
Theoretical Issues in the Single Tax

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THEORETICAL ISSUES IN THE SINGLE TAX

The temper and point of view of the following discussion will perhaps be made clearer if I set out with a confession of faith:

I believe that the principle at the heart of the single tax agitation—that the fiscal revenues should be derived from the social estates (the regalia principle in ultimate essence), from sources to which the justifications for private property do not attach—is right and vastly important. The rents of mines, forests, waterfalls, franchises, town lots, and also, if practicable, of agricultural lands, should be retained as fiscal properties. Not a society single-taxed, but a society free from all taxes of any sort, is the logic of the principle—a goal well within the reach of a wise and provident public policy. One needs in this connection to recall only the school land properties of the West, the mining wealth set aside for the University of Minnesota, the immense areas of prospective agricultural land forming the endowment of the University of Texas, the salt mines publicly owned in Germany, the royalties which Canada is collecting from very considerable portions of its mineral wealth. As ethical basis, whatever other bases there may conceivably be for private property, the single taxer logically finds nothing but the right of the individual to himself and to the results of his activity—the simple recognition of the meaning of personality and of the ethical relations which it prescribes. That one has produced an item of wealth, or has it by the voluntary transfer of some one that has produced it, affords the sole ethical claim to it. This is doubtless a labor theory of the ethical right of property. Nothing, therefore, which is natural bounty can rightly have been allowed to serve as a source of individual income, to fall into the category of individual ownership.

I believe also that all times have been propitious times, the present a right time no less than any earlier time, for establishing the provision that future increments of earning power from natural resources shall not be permitted to fall into the hands of private owners.

But I don't know what course is now wise in repair of the

blunders that are past. Confiscation, at any rate, a program which shall impose on any casual present owner of original natural bounty the penalty for a general and institutional blunder, appears to me to be an incredibly unethical position for a school of thinkers whose essential doctrine is one of practical ethics. Remedies, however, I do not despair of; the most promising of these being an extreme extension of inheritance taxation. In view of the fact also that the ad valorem and property tax methods of state and local taxation subject to fiscal claims only something like one fifth of the total taxable income of society, I am sure that much is possible through the development of state income taxation. If the transfer of the public estates into private ownership was a blunder, the returns from new taxation may well be applied to the purchase of permanent ground rents in the public interest.

These payments could well be fixed at the present worth of ground rent charge for approximately the expectation of life, or even for the possible duration of life, of the actual owner. The principle of escheat or of the inheritance tax carried to its ultimate logical extreme would take care of the residue of value.

None, therefore, of the objections which I shall offer to the typical and usual single tax analysis should be taken to constitute a fundamental or essential criticism. I am, for example, sure that, when the purpose is to appropriate for society a certain rental, the only wise method is to proceed directly against the rental as such, rather than by an ad valorem tax upon the value derivative from the rental. In those cases where the property burdened is in present command of the revenues upholding its market price, the results of the ad valorem tax do not seriously depart from those attending a direct appropriation of the rent.¹

¹ Nevertheless extreme absurdities and impracticabilities, falling still something short of mathematical impossibilities, forbid reaching by ad valorem methods any considerable fraction of the earning power of the property.

Suppose, for example, that a piece of property, by virtue of its net annual revenue of \$50, bears a market price of \$1,000. Each new tax, changing the net return to the owner, must change the market price. Thus, if \$10 is to be obtained for the fisc out of the revenue attaching to the land, the land, as retaining a net earning power of \$40, will be worth \$800. The rate of taxation necessary to get the \$10 is not 1 per cent, but 1¼ per cent, else the land will stand upon the tax books as over-appraised to the extent of \$200. This may not be a serious matter; is not, indeed, serious in the ordinary ad valorem collection of approximately one fifth of an income. But see how the case ap-

But in the degree that prospective changes in earning power find expression in a present worth of market price, it is practically disastrous and theoretically inept to make the present value the basis or the determinant of the present contribution to the public treasury. For the purposes of the single tax program the ad valorem policy is singularly inappropriate; not so much that to take the rent leaves, so far, no value to tax—saws off on the hither side the limb on which one is sitting—as that it strikes at the very heart of the equities involved. After society has taxed for years a town lot not yet within the area of practicable improvement, but yet valuable by its prospect of availability—has collected from the owner annually as the years have passed, say, 1 per cent of the present worth of the expectation that the owner will finally enter into the enjoyment of the income—is it not clear that society has foreclosed itself from later asserting its right to appropriate these revenues entirely? In cases of this sort, ad valorem taxation barter away for present revenue the public right to the future revenue; in substance, hypothecates future resources to obtain present funds. Thus the single tax position amounts not merely to the inequity of intending to repudiate the contract but at the same time to the absurdity of the present announcement of this intention.

But not only does the single taxpayer's plan of burdening the pres-
 appears with the single taxpayer's attempt to pursue the method to the extent of his ultimate purpose:

										Per cent
With \$20 taken and \$30 left, price is \$600; rate to yield \$20	is									3 $\frac{1}{3}$
“ 30 “ “ 20 “ “ “ 400 “ “ “ 30 “										7 $\frac{1}{2}$
“ 40 “ “ 10 “ “ “ 200 “ “ “ 40 “										20
“ 45 “ “ 5 “ “ “ 100 “ “ “ 45 “										45
“ 46 “ “ 4 “ “ “ 80 “ “ “ 46 “										59 $\frac{1}{2}$
“ 47 “ “ 3 “ “ “ 60 “ “ “ 47 “										78 $\frac{1}{3}$
“ 48 “ “ 2 “ “ “ 40 “ “ “ 48 “										120
“ 49 “ “ 1 “ “ “ 20 “ “ “ 49 “										245
“ 49.50 “ “ .50 “ “ “ 10 “ “ “ 49.50 “										495
“ 49.75 “ “ .25 “ “ “ 5 “ “ “ 49.75 “										995
“ 49.99 “ “ .01 “ “ “ .20 “ “ “ 49.99 “										24,995

This, by the way, is an opportune time to confess the error in an earlier assertion of mine that this ad valorem method can avail to appropriate at the outside limit only one half of the annual rental. This blunder was cogently exposed by Professor Edgar H. Johnson in the *Quarterly Journal of Economics* of August, 1910. That I never replied was due to the fact that I could not. Conceivably, indeed, I suppose, there might be a case with even a better reason. Mr. Johnson's article, however, was in tone and temper entirely cordial and courteous. He merely had me cornered—and still has.

ent shadow of the future income, at the same time with intending to appropriate this same income when it accrues, amount to an attempt to enjoy two taxes where only one can possibly be equitable (either of which, in fact, both by the test of justice and by the working of economic forces, must replace the other), but also from a theoretical point of view gets into even a worse case: the taxation of a present worth in the absence of a present income, or any taxation disproportionate to present income, is an affront to the fundamental principle of taxation in general.

When shall the individual contribute to the public income for the maintenance of public activities? When he has some income to contribute. From what sources shall society's current expenses be financed? From society's current productive power, the social income. Taxation is merely a method of redistributing the applications of the productive powers of society to the creation of a wider variety of goods—more of some, the goods of public providing, less of the goods of private production; it is a transfer of private income to the state in order to provide more goods of security or education, in place, say, of butcher's meat or of the entertainment provided by the movie show. To tax at present an income which does not exist at present, and thus to support the current state expenditure at the cost of future productive activity, is a fiscal improvidence similar to that of two centuries ago when the English government permitted the owners of lands to purchase for cash a perpetual exemption from imperial taxes. Carried far enough this kind of fiscal policy would mean that a government had sold itself unto death through encumbering its expected revenues in aid of immediate receipts.

