

Ricardo and the Taxation of Economic Rents

Author(s): Edward R. Kittrell

Source: *The American Journal of Economics and Sociology*, Vol. 16, No. 4 (Jul., 1957), pp. 379-390

Published by: American Journal of Economics and Sociology, Inc.

Stable URL: <https://www.jstor.org/stable/3484887>

Accessed: 20-02-2022 23:13 UTC

---

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact [support@jstor.org](mailto:support@jstor.org).

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at <https://about.jstor.org/terms>



JSTOR

*American Journal of Economics and Sociology, Inc.* is collaborating with JSTOR to digitize, preserve and extend access to *The American Journal of Economics and Sociology*

# Ricardo and the Taxation of Economic Rents

By EDWARD R. KITTRELL

## I

THE DIFFERENTIAL THEORY of rent, inseparably associated with Ricardo, afforded Ricardo a tool for demonstrating the progressive redistribution of income in favor of the landlord in the process of economic development. This phenomenon he viewed with alarm since the capitalist class was considered the mainspring of economic progress. Concomitantly, Ricardo developed the now fundamental proposition that a tax on rent cannot be shifted. Yet he did not advocate such a tax. Instead he devoted his energies to repeal of the Corn Laws which he considered as raising rents unduly.

Considering the deleterious effects of increasing rents and the non-shiftability of a rent tax, why did Ricardo not seek the adoption of his fiscal measure as a means of removing some of the gloom in his pessimistic system? No less authority than Eli Hecksher has said:

It is difficult to find a more plausible explanation than that he did not consider himself justified in instituting an attack on the unlimited right of private property. In any case this acquiescence in a result which he dreaded most was almost the only point that was not susceptible of direct explanation from the economic point of view of *laissez-faire*. The explanation is to be sought, in something non-economic, in Ricardo's conception of what he considered serviceable to the general good. If the motive suggested was the true one, a direct application of natural rights was what prevented Ricardo from drawing the conclusion which otherwise lay nearest at hand in his study of purely economic phenomena.<sup>1</sup>

Professor Hecksher is not alone in this view.<sup>2</sup> However, another astute scholar, Elie Halévy, has taken a more mundane position.

<sup>1</sup> Eli F. Hecksher, *Mercantilism*, London, George Allen and Unwin, Ltd., 1935, Mendel Shapiro, Trans., vol. II, pp. 330-1.

<sup>2</sup> E.g. see M. Beer, *A History of British Socialism* (London, George Allen and Unwin, Ltd., 1919, 1952 Reprint), vol. II, p. 237. Class and vested interest arguments were used in Ricardo's time as well as today. Commenting on the tendency for manufacturing to be extolled over agriculture, an early nineteenth century British writer said: "many among [these writers] who may entertain more correct views upon these subjects, are compelled to sacrifice the interests of truth to the prejudice of those whose good opinion they find it profitable to court." "On Agriculture and Rent," *Quarterly Review* (Boston, Wells & Lilly, 1827), vol. 36, art. III, p. 392. A modern has opined: "[Ricardo] believed that property had been put upon an immovable basis when [he] demonstrated the extent of its detonation. . . ." Charles Gide and Charles Rist, *A History of Economic Doctrine from the Time of the Physiocrats to the Present Day* (Boston, D. C. Heath & Co., 1947, trans. by R. Richard, 2nd English ed.), p. 134.

In the last resort, Ricardo hesitates to advocate the tax on income of the landlord chiefly because of considerations of a practical nature—not because interests are naturally identical, but because the state finds that it is powerless artificially to re-establish harmony as between interests which are naturally discordant.<sup>3</sup>

Granted the rent analysis if pushed logically can be used to attack private property (*vide* the Ricardian Socialists); and granted that Ricardo was strongly sympathetic toward the institution of private property; nevertheless, in all deference to so great a scholar as Hecksher, it can be demonstrated that Halévy's briefly stated position is correct. This can be proved through direct appeal to Ricardo's own specific comments as well as inferences from his intellectual system.<sup>4</sup> Accordingly, we shall review Ricardo's words on the efficacy of rent taxation. Thereafter, his relevant economic policies will be investigated, for unlimited property rights would imply extreme *laissez-faire*. Moreover, his explicit views on the rights of property can be explicated and the Hecksher thesis better evaluated. Finally, the practical significance of Ricardo's position will be considered in the light of its historical context.

