

## CHAPTER IV.

### OF THE SOCIALIZATION OF VALUES.

A land tax levied in proportion to the rent of land \* \* \*  
will fall wholly on the landlords. *David Ricardo.*

A tax on rent falls wholly on the landlord. There are no  
means by which he can shift the burden upon any one else.  
*John Stuart Mill.*

We have so far confined our discussion of the distribution of values to distribution among individuals, the share taken by the State for revenue having been mentioned only incidentally. The question of the socialization of values—commonly discussed under the head of taxation—has long been recognized as one of great importance. Political battles have waged about this question for centuries, and many wars and insurrections have risen from it, both directly and indirectly. The subject stands foremost in importance to-day with reference to the relation of every government to the property of its citizens. Political economists are at sea about it; statesmen are at odds about it; politicians make a great ado about it, not knowing or caring much one way or the other; while the people in general who pay the taxes feel, rather than know, that there is something radically wrong about it in present conditions. Just now there is a growing tendency in certain quarters to turn the whole matter over to a board or commission of “experts,” which is the worst thing that could be done. This matter of the socialization of values about

which there is so much confusion is really one of the simplest things in the world. Any ordinary man can understand it, any set of ordinary men can correctly apply it to a whole nation. It is necessary simply to get away from the dogmatic statements and statistical jumbles of the experts, and to return to simple first principles in order to solve this vexing problem.

Man may satisfy his desires as an isolated individual by his own unaided efforts, or he may unite with his fellows in the expenditure of effort for the attainment of benefits which are reciprocal. This union of effort for reciprocal benefit may be exerted under two forms, coöperation in industry and competition in exchange. Both forms are now in vogue, subject to the artificial interference of monopolies and franchises which tend to destroy their reciprocal features.

For the sake of convenience, let us consider the case of a people having diversified industries and maintaining a general market in which is determined the current prices of all their products. From the association of these people in industry and exchange there arise certain utilities which can be acquired in no other way. Some of these utilities are capable of measurement in the market by means of exchange; others are immeasurable. All the measurable utilities are manifested in the form of values or their economic equivalents in net salvage. These values, considered with reference to their origin, in conditions unaffected by juridical laws, are of three kinds: labor values, capital values and land values; in conditions affected by juridical laws there are also franchise values and mo-

nopoly values, although the latter are wholly artificial and do not necessarily arise from the existence of the State. We shall now consider each of these values with reference to the advisability and the possibility of its socialization.

In the community which we are considering a man creates a certain labor-form, and takes it to the market for exchange. He finds the price of similar labor-forms fixed in advance of his coming, and he must sell, if at all, at the market price. This price is determined by the marginal buyers and sellers of such labor-forms in that market, and the tendency in a general unrestricted market is toward lowness of price. The larger the community the lower the price of labor-forms is likely to be. Association with his fellows has furnished each man with a fine opportunity to satisfy his desire for one labor-form by the creation and sale of another. In the course of the whole transaction he is enabled to satisfy his desires with the least possible disutility, the size of the market benefiting him as a buyer of other labor-forms, making up in net salvage his decrease in net value. But the fact remains that, as a seller, the market is against him, if only the value of his own labor-form is considered.

There is not a particle of the value of a labor-form to which the seller can point and say that the community, independent of the body politic called the State, has distinctively created or increased it. Nor can the State itself as a body politic lay claim to the distinctive creation or increase of any particle of such value. What has the State, as such, done with reference to this labor-form?

Say you that it has educated the producer in his youth and protected him and his property in his manhood, and so made it possible for him to create and exchange his labor-form with the least possible disutility? Very well. It does this for all its citizens, and the result, as we have seen in a former chapter, is that in any country where education is fostered and property well protected the market price of labor-forms is correspondingly low, and market price is the measure of value, expressed in terms of money. All of the benefits of government are manifested, not in the value of labor-forms, but in their cheapness.

We have been so prone, under the teachings of current Political Economy, to look upon the creation of values as the great desideratum of production that we are shocked to find that the government is constantly lending its aid to the cheapening of all labor products, individually considered. In the aggregate, of course, with reference to quantity, the production of labor-forms is vastly increased by good government. But with reference to labor values, a given quantity of product being considered, the rule is universal that the larger the market and the better the government, the lower the values of labor-forms as expressed in price. The benefits of civilization with reference to labor-forms are either immeasurable or are manifested in net salvage.