Current revenue is the only proper object of current taxation, as is frankly recognized in both the theory and the practice of income taxation. It is, however, fairly to be said that this single tax fallacy is merely a derivative from the larger theoretical error which vitiates the general property tax as a whole. The blunder merely becomes the more serious as the share of the income aimed at through taxation is larger. In some respects, moreover, the effects are even more serious in their general economic aspects than in the purely fiscal. *Ad valorem* taxation consistently applied amounts to almost an absolute veto on all investments promising remote returns. Present progress in forestry taxation is based upon the recognition that *ad valorem* taxation tends to discourage the growing of new trees precisely as it has prompted

the exhaustion of the accumulated supplies. For the purposes of the present analysis, the planting of trees amounts to the purchase of a deferred annuity through the payment of a series of annual premiums, with only this difference, that the old age provision is a contingent annuity rather than an annuity approximately certain. Computing, then, that the general property tax upon an ordinary property appropriates one fifth of its income, it must follow that a rational tax upon a forest should at the maturity of its particular harvest appropriate one fifth of that harvest. To subject the undertaking to an annual tax is to compel the investor to submit in advance to an interest-bearing encumbrance on his putative future harvest. And precisely so with mines; the tax is a direct incentive to what is socially an untimely and wasteful exploitation.

The extreme of folly in this method of taxation is perhaps best illustrated in the case of a single-payment purchase of an old-age annuity. An outlay of \$1,000 at the age of 30 will provide approximately \$250 at 60 years of age, if the buyer survives to that time, and thereafter the same sum for each successive year for the term of his life.² By assumption, here is a property worth \$1,000 immediately upon the purchase of the right. The state claims, say, \$10 in taxes the first year. The purchased right increases in present worth not only by its interest accumulations but by the greater prospect of survival to the end of the tontine period. Each year, therefore, it pays a higher tax; not that it has yet afforded its owner any income or ever certainly will, but that a contract for a contingent future income has an increasing present worth. This annual increase of value is not, in fact, an income but merely the larger present worth of the hope of one day enjoying an income—precisely as the increase in the value of a field of grain as it approaches the time of harvest is not a daily receipt of income but a daily increase in the present worth of the future income. To be sure, if the owner sells in advance of the harvest, he ceases to be an investor in prospective income and the buyer takes his place. A rediscount of the note has occurred, the seller getting the advantage of the interest earned, but not yet due, as the sum of the past increases in the present worth of an income the receipt of which still lies in the future. The income from the field of grain accrues solely at harvest. So again, to tax a provident and wealthy father of a family and at the same time

² Mutual Life rates, 3 per cent actuarial basis.

to tax the prospective inheritor of the father's wealth on the basis of the increasing present worth of the hope of the sometime demise of the progenitor, is to make the general property tax a means of rampant extortion and injustice. When present value is merely a present-worth shadow of a future income, this value is a property, it is true, but a property the taxation of which should be postponed by virtue of the very fact that the income is postponed. It is time enough to make an individual income contribute to the general income when there begins to be an individual income.

But it is obvious that from all of this nothing follows more serious than that, as the single taxer aims solely to appropriate the rent, he would best do nothing but directly to take it. His indirection of method is unnecessary. His adoption of the principle and the machinery of the *ad valorem* property tax is a deal worse.

But the single taxer may find still other folk for company in his perplexities. If the appropriation of the rent must wait till there be rent to appropriate, what shall be done with the fact that, so long as there is no established policy of appropriation, purchasers must be proceeding in the confidence—or speculating in the hope—that appropriation will never take place? Thus, if appropriation finally does take place, there is inevitable disappointment and the charge of confiscation. The rule with taxation is similar to the legal rule: it is even more important to have a clear rule than to have a right one. Precisely this same difficulty presents itself in the regulation of public utility rates, and precisely the same line of treatment is indicated. Nothing will serve but the utmost certainty, promptitude, and consistency of action. With stocks, as with lands, anticipated earnings are capitalized into current market prices and undergo indefinite transfer—a traffic in the substance of things hoped for. To permit undue present earnings is to lead investors to part with their funds in the hope of the continuance of these earnings. To intervene later in order to bring an end to what ought never to have had a beginning amounts to the sudden confiscation of values long generally traded in but now lodged deflated in the hands of those investors least shrewd of political forecast. Thus, where the policy of rate regulation is unsettled, stock prices register the outcome of a great gamble on the very question of what this policy is going to be. When faith in public drowsiness flourishes,

or when confidence grows that adverse legislation can be controlled, stocks rise; when public opinion stirs, or some truculent executive gets especially strenuous, there befalls a stock panic. Financial and industrial stability come to be dependent not merely on the confidence, but on the justified confidence, that never will society actually arrive at the refusal to be further plundered.

But no advocate of the restriction of corporate gains has so far ever argued that his purpose could be accomplished through any early or late application of the ad valorem tax. If an exclusive privilege or a permit of overcharge increases earnings by \$50,000, the property goes up by \$1,000,000 in price. To subject this increment of price to a 1 per cent ad valorem tax is to reclaim only \$10,000 out of \$50,000 overcharge.

With either land rents or with franchise gains, therefore, all increment must be claimed by the state promptly upon its emergence. To anticipate the increment by taxation is nonsense. To delay is to delude investors and thereupon finally to penalize them for being deluded.³

The general condemnation—my condemnation also—of the single-tax demand for the confiscation of past increments rests substantially on the conviction that an institutional situation—long established and generally recognized rules of the competitive game—should constitute a social obligation to protect that player who proceeds in conformity with the rule and in reliance on it. If some change needs be made, if a reform is to come, the society that established the institution, rather than the individual who uncritically has acquiesced in it, must bear the costs of getting over to the better way. The principle of vicarious atonement, however acceptable among systems of faith, deserves definite repudiation here. Surely if another will assume my bond, pay my taxes, serve my sentence, discharge my fine, I may make shift somehow to acquiesce. The best place to have a boil has been

³ The doctrine of vested interest should be recognized in public affairs as the expression of the principle known in legal reasoning as the doctrine of estoppel. It was substantially under this doctrine, applied against the public, that overcharge rates were sustained in the famous Consolidated Gas Company case. By acts of commission certainly, if not by acts of omission, the public may cut itself off from the right to protect itself against an entirely obvious plundering. Privileges of overcharge may become irrevocable under conditions falling far short of the obligation of contract. Perhaps, indeed, the rationale of the obligation of contract itself is ultimately this same principle of estoppel, the creation of a justified belief or expectation which it would be unethical to disappoint.

wisely declared to be on some one else. But justice does not necessarily impose what self-seeking might approve. Confiscation remains none the less robbery, if there is such a thing anywhere, even though the title of the first holder were achieved through an obvious crime and the first authorized transfer were an authorized wrong. To justify confiscation by pointing to the emancipation of the slaves in America merely serves to put in question the ethics of emancipation. The English had already recognized the plain moral dictate of indemnity—a dictate none the less plain for us in America that it was later disregarded in the exigencies or the barbarities of war.

