

Cost of Production, Price Control and Subsidies: an Economic Nightmare

IN RECENT DECADES the attention of economists interested in value theory has been largely turned away from a consideration of cost of production in the sense of “opportunity cost” toward consideration of the so-called “cost” of production to the individual company or “*firm*.” Emphasis is put on the “marginal cost curve” and the “marginal revenue curve” and these are used to express graphically the hypothesis that the “firm” will tend to increase its production up to but not beyond the point at which “marginal cost” is as great as “marginal revenue.”

Possibly a principal reason for this new emphasis by teachers and writers of economics is the great expansion in collegiate training for business. For such expansion would bring, presumably, a desire to give more attention to matters that seem to relate to the “practical” decisions of business executives

In this paper I want to distinguish between the *outlays* of the “firm,” as such, and those alternative opportunities which make up the cost or costs of production in their effective supply-determining sense. I am not greatly concerned with the question of definition. I admit the right of others to define “cost” or “costs” of production as they like. But I believe there are very real advantages in using the expression “cost of production” in a sense that fits in with and is helpful to a demand and supply analysis. And for such analysis, “firm” outlays are not the important causative influences. To get at these we must direct attention to the alternative employment possibilities of each separate worker, each

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separate piece of land, each bit of capital equipment.

I strongly suspect that the logical justification for this view is not anything like generally understood by economists. Perhaps the great majority of economists do not understand it. If so, explanation is especially important.

Suppose, to begin with a relatively simple case, we consider a firm engaged in the production of wheat. This “firm” could be an individual proprietorship, a partnership or a corporation. For our purposes it does not matter which. The “firm” employs a number of workers, the various pieces of land embraced in the farm (and perhaps some land not thought of as part of “the” farm), and such buildings, fences, machinery, fertility and other forms of capital as the operator thinks desirable. Wages are paid to the workers, interest is paid for the use of capital, land rent is paid to the landlord or landlords for permission to use the land. Are all these *outlays* to be regarded as costs *in the sense* that they are necessary payments to maintain the production?

The answer is in the negative. Consider first the rent of the land. The “firm” is, indeed, in competition with other wheat producers for the use of good wheat land and must pay as much for it as is necessary to meet this competition. But what if the demand for wheat should become less and, therefore, the price of wheat should fall? Would not the bidding of rival wheat producers to use this land decline? If so, could not our assumed “firm” offer a lower rent to the landowner and still be as certain of having the use of the land as he was previously at the higher rent?

This might indeed be the case and, therefore, it does not at all follow that the outlays the firm is obliged to undertake to outbid a rival or rivals in the same business are a necessary *cost* of keeping the land in *that* business

and, therefore, continuing to get wheat from the land.

On the other hand, as could easily be the case, the land might be so productive for a different crop, *e.g.*, oats, potatoes or sugar beets, and some tenant, therefore, willing to pay enough rent to use it for this different crop, that at a slightly lower price for wheat the land would be rented to the tenant who would use it for the other crop. (This might *or might not* be the same tenant who, at the high wheat price, would use it to produce wheat, for all users are certainly not equally good in all lines of production.) The amount which must be paid to keep the land in this *instead of* an alternative line of production, is cost of production in a sense significant for a study of the supply and demand and the price of wheat.

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But we cannot assume that all the land used for the production of wheat by a particular farm or farming company is equally productive. Nor, even if it should be, can we conclude that all of it is equally good for some alternative crop. If we suppose that on the particular farm there are ten separately fenced-off fields used for wheat and if we go so far as to suppose that these fields are equally good for the raising of wheat, the land rent cost of producing wheat on these separate fields may still be different. Perhaps field A is so poor for any other use that even with a pretty low price for wheat it would still be used for that purpose. The wheat attributable (“imputable”) to the use of that field is, comparatively speaking, *low-cost* wheat. Field G, on the other hand, may be so good for the production of (say) sugar beets that even a very slight fall in the price of wheat would cause it to be diverted to the production of sugar beets. If the present tenant does not know how to produce sugar beets, the owner may rent it to another tenant who does. Wheat raised on field G is, comparatively speaking, *high-cost* wheat.

So far as the land rent is concerned, then, we cannot say that *the* farmer or the farm *company* or the farm *firm* is either a low-cost or a high-cost farm or company or firm. In the sense in which *cost* relates clearly and simply to the conditions of supply and to a supply and demand analysis, there is no *one* cost for a particular firm. Part of *each* firm’s production may be low cost and part, high cost.

