equally against all inheritance on the ground that those who pay interest for the use of capital accumulated by previous generations are paying for a service to persons who did not contribute that service. For it well may be, in the case of inheritance of capital produced by human labor, that the prospect of descendants' reaping return from it is a condition without which, in great part, it would not be saved. If so, the interest is paid for a service which, except for the prospect of interest payment to descendants, might never have been rendered; it is paid for the use of capital which, except for expectation of reward to descendants, might never have been added to society's equipment. As long as the family affections endure in their present strength much of the happiness of parents



will be realized only as they are permitted to work for the future prosperity of their children. General welfare and happiness would probably not be furthered by a policy which should entirely deprive parents of the privilege of bequest. Nor would the community probably get, in the long run, the use of so much capital, for less would probably be accumulated. A parent will be less likely to save and to invest his earnings in the education of his children if he believes society will appropriate all the gain and will not allow his children to reap a larger income for the larger service which such education enables them to render. And in like manner, a parent will be less inclined to save and invest in capital construction if he believes that society will allow his children to reap no advantage in return for the service from such capital.

There is no intention to suggest, however, that inheritances should never be taxed or that the law of inheritance is not in need of modification. When, as at present, the state provides for inheritance of the property of intestate decedents by remote collaterals who have often been unacquainted with their unconscious benefactors, it can hardly be said that the policy adopted has been dictated by the necessity of encouraging accumulation or by the desirability of giving men and women the happiness of safe-guarding the future welfare of those for whom their affections are strongest.

But whatever may be the advantages to the general welfare of maintaining in considerable

degree the right of bequest, there appears to be no reason to believe that to keep the major part of ground rent from going into the pockets of individuals would decrease the amount of land or the amount of any other capital.

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, 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 payment 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 invasions 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 fain would come.

What now of the thousands of families in a country who have each enough land for the most 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 the margin of labor production, 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 will leave less to them as individuals and families than before. Such an increase of population will 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. Part of the rental value of land, even of agricultural land held by actual cultivators, may, perhaps, fairly be taken, but not 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 500 units (e. g., bushels of wheat), of two men, 900, of three, 1,200. If, at the start, the land is marginal, the occupant and owner will enjoy 500 units of labor income. If population increased to such a point as to force wages for this grade of labor to 300 or less, he could afford to hire, perhaps, two other men, since the second would add just 300 to the product; he would therefore pay 600 in wages to the two men, would receive 300 in labor income for himself, and would have 300 left as rent.<sup>18</sup> The owner's

<sup>18</sup> For simplicity we are eliminating income on other capital from consideration.

total income would then be 600. We could take 100 of this in taxation and still leave the owner's combined rent and labor income at 500 which he was getting as a labor income, with no more total effort, before. But if we take all of the rent in taxation, we leave him only his 300 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 margin of production. 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 so. Rent would rise, not because the margin has become lower, 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, etc., can effectively serve. Its growth is, possibly, an advantage even to the owners of marginal 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 probably grown much more largely by the increase of the possibilities of special, often supra-marginal, land, thus creating a differential between it and marginal land, than by forcing cultivation to a lower margin. 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.

## § 8

*The Bearing of the Contention that there may be  
Other Unearned Increments Not Especially  
Associated with Land*

It has sometimes been pointed out, by way of objection to the single-tax proposal, that land rent is not the only income which is of the nature of an unearned differential. Sometimes the incomes of genius in excess of what persons of ordinary ability can secure are presented as an analogous case. Whatever may be, in some respects, the degree of likeness, the two cases certainly are not alike in all respects. Thus, it may not be equally possible to tax largely and successfully the incomes resulting from the exercise of genius, as to tax land rent, for, in the case of the large incomes of the exceptionally gifted, the attempt to tax them heavily might conceivably discourage effort and cause the former recipients of these incomes to be satisfied with smaller—and, therefore, untaxed—returns. Taxation of the rental value of land, however, if based upon such general considerations as the evident yield of neighboring sites and the apparent market value of the land to be taxed, i. e., if the tax is not made larger because an efficient producer or business man gets more from his land than others could get, would probably in no wise affect the owner's choice of uses for the land or his intensity of use of it or the efficiency of his use of it. Having a tax to pay which was independent of his efficiency, he would be just as eager to earn the maximum income out of which



to pay the tax as he would be to earn the maximum income if he were not taxed.