Viewed in the large, doubtless, land is human opportunity rather than human achievement, primary equipment rather than product. The single taxer insists, and rightly and wisely I again agree, that most or all of this original bounty should have been held as a joint possession and heritage among men, in equal and common right, to the end that, so far forth, there be always for all men an equality of opportunity. The fiscal requirements of society, the expenses of the joint community life, should be to the utmost possibility covered by the payments into the common treasury of the funds derived as rent from the social estates. Under competitive institutions this appears, indeed, to be the only practicable way of validating the principle of common property. Since we do not as a community farm the land, or live on it, or mine it, or hunt over it, the only socialization practicable is the socialization of the competitive return. In theory, indeed, the single taxer of the strict observance would permit no other sort of socialization. He is an individualist of the most radical type, even to the degree of questioning the strict ethical propriety of the social appropriation of any income due to individual activity. Accurately, therefore, he should profess himself not as a believer in taxation but rather as a contemner of all taxation. He intends an untaxed society. The right of society to the rent of the land he holds to be fundamentally conditioned on the fact that no individual can make good any claim in his own behalf. In ultimate doctrine this no-tax advocate is the direct antithesis of the socialist—finding social property justified only where individual property cannot be supported. So far, indeed, is he an individualist that even the working of the social estates he will leave to competition, socializing only the receipt of the rent. Nor even in the collection of the rent is he willing to make the state a land-

lord; he aims, indeed, at the appropriation of the rent by methods which shall preserve the essential features of private property and the incentives and guarantees of private husbandry—cultivating ownership. Tenant cultivation he regards, in truth, as one of the especially evil aspects of the present system. The privilege of cultivating land should not be confined to those wealthy enough to buy it, or depend later on their consent. Thus, while the socialist finds no individual production nor the ethical necessity of individual ownership anywhere, the single taxer finds nowhere any righteous type of property which is not upheld by the title of individual productive effort. With opportunity equalized, whatever any one produces in his competitions with others is ethically to be accounted his own production. If opportunity is an actual auxiliary in the process, all his fellows have equal access to it and share in it. Thus, the single taxer socializes land—after his peculiar methods—not because he is a socialist but because he is not. It is only the principle of individualism that finds a peculiar ethical right and duty to socialize treasure trove, jetsam and flotsam, and estates without heirs.

Not altogether irrelevant, therefore, is the objection to the single tax policy that the revenues which it would make the exclusive support of the fisc may turn out inadequate. But the single taxer's confidence that the revenue would be adequate does not require justification as hope or demonstration as accomplishment in order to prescribe that, before other sources of revenue are exploited, this be made to render its utmost return. Harsh necessity may enforce resort to other devices; but for none of these can he discover so clear an ethical warrant or any unquestionable warrant. His tax need logically be unique only on the condition that it is adequate.

But that so many of the contentions of the single taxers are acceptable can avail to approve their program only so far as it is a forward-looking policy. It does not follow as just that society shall now proceed to do what society admittedly ought once to have done, but did not then do; that the penalties of delay shall be visited not upon society as a whole, to which as a whole has attached the responsibility of delay, but, instead, on whatever individuals, after centuries of free and active trading, happen now to be the actual proprietors. It was society that imposed buying as the condition of independent exploitation, offering nowhere to any individual the permission of control under high exactions in favor

of the state. If it be indeed true that this fiscal reform is of transcendent importance—I myself believe it to be wise—let it speedily come. But never a great reform need come after this wise, unless by the fact that those who so greatly want it want it only on terms that others pay for it. Doubtless it is true that under the stress of war the state may force some men to death upon the firing line for the general good, though the jurisdiction of the majority for this purpose and to this extremity may be hard to establish. But fiscal reform can come, if it be worth the price, without this hit-or-miss selection of scapegoats. The minimum social sacrifice does not prescribe or permit the expropriation of the few, but only the spreading of the burden widely, as the theory of insurance should easily suffice to prove. Largely viewed, land may be and doubtless is a bounty of nature, whatever that may mean. But to its actual present owner it represents something quite other, a property into which have flowed income and savings of indefinitely various sources—most of them forms of wealth about which the single taxer draws his sacred circle. He holds that the unearned gains were the good fortune of the earlier holders who escaped their doom by selling to me or to you—gains which have undergone investment and reinvestment into houses, herds, factories, libraries, merchandise, steamships, and are now safe in their inviolability, buttressed about by utmost sanctities, certified to as properties assured against public claim no matter into whose hands they have fallen—thief, beggar, or prostitute. And all this by the sole fact that somewhere back in the chain of title there was a holder whose claim was ethically worthy of public approval, he having brought this wealth into being. And thus, by force of his original merit, somehow inexplicably attached to the property, all later owners are rendered safe. Thereby is justice construed as relative not to persons but to properties. Originally it was personal, to be sure, but later it became somehow appurtenant to things. It is the kind of property that a buyer purchases, not the source of the funds with which he purchases, that determines whether he shall be protected, even were these funds representative of earlier gains through unearned increments. But selling any possible sort of property, no matter what or when the fish he has caught, or the grain he has grown, or the cloth he has woven, or the house he has builded, let him beware what things he shall now buy with these funds of unquestioned title. If his righteous earnings go into land, society

may any day dispossess him. And likewise let later investors beware; if they buy from him this land over which the sword has hung suspended but has not yet fallen, he shall go away safe with the proceeds and they shall become subject to the menacing confiscation—shall fall into this pit of calamity contrived and set by society for the trapping of the unwary. Not only shall no man henceforth obtain further gains of unearned increment, but, buying now, any man may forfeit all of his earlier accumulations, no matter whence he had them. That fortunate man, however, who has already cashed in his objectionable gains shall be forever safe, resting in the vestments and odor of sanctity, if only he be wise enough to extend no further his operations in unearned increments. And under similar limitations he may pass along to any later vendee this same age-long immunity, he and they forever sheltered under the merit of an original impeccable possessor. But those men to whom the gainer through unearned increment shall sell, shall indemnify society for the titles it alienated, making good to it the gains of all preceding title-holders, settling in full the score of the centuries. Thus it appears to be a sheer error that holds guilt to be personal. Instead, it is solely an attribute of things, and is of the general character of magic and taboo, houses that are haunted and ass-skins that are accursed. And thus the naïve childlike fancies of a primitive age survive to make ridiculous the policies of a great reform.

Not less faulty in logic, if not quite so closely akin to the animism of primitive superstition, is the commonplace objection to the public retention of all kinds of ground rent: that unearned increments in society are many, land increments only one out of a larger class, and that therefore it is unjust and indefensible to prohibit this one, while leaving the others to flourish. And thus it appears again that justice, equally with merit or crime, inheres in the relations of things. And yet it must be clear that whatever is accomplished towards the elimination of privilege and the equalization of opportunity is so far good. Remedy must begin with something; it is well to do the next thing next, especially if this next thing be the most important and the least difficult thing. Burglary need not be continued or highway robbery tolerated, awaiting the time that murder or counterfeiting shall be no more. No crime, or better no criminal, may claim to go free till all other malefactors are jailed—a vested right in one's particular graft or iniquity.

