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Author(s): Harry Gunnison Brown

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A Defense of the Single Tax Principle

By HARRY GUNNISON BROWN

THE single tax has been so much scorned and misrepresented, and fallacious arguments against it have appeared so persistently in widely used text books, that it seems hopeless to think of making in the pages allotted to this chapter a case which the reader schooled in the current antagonism will consider convincing. Nevertheless, I hope it may be possible to put into the minds of some even initially unsympathetic readers a suspicion that there may be enough in the single-tax theory and viewpoint to warrant further and respectful inquiry.

I find that I am sometimes spoken of as a single-taxer by persons who are opposed to the single tax, while some of the thoroughgoing single-taxers profess themselves not wholly satisfied with my orthodoxy. The truth is that I recognize the fundamental justice and common sense of the single-tax idea. But that any other tax than a tax on land values is always and everywhere wrong, regardless of public needs or the nature of this other tax, I do not maintain. When an enterprising lawyer finds as the nearest heir of an intestate millionaire decedent a sixth cousin who was not even acquainted with the millionaire whose wealth he is to inherit, I most certainly do not contend that a heavy tax on the inheritance is objectionable just because it would be a departure from complete reliance on a *single* tax. But that the annual rental value of land should be, eventually, almost entirely appropriated by the public in taxation and that it should be the chief source, even though not necessarily the only

source, of public revenue, I am thoroughly convinced.

If this view is justified, then the so-called "model" tax systems, based on other principles and using chiefly other taxes, are not models at all except in the sense of being models of what to avoid.

PRODUCTION OF CAPITAL

At the basis of the single-tax theory lies a distinction between capital and land and especially a distinction between the interest on capital and the rent of land. Capital, as it is here to be understood, can come into existence only by labor and saving. Both labor and saving are essential. All persons need not save, but if capital is to come into existence, it is necessary that some shall save.

Let us illustrate by consideration of the construction of a great steel ocean-going vessel, such as the "Normandie" or the "Queen Mary." The men who build the vessel and those who make the materials of which it is constructed cannot eat or wear the ship or its parts. Yet they must eat and they must have clothing. If they are to spend their entire time building the ship, they must be "staked" to these necessities, —unless they have some other and adequate source of income. They are staked to these necessities through the savings of others. If they were not, they would have to devote their own time, largely if not wholly, to the production of food and clothing and other things to meet their immediate needs. They could not, obviously, devote themselves exclusively to the building of the ship. Those who have saved,

who have used less than their own production entitles them to, and have made the resultant excess available to the builders of the ship, have thereby made the building possible. The details of the process, involving the use of money or bank checks and, commonly, of stocks or bonds, we cannot here go into. But the underlying relationship between saving and the construction of capital is fundamental to the single-tax case.

Capital is productive. In other words, we can produce more with capital than without it. It is definitely an aid in agriculture and in industry. Therefore, if those through whose savings it comes into existence receive income on their capital, such income is not at the expense of others but represents a clear addition to society's annual output of goods and services.

Such income is truly earned. This is a fact which socialists—at any rate, the great majority of socialists—seem not at all to understand. But let not the run-of-the-mine opponents of socialism pride themselves on having an appreciably better understanding of our economic system than have the socialists. If they had a thorough understanding of it they would know how, logically, to confound the socialists, but they would at the same time almost inevitably favor a change in our taxation system in the direction of the public appropriation of the annual rental value of land. For they would then clearly see wherein the rent of land differs from the income of capital and why there is not the same justification for its appropriation by the individual owner.

PRODUCTION OF LAND VALUE

While capital, as it has been here described, can come into existence only as there are labor and saving, land owes its existence to geological forces.

In no significant degree can it be said that land is produced by human labor.

It is true that the situation advantages of land are in large part the result of human activities; but they are hardly at all produced by the individual or by private corporations as such. The situation advantages of land, so far as they are not merely the consequence of the operation of geological forces, are a by-product of the growth of population, the laying out of streets and highways, railroads and bridges, the way people group themselves about various locations, and, in general, all the influences that may be summed up in the expression, "community growth and development." The situation advantages of an owner's land are, in short, scarcely at all due to his own efforts or activities. They are, in general, almost altogether due to the activities of others.

If these advantages are community-produced, why should not the annual rental value of the advantages be the first source of public revenue? And in so far as the advantages of special pieces of land, including mines of copper, coal and iron ore, and subterranean deposits of oil and gas, are the consequence of geological forces that acted in remote geological eras, why should not these advantages be generally enjoyed rather than be appropriated by a few to whom the many must pay for permission to develop and use them?