The economic rent tax controversy will not be taken up in this paper. Attention throughout is focused on the alleged natural rights and unlimited property right preconceptions of Ricardo regarding the tax.

## II

"A TAX ON RENT," Ricardo says in an oft-quoted passage from his *Principles*, "would affect rent only, it would fall wholly on landlords and would not be shifted to any class of consumers."<sup>5</sup> However, Ricardo explicitly objected to such a tax on four grounds.

Firstly, he said taxation should be borne by all in proportion to their means; to tax rent exclusively would be a class tax.<sup>6</sup> This ability-to-pay

<sup>3</sup> Elie Halévy, *The Growth of Philosophical Radicalism*, Boston, Beacon Press, 1955 Reprint of 1927 edition, trans. by Mary Morris, p. 340.

<sup>4</sup> In the final analysis, Lord Keynes' remarks on the intellectual integrity of the classical school must always be kept foremost in mind as "a tradition marked by a love of truth and a most noble lucidity, by a prosaic sanity free from sentiment or metaphysic, and by an immense disinterestedness and public spirit." *Essays in Biography* (London, Rupert Hart-Davis, 1951 ed., Geoffrey Keynes, editor), p. 101.

<sup>5</sup> *The Works and Correspondence of David Ricardo*, Cambridge, Cambridge Univ. Press, 1951-55, edited by Piero Sraffa with the collaboration of M. H. Dobb, vol. I, p. 173. Hereafter cited as *Works*.

<sup>6</sup> *Ibid.*, vol. I, p. 204; also VIII, p. 238.

appeal has long association with utilitarian economics and is a modern stricture against the Single Tax by orthodox economists.<sup>7</sup>

Secondly, Ricardo says rent often only comes after many years of toil have earned the funds for purchasing a house or land. And he adds, ". . . it certainly would be an infringement of that principle which should ever be held sacred, the security of property, to subject it to unequal taxation."<sup>8</sup> The "toil-and-trouble" principle has modern adherents.<sup>9</sup> But note Ricardo is not using an eighteenth century natural law property rights argument. Security, or sacredness of property, was desired on utilitarian grounds. Ricardo did not systematically discuss any theory of property rights. But allusions to security of property were always made in connection with necessary conditions for capital accumulation, either directly,<sup>10</sup> or indirectly. In the latter case, security of property was a prerequisite for preventing "inconsiderate marriages" from encouraging population growth and hindering the improvement of the lower classes.<sup>11</sup> This should be considered in the light of his Victorian admonition to the working classes that they employ self help, individual foresight, etc.,<sup>12</sup> and in the light of the self-liquidating nature of social services envisaged by the Classicists.<sup>13</sup>

This pragmatic sense of property rights is clearly implied in Ricardo's comments on Robert Owen. In his various discussions of the latter's unorthodox property proposals, Ricardo strongly disagreed with Owen, affirming that community of property was not a sufficient *motivating* force to insure the general improvement claimed by Owen. However, this did not deter Ricardo from voting for the formation of a parliamentary

<sup>7</sup> Edwin R. A. Seligman, *Essays in Taxation* (New York, Macmillan Co., 1925, 10th rev. ed.), pp. 79, 83. Seligman approves of a tax on rent, but not as an exclusive tax. It is to be noted that Ricardo is objecting to a tax on rent *exclusively*, as a class tax. Some of socialist persuasion among modern economic theorists accept this position also. See Abba P. Lerner, *The Economics of Control* (New York, Macmillan Co., 1944), pp. 232-3.

<sup>8</sup> *Works, op. cit.*, vol. I, p. 204.

<sup>9</sup> "If . . . [individuals] are given to understand that if they do face hardships of pioneer life and take up vacant land they shall be allowed to profit by it, not only in the present, but in the distant future when that land increases in value, you will have a double stimulus to pioneering. . . ." Thomas Nixon Carver, *Essays in Social Justice* (Cambridge, Harvard Univ. Press, 1915), p. 293.