Not much more respectable is the theory that, if unearned increments are to be claimed by the state, unearned decrements must be made good—say, for example, that if you be denied gain on your little speculation, I must be repaid the loss on mine. At any rate, it must be obvious that, if there is to be no gain for speculative operators, there will be no speculators. To retain the land rent for society, whatever and whenever it may be, is so far to leave nothing to invest in or to gamble about or to lose by—an illustration of the ancient truth that, if you will sit always on the ground, you can never fall off.

Little more to the purpose are the objections: (1) that the single tax violates the principle that burden should conform to capacity, and (2) that it provides no fiscal elasticity. But if the revenues are merely prices for the use of special advantages attaching to exceptional opportunity—a device to establish equality where else there would exist differential advantage—and are in ultimate theory not taxes at all but methods of making taxation unnecessary, the rule of capacity as an ethical guide becomes inapplicable, because irrelevant. It is even more important that revenues be stable than flexible. If in the long average these regalia revenues are adequate, deficit financeering will take care of any temporary stress; if they are inadequate, such supplements as must be sought will easily provide the elasticity.

The foregoing discussions, however, are intended merely to clear the ground for other issues, some of them appreciably more difficult and all of them more distinctly technical in character.

Will single tax burdens shift?

Advocates and opponents concur in the belief that they will not. As shifting, the single taxer would not desire the tax or the opponents object to it. It would be merely another indirect tax.

The theory for the case is clear. Taxes shift only through changes in market price. If the tax affect neither demand nor supply, it must be neutral as to prices. Only because, when hat factories are taxed, there will result a diminished supply of factories and forthwith of hats, is the tax a shifting tax—the hats higher priced to buyers. If a tax on land leaves the land supply unchanged, it will leave the volume of products unchanged and their prices unchanged. There is no way directly or indirectly whereby the rent should be affected or the price of products modified.

So runs the authoritative Ricardian doctrine. And in the large, doubtless, it is correct; and, for urban lands, accurate almost beyond criticism. It is not, however, quite so satisfactory in its applications to agricultural land. With urban land, certainly, there can be no response of supply to changes in burden. The lands will neither be more if taxes are low or less if taxes are high. It is a matter of mere superficialities, a geographical or surveying fact. Not so, however, with the fertility aspects of agricultural land. As hat factories will not be built excepting to the degree that the higher taxes can be collected from consumers, or must, under the same limitations, be allowed to go to decay for lack of renewals and upkeep, precisely so will the fertility of the land—quite as easily worn out or renewed—be affected by any exceptionally severe treatment at the hands of the fisc. It is only position rents that really conform to the Ricardian description of the “original and indestructible powers of the soil.” The skinning of land, the mining of its fertility, is as commonplace a fact as the digging of peat or the mining of coal.

The theoretical merits or demerits of the single tax will, therefore, be best examined in connection with urban conditions or with situations requiring substantially the same analysis. Whatever be the truth as to agricultural rents, they are a very minor matter in the problem. The ground values of New York City outrun in appraisal all the real estate of the country, inclusive of improvements, west of the Mississippi.

Agricultural technique, transportation, and rent.

It is, in fact, precisely the enormous increase in urban rents that leaves safe Henry George’s argument that improvements in transportation and improvements in the arts of production, together with all influences of progress in general, make for the growth of ground rent. The Ricardian analysis, with its tacit assumption of a practically inflexible per capita consumption of food and of raw material in general, leads inevitably to the conclusion that improvements in transportation and improvements in agricultural methods work to diminish rather than to increase agricultural rent. I have elsewhere shown how hazardous for any purpose, with the facts at present available, is the entire economic analysis of these rural land rent tendencies. Agricultural improvements tend to reduce the rural population and probably, though inappreciably, to lower agricultural rents⁴ as a world total.

⁴ See my *Economics of Enterprise*, p. 455.

Quite other, however, and astonishingly divergent in point of degree, is the trend of modern forces towards the increase of urban rents and urban prices—site values, terminal values, franchise values. The errors of analysis on either side of the present controversy with regard to rural land need not further seriously concern us.

Will urban ground rents be lowered?

Clearly not, for precisely the same reasons that they can neither be increased nor shifted—unless in a relatively inappreciable degree as the effect of certain minor influences yet to be taken into account. The single tax program intends merely a change in the recipients of the rent, substantially a new landlord, the state, rather than a change in the earning power of the land. There is so far, then, no justification for the propagandist assertion that wage receipts will be advanced, the incomes of cultivators augmented, or house rents lowered. The main significance of the change sums up in making the landed proprietors pay the taxes in place of the wage-earners, the cultivators, the tenants and the consumers, who before have done most of the paying. So much as this, however, should reasonably well fulfill the aspirations of any single taxer. Taxes in the United States run at something like \$85 per bread-winner.

Some small effect on interest rates and thereby some effect on the prices of durable goods might be experienced. The range of investment for fluid funds must contract to the extent that lands either disappear or diminish as possible lines of investment, employing no new funds or a smaller volume of funds. On the other hand, the wider range of untaxed investment, *e.g.*, in plant and improvements, should employ a larger volume of funds and employ these funds on terms of a much larger contribution to the economic output of goods. Interest rates should in the balance somewhat advance.

Prices to consumers.

That the effects upon consumers must be approximately nil will become increasingly evident with a more careful attention to the fundamental principles of the shifting process. No tax ever shifts, be it repeated, excepting through changes in market prices; no price can change excepting through modifications in demand or in

supply. There is obviously nothing in the situation to affect seriously the volume of consumer's demand; nothing again to affect the supply of land—urban land, note again—position utilities; therefore no possibility of higher rents to tenants; no room for the recouping of these rents from consumers, even could they be imposed; no new opening for the landlords to organize for the joint protection; no owner who is now disposed or could ever have been disposed to forego his rent for the benefit of other owners; no single item of land before worth occupancy that can now wisely be abandoned; no item that before was not worth occupancy that could now be gainfully improved. An acre or area tax might retire items of supply at or near the margin of occupation. But the appropriation of a fraction of the rent or a percentage tax upon the selling price will prompt the abandonment of no single piece of land; any percentage of nothing, no matter how high, can be no appreciable burden. Only those production goods the supply of which will be modified by the imposition of a tax can present the phenomenon of shifting; a shifting which, should it occur, must be in part at the cost of the consumer and in part at the cost of the complementary productive factors. Taxes on position rents or values cannot shift, precisely because space remains a constant.

Speculation as retarding improvement.

In the main, however, the foregoing analysis should rouse no protest from any instructed single taxer. He defers to no one in his loyalty to the Ricardian analysis; going so far, indeed, as to accept the Ricardian error that declares fertility taxes to be non-shifting. It is solely by discouraging land speculation and the attendant speculative withholding of land from use that he looks for higher wages or lower prices. True, the earth is still no larger nor the lands encircling the city more in area, but the supply of land available for use must be larger when once the speculators have been compelled to let go. The single tax, as he insists, will bring it about that they will let go.

I believe this contention to be entirely valid for whatever there is in it. Speculators are an appreciable influence in creating land scarcity—only that this influence is not much more than appreciable, so far at least as rural lands are concerned. In cities, speculation avails for something more, though even in the city it is, in the main, not the activities of speculation but the presence of

a speculative situation that must be held responsible for most of the vacant land. Of agricultural lands in speculative ownership there is an enormous area; but of this land there is little that is held idle, and this little itself near to the extensive margin of cultivation, on the outer fringe of things, where the social waste from the forfeited use is inconsiderable. High priced farming land gets cultivated no matter who owns it; and if not well or providently cultivated, the single taxer should not greatly labor the point; his plan would go far to make this bad condition general.