In truth, we may with substantial accuracy phrase our question thus: Why should the American people—or any people—maintain a system under which the majority must pay billions of dollars every year to a relatively few, not for the use of capital produced and accumulated by these few, but merely for permission to work and to live on the earth, especially in locations having community-produced advantages,

and for permission to draw on Nature's subterranean supplies?

It distinctly is *not* a satisfactory answer to this question to propose, in lieu of land-value taxation, income taxes, whether proportional or progressive, which treat the earned income from capital exactly the same as the community-produced and privately unearned rental yield of land.

Whether or not an income tax may be desirable to *supplement* public appropriation of the rental value of land is an entirely different question which, however, I cannot afford space to discuss here. What I am asserting is that the taxation of incomes is in no wise a substitute for the appropriation by the public of the rental value of land and that it should not be used to decrease it. This rental value should be the first source of public revenue and, if inadequate, should nevertheless be made use of for whatever funds it can yield before resort is had to other and economically less desirable sources.

EVILS THAT MIGHT BE AVOIDED

Because we do not take seriously what may be termed single-tax principles, we suffer various economic evils that otherwise we might avoid. One of these is the holding of land out of use for speculation. Time was when some economists were prone to ridicule the contention of single-taxers on this point, claiming, on the contrary, that very little land was so held vacant and that, therefore, industry was not forced to use poorer land or less land and that slum congestion was not made appreciably worse by such holding. But in view of the recent studies of Ernest M. Fisher,¹ of Homer Hoyt,²

¹ "Speculation in Suburban Lands," *American Economic Review*, Vol. XXIII, No. 1 (Supplement), March 1933, pp. 152-162.

² *One Hundred Years of Land Values in Chicago*, Chicago: University of Chicago Press, 1933, various relevant passages.

and of Herbert D. Simpson,³ I venture the guess that not many economists who are familiar with these studies will risk their scholarly reputations by claiming that scarcely any land is held out of use. The number of lots held vacant in some urban communities is very great indeed and the holding of them from use must have undesirable economic consequences. And, certainly, if land-value taxation were to take, for public use, the major part (even though not all) of the annual value of land, the holding of land out of use would so greatly and so obviously cost the holder more than he could hope to gain from it, that the practice must quickly disappear.

Even if it could be proved that land speculation never was practiced and is not now practiced, there would remain plenty of reason for the public appropriation of the community-produced rental value of land. But the fact that such appropriation would abolish land speculation is surely a consideration of some importance.

Another important consideration telling in favor of tax reform along single-tax lines centers around the problem of ownership and tenancy. Much stress is laid by various social idealists upon the desirability of home ownership and of ownership of farms by their cultivators. Yet a high price of land is a serious obstacle to such ownership and, in many cases, an insuperable obstacle. The would-be home owner is unable to earn enough to purchase the needed plot of land and either remains formally a tenant or has to assume so heavy a mortgage to become an owner in name that he can never get out of debt.

³ "Real Estate Speculation and the Depression," *American Economic Review*, Vol. XXIII, No. 1 (Supplement), March 1933, pp. 163-171.

EFFECT ON HOME OWNERSHIP

The relation of land taxation to the problem can be seen as soon as one understands the relation of the sale value of land to its annual rent. The approximate probable sale value of a piece of land can be arrived at by capitalizing its expected future rent at the current rate of interest.

To illustrate, let us suppose a piece of land which is expected to yield a net rent to its owner of \$5,000 a year and that the current net rate of return on capital is 5 per cent. Then the sale price of the land would normally be about \$100,000 or that sum of which \$5,000 is 5 per cent. But what if a tax on land takes, for the public, nine tenths of its annual rental value? Then the rent privately received from the specific piece of land in question would be only (net) \$500 and its sale value would be \$10,000.

