CHAPTER VII

DEFECTS OF THE EXISTING LAND SYSTEM

STARTING from the principle that the rightness or wrongness of any system of land tenure is determined not by metaphysical and intrinsic considerations, but by the effects of the institution upon human welfare, we arrived at the conclusion that private landownership is not unjust, so long as no better system is available. By the same test of human welfare we found that it would be wrong to substitute a better system through the process of confiscating rent and the commercial value of land. A further step brought us to the conclusion that complete Socialism would certainly, and the complete Single Tax probably, be inferior to the present system. As a sort of corollary, the social and moral superiority of private landownership was stated in terms of natural rights. Finally, the question was raised whether the landowner has a right to take rent, and to take all the rent.

In stating the superiority of the present system, we explicitly noted that we had in mind the system as capable of improvement. This implied that there are defects in the present form of land tenure, and that these can be eliminated in such a way as to make the system more beneficial and more in harmony with the principles of justice. In the present chapter we shall give a summary review of the principal defects, and in the following chapter we shall suggest some methods of reform. All the defects and abuses may conveniently be grouped under three heads: Monopoly; Excessive Gains; and Exclusion from the Land.

Landownership and Monopoly

In the literature of the Single Tax movement the phrase, "land monopoly," is constantly recurring. The expression is inaccurate, for the system of individual landownership does not conform to the requirements of a monopoly. There is, indeed, a certain resemblance between the control exercised by the owner of land and that possessed by the monopolist. As the proprietor of every superior soil or site has an economic advantage over the owner of the poorest soil or site, so the proprietor of a monopolistic business obtains larger gains than the man who must operate in conditions of competition. In both cases the advantage is based upon scarcity and the extent of the advantage is measured by the degree of scarcity.

Nevertheless, there is an important difference between landownership and monopoly. The latter is usually defined as that degree of unified control which enables the persons in control arbitrarily to limit supply and raise price. As a rule, no such power is exercised by individuals, or by combinations of individuals, with regard to land. The pecuniary advantage possessed by the landowner, that is, the power to take rent, is conferred and determined by influences outside of himself, by the natural superiority of his land, or by its proximity to a city. He can neither diminish the amount of land in existence nor raise the price of his own. The former result is inhibited by nature; the latter by the competition of other persons who own the same kind of land. To be sure, there are certain kinds of land which are so scarce and so concentrated that they do fall under true monopolistic control. Such are the anthracite coal mines of Pennsylvania, and some peculiarly situated plots in a few great cities, for example, land that is desired for a railway terminal. But these instances are exceptional. The general fact is that the owners of any kind of land are in competition with similar owners. While the element of scarcity is common to landownership and to monopoly, it differs in its operation. In the case of monopoly it is subject, within limits, to the human will. This difference is sufficiently important, both theoretically and practically, to forbid the identification or confusion of landownership with monopoly.

A notable illustration of such confusion is the volume by Dr. F. C. Howe, entitled, "Privilege and Democracy in America." He argues that bituminous coal, copper ore, and natural gas are true monopolies, but gives no adequate proof to support this assertion. Moreover, he exaggerates considerably the part played by landownership in the formation of industrial monopolies. Thus, his contention that the petroleum monopoly is due to ownership of oil-producing lands is certainly incorrect, for the Standard Oil Company (or companies) has never controlled so much as half the supply of raw material. "The power of the Standard does not rest upon a direct monopoly of the production of crude oil through ownership of the wells." [1] Perhaps the most remarkable misstatement in the volume is this: "The railway is a monopoly because of its identity with land." [2] Now there are a few important railway lines traversing routes or possessing terminal sites which are so much better than any alternative routes or sites as to give all the advantages of a true monopoly. But they are in a small minority. In the great majority of cases a second parallel strip or parallel site could be found which would be equally or almost equally suitable. Neither the amount nor the kind of land owned by a railroad, nor its legal privilege of holding land in a long, continuous strip, is the efficient cause of a railway monopoly. To attribute the monopoly to land is to confound a condition with a cause. One might as well say that the land underlying the "wheat king's" office is the cause of his corner in wheat. It is true that in a few of the great cities the exist-

[1] "Report of the Commissioner of Corporations on the Petroleum Industry," Part I, p. 8.