<sup>10</sup> *Works, op. cit.*, vol. I, p. 99; V, pp. 500-2; VI, p. 129. See also Wesley Mitchell, "Postulates and Preconceptions of Ricardian Economics," *Essays in Philosophy*, ed. by T. V. Smith and W. J. Wright, reprinted in *The Backward Art of Spending Money*, New York, Augustus M. Kelley, 1950 reprint of 1937 edition, pp. 209-10.

<sup>11</sup> *Works, op. cit.*, vol. IX, pp. 153, 243, 261.

<sup>12</sup> Leslie Stephens, *The English Utilitarians*, London, Duckworth and Company, 1900, 1950 reprint, vol. II, 222-5.

<sup>13</sup> See e.g. Mill, *op. cit.*, p. 978.

committee to study Owen's plan.<sup>14</sup> Hardly the argument or action of one committed to a dogma of unlimited property rights!

Mill's *Essay on Government*, deemed "excellent" by Ricardo, argued that the function of government was to protect property and thus prevent economic and political deterioration.<sup>15</sup> This follows the lead of Hume in his *Enquiry Concerning the Principles of Morals* where property is purely on the grounds of utility, and as Robbins notes, the contrast with natural rights could not be more emphatically stated.<sup>16</sup> Indeed, liberal theories of economic policy in English political economy drew their intellectual springs from the Utilitarian tradition of Hume and Bentham, in contrast to their continental counterparts, where the tradition of natural rights and natural law was the vanguard.<sup>17</sup> The Classical economists used the term law, or natural law, in a sense meaning nothing more than necessary relations, or statement of tendency, to coin a Marshallian phrase.<sup>18</sup> To suppose an abstract metaphysical appeal is to misconstrue their methodological preconceptions. Specifically, Ricardo drew his proposition in terms that could not only be tested empirically, but also with the statistical tools then existent.<sup>19</sup> His basic reasoning, though not anywhere stated in terms of method,<sup>20</sup> was mechanical and deterministic in a Newtonian schemata at variance with earlier natural-right approaches.<sup>21</sup>

To term an institution natural simply meant it conformed to the prin-

<sup>14</sup> *Works, op. cit.*, vol. V, p. 35; also pp. 7, 31, and 467-8. He argued communal property had been successful only when accompanied by religious fanaticism, *ibid.*, vol. VIII, p. 46. For an elaboration on the relationship of Owen and the Ricardians see Lionel Robbins, *The Theory of Economic Policy in English Classical Political Economy* (London, Macmillan & Co., Ltd., 1952), pp. 126-34.

<sup>15</sup> James Mill, "An Essay on Government," reprinted in *The English Philosophers from Bacon to Mill* (New York, Modern Library, 1939, edited by Edwin A. Burt). Mill says "the very principle of human nature upon which the necessity of government is founded, the propensity of one man to possess himself of the objects of desire at the cost of another, leads on by infallible sequence, where power over community is attained and nothing checks, not only to that degree of plunder which leaves the members (excepting always the recipients and instruments of plunder) the bare means of subsistence but, to that degree of cruelty which is necessary to keep in existence the most intense terror." *Loc. cit.*, p. 866.

<sup>16</sup> Robbins, *op. cit.*, p. 50. Also see pp. 49-55, and Eugene Rotwein, *David Hume: Writings on Economics*, (Madison, University of Wisconsin Press, 1955), pp. xxv-xxxi.

<sup>17</sup> *Ibid.*, pp. 46-49; Robbins, *op. cit.*, 46-9.

<sup>18</sup> Joseph A. Schumpeter, *History of Economic Analysis*, New York, Oxford Univ. Press, 1954, p. 537.

<sup>19</sup> Mark Blaug, "The Empirical Content of Ricardian Economics," *Journal of Political Economy*, 44 (Feb., 1956), p. 41.

<sup>20</sup> Karl Pribram, "Prolegomena to a History of Economic Reasoning," *Quarterly Journal of Economics*, 65 (Feb., 1951), pp. 9-10.