Land is not, like capital, produced by labor. The value of land, therefore, is not fixed by cost of production but is to be arrived at by capitalizing its expected future net rent at the current net rate of interest. Capital, on the other hand, is produced by labor. In the long run, barring monopoly, any specific kind of capital will sell for no more than its cost of production (or reproduction), including in "cost," of course, the ordinary rate of return to the producer; nor will capital normally be produced, year in and year out, to sell for less than cost. In short, cost of production is a most essential determinant of the value of produced capital.⁴

To the person who, starting with

⁴ If because of a heavy tax on land values, capital is not taxed at all and if, therefore, the net return on capital is (say) 7 per cent instead of 5 per cent, then the sale value of the piece of land of our illustration is even less. Assuming, as before, that the expected annual net rent to the owner is \$500, then the sale value

nothing, is ambitious to save and to buy a home or the land on which to build, it may make the most vital difference whether or not the larger part of the rental value of land is taken by the public. If land is thus taxed, land speculation is discouraged, more land is available for use, labor is therefore more productive and, presumably, wages are somewhat higher. So the worker earns faster. If because of the high tax on land, capital is not taxed, he can enjoy a higher interest rate on what he is able to save and so can accumulate faster. The sale price of land is reduced, and he can sooner afford to buy the land he needs. The more land is taxed, then, and the less capital is taxed, the easier it is for the tenant to escape tenancy and for the poor man to become a home owner. The less land is taxed, the harder it is to make the transition.

Curiously enough, some professional economists, even, have never succeeded in getting a clear understanding of this point. That they have not is shown by an objection they sometimes make to it. The objection is that the poor man anxious to buy a

will be the sum of which \$500 is 7 per cent, or \$7,142.86.

But the sale value of our lot, in the case of the assumed land-value tax, will be even lower. For the land-value tax will prevent speculative holding of land out of use, will increase the competition to get land used, and so will reduce rent. In other words, a piece of land which, with land values not especially taxed, has an annual rental value of \$5,000, may, with the assumed high tax and the resultant discouragement to land speculation, have a rent of (say) only \$4,200 a year. With the tax taking nine tenths of this amount and with a remaining net rent to the owner from the lot of only \$420, the normal sale price of the piece of land we are considering will be that sum of which \$420 is 7 per cent, viz., \$6,000.

Without dwelling further on mathematical details, it should be obvious that the less land is taxed the higher is its sale price, and that the more it is taxed the lower is its price.

piece of land gains nothing by the land-tax system because, although the purchase price of land is, indeed, lower than if land were less taxed, yet this lower purchase price is offset by the higher tax which must be paid on the land after it is purchased. The fact is that even if the lower price of the land were fully offset by the higher tax, the prospective buyer would still gain heavily through the abolition (or the very great reduction) of taxes on his buildings and other improvements and movable capital and on such previously taxed commodities as he might need to purchase. Home ownership would most distinctly be made easier of accomplishment.

Indeed, it is clear that the sale price of land would tend to fall even more than enough to offset the increased tax on the land. For first, land speculation would be discouraged; and second, the untaxing of improvements and other capital would mean capitalization of the net rent of the land at a higher interest rate.

EFFECT ON INDUSTRY AND LABOR

The discouragement to land speculation would tend to make industry and labor more productive and to raise wages. If the removal or the very great reduction of taxes on capital operated to stimulate saving and increase of capital, this also would promote production and tend to raise wages.

Economists whose limited understanding of arithmetic precludes their comprehending these facts and principles should at least avoid confusing the issue for the layman.

As I pointed out in my book on *The Economic Basis of Tax Reform*:

To tax land values rather than improvements certainly does not guarantee fortunes to the thriftless. It means heavier taxes on the non-improving owners of land. It does nothing to encourage—discourages

rather—the holding of land by persons too thriftless to use it well. It does remove a penalty now generally placed on thrift and land improvement. Unlike part of our *present* taxation system, it is *not communistic*. It does not try to reduce the efficient to the level of the inefficient. It does not try to reduce the thrifty to the level of the unthriftly. Finally, despite its non-communistic character, the taxation of land values rather than improvements, incomes, commodities, etc., gives a better chance to the ambitious poor to get started economically and to acquire a competence.⁵

And elsewhere in the same book I commented:

The fact is that any study of taxation policy ought to envisage *all* of the important effects likely to result from a given kind of tax or tax system, not merely whether the tax is in proportion to "ability" or would involve "equal sacrifice" or (more communistically) "least sacrifice." Among these other effects are the possible stimulus to, or encouragement of, efficiency and thrift, effects on land speculation and, therefore, on industrial productivity, and effects, which may have tremendous economic and social significance, on the sale value of land. To center attention exclusively on the matter of "ability" or the immediate personal sacrifice to the taxpayer, is consistent neither with a properly scientific method of inquiry nor with common sense.⁶

If any appreciable number of the states of the United States were to adopt a single-tax policy, savings would flow to those states for investment, industry would seek to locate in them because of the relief of capital from taxes and because of the cheapness of land, and labor would be attracted there because of higher wages and because of the comparative ease in those states of attaining home ownership.

