

PART TWO

SELECTED ARTICLES ON TAXATION

I

THE CANONS OF TAXATION

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(Extract from his book "Progress and Poverty," [abridged edition] Book VIII, Chapter III, published by Harcourt, Brace & Company, New York, 1924)

The best tax by which public revenues can be raised is evidently that which will closest conform to the following conditions:

1. That it bear as lightly as possible upon production—so as least to check the increase of the general fund from which taxes must be paid and the community maintained.

2. That it be easily and cheaply collected, and fall as directly as may be upon the ultimate payers—so as to take from the people as little as possible in addition to what it yields the government.

3. That it be certain—so as to give the least opportunity for tyranny or corruption on the part of officials, and the least temptation to law-breaking and evasion on the part of the taxpayers.

4. That it bear equally—so as to give no citizen an advantage or put any at a disadvantage, as compared with others.

Let us consider what form of taxation best accords with these conditions. Whatever it be, that evidently will be the best mode in which the public revenues can be raised.

1.—The Effect of Taxes Upon Production

All taxes must evidently come from the produce of land and labor, since there is no other source of wealth than the union of human exertion with the material and forces of nature. But the manner in which equal amounts of taxation may be imposed may very differently affect the production of wealth. Taxation which lessens the reward of the producer necessarily lessens the incentive to production; taxation which is conditioned upon the act of production, or the use of any of the three factors of production, necessarily discourages production. Thus taxation which diminishes the earnings of the laborer or the returns of the capitalist tends to render the one less industrious and intelligent, the other less disposed to save and invest. Taxation which falls upon the processes of production interposes an artificial obstacle to the creation of wealth. Taxation which falls upon labor as it is exerted, wealth as it is used as capital, and land as it is cultivated, will manifestly tend to discourage production much more powerfully

than taxation to the same amount levied upon laborers, whether they work or play, upon wealth whether used productively or unproductively, or upon land whether cultivated or left waste.

The mode of taxation is, in fact, quite as important as the amount. As a small burden badly placed may distress a horse that could carry with ease a much larger one properly adjusted, so a people may be impoverished and their power of producing wealth destroyed by taxation, which, if levied in another way, could be borne with ease. A tax on date-trees, imposed by Mohammed Ali, caused the Egyptian fellahs to cut down their trees; but a tax of twice the amount imposed on the land produced no such result. The tax of ten per cent on all sales, imposed by the Duke of Alva in the Netherlands, would, had it been maintained, have all but stopped exchange while yielding but little revenue.

But we need not go abroad for illustrations. The production of wealth in the United States is largely lessened by taxation which bears upon its processes. Ship-building in which we excelled, has been all but destroyed, so far as the foreign trade is concerned, and many branches of production and exchange seriously crippled, by taxes which divert industry from more to less productive forms.

This checking of production is in greater or less degree characteristic of most of the taxes by which the revenues of modern governments are raised. All taxes upon manufactures, all taxes upon commerce, all taxes upon capital, all taxes upon improvements, are of this kind. Their tendency is the same as that of Mohammed Ali's tax on date-trees, though their effect may not be so clearly seen.

All such taxes have a tendency to reduce the production of wealth, and should, therefore, never be resorted to when it is possible to raise money by taxes which do not check production. This becomes possible as society develops and wealth accumulates. Taxes which fall upon ostentation would simply turn into the public treasury what otherwise would be wasted in vain show for the sake of show; and taxes upon wills and devises of the rich would probably have little effect in checking the desire for accumulation, which, after it has fairly got hold of a man, becomes a blind passion. But the great class of taxes from which revenue may be derived without interference with production are taxes upon monopolies—for the profit of monopoly is in itself a tax levied upon production, and to tax it is simply to divert into the public coffers what production must in any event pay.

There are among us various sorts of monopolies. For instance, there are the temporary monopolies created by the patent and copyright laws. These it would be extremely unjust and unwise to tax, inasmuch as they are but recognitions of the right of labor to its intangible productions, and constitute a reward held out to invention and authorship.* There are also the onerous monopolies alluded to in Chapter IV of Book III, which result from the aggregation of capital

*Following the habit of confounding the exclusive right granted by a patent and that granted by a copyright as recognitions of the right of labor to its intangible productions, I in this fell into error, which I subsequently acknowledged and corrected in the "Stand-

in businesses which are of the nature of monopolies. But while it would be extremely difficult, if not altogether impossible, to levy taxes by general law so that they would fall exclusively on the returns of such monopoly and not become taxes on production or exchange, it is much better that these monopolies should be abolished. In large part they spring from legislative commission or omission, as, for instance, the ultimate reason that San Francisco merchants are compelled to pay more for goods sent direct from New York to San Francisco by the Isthmus route than it costs to ship them from New York to Liverpool or Southampton and thence to San Francisco, is to be found in the "protective" laws which make it so costly to build American steamers and which forbid foreign steamers to carry goods between American ports. The reason that residents of Nevada are compelled to pay as much freight from the East as though their goods were carried to San Francisco and back again, is that the authority which prevents extortion on the part of a hack driver is not exercised in respect to a railroad company. And it may be said generally that businesses which are in their nature monopolies are properly part of the functions of the State, and should be assumed by the State. There is the same reason why Government should carry telegraphic messages as that it should carry letters; that railroads should belong to the public as that common roads should.