<sup>21</sup> O. H. Taylor, "Economics and the Idea of Natural Laws," *ibid.*, 44 (Nov., 1929), p. 18. See also Maurice Dobb, *Political Economy and Capitalism*, London, Routledge & Kegan Paul, Ltd., 1937, pp. 34-5.

ciple of utility.<sup>22</sup> Private property was dear to Ricardo because as an institutional arrangement he believed it encouraged economic growth better than alternative arrangements based on communal property.

As a third reason, Ricardo believed subjecting land-rent to taxation would misallocate resources as the tax would lower the price of land, and because of the indefinite nature and uncertain risk of this tax, land would thus become a fit choice for speculation, falling in the hands of those "who possess more the qualities of a gambler, than the qualities of the sober-minded proprietor, who is likely to employ his land to the greatest advantage."<sup>23</sup> Some orthodox economists would take the opposite view (a tax on economic rents would remove speculation) and argue this as a point in favor of the Single Tax proposals.<sup>24</sup> Whichever the case, the argument is stated in terms empirically verifiable.

Ricardo's chapter, "Taxes on Rent," is one of the shortest in his *Principles*. Here and in the chapter, "Land-Tax," is embodied the fourth, and most important, of his reasons for foregoing advocacy of rent taxation. Between 1760 and 1830, the period of the great enclosure movement, it was common for the landlord to encourage his tenant by investment in land, buildings, roads and cottages. And the farmer himself put much capital into the land in other ways, *viz.* in stock, seeds and implements, and frequently would make a more intelligent use of labor.<sup>25</sup> For Ricardo, and for that matter for all serious students of the problem, utmost importance should be attached to a distinction between these improvements in the land and land values *ex* improvements: which is to say, between profit and interest, on the one hand, and rents with respect to functional income shares, on the other.

Yet, he added, rent is often confused with interest and profit on capital, and popularly implies whatever is annually paid the landlord by the farmer. Correctly stated, Ricardo continues, the landlord's income comprises both interest and profit and his chapter on rent taxation is primarily devoted to discussing the necessity of this distinction.<sup>26</sup> A tax on rent, as the term is currently used, would according to Ricardo discourage cultivation since it would fall on the landlord's profit—unless the price

<sup>22</sup> Robbins, *op. cit.*, p. 56. This pragmatic approach is replete in modern orthodox economics. See George J. Stigler, *The Theory of Price* (New York, Macmillan Co., 1952, rev. ed.), p. 10.

<sup>23</sup> *Works*, *op. cit.*, vol. I, p. 204.

<sup>24</sup> Carver, *op. cit.*, p. 298.

<sup>25</sup> W. H. B. Court, *A Concise Economic History of Great Britain from 1750 to Recent Times*, Cambridge, Cambridge Univ. Press, 1954, p. 37.

<sup>26</sup> *Works*, *op. cit.*, vol. I, pp. 67–8.

of raw produce rose. Similar effects would ensue on no rent land: the tax, ostensibly on rent, would really fall on profits, and only when price rose enough to cover the tax plus investment expenses would cultivation and general investment in the land proceed.<sup>27</sup> In closing this chapter Ricardo said:

it is quite certain, that a tax on the real rent of land falls wholly on the landlord, but that a tax on that remuneration which the landlord receives for the use of his stock expended on the farm, falls, in a progressive country, on the consumer of raw produce. If a tax were laid on rent, and no means of separating the remuneration now paid by the tenant to the landlord under the name of rent were adopted, the tax, as far as it regarded the rent on buildings and other fixtures, would never fall for any length of time on the landlord, but on the consumer. The capital expended on these buildings, etc., must afford the usual profit of stock; but it would cease to afford this profit on the land last cultivated if the expenses of those buildings, etc., did not fall on the tenant; and if they did, the tenant would then cease to make his usual profits of stock, unless he could charge them on to the consumer.<sup>28</sup>

So the real reason for Ricardo's position is essentially practical. And of course this very point of correct assessment and valuation of the land is one of the most frequent shafts directed by modern economists at Single Tax proposals.<sup>29</sup> The classical trinity of the factors of production which seemingly permits such a clear distinction of income shares and corresponding economic classes is thus seen by Ricardo as not so revealing on this policy question.