More serious are the speculative aspects of land holding and land improving in urban centers. So far, clearly, as the outlook for increasing earning power and higher prices tempts a particular class of operators to invest, a class of men with neither the disposition nor the resources for improvement, some land must be retarded in its improvement—those operators who intend a mere gain in price as a return upon investment outbidding the competing offers of the long-run investor. To remove the inducements to speculative purchase by cancelling all prospect of the private enjoyment of whatever rent or increases of rent shall attach to the land, is obviously to exclude this speculative demand.

But even the more clear is it that to fix the tax, whether present or prospective, at anything short of the entire earning power—to leave a shell of individual property and income—is merely to make the gains still greater in proportion to the investment necessary to control them and is to foster the greater speculative activity that goes with operations on margins. Some share of the furious speculation in single tax cities like Vancouver is to be accounted to this influence.

The clue, however, to most of the incredible confusions of the analysis attending the theoretical discussion of the relations between the lure of the unearned increment and the progress of city improvement is to be found in the failure to distinguish between what the speculators are accountable for and what speculative conditions inevitably impose and determine. A host of things have been charged or credited to the speculator, or to the speculation attending land uncertainties, or to the hurry of land seekers, that are due merely to the uncertainties themselves, and would manifest themselves if there were no speculators and no “sooners”—if, even, the state had constituted itself the sole landlord and were everywhere and at all times precise in its appropriation of rental incomes.

The wonder is, then, not that so much of the theoretical discussion so far has on the whole been wrong, though much of it has been so, but that so much more of it has been right—the contestants really not succeeding in joining issues, each chiefly in error in his conviction that the truth which he holds opposes the truth of another.

In the large, however, certain disagreements can be made to look like seriously held differences in fundamental theory. The single taxers are fairly unanimous in the assertion that the effect of the lure of the unearned increment is to retard improvements, especially in cities. Professor A. S. Johnson, on the other hand, holds that, but for the quest of gain through the rise of lands, the American frontier would today be somewhere in Ohio or Indiana, that the state appropriation of land rents works to retard improvements.⁵ Professor R. M. Haig reasons as to urban lands that to cut into the unearned increment by higher taxes would stimulate investment.⁶ Professor T. S. Adams takes by implication the view of Professor Haig, urging that by accelerating his improvements, in the faith that the rise in the price of land will indemnify the deficit in interest which his untimely improvements occasion, the landowner not only subjects himself to a sacrifice in order to procure the gain from the land, but also renders in return for this gain a *quid pro quo* of service to society through the lower house rents at which the larger supply of house room must find occupants.⁷

The single taxers' views excepted, the general opinion would so far appear to be that whether society takes the increment or leaves it, in either case the processes of improvement are accelerated.

Professor B. M. Anderson, however, offers as a possible basis of compromise the view that, whether or not society shall take the increment or shall leave it, there can be in no slightest degree either stimulus or retardation of improvement.⁸

But no matter how far a perverse ingenuity may succeed in making these authorities appear to disagree, the issues are not clearly joined—the disagreements rather apparent than real. In the main these writers are discussing different things: *e.g.*, the effects (a) of doubt as to what is to happen; (b) of doubt as to the

⁵ *Atlantic Monthly*, January, 1914.

⁶ *Quarterly Journal of Economics*, vol. XXIX (Aug., 1915), p. 829.

⁷ *American Economic Review*, vol. VI (June, 1916), p. 271.

⁸ *Quarterly Journal of Economics*, vol. XXVIII (Aug., 1914), p. 811.

extent to which it may happen if it happen at all; (c) of certainty as to that which must happen but has not yet happened; (d) of uncertainty as to the date of fulfillment of this certainty; (e) of speculative activity as to (a), (b), (c), or (d); (f) of the effects of the larger taxes on some one or other of (a), (b), (c), (d), or (e).

So much as this, at any rate, should be fairly clear: if improvements are to be fostered by the single tax, this must take place, in the main, not through subjecting the land to more burden but through imposing less upon the improvements. It is easy to see how building must be more, if this more of building comes to carry with it less penalty of taxes, and how also, with more building, house rents should be lowered. But it is not so easy to see how, merely because the tax is greater on the land but no less upon the house, there should come about more houses. There is nothing in this to make building cheaper, or land more plenty, or the burden less that goes with the utilization of the land. Nor is there any way through improving the land to diminish the burden attaching to the ownership of it. Funds will be invested in improving land whenever the return is large enough to justify their use. Precisely what the land tax has to do with the case it is difficult to see. With the tax cutting into the net return of the land whenever it comes to yield its return, or making greater the burden of holding it till the time when it will yield its return, the price at which an investor would buy the land, or a holder be willing to sell it, must fall by an amount to express the present worth of the increased tax. But all this has nothing to do with the question of when an improvement will pay such a return as to justify the making of it. The tax is a loss against which nothing will avail as escape—selling, building, or holding. It is just so much less that the land will earn, no matter who uses it, or when, and therefore a definite reduction in its present worth whether for sale or improvement or holding. This I take to be the substance of Professor Anderson's argument—a cogent and irrefutable argument for the purposes of his problem—the significance of the greater tax burden upon lands or rents, but not at all the significance of prospective changes in these rents.⁹

⁹ He does, however, actually deny any significance to these rental changes. "That the increment, which is a constant factor whether the land is built upon or not, should have any influence on a decision to build or not to build, is, on the face of it, impossible. . . . If the tax is a constant factor, whether the land is built upon or not, in what way could it affect the decision to build? A

Nevertheless the truth may be that the first and the immediate and temporary effect of the inauguration of the heavier tax would be to start improvements. Were the tax so thoroughgoing as to eliminate the speculative class entirely, or even a tax so burdensome as, by crippling their marginal unpreparedness, to compel any considerable part of them to let go, the lands must pass into the hands of a different set of owners, men with different policies and purposes of handling, previously outbid by the speculators but now permitted to buy at prices fitting their purposes and expressive of the present worth to them of the future earning powers as they estimate them for purposes of improvement. The fall in price would therefore be somewhat greater than the ordinary theories of capitalization would indicate. The owners are now a building variety of owners—the property now offering itself at prices adapted to their estimates of a wise building policy. There is clearly room here, in this redistribution of proprietorships, for a temporary acceleration of building.¹⁰

But with the period of readjustment completed, the capitalization process will have digested any increase of taxes into lower prices—a capitalization process, however, now conducted, on the

special tax on unoccupied land alone would cause more building, but factors which are constant regardless of the decision do not count among the pros and cons. It should be added, however, that since buildings are, under our general property tax, in fact more heavily taxed than most other forms of capital, an application of the single tax would relieve buildings of a disproportionate burden, and so somewhat stimulate building at the expense of other forms of enterprise" (*op. cit.*, p. 813).

¹⁰ Possibly also a tax newly imposed and catching unprepared holders who have purchased not for resale but for later improvement, in the expectation of moderate *ad interim* burdens, men to whom still the land is worth more for use than they could have for it by selling it, men who come now in presence of the problem of whether it be wiser to build forthwith than to wait—it is possible that these men, trapped in mid-process, may some of them build earlier because of the tax. If so, these are men to whom their enhanced *ad interim* costs are exceptionally severe burdens and who would therefore have been outbid by the demand prices of other men, had this larger tax been in clear and definite prospect.