The same is true with reference to all capital values. We have shown the intimate relation between labor values and capital values, and have demonstrated the fact that in normal conditions these values are affected alike by

given phenomena, and that they tend to rise and fall together and from the same causes. Auxiliary capital-forms are subject to the same laws of the market as labor-forms, and the rate of interest with respect to pure capital-forms is determined by its marginal users, who also tend to be the marginal producers of labor-forms. The larger the community and the better the government, the lower the current rate of interest in normal conditions. And since good government tends to diminish all labor values and capital values, there is in neither of these values any social increment whatever which may be segregated and measured so as to form a natural or economic revenue for the State. Arbitrarily such values may be taken—arbitrarily they are taken—by the State, but such socialization of labor values and capital values is without any economic warrant whatsoever. If men are to be taxed in proportion to the revenue which they respectively enjoy under the protection of the State, as stated in one of the famous canons of Adam Smith, we must look elsewhere than to labor-forms and capital-forms for any value or values which reflect governmental benefits. So far as labor-forms and capital-forms are concerned such benefits are manifested in an increase of immeasurable utilities, and a corresponding decrease of those measurable utilities which constitute labor values and capital values.

The existence of a general market in a well ordered State gives to every member thereof a higher satisfaction of desire, a greater degree of enjoyment, physical and mental; but so far as this enjoyment has to do with labor-forms and capital-forms it is largely immeasurable. There is no means

by which labor values and capital values commensurate with such enjoyment and economically equivalent thereto can be measured. Indeed, in present conditions, although the canon of Adam Smith is theoretically the basis of taxation, the fact is that it is the necessities of the State, and not the amount of protection which it affords to labor-forms and capital-forms, which determines what tax shall be levied upon personal property each year. Whatever may be the doctrine of the schools, men are taxed nowadays because, upon the one hand, they are possessed of certain values, and upon the other hand, because the State needs a part of those values for revenue. No inquiry is made as to how those values were acquired, nor as to whether they have been created, increased, or diminished by the existence of the State. Diligent search is made to unearth values which are wholly devoid of social increment, while other values which are distinctly the result of associated effort in industry and exchange under the protection of the State, and which can not possibly be concealed, are passed by without special notice or consideration.

Although the benefits of association with reference to labor-forms and capital-forms are reflected in increased utility which is not reducible to a measurable form, the reverse is true with reference to land-forms. Labor-forms which sell at the same price, and have consequently the same value, in a given market, are produced upon land-forms of varying utility. The better situated or more fertile the land-form occupied by a given producer, the more net value he realizes by selling his product at the

market price. The greater the population within the territory tributary to a general market, the greater the advantage of occupying a superior land-form and the greater the competition for its possession.

The growth of the community merely as a community and irrespective of the organization called the State brings about a constant tendency toward the increase of land values. While the State itself, by maintaining a system of land tenure under which men may exclusively occupy particular land-forms and produce upon them in safety, adds still further to the values of all land-forms within its limits. Nor is this increase of land values exhibited only upon the producer's side of the market. Land-forms which are well suited to the needs of buyers and of ultimate consumers of labor-forms—such as desirable residence lots near a general market—also bear a high value. It is not necessary for us to repeat our former illustrations, especially those given in the chapters concerning "Ground Rent and Ground Value" and "Land Tenure," in order to show that all the measurable utilities, or benefits, of civilization, as well as of government, are reflected in land values.

In the last chapter we discussed the subject of franchise values, and showed that while they are essentially different from labor values and capital values they bear a close relation to land values. Franchise values have all the characteristics of land values and one more, viz., they distinctively result from the use of land-forms in businesses normally non-competitive. Land values distinctively result from the use of land-forms in businesses



normally competitive. Franchise values, like land values, have an economic basis in the use of superior land-forms, and, like them, are increased with the growth of the community and the security which results from the existence of government. The action of the State in granting franchises still further increases these values. Like land values franchise values have distinctively a social content and can not be traced to the labor-power of particular individuals. Like land values they are susceptible of taxation to the full extent of their present worth, and this without increasing the disutility, industrial or commercial, of any person. The present worth of land value is represented by ground value. The complete socialization of both ground values and franchise values is economically possible, feasible, and desirable, for by this means all labor values and capital values which have no social content may be left as the rewards of the individual skill and industry which produce and conserve them.

Monopoly values have no economic basis whatever. They are purely the result of the arbitrary action of the State, and can not exist in the hands of favored persons without adding to the disutility of all other persons affected thereby either as competing sellers or as buyers. They can not be socialized, because to the extent they are taxed the burden is shifted to consumers or the monopoly itself is destroyed. They ought not to be individualized, because they are not, to any extent, the result of individual skill or industry.