### III

THE INTELLECTUAL TRADITION of which Ricardo was a part thought rents a reasonable base for taxation though it professed strong sentiments for private property. J. B. Say advocated such a tax; there is no reason to suppose Adam Smith would have opposed it. Senior was favorably disposed toward the measure. James Mill would tax future increments of rent, and J. S. Mill not only advocated taxation of the future unearned increment but later in life was a very active member in the Land Tenure

<sup>27</sup> *Ibid.*, pp. 173-4.

<sup>28</sup> *Ibid.*, p. 175. If this rise in price of raw produce necessitated a rise in wages, profits would fall in the Ricardian system. This Ricardo dreaded, of course.

<sup>29</sup> See e.g., Wm. J. Shultz and C. Lowell Harris, *American Public Finance*, New York, Prentice-Hall, 1954; and David McCord Wright, *A Key to Modern Economics*, New York, Macmillan Co., 1954, p. 479. Lerner, *op. cit.*, p. 232.

Reform Association, along with J. E. Cairnes, where a cardinal article of the Association was the public confiscation of rents.<sup>30</sup>

The case of Ricardo's ardent disciple, J. R. McCulloch, is interesting. Writing in the *Edinburgh Review* in 1820 he advocated a poundage on rents.<sup>31</sup> His *Principles of Political Economy*<sup>32</sup> showed an obvious reluctance to tax rent—a position more fully developed in his *Taxation and the Funding System*. McCulloch had substantially the same views as Ricardo. Though logical in theory, he thought the practical difficulties in the way of rent taxation were insurmountable, making rent taxation one of the least expedient fiscal devices that could be suggested.<sup>33</sup> The tax would discourage investment since rent would not be distinguished from the normal return on investment. Moreover, the tax was not proportional to ability-to-pay. Finally, he repeated Ricardo's toil and trouble argument.<sup>34</sup> And like the master he defended property purely on end results.<sup>35</sup> Though maintaining that an *Impot Unique* would not provide the revenue to finance modern states, he said this was the only revenue available to certain countries in a low state of civilization and seemed justifiable.<sup>36</sup>

J. S. Mill, writing several decades later,<sup>37</sup> thought the requisite administrative skill for making the distinction between rent and profits from land was available though he believed it would be difficult in a country of peasant proprietors where nonmoney outlays dominate improvement investments. "The fact of an increase of rent is easily ascertained," he argued. "There is nothing needed but the trouble and expense registering

<sup>30</sup> J. B. Say, *Treatise on Political Economy* (Philadelphia, John Grigg, 1830, C. R. Prinsep, editor), pp. 418–41; Nassau W. Senior, *Industrial Efficiency and Social Economy* (New York, Henry Holt & Co., 1928, edited by S. Leon Levy), vol. II, p. 267; James Mill, *Elements of Political Economy* (London, Baldwin, Cradock, and Jay, 1821), pp. 198–203; John Stuart Mill, *Principles of Political Economy* (London, Longmans, Green & Co., 1848, 1929, Sir W. J. Ashley, editor), pp. 817–21; J. E. Cairnes, *Essays in Economics: Theory and Applied* (London, Macmillan & Co., 1873), pp. 187–231. Say and J. S. Mill noted the difficulties of assessment. Mill's later position is noted below.

<sup>31</sup> That is, a tax per pound sterling of their value. *Edinburgh Review*, 34 (Aug. 20, 1820), art. III, p. 78.

<sup>32</sup> J. R. McCulloch, *Principles of Political Economy*, Edinburgh, Adams and Charles Black, 1844, 5th ed., pp. 422–3.

<sup>33</sup> *Idem*, *A Treatise on the Principles and Practical Influence of Taxation and the Funding System*, London, Longmans, Brown, Green and Longmans, 1845, pp. 44–56.

<sup>34</sup> *Ibid.*, pp. 44–8.

<sup>35</sup> *Ibid.*, p. 50.