But as to the truth of the case in this particular regard, I confess myself much in doubt. When one of these owners builds, he must have the extra ground tax still to pay—his annual cost, say, \$50 higher as occupant than he had expected. But he has no way to evade; must sell at a reduction which capitalizes the loss, or must hold under the same sum of increased burden, or must build still subject to this same larger tax. Thus there seems to be no change in the differential attractions of building and not building, each alternative merely shrinking \$50 in its net volume of service.

demand side, by builders less optimistic than were the speculators as to the prospective gains in the price or in the earnings of the land. The only substantial change therefore must accrue through the elimination of the speculative operators—assuming all the while, of course, the sort of tax that would entirely eliminate them.

But it still remains true, as the single taxpayer asserts, that the effect of speculation in city lots is to hold vacant a considerable body of property that the building investor might otherwise have utilized earlier. The scattering and sprawling growth of a growing city is in the main due to the fact that the city *is* growing and that many properties are being wisely held vacant waiting for the time to arrive when the appropriate improvement will justify itself as a long-time investment. Different men judge differently as to the appropriate time as well as to the appropriate degree of investment. The fact, however, that many buyers purchase with the sole purpose not of improving but of selling at higher prices to those who will improve, holding in the belief that the rate of increase in the selling price will afford an attractive return, not merely attaches to much of the property prices unattractive to building investors, but, by what amounts to a temporary restriction of supply of property, compels some investors to move farther out, if they are to make improvements at all. These speculative activities have therefore some bearing to accentuate the straggling growth of the city, to make ground rents higher, and to impose serious municipal wastes in the supply of street, sidewalk, water, light, and sewer services.

But it must be obvious that this general argument—impregnable as I believe it to be—with regard to the effect of the larger tax, has nothing to say as to how far the restriction of improvements may be due to an existing uncertainty as to the amount of improvement which will turn out later to be best adapted to the land, or as to the kind of use for which the land will later come to be sought. Either retardation or acceleration may result from the various possible estimates of these future uses or earning powers. If, for example, it seems probable—but not certain—that next year a viaduct or a bridge will make accessible my pasture tract yonder, I shall wisely decide to postpone the erection of a barn till I know definitely what is to happen and when—perhaps, therefore, till the thing has really happened. Cancel my hopes, and up will go my barn. Confirm them, and I may forthwith begin my laying of sidewalks, planting of trees, grading of

streets. Or, on the other hand, I may still decline to move in any direction till I make out whether these lands may not be marketable for terminal purposes or manufacturing sites. Or again, having settled in my mind that the uses are to be residential and that I myself shall finally do the building, I may still hesitate greatly and delay long as to whether I shall the more wisely build cheaply or dearly—balancing the chance of having to rebuild on such a higher scale of expensiveness as shall better fit the ultimate market, as against the danger of loss by making my improvements even more expensive than the prospective demand will turn out to justify.

These effects of speculative conditions—not of speculative operations and not of the pressure of taxes—are especially evident in certain quarters of growing cities, as, for example, upon South State Street, in Chicago, where midway between the established center of trade and the nearby decent and decaying resident sections, persist in shaky survival several blocks of cheap buildings, starved of upkeep, tenanted by saloons, cheap restaurants, peep-shows, catch-penny enterprises, museums of anatomy, and whatever other cover of varied iniquity the city authorities will overlook. These are typical slums in typical locations. Why are not the shacks removed? They pay satisfactorily enough, in view of the fact that the time has not yet arrived for building anything better. But even now something far better would pay, if only it were yet certain how good it must be to pay best in the long run. But fairly certain is it that the sort of building which ten years hence ought to be there must for several years afford inadequate returns—an extreme misfit for the intervening time. It is wise to wait. But equally certain is it that whenever the time does come to act, the building must be projected somewhat beyond the justification of the immediate demand. Delay is certain, for a time; and not less certain, at the proper time, is the acceleration. No tax would appreciably affect the problem. The same influences, now of retardation and now of acceleration, would be present and in full force no matter even were the state a rack-rent landlord, or were the sites available only as leased land or on terms of perpetual ground rents.

It seems, indeed, quite clear that no one improves in order to reap the advantages of rising prices or rising rents, in the sense that, as Adams and others argue, the landowner looks to the appreciation of the land to make good his losses on his building. To build is the only way to utilize the earning power of the land.

Whenever one builds he does it in the way which will afford the best return upon his building investment. In accomplishing this he must recognize that the investment in improvements must be duly proportioned to the investment in land—that to get a high earning power out of land, high-cost improvements must go with it, and that, when the earning power of the land is changing, any improvement that fits it at any one time must turn out a misfit for the later time. His only resource is to make the best compromise possible between the long-time and the short-time adaptation. So far as he goes in emphasis of the long-time aspect, he does this in the faith not that he will get a rise in price to offset his loss in building, but that this is the only way to achieve the maximum return on his entire investment. The increasing earning power of land advises a more expensive improvement in the present. Whenever he builds he must plan in view not only of immediate return but of the later higher return, making such allowance as he may for the uncertainties of the future. But the earlier he builds, the more cheaply he must build; the later, the more expensively. Were the prospect one rather of retrogression than of progress, as, for example, in a currently prosperous placer-mining camp, the buildings must be cheaper than the immediate demand justifies, in partial adjustment to a later period when they must correspondingly overrun.

When the prospects are speculative equally in the directions of rising and of falling income power, so much the more do the improvements vary in retardation or acceleration according to individual estimates of ultimate adjustments. Weighing as best he may in his estimate of present worths the difference between belief and certainty, each holder enters into a hazard of putative future incomes—his investment in excess of the purchase price of the lot being a more or less irrevocable adventure in building costs. The degree of hazard in this adventure is affected by the nature and the degree of the various chances involved.

I do therefore agree with the single taxers that speculation in some measure restricts the supply of land, that in some fraction of its many effects it works to retard improvement. I agree also with Anderson that the taxes have nothing appreciable to do with the case; but I nevertheless insist that prospective changes in earning power have much to do with it. I agree with both Haig and Adams that prospective increases in earning power do, in some share of their many effects, appreciably stimulate building

operations—insisting, however, that an obverse sort of stimulation would attend a prospective fall in earning power; that the amount of the tax imposed upon the land would have little to do with it; the effort to reduce to personal gain the unearned increment nothing to do with it.

And, finally, I agree with Johnson that the lure of unearned increment has been a continuous incentive to pioneering, even though speculative operations in the premises have been, as the single taxer rightly asserts, an incubus on the activities both of pioneering and of exploitation. But I hold that Johnson's deduction is in point of degree a gross exaggeration. The lure of increment merely induces a fringe of pioneering "sooners," some tens of miles in advance of the extensive margin of purely agricultural enterprise. It is a sort of twilight zone, a No Man's Land, an area of adumbration along the frontier margin, attending this margin as the shadow the subject, not directing or placing or determining it. That my shadow is some feet west of me at each moment of the forenoon does not indicate that by noon it will have preceded me into the next county. It is merely true that without the inducement of the prospective rise of land incomes and land prices, the American frontier would for all of our history have been some fifty or a hundred miles in the rear of where it actually has been.¹¹

But all this is entirely aside from the question of whether it might not have been as well or better that the frontier should now be in Ohio. It is not obvious that the rapid preëmpting of government land, to the point that now the age of free land in the world is mostly past, has been so distinct a blessing. To whom precisely? To you or to me? Or to which one of our landless sons? It must have been rather to that vague retreat of unprecise thinking, the country or society—that gets some good from growing more, or more widely or more thickly: the thinking that discovers, for example, that because this country "owns" the

¹¹ The policy of land grants to railroads has had, doubtless, larger effect. But, even here, the same principle applies, only that the area of pioneering railroad adventure is often greatly wider, even to the extent of marking out ribbons of narrow occupation entirely across the continent. Extending vertically outward beyond the extensive margin of gainful agriculture on either side of it will always be found the intermediate area of individual adventure in the quest of the lure. It is, however, not so obvious that the land grants to railroads should be declared unearned, or the gains achieved regarded as lacking any social *quid pro quo*.