Although Adam Smith, in his canon of taxation, to which reference has already been made, used the word "revenue," it is apparent that by that word he meant



“benefits,” and that what he really advocated was the taxation of men in proportion to the benefits which they respectively enjoy under the protection of the State. Many men who are taxed presumably pursuant to this canon have no revenue at all in the sense of current income from the things taxed. Such men are the owners of vacant lots and lands, moneys in bank, or of any kind of so-called unproductive property.

Even with this modification, however, this canon of taxation is incorrect. Behind both the revenues and the benefits which men enjoy stand the opportunities which make these revenues and benefits possible. Primarily man is possessed of labor-power, the exertion of which will satisfy his desires according to the external opportunities which are open to him and upon which his labor-power may be exerted. Upon the economic margin natural opportunities are equally open to all men, but above this margin this is not true. All men can not equally occupy and enjoy any superior land-form. The exclusive individual occupation and enjoyment of superior land-forms is imperative, both because of physical necessity, and in order to secure the best use of such land-forms; but such exclusive enjoyment in an orderly state of society can be maintained only by law.

Men can not be taxed according to all the natural opportunities which they enjoy, because opportunities which they enjoy equally or in common are immeasurable. On the other hand, the advantage of one natural opportunity over another is exactly measured by their difference in value. It is possible, therefore, to tax men according to

the differences of their respective enjoyment of natural opportunities under the law. Taxation upon this basis is morally right and economically correct. For however much men may differ in ability either to create labor-forms, or to use and conserve them as capital-forms, it is demanded by the plainest dictates of justice and of expediency that they have equal opportunities to produce and enjoy so far as external natural opportunities are concerned. Such equality of opportunity can only be acquired by the taxation of natural opportunities to the full extent of their present worth each year.

On the other hand, having produced in circumstances of equality of opportunity, each man is then entitled to his whole product, free from any claim of the State upon it by way of taxation or otherwise. The true canon of taxation expressed in general terms is this:

Men should be taxed only in proportion to the external natural opportunities which they exclusively enjoy or control under and by virtue of the laws of the State; and they should be taxed to the full extent of the present worth of such exclusive opportunities, annually computed.

All natural opportunities are enjoyed and controlled through the possession or control of land-forms, either under ordinary land tenure or under the grant of franchises. All the measurable benefits of association and government as well as of the exclusive possession of natural opportunities are manifested in ground values and franchise values, and in no other way. Therefore, technically and more briefly the true canon of taxation is as follows:

Men should be taxed only upon the ground values and

the public utility franchise values (if any) annually possessed by them, and should be taxed to the full extent thereof every year.

It may be urged against this canon of taxation that if an attempt was made to socialize ground values by means of levying all taxes thereon, the land owners would shift the burden to their tenants in increased rents and so be as well off as before. But this is impossible. When the value of property distinctively the result of labor-power is taxed the tax may be passed along from owner to user; but when mere legal privilege in the control of natural opportunities is taxed this is not true. A tax on the value of houses tends to discourage the building of houses and to make them scarce and consequently dear. But a tax upon the value of bare land-forms, irrespective of improvements, does not tend to make land-forms scarce. On the contrary it tends to discourage the holding of land-forms out of use, or for any purpose other than their best use, and consequently to increase the supply of land-forms open to immediate use and occupation for industrial and residence purposes. This tends to decrease the rental values of all land-forms and to benefit not only all tenants, but all prospective buyers of land-forms.

It must be remembered, also, that this new canon of taxation proposes to take *all* the ground value of a given land-form *every* year. An arbitrary increase in ground rent, if this were possible, would result in increased ground value, and this would simply increase the revenue of the State; it would not really benefit the land owner.

If it were possible for land owners as a class to exact

more ground rent from their tenants, they would do it now without waiting for the excuse of increased taxation. They now take in annual ground rentals all the return which results from the use of land-forms above the present economic margin. Nothing can operate to increase present rentals except it lowers the present margin. This the taxation of ground values can not do. By throwing all valuable land-forms into use it will necessarily raise the economic margin and to that extent will decrease ground rents. At the same time the entire exemption of all buildings and all building materials from taxation, direct and indirect, will encourage the building of houses, stores, and factories, relieve the present scarcity, and so diminish building rents (a form of interest) as well as ground rents themselves. In such circumstances it is impossible for any landlord to raise his ground rents arbitrarily, or in any manner shift the burden of taxation upon industry and exchange, when ground values are socialized by means of taxation.