<sup>36</sup> *Ibid.*, p. 56. He also hints that rent is not confined to agricultural land, pp. 53–4.

<sup>37</sup> In his *Principles*, *op. cit.*, p. 824, Mill affirms a distinction must be made in rent taxation which would allow improvements to go tax-free; he does not seem to consider this a difficult problem; though he would not subject rent to exclusive taxation it would be taxed at a higher rate than a tax on profits.



the fact. It might be necessary to have a survey of the whole country, ascertaining and recording the condition of every tenancy, and to renew this operation periodically, say every ten to twenty years."<sup>38</sup>

Outside the Ricardian school the contemporary Thomas Chalmers not only failed to see any practical problem involved in rent taxation, but believed it a redistributive mechanism wherein the rent collected could be disbursed in needed public projects.<sup>39</sup>

The preceding paragraphs in this section serve to focus attention in another important direction. As shown, the school of thought of which Ricardo was a part showed little reluctance to "attack" private property through taxing economic rents. Moreover, judging by other writings of Ricardo, it seems he mistrusted governmental efficiency more than his colleagues.

Now if the private ownership of property was held as an unlimited right by Ricardo, the implication would be that he would also favor extreme *laissez-faire*. However, he noted that private interests frequently diverged from social interests, (and in other directions than just rent), disastrously encompassing a greater share of the national income. In advocating repeal of the Corn Laws he urged countervailing duties to offset the effects of domestic taxes that raised prices, putting the domestic producer at an artificial disadvantage relative to foreign producers.<sup>40</sup> He approved of public expenditure for docks, canals, and roads, if they contributed to net accumulation.<sup>41</sup> Nationalization of note issue was recommended in lieu of the value of money being regulated by a "handful of merchants."<sup>42</sup> He thought legislation was needed to protect savings in the savings banks and to prevent speculative banking businesses.<sup>43</sup> In one instance, he considered legislation a proper means of population control.<sup>44</sup> Furthermore, he believed medical practice should be regulated; apothecaries and chemists should have their drugs examined for purity; and he advo-

<sup>38</sup> *Idem, Dissertations and Discussions: Political, Philosophical, and Historical*, New York, Henry Holt, 1875, vol. V, pp. 292-3.

<sup>39</sup> Thomas Chalmers, *On Political Economy in Connexion with the Moral State and Moral Prospects*, New York, Daniel Appleton, 1832, pp. 176-91.

<sup>40</sup> *Works, op. cit.*, vol. IV, p. 217; V, p. 91; VIII, pp. 357, 359.

<sup>41</sup> *Ibid.*, vol. VII, p. 121; VIII, p. 155; IX, p. 226.

<sup>42</sup> *Ibid.*, vol. III, p. 133; IV, p. 114; VI, p. 166. In this scorn of private note issue, Gide and Rist maintain, "This shows what little confidence a Liberal individualist like Ricardo had in the liberty of individuals and their ability to judge of the kind of money that is most serviceable." *Op. cit.*, p. 182. Ricardo had more confidence in the liberty of individuals than this statement admits, but it is representative of his qualified acceptance of individual rationality. See note 52 below.

<sup>43</sup> *Ibid.*, vol. VII, p. 16; III, p. 335.

<sup>44</sup> *Ibid.*, vol. I, pp. 106-7.

cated a government stamp on plate and money—all this on grounds reminiscent of Keynes' famous essay on the demise of *laissez-faire*: Ricardo says it was necessary for "government interference to do that for them which they cannot do themselves."<sup>45</sup>

Thus Ricardo gives only qualified acceptance to *laissez-faire*; it was to him as it was to other major classical economists ". . . a rule of expediency, always subordinate to the principle of utility, and never a dogma."<sup>46</sup>