[2] P. 138.

ing railroads may, through their ownership of all the suitable terminal sites, prevent the entrance of a competing line. In the first place, such instances are rare; in the second place, the fact that there are several roads already in existence shows that competition was possible without the entrance of another one. The influence impelling them to form a monopoly for the regulation of charges is not their ownership of terminal sites. No sort of uniform action with regard to terminals would produce any such effect. The true source of the monopoly element in railways is inherent in the industry itself. It is the fact of "increasing returns," which means that each additional increment of business is more profitable than the preceding one, and that in most cases this process can be kept up indefinitely. As a consequence, each of two or more railroads between two points strives to get all the traffic; then follows unprofitable rate cutting, and finally combination.[1] The same forces would produce identical results if railroad tracks and terminals were suspended in the air. The law of increasing returns would still operate.

Dr. Howe asserts that the monopolistic character of such public utility corporations as street railways and telephone companies is due to their occupation of "favored sites."[2] How can this be true, when it is possible to build a competing line on an adjoining and parallel street? If the city forbids this, and gives an exclusive franchise to one company, this legal ordinance, and not any exceptional advantage in the nature of the land occupied, is the specific cause of the monopoly. If the city permits a competing line, and if the two lines sooner or later enter into a combination, the true source and explanation are to be found in the fact of increasing returns. Combination is immeasurably more profitable than cut-throat competition. Moreover, the evils of public service monopolies can be remedied through public con-

[1] Cf. Ely, "Monopolies and Trusts," pp. 59, sq.
[2] P. 133.

trol of charges and through taxation. Neither in railroads nor in public utilities is land an impelling cause or monopoly, or a serious hindrance to proper regulation.

Most of Dr. Howe's exaggerations of the influence of land upon monopoly take the form of suggestion rather than of specific and direct statement. When he attempts in precise language to enumerate the leading sources of monopoly, he mentions four, namely, land, railways, the tariff, and public service franchises. Nor is he able to prove his assertion that of these the most important is land.

Certain kinds of land are liable, in varying degrees, to become monopolies or to become an important source or contributory cause of monopoly. They are usually denominated "natural resources." Concerning some of these the Federal Trade Commission declares that the available data "indicate a distinct concentration of control in the hands of a few large companies. Six companies are shown as controlling about a third of the total developed water power; eight companies as controlling over three-quarters of the anthracite coal reserves; thirty companies as controlling over a third of the immediate bituminous coal reserves; two companies as controlling well over half of the iron ore reserves; four companies controlling nearly half of the copper reserves; and thirty companies controlling over twelve per cent of the petroleum reserves." [1]

The existence and menace of monopolies in the field of electric power were thus described by Governor Pinchot of Pennsylvania in his Message of Transmittal of the Report of the Giant Power Survey Board to the State Legislature: "No one who studies the electrical developments already achieved and those planned for the immediate future can doubt that a unified electrical monopoly extending into every part of this Nation is inevitable in the very near future. The question before us is not whether there shall be such a monopoly. That we cannot prevent. The

[1] "National Wealth and Income," Report of the Federal Trade Commission, 1926. p. 71.

question is whether we shall regulate it or whether it shall regulate us. . . . Nothing like this gigantic monopoly has ever appeared in the history of the world. Nothing has ever been imagined before that even remotely approaches it in the thoroughgoing, intimate, unceasing control it may exercise over the daily life of every human being within the web of its wires. It is immeasurably the greatest industrial fact of our time. If uncontrolled it will be a plague without previous example."