Indeed, the levying of a tax upon the *potential* situation rent of land, whether actually received or not, would discourage the speculative holding of land out of use and so would operate to prevent the forcing up of rent by any scarcity of available land induced by such speculative holding.

Economists whose social sympathies (of the influence of which they are not always conscious) or whose training by their former teachers, incapacitates them for seeing any distinction between land and capital and predisposes them to accept superficial resemblances as a conclusive defense, are fond of saying that other values than land values are enhanced by social forces. It is true enough that dress suits are likely to have less salable value in the Ozark Mountains than in the centers of wealth and fashion and that a twenty-story office building is worth more in New York City than in a country village. Nevertheless, cases of monopoly excepted, it can hardly be denied that, year in and year out, produced goods cannot be sold anywhere for much more or much less than the cost of producing them in the places where they are to be sold. An occasional dress suit may have to be sold at a sacrifice in the Ozarks, and a building too large for the needs to be met may prove to have been a mistaken investment in the country village. But as a general rule dress suits will not be produced in or transported to the Ozarks except as the anticipated price covers costs, nor will skyscrapers

be regularly built to sell for less than a return which seems reasonable in relation to building expenses. And, on the other hand, where competition is active and is carried on fairly, the prices of goods which have to be humanly produced cannot go much above costs. Even making all possible qualifications for cases of obsolescence and for changing conditions of production, can anyone say that cost is really an element of corresponding significance in the case of land rent?

Again, it may be said that there is possible no large remuneration, in a sparsely settled primitive community, for the person gifted with an exceptional voice or other highly specialized talent. But neither is so large a *service* possible in return for the remuneration. When such remuneration is received it is in return for an equivalent service rendered by the person who receives it, and this is not the case with the situation rent of land. May not considerations of eugenics as well as of efficiency in service, apply differently to the proposition to tax such incomes than to the proposition to tax land rent?

Furthermore, some of the incomes which are often thought of as unearned are chance gains so offset by corresponding deficiencies of incomes at other times, as to mean no average loss to the public. If the failure of the Argentine wheat crop may unexpectedly give to American farmers, grain dealers and millers a higher return than was contemplated when they made their expenditures for seed, labor or grain; so, also, an unexpectedly large crop of wheat in Argentina,

Canada, or elsewhere, may compel the same persons to accept prices which fall far short of compensating them for the expenditures and effort undergone. The general public is likely to gain in the latter case as much as it loses in the former. But the general public never gains from an unexpected fall in the rental value of land except in the sense that the public is then *less exploited* than before. It continues to be exploited, though in a smaller degree. There is little point to an attempt at equating continuous exploitation varying in degree, with occasional excess pay for service which is likely at other times to be underpaid.

It will be worth while, here, to emphasize the fact that land rent involves exploitation when the land is used in socially desirable ways as well as when it is used anti-socially. In the latter case, payment is made for a disservice. But even in the former case payment is made for a zero service or for a service less than equivalent to the rent. Where wages of labor, interest on capital or rent on land are secured by activities or by uses of property which definitely injure the general well-being, which are anti-social, *these activities or uses should be prohibited* rather than that men should be allowed thus to secure wealth which society afterwards taxes. When a business concern by means of unfair competition, e. g. by misrepresentation of competitors' goods or by securing discriminating rates on the railroads,<sup>19</sup>

<sup>19</sup> See, for a fuller discussion along this line, the author's *Principles of Commerce*, New York (Macmillan), 1916, Part III, Chapter VII, § 4.