But all other monopolies are trivial in extent as compared with the monopoly of land. And the value of land expressing a monopoly, pure and simple, is in every respect fitted for taxation. That is to say, while the value of a railroad or telegraph line, the price of gas or of a patent medicine, may express the price of monopoly, it also expresses the exertion of labor and capital; but the value of land, or economic rent, as we have seen, is in no part made up from these factors, and expresses nothing but the advantage of appropriation. Taxes levied upon the value of land cannot check production in the slightest degree, until they exceed rent, or the value of land taken annually, for unlike taxes upon commodities, or exchange, or capital, or any of the tools or processes of production, they do not bear upon production. The value of land does not express the reward of production, as does

ard' of June 3, 1888. The two things are not alike, but essentially different. The copyright is not a right to the exclusive use of a fact, an idea, or a combination, which by the natural law of property all are free to use; but only to the labor expended in the thing itself. It does not prevent anyone from using for himself the facts, the knowledge, the laws or combinations for a similar production, but only from using the identical form of the particular book or other production—the actual labor which has in short been expended in producing it. It rests therefore upon the natural, moral right of each one to enjoy the products of his own exertion, and involves no interference with the similar right of anyone else to do likewise.

The patent, on the other hand, prohibits anyone from doing a similar thing, and involves, usually for a specified time, an interference with the equal liberty on which the right of ownership rests. The copyright is therefore in accordance with the moral law—it gives to the man who has expended the intangible labor required to write a particular book or paint a picture security against the copying of that identical thing. The patent is in defiance of this natural right. It prohibits others from doing what has been already attempted. Everyone has a moral right to think what I think, or to perceive what I perceive, or to do what I do—no matter whether he gets the hint from me or independently of me. Discovery can give no right of ownership, for whatever is discovered must have been already here to be discovered. If a man make a wheelbarrow, or a book, or a picture, he has a moral right to that particular wheelbarrow, or book, or picture, but no right to ask that others be prevented from making similar things. Such a prohibition, though given for the purpose of stimulating discovery and invention, really in the long run operates as a check upon them.

the value of crops, of cattle, of buildings, or any of the things which are styled personal property and improvements. It expresses the exchange value of monopoly. It is not in any case the creation of the individual who owns the land; it is created by the growth of the community. Hence the community can take it all without in any way lessening the incentive to improvement or in the slightest degree lessening the production of wealth. Taxes may be imposed upon the value of land until all rent is taken by the State, without reducing the wages of labor or the reward of capital one iota; without increasing the price of a single commodity, or making production in any way more difficult.

But more than this. Taxes on the value of land not only do not check production as do most other taxes, but they tend to increase production by destroying speculative rent. How speculative rent checks production may be seen not only in the valuable land withheld from use, but in the paroxysms of industrial depression which, originating in the speculative advance in land values, propagate themselves over the whole civilized world, everywhere paralyzing industry, and causing more waste and probably more suffering than would a general war. Taxation which would take rent for public uses would prevent all this; while if land were taxed to anything near its rental value, no one could afford to hold land that he was not using, and, consequently, land not in use would be thrown open to those who would use it. Settlement would be closer, and, consequently, labor and capital would be enabled to produce much more with the same exertion. The dog in the manger who, in this country especially, so wastes productive power, would be choked off.

There is yet an even more important way by which, through its effect upon distribution, the taking of rent to public uses by taxation would stimulate the production of wealth. But reference to that may be reserved. It is sufficiently evident that with regard to production, the tax upon the value of land is the best tax that can be imposed. Tax manufactures, and the effect is to check manufacturing; tax improvements, and the effect is to lessen improvement; tax commerce, and the effect is to prevent exchange; tax capital, and the effect is to drive it away. But the whole value of land may be taken in taxation, and the only effect will be to stimulate industry, to open new opportunities to capital, and to increase the production of wealth.

2.—As to Ease and Cheapness of Collection

With, perhaps, the exception of certain licenses and stamp duties, which may be made almost to collect themselves, but which can be relied on for only a trivial amount of revenue, a tax upon land values can, of all taxes be most easily and cheaply collected. For land cannot be hidden or carried off; its value can be readily ascertained, and the assessment once made, nothing but a receiver is required for collection.