Speaking generally, we may say that when a great corporation controls a large proportion of the raw material required for its manufactures, such control will supplement and reinforce other factors which make for monopoly.[1]

Excessive Gains from Private Landownership

The second evil of private landownership to be considered here, is the general fact that it enables some men to take a larger share of the national product than is consistent with the welfare of their neighbors and of society as a whole. As in the matter of monopoly, however, so here, Single Tax advocates are chargeable with a certain amount of overstatement. They contend that the landowner's share of the national product is constantly increasing, that rent advances faster than interest or wages, nay, that all of the annual increase in the national product tends to be gathered in by the landowner, while wages and interest remain stationary, if they do not actually decline.[2]

The share of the product received by any of the four agents of production depends upon the relative scarcity of the corresponding factor. When undertaking ability becomes scarce in proportion to the supply of land, labor, and capital, there is a rise in the remuneration of the business man; when labor decreases relatively to undertaking ability, land, and capital, there is an increase in wages. Similar statements are true of the other two agents and

[1] Cf. Hobson, "The Industrial System," pp. 192-197.
[2] Cf. "Progress and Poverty," books iii and iv.

factors. All these propositions are merely particular illustrations of the general rule that the price of any commodity is immediately governed by the movement of supply and demand. Hence, it is not impossible that rent might increase to the extent described in the preceding paragraph. All that is necessary is that land should become sufficiently scarce, and the other factors sufficiently plentiful.

As a fact, the supply of land is strictly limited by nature, while the other factors can and do increase. There are, however, several forces which neutralize or retard the tendency of land to become scarce, and of rent to rise. Modern methods of transportation, of drainage, and of irrigation have greatly increased the supply of available land, and of commercially profitable land. During the nineteenth century, the transcontinental railroads of the United States made so much of our Western territory accessible that the value and rent of New England lands actually declined; and there are still many millions of acres throughout the country which can be made productive through drainage and irrigation. In the second place, every increase of what is called the "intensive use" of land gives employment to labor and capital which otherwise would have to go upon new land. In America this practice is only in its infancy. With its inevitable growth, both in agriculture and mining, the demand for additional land will be checked, and the rise in land values and rents will be correspondingly diminished. Finally, the proportion of capital and labor that is absorbed in the manufacturing, finishing and distributive operations of modern industry is constantly increasing. These processes call for very little land in comparison with that required for the extractive operations of agriculture and mining. An increase of one-fifth in the amount of capital and labor occupied in growing wheat or in taking out coal, implies a much greater demand for land than the same quantity employed in factories, stores and railroads.[1]

[1] Cf. Walker, "Land and Its Rent," pp. 168-182.

In 1915 Professor W. I. King estimated that the total national income increased from $2,250,000,000 to $30,500,000,000 between 1850 and 1910, or slightly more than fifteen times, while rent advanced from $170,600,000 to $2,673,000,000, or about fifteen and three quarters times. Hence the proportion of the national product going to the landowners was in 1910 an exceedingly small fraction greater than it had been sixty years earlier.[1] Between 1910 and 1922 the value of taxed real estate increased a little less than 61 per cent, while the value of all the wealth of the country increased 72 per cent.[2] Inasmuch as there is no good reason to assume that the land portion of real estate advanced more rapidly in value than the improvements portion, the upward movement of land values clearly lagged behind that of national wealth as a whole. From 1910 to 1920, the value of farm lands per acre, including improvements and equipment of all sorts, increased about 75 per cent. Since 1920, farm land value has undergone a considerable decline, and to-day is probably lower relatively than the value of our total wealth. We have no adequate reason to think that the proportion of the national income received by owners of land, as such, is greater to-day than it was seventy-five years ago.

As regards the future, there is every reason to expect a disproportionately great increase in the values and rent of certain kinds of land. All growing cities, especially those now having a population of more than 100,000, all water power sites, all anthracite coal lands, all timber lands, and all petroleum reserves, will not improbably experience a steady increase in land values. The value of agricultural land will, on the whole, increase much less rapidly. For this condition the main responsible factors are the improvements in farm machinery and in the agricultural arts generally. They bring about an increase in both the produc-

[1] "The Wealth and Income of the People of the United States," p. 158.

[2] Federal Trade Commission, op. cit., p. 50.

tiveness and the area of arable land, and a decrease in the prices of both the land and its products.