⁵ Harry Gunnison Brown, *The Economic Basis of Tax Reform* (Columbia, Mo.: Lucas Brothers, 1932), pp. 317-318.

⁶ *Ibid.*, p. 215.

Does it not seem regrettable that so many who think of themselves as "liberals" and so many of the literary intelligentsia who from the pages of "high-brow" magazines essay to instruct their public on matters of economic policy, show not the slightest sympathy for single-tax principles and prefer to follow a philosophy essentially socialistic and even Marxian?

THE DOCTRINE OF "VESTED RIGHTS"

But when the last word has been said on the advantages of relying for public revenue, so far as possible, on the rental value of land and when, as may sometimes happen, all other opposing arguments are admitted to be untenable,⁷ there is brought forth as the one all-sufficient objection the doctrine of "vested rights." The private enjoyment of the rent of land has been permitted for so long a time, it is said, and so many persons have bought land relying on a continuance of the existing system that any change in the direction of single tax must be regarded as morally wrong.

Whatever may be said for the proposition that any great change of policy in such a matter should come by degrees—which means, of course, that its benefits, also, could come only by degrees—the proposition that the change must not come at all, even gradually, is so extreme as to seem silly. Indeed, it appears probable that few of those who take this position would accept its implication in other matters. They would not contend, I think, that because various investors have made their investments counting on a continuance of a certain tariff policy, therefore these investors have acquired

a vested right prohibitive of any change in this policy even though the policy is intrinsically bad. They do not commonly contend that because a person has purchased an automobile expecting a continuance of a customary rate of gasoline and license taxes, therefore he has acquired a vested right with which any increase of such taxes during the life of his car would be inconsistent. It is doubtful whether a majority of such objectors would contend that if the public has allowed monopoly to flourish and monopoly prices to go unregulated during a term of years, therefore the owners of the securities of a monopoly have acquired a vested right never to have the public undertake regulation lest the sale value of the securities of the monopoly decline.

What justification is there, then, for the contention that because the rate of taxation on sites and natural resources has been relatively low in most communities in the past and usually no higher than the tax rate on improvements, therefore landowners have acquired a vested right precluding such a change in the tax system as would eventually realize, as regards land rent, the single-tax ideal? Has the purchaser of land bought it with an implied pledge on the part of society never to change the tax system even by gradual steps in the direction of the single tax? What stickler for vested rights will say frankly and without equivocation that such is his opinion and be willing to base his reputation for logic, reasonableness, and good sense on such a pronouncement?

The truth seems to be, substantially, [I pointed out in my book above referred to] that no system as a result of which some profit at the expense of others can be abolished *without* infringement of "vested rights" unless the victims of the system which is to be abolished themselves pay for

⁷ For a critical discussion of some of the current objections to public appropriation of the rental value of land, see my book, *The Economic Basis of Tax Reform*, op. cit., especially Ch. IV on "A Taxation 'Complex' of Some Contemporary Economists."

their own relief. Many people say with regard to slavery that the ideal way to have freed the slaves would have been to pay the slave owners their full value. But *who* should have paid this money to the owners? If the property of non-slave-owners had been partially confiscated by taxation—or the future income of this property heavily taxed—to provide the requisite means, would not the “vested rights” of non-slave-owning property owners have been disregarded? Should the slaves then have been paid for by the proceeds of a bond issue which they themselves would have had to redeem, principal and interest? In other words was it not necessary, if “vested

rights” were to be fully respected, that the victims of the system of slavery should buy themselves free? May we not, then, as already suggested, lay it down as a *general* truth that if and when persons owning property the value of which depends upon exploiting power have made their plans and purchases on the supposition of the indefinite continuance of such power, practically nothing can be done to relieve the victims of the exploiting system, *except as these victims pay for their own relief*, unless we are willing to permit *some abatement of vested claims?*⁸

⁸ Harry Gunnison Brown, *op cit.*, pp. 247-248.

Harry Gunnison Brown, Ph.D., has been professor of economics at the University of Missouri since 1918. He is the author of “International Trade and Exchange” (1914), “Transportation Rates and Their Regulation” (1916), “Principles of Commerce” (1916), “The Theory of Earned and Unearned Incomes” (1918), “The Taxation of Unearned Incomes” (1921), “Economic Science and the Common Welfare” (1923), “The Economics of Taxation” (1924), and “The Economic Basis of Tax Reform” (1932).