And as under all fiscal systems some part of the public revenues is collected from taxes on land, and the machinery for that purpose

already exists and could as well be made to collect all as a part, the cost of collecting the revenue now obtained by other taxes might be entirely saved by substituting the tax on land values for all other taxes. What an enormous saving might thus be made can be inferred from the horde of officials now engaged in collecting these taxes.

This saving would largely reduce the difference between what taxation now costs the people and what it yields, but the substitution of a tax on land values for all other taxes would operate to reduce this difference in an even more important way.

A tax on land values does not add to prices, and is thus paid directly by the persons on whom it falls; whereas, all taxes upon things of unfixd quantity increase prices, and in the course of exchange are shifted from seller to buyer, increasing as they go. If we impose a tax upon money loaned as has been often attempted, the lender will charge the tax to the borrower, and the borrower must pay it or not obtain the loan. If the borrower uses it in his business, he in his turn must get back the tax from his customers, or his business becomes unprofitable. If we impose a tax upon buildings, the users of buildings must finally pay it, for the erection of buildings will cease until building rents become high enough to pay the regular profit and the tax besides. If we impose a tax upon manufacturers or imported goods, the manufacturer or importer will charge it in a higher price to the jobber, the jobber to the retailer, and the retailer to the consumer. Now, the consumer, on whom the tax thus ultimately falls, must not only pay the amount of the tax, but also a profit on this amount to every one who has thus advanced it—for profit on the capital he has advanced in paying taxes is as much required by each dealer as profit on the capital he has advanced in paying for goods. Manila cigars cost, when bought of the importer in San Francisco, \$70 a thousand, of which \$14 is the cost of the cigars laid down in this port and \$56 is the customs duty. But the dealer who purchases these cigars to sell again must charge a profit, not on \$14, the real cost of the cigars, but on \$70, the cost of the cigars plus the duty. In this way all taxes which add to prices are shifted from hand to hand, increasing as they go until they ultimately rest upon consumers, who thus pay much more than is received by the government. Now, the way taxes raise prices is by increasing the cost of production, and checking supply. But land is not a thing of human production, and taxes upon rent cannot check supply. Therefore though a tax on rent compels the land owners to pay more, it gives them no power to obtain more for the use of their land, as it in no way tends to reduce the supply of land. On the contrary, by compelling those who hold land on speculation to sell or let for what they can get, a tax on land values tends to increase the competition between owners, and thus to reduce the price of land.

Thus in all respects a tax upon land values is the cheapest tax by which a large revenue can be raised—giving to the government the largest net revenue in proportion to the amount taken from the people.

3.—As to Certainty

Certainty is an important element in taxation, for just as the collection of a tax depends upon the diligence and faithfulness of the collectors and the public spirit and honesty of those who are to pay it, will opportunities for tyranny and corruption be opened on the one side, and for evasions and frauds on the other.

The methods by which the bulk of our revenues are collected are condemned on this ground, if on no other. The gross corruptions and fraud occasioned in the United States by the whisky and tobacco taxes are well known; the constant undervaluations of the Custom House, the ridiculous untruthfulness of income tax returns, and the absolute impossibility of getting anything like a just valuation of personal property, are matters of notoriety. The material loss which such taxes inflict—the item of cost which this uncertainty adds to the amount paid by the people but not received by the government—is very great. When, in the days of the protective system of England, her coasts were lined with an army of men endeavoring to prevent smuggling, and another army of men were engaged in evading them, it is evident that the maintenance of both armies had to come from the produce of labor and capital; that the expenses and profits of the smugglers, as well as the pay and bribes of the Custom House officers, constituted a tax upon the industry of the nation, in addition to what was received by the government. And so, all *douceurs* to assessors; all bribes to customs officials; all moneys expended in electing pliable officers or in procuring acts or decisions which avoid taxation; all the costly modes of bringing in goods so as to evade duties, and of manufacturing so as to evade imposts; all *moieties*, and expenses of detectives and spies; all expenses of legal proceedings and punishments, not only to the government, but to those prosecuted, are so much which these taxes take from the general fund of wealth, without adding to the revenue.

Yet this is the least part of the cost. Taxes which lack the element of certainty tell most fearfully upon morals. Our revenue laws as a body might well be entitled, "Acts to promote the corruption of public officials, to suppress honesty and encourage fraud, to set a premium upon perjury and the subornation of perjury, and to divorce the idea of law from the idea of justice." This is their true character, and they succeed admirably. A Custom House oath is a by-word; our assessors regularly swear to assess all property at its full, true, cash value, and habitually do nothing of the kind; men who pride themselves on their personal and commercial honor bribe officials and make false returns; and the demoralizing spectacle is constantly presented of the same court trying a murderer one day and a vender of unstamped matches the next!