So much for the proportion of the national product which goes to landowners. What about the distribution of this share? Is it divided among a majority or a minority of the population? Is the proportion of the population that obtains some rent increasing or decreasing? Unfortunately no exact information is available for full answers to these questions. Between 1890 and 1920 the proportion of farm families owning farm land decreased from 65.9 per cent to 60.9, while the proportion of all families owning homes fell from 47.8 per cent to 37.4 per cent.

Nevertheless when we consider the amount of gains accruing to the average member of the landowning class, we do not find that it is unreasonably large. The great majority of landed proprietors have not received, nor are they likely to receive, from their holdings incomes sufficiently large to be called excessive shares of the national product. Their gross returns from land have not exceeded the equivalent of fair interest on their actual investment, and fair wages for their labor. The landowners who have been enabled through their holdings to rise above the level of moderate living constitute a comparatively small minority. And these statements are true of both agricultural and urban proprietors.

It is true that a considerable number of persons, absolutely speaking, have amassed great wealth out of land. It is a well-known fact that land was the principal source of the great mediæval and post-mediæval fortunes, down to the end of the eighteenth century. "The historical foundation of capitalism is rent."[1] Capitalism had its beginning in the revenue from agricultural lands, city sites, and mines. A conspicuous example is that of the great Fugger family of the sixteenth century, whose wealth was mostly derived from the ownership and exploitation

[1] Hobson, "The Evolution of Modern Capitalism," p. 4; London, 1907.

of rich mineral lands.[1] In the United States very few large fortunes have been obtained from agricultural land, but the same is not true of mineral lands, timber lands, or urban sites. "The growth of cities has, through real estate speculation and incremental income, made many of our millionaires." [2] "As with the unearned income of city land, our mineral resources have been conspicuously prolific producers of millionaires." [3] The most striking instance of great wealth derived from urban land is the fortune of the Astor family. While gains from trading ventures formed the beginning of the riches of the original Astor, John Jacob, these were "a comparatively insignificant portion of the great fortune which he transmitted to his descendents." [4] At his death in 1848, John Jacob Astor's real estate holdings in New York City were valued at eighteen or twenty million dollars. To-day the Astor estate in that city is estimated at between 450 and 500 millions, and within a quarter of a century will not improbably be worth one billion dollars.[5] According to an investigation made in 1892 by the *New York Tribune,* 26.4 per cent of the millionaire fortunes of the United States at that time were traceable to landownership, while 41.5 per cent were derived from competitive industries which were largely assisted by land possessions.[6]

Exclusion from the Land

One of the most frequent charges brought against the present system of land tenure is that it keeps a large proportion of our natural resources out of use. It is contended that this evil appears in three principal forms:

[1] *Harper's Monthly Magazine,* Jan., 1910.

[2] Watkins, "The Growth of Large Fortunes," p. 75; N. Y., 1907.

[3] Idem, p. 93.

[4] Youngman, "The Economic Causes of Great Fortunes," p. 45; N. Y., 1909.

[5] Howe, op. cit., pp. 125, 126.

[6] Cf. Commons, "The Distribution of Wealth," pp. 252, 257; N. Y., 1893.

owners of large estates refuse to break up their holdings by sale; many proprietors are unwilling to let the use of their land on reasonable terms; and a great deal of land is held at speculative prices, instead of at economic prices. So far as the United States are concerned, the first of these charges does not seem to represent a condition that is at all general. Although many holders of large mineral and timber tracts seem to be in no hurry to sell portions of their holdings, they are probably moved by a desire to obtain higher prices rather than to continue as large landowners. As a rule, the great landholders of America are without those sentiments of tradition, local attachment, and social ascendency which are so powerful in maintaining intact the immense estates of Great Britain. On the contrary, one of the common facts of to-day is the persistent effort carried on by railroads and other holders of large tracts to dispose of their land to settlers. While the price asked by these proprietors is frequently higher than that which corresponds to the present productiveness of the land, it is generally as low as that which is demanded by the owners of smaller parcels. To be sure, this is one way of unreasonably hindering access to the land, but it falls properly under the head of the third charge enumerated above. There is no sufficient evidence that the *large* landholders are exceptional offenders in refusing to sell their holdings to actual settlers.