Philippines, includes more people, and totals more wealth, and therefore can collect and spend more taxes, you or I must be somehow better off; or that it is matter of congratulation to any one but the land grabber that the city or state should grow; or, again, that the death of a few millions of men more or less is an economic loss of, say, \$2,000 each to the survivors, or to the earth, or to society, or to the cosmos, instead of to themselves.

But should not this evident fact that the unearned increment has attracted enterprising men horizontally further forth mean also that it has pushed building adventures higher into the air? Having located cabins deep in the woods or far out on the prairies, why may it not have added further and earlier stories to the skyscrapers? Well, if in order to get title to the city lots, men had to build on them or live on them, such must have been the influence. Or if to hold the business sites, men had also to sit wind-buffed on the cornices of their skyscrapers, thereto they must have climbed and have clingingly, continuously, numbly and coldly sat. It was the fact that men were physically tied to these promises of title, had to occupy their homesteads and preëmptions and work their timber claims, that took these men further out into the wilderness, and held them there; and, being there, they had to work there, since their labor, as different from their investment, had to be done each man in his own presence.

Are there unearned increments?

And did not these pioneers pay well in privations, lonesomeness, and danger for all that they got? Verily—but paid to whom? and on terms of what *quid pro quo* of service? Whether the rewards be defended either as moderate indemnity for the privations undergone or as return upon foresight and energy in pushing forward to grasp an offered prize, the question still remains whether the prize was wisely offered. It is the central problem of institutional policy in the economic field to limit and apportion private gain to social service. Neither shrewdness nor wisdom connotes an ethical value or affords secure warrant of rightness or service.

But both Johnson and Adams make much of these privations as being of the nature of services rendered to the state, or to society, or to humanity at large and in general. There need be no question that, inasmuch as the lands were offered on terms of these privations, and inasmuch as the terms and conditions were fulfilled,

there can be nothing now for the case but to abide by the contract—that confiscation here is as immoral as any other variety of robbery. But still again, as institutional policy, what have these privations to do with the case? Was the land placed there by these adventuring geographers? Or retained there by their safe anchoring? Or improved for some one else by their labors—or even for themselves? Or saved from any menacing disintegration or decay? Recall that the purpose of the argument must be to show that it was wise social policy, as a human gain in the large, that these land seekers should be induced to hurry forth and get there first; that in some phase of social accounting these individual privations constituted an inevitable debit incurred in the securing of some greater social gain.

Adams, indeed, takes this position quite uncompromisingly and on distinctly economic grounds rather than as deduced from some vague, conjectural values in the field of sociology or politics or patriotism. Through this pioneering, “Farmers and farms are more numerous, farm products more plentiful and farm [product?] prices lower, because of the unearned increment. The latter is diffused . . . in part to the purchasers of farm products.”¹²

¹² *Op. cit.*, p. 279.

But I submit that the net social result of sending men out where “the farmers work for less than day’s wages, if we measure his reward in annual income alone,” is, so far, to waste the labor of each man. Allowing for the productive energies employed in moving his product from its remote place of growing to the market, the result in terms either of price or of nutriment would have been greater had he remained on the hither side of the extensive margin. If in either case he would have farmed, food is scarcer and dearer for his change of place. If he were an artisan, but now as pioneer turns perforce to amateur agriculture, the loss in some other kind of product, in which the prices are now higher for consumers, must far outweigh the increase in agricultural product. In the form of a mortgage on the future we have been paying the pioneers for wasting their time.

But I do most cordially agree with Professor Adams that the owners of the “much unused and presently unusable land . . . upon which they are willing to pay taxes, only because they expect to reap and benefit by the unearned increment,” have really in this way and to this extent rendered a *quid pro quo* to their fellow men—to this extent, therefore, have ethically made good their titles and are receiving increments not unearned but fairly

purchased; though still I question the institutional wisdom in the case.

But from this fact of these various payments Professor Adams deduces an argument in support of the general property tax as fair and just both in principle and in working, as deriving revenues from commendable sources, and as affording generous returns. I should have deduced precisely the opposite conclusion. But in the background of the thought there is evidently a principle on which he and I are in substantial agreement. He is genuinely pleased, as also am I, that some of the unearned increment has thus been intercepted for public purposes; only that he is glad of the particular method, the while that I regret it. Each of us is thus a single taxer in essential spirit.

In the main purpose and emphasis of Adams' article, however, I more than cordially concur. I believe that he has done the science of taxation an immeasurable service in exploding for all time, not the general doctrine of the capitalization of taxes, but a bastard offspring from it—the notion that every purchaser of a property already overtaxed buys unaffected by the general property tax, holds his property quit and free of tax burdens, and may now be called upon, through the imposition of further taxes, to be initiated into the great brotherhood of the duly burdened. Most economists, I believe, have been uncomfortably conscious in their noses of a fallacy somewhere in the near vicinity, but have not been entirely successful in locating it, or in applying the appropriate remedial or preventive formula. Such at all events has been my own case. The doctrinal essentials, however, are easily at hand in a correct notion of what capital is and of how it functions in the capitalization process.¹³

¹³ Since this article was submitted and accepted Professor Seligman in the December number of this REVIEW has put in question certain of Adams' positions. Still, however, the ultimate issue appears to turn upon the relation between property taxes and interest rates. The disputants substantially agree that those who buy taxed property get as good bargains at the prices paid as those who buy untaxed property. The prices merely reflect the net incomes in prospect. But Adams—agreeing with Seligman that to reduce a net income is proportionately to reduce the value of its property basis and that there can be, because of the tax, no difference in the *rates* of return to different investors—yet holds that the very fact of taxation upon property must be ranked as among the influences restricting the net returns from property and thereby restricting interest rates. These tax burdens upon the investors manifest themselves precisely in the fact that they make net incomes dearer, in terms of present purchasing prices. The investor gets less income from his

It must be added that even were it true that the capitalization process would justify the imposition of further taxes as a matter of justice between persons, it would still be disastrous in its effect upon the general welfare. There is no such thing as justice between properties; but it is nevertheless important that investments be by taxation so equally affected in their incomes that the distribution of investment shall not by fiscal policies be fostered in

money. There is a burden, therefore, not precisely on him as the purchaser of property, but rather on him as the holder of funds the earning power of which is restricted through the existence of property taxes.

Seligman, as I interpret him, holds that taxes on property—or, perhaps, taxes on some sorts of property—have no effect to harm investors in other properties. Any purchaser after the tax buys subject to the tax, buys at a price appropriate to the reduced net earning power of the property, and buys on a capitalization rate which is independent of the tax on this property or on other classes of property.