Speaking of the principle of utility, an interesting exchange of letters between one of the greatest Utilitarians, James Mill, and Ricardo reveals Ricardo as more sceptical of the role of legislation and governmental efficiency than his colleagues.<sup>47</sup> Throughout the correspondence Mill conceives of legislation as an exact science, the effects of which may be computed with great certainty. With such instruments, he believed the obstacles to human progress could be boldly beaten down; but Ricardo is never convinced. In the final exchange of this particular subject, Ricardo brought the issue to a head, and when the correspondence was resumed Ricardo's thrust was never mentioned and the subject under discussion was of an entirely different nature. Ricardo had challenged Mill with this statement:

the difficulty of the doctrine of expediency or utility is knowing how to balance one object of utility against another—there being no standard in nature, it must vary with the tastes, the passions and the habits of mankind. This is one of the subjects on which I require to be enlightened.<sup>48</sup>

The writer has found no evidence that Ricardo ever received enlightenment on this subject in the remaining five years of his life. His comments on the sinking fund reflect the empirical base of his *laissez-faire* views as well as illustrate how prone he was to flout property rights if the situation demanded it. Throughout the decade prior to his death, Ricardo defended the sinking fund in theory; his vociferous opposition to it came from the practical side: the ministers would always abuse the fund by appropriating it for purposes other than those for which it was intended. Indeed the fund was an enemy of peace since it relieved the ministers of the necessity of appealing to the taxpayers for support of their bellicose acts. These

<sup>45</sup> *Ibid.*, vol. IV, pp. 71–2.

<sup>46</sup> Jacob Viner, "Bentham and J. S. Mill: the Utilitarian Background," *American Economic Review*, 39 (March, 1949), reprinted in Henry William Spiegel, ed., *The Development of Economic Thought: Great Economists in Perspective*, New York, John Wiley & Sons, 1952, p. 224.

<sup>47</sup> These letters are numbered 234, 236, 242, 245, 246, 247 in *Works, op. cit.*, vol. VII.

<sup>48</sup> *Ibid.*, vol. VII, p. 242.

strictures Ricardo applied to future as well as present ministers.<sup>49</sup> This irresponsibility appeared so serious that Ricardo favored abolishing the sinking fund. As one student phrased the issue:

and though he concluded that the maintenance of the sinking fund was part of a solemn contract between the nation and its stockholders, Ricardo realised that whereas it might be said that it would be a breach of faith to stockholders to take away the sinking fund it was "equally a breach of faith if the government itself sells to the commissioners the greatest part of the stock which they buy." Even though such a course violated the contract with the public creditor, a direct appropriation of the fund, such as advocated in 1814, would seem to have appeared to Ricardo preferable to the more insidious encroachments which were common in his time.<sup>50</sup>

## IV

REGARDLESS OF THE DIFFERENT TEMPERAMENTS in the classical school there was a grand first premise from which all its members started—economic individualism: the individual the final judge of the means as well as the ends regarding his economic welfare. However, the position was relativistic. As F. H. Knight has observed, it was never "assumed the individual's knowledge is perfect or even very good, but only that it is *better* than that of the outside agency of control." The emphasis is less on the competence of individuals than on the stupidity of government.<sup>51</sup>

We have tried to use Ricardo as an exemplary figure:<sup>52</sup> his opposition to rent taxation resting on what he considered practical grounds—the difficulty of separating rent from profit and interest in the landlord's gross return, and the stimulus to accumulation offered through private property. One other question needs consideration aside from the normative aspect. Was the *laissez-faire* doctrine as much a practical necessity as a matter of fact?<sup>53</sup> Competent students emphasize the historical economic and social conditions plus the lamentable state of public administration as making *laissez-faire* more or less mandatory:

A great deal of the talk about *laissez faire* must be discounted, or at least put into its proper context. In many the argument concealed an admission that a problem was insoluble, or that it must be endured because no one

<sup>49</sup> *Ibid.*, vol. IV, pp. 197–200; V, pp. 21, 266–73; VIII, pp. 33, 78–9, 120–2. Also see R. O. Roberts, "Ricardo's Theory of Public Debts," *Economica*, 9 (Aug., 1942), pp. 257–66.

<sup>50</sup> Roberts, *op. cit.*, p. 264.

<sup>51</sup> Frank H. Knight, *Freedom and Reform*, New York, Harpers & Bros., 1947, pp. 2–3.

<sup>52</sup> For an enumeration of the situations wherein Ricardo believed the individual discounted the future, acting non-rationally through habit, etc., in understanding their own interest, see Mitchell, *op. cit.*, pp. 211–3.