succeeds in getting extra profits which its rivals do not get, or, being able to undersell the rivals discriminated against, gets business which would otherwise go to them, we have a clear case of unearned income resulting from anti-social activity. Success is made to depend, not on superior service, not on superior efficiency in economizing labor, but on the ability to exclude rivals from the market even if, as may well happen, these rivals are much more efficient in the proper business of both or all. The public cannot afford to let the principle become established that success and wealth may be gained by such methods. In the long run, consumers must expect to suffer unless competition of this sort is effectively forbidden. So too, in the case of monopoly, which gives more than an ordinary return to effort or to the users of capital or land, it is the consumers of the monopolized article or articles who are entitled to relief since it is they alone who are exploited.<sup>20</sup>

<sup>20</sup> No opinion is here expressed regarding the relative desirability, from the viewpoint of preventing high monopoly prices to consumers, of public regulation and of public operation of industries which have to be or ought to be of monopoly size. But if public operation is chosen, it would seem, on the principles set forth in this book, undesirable that the public should pay for the capitalized value of the land rent included in the prospective returns of such monopolies. If not to pay for such capitalized exploitation in cases where the public chooses to take over the ownership of any industries is objectionable as discriminating against some landowners while allowing others to continue to enjoy site rent, then the taking over of these industries by purchase should be deferred until a general policy is adopted towards all site rent. Nor should government for any long period guarantee interest or net dividends on the bonds or stocks of companies whose property it undertakes to oper-

In general, industrial free-booting should be stamped out, so far as this is possible. *But for unearned income in the form of land rent, purely as such, the tax method is adequate and is the logical method of correction.*

Again, even if there are—as there may be—other increments than situation rent which are equally unearned, it does not follow that the heavier taxation of land values should be deferred until such time as a general agreement is reached regarding such other increments. It may suit the views of reactionaries to have us use the claim that many and complicated reforms are needed, as a reason for delaying one the justice and desirability of which are reasonably evident, but that kind of attitude should scarcely suit anybody else.

### § 9

#### *The Taxation of Future Increments of Value*

Hesitating to accept the more radical proposal of Henry George in favor of sweeping into the

ate. For suppose that during the period of such a guarantee, one or several of the States, or the Federal government itself, should choose to adopt a new tax system, e. g. to increase very greatly the tax on site values. This would for all other industries than the ones in question diminish the land-rent part of their incomes, though to be sure, removal of other taxes might increase other elements in their incomes. But, whatever the net result on these other industries, the holders of the securities of the government-operated industries would experience no effect as regards their annual returns. The better way would be to guarantee (if there is to be a guarantee of past earnings) previous earnings plus previous taxes minus future taxes.

public treasuries situation rent both new and old, some writers have contented themselves with advocating the public taxation and use of *future increases* in the rental value of land.<sup>21</sup> 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.

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 of 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."<sup>22</sup> 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

<sup>21</sup> See, for example, Taussig, *Principles of Economics*, New York (Macmillan), 1912, Vol. II, p. 102. This scheme was suggested by John Stuart Mill in the middle of the last century.

<sup>22</sup> *Political Economy, Advanced Course*, New York (Holt), 1887, pp. 416, 417.

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 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 price 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, at least in part, 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 contemplated—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 this expectation, 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?

## § 10

*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 invaded or that society had violated any implied pledge.

It seems to be this last motion, 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 income 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 the writer cannot bring himself 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 taxa-

tion 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)<sup>23</sup> paying tribute to the owners of land, tribute for which neither these owners nor any previous owners as such have ever rendered a return to those who thus pay them? 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

<sup>23</sup> Cf. Henry George, *Progress and Poverty*, Book VII, Chapter III, particularly pp. 362 and 363. (Page reference is to edition of 1905, Doubleday, Page & Co.)

paying this tribute! Would their doing this be confiscatory? And must they, if they are to cease paying, compensate the landowners 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 someone 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?