The assertion that unused land cannot be rented on reasonable terms is in the main unfounded, so far as it refers to land which is desired for agriculture. As a rule, any man who wishes to cultivate a portion of such land can fulfill his desire if he is willing to pay a rent that corresponds to its productiveness. After all, landowners are neither fools nor fanatics: while awaiting a higher price than is now obtainable for their land, they would prefer to get from it some revenue rather than none at all. In so far as new land might profitably be improved and cultivated, and in so far as the owners are unwilling or unable to provide the improvements, the present system does keep out of use agricultural land that could be cultivated by tenants. Mineral and timber lands are sometimes withheld from tenants because the owners wish to limit the supply of the product or because they fear that a long-term lease would prevent them from selling the land to the best advantage. As to urban sites, the contention that we are now examining is generally true. The practice of leasing land to persons who wish to build thereon does not, with the exception of a very few cities, obtain in the United States for other than very large business structures. As a rule, it does not apply to sites for residences. The man who wants a piece of urban land for a dwelling or for a moderately sized business building cannot obtain it except by purchase.

Cannot the land be bought at a reasonable price? This brings us to the third and most serious of the charges concerning exclusion from the land. Since the value of land in most cities is rising, and apparently will continue to rise more or less steadily, the price at which it is held and purchasable is not the economic price but a speculative price. It is higher than the capitalized value of the present revenue or rent. For example: if five per cent be the prevailing rate of interest, a piece of land which returns that rate on a capital of one thousand dollars cannot be bought for one thousand dollars. The purchaser is willing to pay more because he hopes to sell it for a still higher price within a reasonable time. He knows that he cannot immediately obtain five per cent on the amount (say, 1,200 dollars) that he is ready to pay for the land, but his valuation of it is not determined merely by its present income-producing power, but by its anticipated revenue value and selling value.[1] The buyer will pay more for such land

[1] "In a growing city an advantageous site will command a price more than in proportion to its present rent because it is expected that the rent will increase still further as the years go on." Taussig, "Principles of Economics," ii, 98; N. Y., 1911.

than for a house which yields the same return; for he knows that the latter will not, and hopes that the former will, bring a higher return and a higher price in the future. Wherever this discounting of the future obtains, the price of land is unreasonably high, and access to vacant land is unreasonably difficult.

This condition undoubtedly exists most of the time in the great majority of our larger cities. Men will not sell vacant land at a price which will enable the buyer to obtain immediately a reasonable return on his investment. They demand in addition a part of the anticipated increase in value. In the rural regions this evil appears to be smaller and less general. The owners of unused or uneconomically used arable land are more eager to sell their holdings than the average proprietor of a vacant lot. So far as this sort of land is concerned, it is probable that most of the denunciation of "land speculators" and "land monopolists" overshoots the mark. Not the high price at which unused arable lands are held, but the great initial cost of draining, clearing or irrigating them, is the main reason why they are not purchased by cultivators.

While no general and precise estimate can be given of the extent to which the speculative exceeds the actual rent-producing value of land in growing cities, twenty-five per cent would not improbably be a fair conjecture. Even when a reaction occurs after a period of excessive "land-booming," the lower prices do not bring the manless land any nearer to the landless men. Only the few who possess ready money or excellent credit can take advantage of such a situation. On the whole the evil that we are now considering is probably greater than any other connected with the private ownership of land.

All the tendencies and forces that have been described in the present chapter under the heads of Monopoly, Excessive Gains, and Exclusion from the Land, are in some degree real defects and abuses of the existing system of land tenure. Most of them do not seem to be sufficiently understood or appreciated by the more ardent defenders of private ownership. To recognize them, and to seek adequate correctives of them would seem to be the task of both righteousness and expediency. In the next and final chapter of this Section, we shall consider certain remedies that seem to be at once effective and just.