<sup>53</sup> Schumpeter, *op. cit.*, p. 548.

could think of any method of solving it. From this point of view, the policy of *laissez faire* was not the result of a new and optimistic belief in the progress of society through private enterprise. It was rather an acknowledgement that the fund of skill and experience at the service of society was limited, and that in the management of their common affairs men would not be able to find the elasticity and adaptiveness which individuals showed in devising schemes for their own self-interest. The treatment of social and economic questions was more haphazard and empirical than Englishmen were ready to acknowledge. If a practical solution suggested itself, if a tentative experiment could be made, the doctrine of *laissez faire* would be thrust aside, only to be used again after another failure to discover the way out of a difficulty.

These failures were common. . . . Material progress had long outrun administrative order.<sup>54</sup>

Thus, considering the historical conditions surrounding Ricardo, his position is not surprising. Indeed, as noted above, one is impressed by the modernity of his argument, obvious to those familiar with the Single Tax controversy. At the same time we must close with *curiosa*. Considering his stand on rent taxation, why recommend a once and for all levy on all property to redeem the national debt when the economic and administrative problems of administering a capital levy are baffling? Ricardo's great fear of the evil consequence emanating from the national debt overrode his practical sense, though he realized the levy could be carried through only with great difficulty. In a memoir Lord Brougham said Ricardo used as one ground for a capital levy—"what a debtor owes is always to be deducted from his property."<sup>55</sup> This shows no unusual reluctance to encroach on property if the situation demanded it.

But if the argument as a whole is still unconvincing, an extract from a letter to Trower should remove all doubt. A mind permeated with natural rights, unqualified *laissez-faire*, and uncompromising views on the absolute rights of private property could hardly make the following statement—inconsistent in some respects to the particular, but true to the spirit of the general, perspective outlined in previous sections of this paper:

I never contemplate as a good and practical measure, a tax on profits, without also taxing all other sources of income. Profits can never be known without a minute scrutiny into the affairs of those concerned in trade. Other sources of income are well known and are easily arrived at. The landlord cannot well conceal the amount of rent, nor the stockholder the amount of his dividend, and therefore it might become a question whether

<sup>54</sup> E. L. Woodward, *The Age of Reform: 1815-1870*, Oxford, Clarendon Press, 1939, p. 15; also see pp. 406-54.

<sup>55</sup> *Works, op. cit.*, vol. V, pp. xxxiii.

you should not tax the profits of trade indirectly, by taxing wages, or necessities; and other incomes directly, as rent, dividends, annuities, etc., etc.<sup>56</sup>

*College of William and Mary in Norfolk,  
Norfolk, Virginia*

<sup>56</sup> *Ibid.*, vol. VIII, p. 154.

### *The State of Our Water Resources*

WATER IS MORE than a natural resource—it is a necessity of life. Here in the United States, blessed with a continent of virgin soil, we lived more than 200 years before the water problem became generally acute. But the uses we make of water in modern society are so tremendous that they stagger the imagination. The coming of our industrial era, the rising of our living standards, and the increased application of water to land have now highlighted the problems until in much of the nation there is a grave and increasing concern over water resources.”

With this opening paragraph the President’s Advisory Committee on Water Resources reports its findings and recommendations for greater conservation and better use of this important resource.

Examples of the tremendous use of water in manufacture are given. For instance, 65,000 gallons of water are required for the production of 1 ton of finished steel, 50,000 gallons for 1 ton of paper, and 6 gallons of water for 1 gallon of gasoline.

Among recommendations were an acceleration of the program of collecting basic data—rainfall, stream flow and hydrology, organization of committees to coordinate state and federal agency action programs, a study of water rights, evaluation of water projects on the basis of benefits and costs, cost-sharing in the development of needed projects.

The report was submitted to President Eisenhower over the signatures of Ezra Taft Benson, Secretary of Agriculture; C. E. Wilson, Secretary of Defense; and Douglas McKay, then Secretary of the Interior—chairman.

MILTON MAGNUM

USDA,  
Washington, D. C.