## § 11

*A Few Additional Considerations*

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 come through compromises and little by little and, probably, through state and local action.

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 businesses and individuals are relieved of other

taxation which elsewhere they have to meet, and the policy will, therefore, probably cause these towns to be more rapidly settled and land rents in them to go up.<sup>24</sup> 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.<sup>25</sup>

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, since to them it makes relatively little difference whether the principal tax is on buildings or on land.<sup>26</sup> But to persons owning land and buildings which are used by others or for the production of goods to be sold to others, it may make a considerable difference, since the tax on land clearly cannot be shifted (if general), while the tax on buildings very possibly can be, at least to some extent.<sup>27</sup>

<sup>24</sup> Suggested 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.

<sup>25</sup> Some 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.

<sup>26</sup> Cf. Henry George, *Progress and Poverty*, Book IX, chap. iii.

<sup>27</sup> Whether 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 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 capital<sup>28</sup> (the interest from which, if the capital 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 between 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

the discussion of the effect of interest on saving, in Chapter III, § 5 (last three paragraphs of section).

<sup>28</sup> If 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.



something more, in taxes for common purposes, from the rest of us, the choice should not be difficult.

Nor should we be turned back by the contention that the proposal so to raise much or most of the public revenues, at least for local and, perhaps, State purposes, does not conform to the ability theory of taxation. It has never been finally 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 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 benefits from its expenditure is received by the relatively poor, will increase utility and will increase the sum total of happiness. 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, 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 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. If among them are found the ubiquitous "widows and orphans" 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 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

the victims of this system, of which some of their class may be the beneficiaries.

Finally, high taxation of land values cannot be discredited by referring to its propaganda as an outgrowth of doctrines of "natural rights" while at the same time unconsciously appealing to what seem to be assumed "natural rights of property." On the whole, the supporters of high land-value taxation seem to have been as consistent as their opponents in making their appeal to utilitarianism.

There is here, it should be noted, no attempt to argue that the tax on land rent should necessarily be a *single* tax. A tax which would take the greater part of site rent might or might not provide sufficient revenue to meet the legitimate expenses of government. It would perhaps provide all the funds needed for local and State governments and possibly, also, for ordinary Federal expenditures. But until permanent world peace is established, the Federal government needs a source or sources of revenue capable of great emergency expansion, such as is provided in the income tax and other Federal taxes. Extended discussion of the merits or demerits of these taxes, however, lies outside the scope of this book.

## § 12

### *Summary*

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 to waiting 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 produced and saved by effort and waiting respectively, and when it is used in socially desirable ways, is earned. The interest is earned in the sense that the effort and waiting 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. 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 qualifications and to meet certain criticisms. The rent of land is clearly not all an unearned income. Part of it is 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 very 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 the margin of production ought not to be made an excuse for so taxing land rent as to leave with smaller incomes than before 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 reduce greatly 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 land, since the value of such land is due mainly to increase of its special advantages rather than to a lowering of the grade of land at the margin of production.

The argument that taxation of land values should not be much emphasized because there are other differential and unearned incomes, we concluded has little force. Most other unearned incomes, such as those secured by monopoly and by industrial free-booting, require to be terminated, rather than to be continued in order that their recipient may be taxed. If there are other incomes of an analogous sort to land rent, the possibilities of taking them in taxation and the social utility of taking them should be separately considered. And in the meanwhile, the possibility of there being other unearned incomes is no more an adequate objection to taxing a kind of incomes we know to be unearned, than is the possibility of there being gentler ways of stealing, a reason why we should allow highway robbery to go on until we have reached an agreement about the proper way to deal with *all* forms of dishonesty. Let us not be too afraid of a transition period when we may somewhat discriminate between different sorts of unearned incomes.

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. It may be desirable—as it is certainly altogether likely—that any great change should be made gradually, 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, in all its bareness.