So uncertain and so demoralizing are these modes of taxation that the New York commission composed of David A. Wells, Edwin Dodge and George W. Cuyler, who investigated the subject of taxation in that State, proposed to substitute for most of the taxes now levied,

other than that on real estate, an arbitrary tax on each individual, estimated on the rental value of the premises he occupied.

But there is no necessity of resorting to any arbitrary assessment. The tax on land values, which is the least arbitrary of taxes, possesses in the highest degree the element of certainty. It may be assessed and collected with a definiteness that partakes of the immovable and unconcealable character of the land itself. Taxes levied on land may be collected to the last cent, and though the assessment of land is now often unequal, yet the assessment of personal property is far more unequal, and these inequalities in the assessment of land largely arise from the taxation of improvements with land, and from the demoralization that, springing from the causes to which I have referred, affects the whole scheme of taxation. Were all taxes placed upon land values, irrespective of improvements, the scheme of taxation would be so simple and clear, and public attention would be so directed to it, that the valuation of taxation could and would be made with the same certainty that a real estate agent can determine the price a seller can get for a lot.

4.—As to Equality

Adam Smith's canon is, that "The subjects of every state ought to contribute toward the support of the government as nearly as possible in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state." Every tax, he goes on to say, which falls only upon rent, or only upon wages, or only upon interest, is necessarily unequal. In accordance with this is the common idea which our systems of taxing everything vainly attempt to carry out—that every one should pay taxes in proportion to his means, or in proportion to his income.

But, waiving all the insuperable practical difficulties in the way of taxing every one according to his means, it is evident that justice cannot be thus attained.

Here, for instance, are two men of equal means, or equal incomes, one having a large family, the other having no one to support but himself. Upon these two men indirect taxes fall very unequally, as the one cannot avoid the taxes on the food, clothing, etc., consumed by his family, while the other need pay only upon the necessaries consumed by himself. But, supposing taxes levied directly, so that each pays the same amount. Still there is injustice. The income of the one is charged with the support of six, eight, or ten persons; the income of the other with that of but a single person. And unless the Malthusian doctrine be carried to the extent of regarding the rearing of a new citizen as an injury to the state, here is a gross injustice.

But it may be said that this is a difficulty which cannot be got over; that it is Nature herself that brings human beings helpless into the world and devolves their support upon the parents, providing in compensation therefore her own sweet and great rewards. Very well, then, let us turn to Nature, and read the mandates of justice in her law.

Nature gives to labor; and to labor alone. In a very Garden of Eden a man would starve but for human exertion. Now, here are two men of equal incomes—that of the one derived from the exertion of his labor, that of the other from the rent of land. Is it just that they should equally contribute to the expenses of the state? Evidently not. The income of the one represents wealth he creates and adds to the general wealth of the state; the income of the other represents merely wealth that he takes from the general stock, returning nothing. The right of the one to the enjoyment of his income rests on the warrant of nature, which returns wealth to labor; the right of the other to the enjoyment of his income is a mere fictitious right, the creation of municipal regulation, which is unknown and unrecognized by nature. The father who is told that from his labor he must support his children must acquiesce, for such is the natural decree; but he may justly demand that from the income gained by his labor not one penny shall be taken, so long as a penny remains of incomes which are gained by a monopoly of the natural opportunities which Nature offers impartially to all, and in which his children have as their birth-right an equal share.

Adam Smith speaks of incomes as “enjoyed under the protection of the state;” and this is the ground upon which the equal taxation of all species of property is commonly insisted upon—that it is equally protected by the state. The basis of this idea is evidently that the enjoyment of property is made possible by the state—that there is a value created and maintained by the community, which is justly called upon to meet community expenses. Now, of what values is this true? Only of the value of land. This is a value that does not arise until a community is formed, and that, unlike other values, grows with the growth of the community. It exists only as the community exists. Scatter again the largest community, and land, now so valuable, would have no value at all. With every increase of population the value of land rises; with every decrease it falls. This is true of nothing else save of things which, like the ownership of land, are in their nature monopolies.

The tax upon land values is, therefore, the most just and equal of all taxes. It falls only upon those who receive from society a peculiar and valuable benefit, and upon them in proportion to the benefit they receive. It is the taking by the community, for the use of the community, of that value which is the creation of the community. It is the application of the common property to common uses. When all rent is taken by taxation for the needs of the community, then will the equality ordained by nature be attained. No citizen will have an advantage over any other citizen save as is given by his industry, skill, and intelligence; and each will obtain what he fairly earns. Then, but not till then, will labor get its full reward, and capital its natural return.