At the logical extreme, therefore, Adams should argue that a property rendering a \$50 income must be worth, on a five per cent basis, \$1,000 as present price; that this property, under a general property tax, would change to, say, a \$40 income discounted on a four per cent basis; that no change in price would occur but only a change in the net earning power of the invested funds. Seligman, on the other hand, should argue that the property would be bought at \$800, its income of \$40 remaining at a five per cent basis upon the new and actual investment price.

So much of this, at any rate, is clear; the rates of return upon different investments cannot be different because of the varying tax burdens on the different properties. All investments must be equally affected, in the sense that all are equally taxed or that none is taxed. Adams says that all are taxed under the guise of the lower interest rates which the imposition of the tax must bring about. Seligman appears to say that all are free from tax by virtue of the purchase of diminished incomes at proportionately diminished prices; smaller investments but unchanged rates.

To assert that in my opinion both disputants are wrong would be an awkward way of formulating my conviction that the entire analysis requires a change of venue, or better, a new method of approach. I should say:

(1) That no property tax, even one so general as to affect all existing properties, would in the slightest affect the interest rates of the market, if only new investment funds and other openings for new investments were left untaxed. Such a tax would amount merely to a *pro tanto* confiscation of the incomes on the burdened properties without in the slightest changing the capitalization rates.

(2) That were the tax only upon new funds for investment or only upon the new properties derivative from the investment of these funds, the capitalization rate would fall approximately *pro tanto* and the previously existing properties would rise in market price without any slightest change in the incomes derivative from them, but with changes solely in the *rates* of return.

(3) That were the tax imposed upon all properties, old as well as new, the net incomes would fall, and probably, though not certainly, would fall in something like the same proportion with the fall in rates of interest. No

some directions and impeded in others—unless, of course, it be for specific reasons desirable to discourage certain lines of investment.

Will the single tax congest urban populations?

Yes and no, depending on what one means by the term; and depending partly, also, on whether the tax be applied locally or generally.

To shift taxation from all other property to land amounts in general to the putting of the tax on what can not move and exempting those things that can stay, go, or come. As between cities, it is a competitive method of bonus or premium. It is equivalent to a general and perpetual tax exemption for all dwellings, factories, equipment and stocks, and for investment in general, other than the land that cannot get away. No more effective competitive device for promoting city growth could be devised, as long as competitors refrain from adopting it—irrespective, of course, of any question of what is the use of it to any one but the landowner.

Vancouver inevitably made a great growth of population and business through it—inevitably attracted thereby an inflow of laborers and industries in structural lines, stimulated therewith a great advance in the rentals of land, and thus inevitably, since the appropriation of rents was only partial, fostered a frantic speculation, which finally, when the slackening building activity threw laborers out of employment and speculation receded, ended great change in present worths would result, with the exception that the less durable of income-bearing properties would suffer relatively less.

(4) That for any purposes of the capitalization analysis, the concepts of property, of capital, or of investment must be so widened as to include not merely all operating funds in rent or other gain-seeking activities, but all the time-using methods or properties in which funds may be expended: all the durable goods like houses, autos, and furniture, which, as affording future incomes, absorb present investment funds; all banking activities and insurance; all lending to state or other consuming borrowers; all outlays in promotion, publicity, salesmanship, organization, speculation; in short, all gain promising or income rendering or income earning employments of money or of banking credit.

If, therefore, Adams is to be interpreted to include new investment funds and new investment properties in his tax, he is right in asserting that the capitalization rates must be affected; and wrong, merely in including previously existing properties as within the causal field. Seligman, also, must be declared to be correct in denying that property taxes necessarily affect interest rates; and wrong, merely if he be interpreted to deny that taxes on new investment funds and new investment properties are also to be regarded as outside the causal field.

in a colossal collapse and liquidation. But the town was there, a much larger town—if it be to any one's purpose to personify and congratulate a town. A partial single tax is a dangerous thing.

But does it congest population? It builds the city higher as well as wider, more people to the acre and more acres. But, essentially, it is not the tax that congests the population, but the growth of the town. With increasing demands and higher prices for shelter, building increases at both the intensive and the extensive margin.

Consider, however, what would be the effect if all towns followed in equal degree and by similar methods the single tax principle. There could be no marked disturbance in the ratio of the total urban to the total rural population or, by assumption, any redistribution of urban population between cities. On the face of it, the sole advantage would appear to be that the land-owners would be compelled to transfer their rent rolls to the state, all other property owners going free. But this process of setting all other property free of tax would also mean the freedom of future improvements. It would for a time amount to a gift to the owners of existing houses with a corresponding stimulus to the supplying of more houses, at lower rates per unit of service. This larger supply of houses could only be achieved through increases both at the intensive and the extensive margins. Building would go higher and extend more widely—more house room for the money and a larger consumption of house room relatively to other goods.

How about the drying up of building loans?

It has been speciously argued that inasmuch as most building operations are financed through borrowed funds secured primarily and mainly by the ground values, the land tax would mean that the supply of loan capital would be driven out of building enterprises. I confess that for a time this seemed to me cogent and valid reasoning. But see how easy it is open to flank attack, and how disastrously it works for its opponents. I have, say \$1,000,000 and am projecting a building. I must first buy my lot, costing \$1,000,000, and then through the pledge of it procure money, another million, with which to build. But, if I could have the lot on terms of paying the annual rent tax on it, I need borrow nothing. The rents would as well pay the \$40,000 of tax on the land as they would pay the same amount of interest on my building

loan. I am now independent of the loan market. A great argument was this.

The wisdom of the entire exemption of improvements from taxation is obviously tied up with the question of the property tax in general. In the past, under the actual working of the general property tax, improvements have been subjected to especially heavy burdens, investment in buildings therefore relatively retarded, and house room thereby made especially dear. Any remedy to be applied should be carefully guarded against undue emphasis in the opposite direction. No ordinary tax is bad or good unless as part of a system. Investments in improvements should presumably bear the rate of burden common to other lines of wealth that are flexible in supply. In fact, however, most other lines of investment do actually evade the general property tax as well as other state and local burdens. So long as this remains a fact, investments in buildings should wisely be left entirely exempt. Ideally all ordinary incomes, property or other, should participate in contributing to the public revenues—but as incomes, not as property bases of incomes. Nothing can be more unwise than the relative freedom of personal property incomes from public burdens. The personal property tax should disappear only with the disappearance of the property tax in general.

I trust that the necessary limitations of space—occasionally betraying me, I fear, into seeming dogmatisms of statement—may serve at the same time as my excuse, if need there be, for unintentional inadequacies in reporting the positions that I have subjected to criticism or attack. In spirit, at any rate, if not in actual accomplishment, I hold argument to be never rightly a game for victory, or anything more or less or other than always a coöperative investigation. It is a pleasure, therefore, to adopt for my present purposes the following admirable words from the genial and brilliant paper of Professor Adams, against which I have directed certain objections. I also may “have written more dogmatically than I feel, and more emphatically than the rules of polite controversy warrant.” But “if the position taken be unsound, it will bring down surer and swifter retribution, a speedier recognition of the true doctrine.” Not less perhaps for us single taxers of the looser observance than for our fellows of the stricter faith, is it to be desired that we continually exercise ourselves in the amenities of discussion.

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