Now let us turn to the matter of labor and wages. Here again, the *cost of production*, in the only sense directly relevant to a supply and demand analysis, is the amount necessary to get and keep the “factor” (in this case, labor) in the particular line of production. And so here again, such cost must be reckoned in alternative possibilities, and *not* in mere *outlays*.

The workers engaged in the production of wheat may be unevenly productive and may be receiving varying wages for their work. But we shall here assume that they are equally productive and are receiving equal wages. Still, the cost of production of the wheat produced by some will not be the same as the cost of that produced by others. For their alternatives will, presumably, not all be the same. Though all may be receiving, say, \$8.00 a day, K might be ready to quit and go into an alternative line if his wages in the wheat fields should go down only to \$7.99, while Q might conceivably have no alternative line that would pay him more than \$4.00 a day and would therefore remain in wheat production even though wheat were to fall almost, or quite, to half its previous price and his wages were to go down almost, or even quite, to \$4.00 a day.

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This does not mean that any firm could get Q on such terms so long as the price of wheat remained high. For different companies then could and would bid for Q’s services, and, at any wage the tiniest bit below the amount necessary to get K, would prefer Q to K. Thus, they would compete against each other for Q up to that point before hiring K. But it does mean that if the demand for wheat should decline and therefore, its price should fall, with consequent decline in the demand for that particular kind of labor, the resulting lower wages would not necessarily cause all the workers in wheat production to quit it for other work. Some would quit but, unless the reduction in wages were very great, others would not.

Of course, the number of young persons going into this kind of production might decline very rapidly even though many older workers, less adaptable, remained for years in the work.

Our general conclusion must be that with labor and wages, as with land and land rent, cost of production of goods must be reckoned as what is necessary to keep each individual worker (or each individual piece of land) in the given line of production. This depends on what they can earn in the best alternative line of production. What the “firm” has to pay as wages, because of the competition of other firms in the same line, is *not* cost in the sense in which the word is here used. The cost of production of the wheat imputable to the labor of each worker must be

reckoned in terms of whether *that* worker would or would not stay *in that industry* producing (as in this illustration) wheat for a lower wage than is being paid him.

A similar analysis can be made in regard to the cost of keeping capital equipment – buildings, ships, the roadbeds of railroads, locomotives, machinery, orchards – in any specific line. And here, as in the case of labor, a distinction must be made between the long run, in which the equipment wears out and replacement depends on a return high enough to make such replacement worth while, and, on the other hand, the shorter run, when some equipment would remain in its line for very little annual return, because it is so highly specialized as to have no practical alternative.

It is true enough that the logical way to run a specific firm is to increase output up to and only up to the point where the marginal revenue is no longer in excess of the so-called “marginal cost” (but meaning marginal outlays); and, of course, to *decrease* output if and when it is discovered that excess production has made marginal outlay greater than marginal revenue. But by itself this analysis is superficial as

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regards production in general. For it fails to stress the fact that there is *no one cost* for all units produced by a firm, that the cost of part of the product is low, of part intermediate and of part high; that, with a reduction of demand for the product and a fall in its price, such outlays as wages and land rent would be likely to decrease; that with these lower outlays the so-called marginal “cost” for any “firm” would be lower; and that any one firm might be willing enough to produce as much as before, even at a lower price, considering its lower outlays per unit of goods; but that so many individual workers, individual fields or pieces of land, and individual units of capital equipment, would *not* remain for the lower return, as to mean less total production.

And so the important fact for our analysis is not that some “high-cost firm” quits at the lower price for the product but that some workers, some pieces of land (in agriculture, some fields) and some capital instruments quit. This might possibly involve a diminished number of “firms” in the business if otherwise the smaller scale of production would mean less economy of operation. But certainly the reference to individual firms as high-cost and low-cost is, by itself, superficial. The significant matter is that “factors” (labor, land, capital) quit. Hardly ever will *all* the labor,⁵ *all* the land, *all* the capital associated in one “firm” quit simultaneously. Workers who do not quit but who have been working on land that does, will recombine with another piece of land (and likewise, with other capital) which does not transfer to another line, but some of the workers on which do transfer.

The analysis is the same when the “firm” owns – instead of hiring or borrowing – the land or capital it uses. For management will presumably choose to divert into another line or lines such land and capital as will yield more in such line or lines than in the line it has been in previously. Even if the economist who emphasizes “cost” to the “firm,” contends that in the case of land and capital owned by the firm itself he is not thinking about “outlays” but about some “reasonable” or to-be expected return to the firm, he is missing the main point unless this “reasonable” return is measured in what could be had in an alternative line or lines. And in any case, as regards all labor, land and capital hired or borrowed, he is still missing the main point.

All this has a bearing on the contention that prices can advantageously be kept down – or reduced – by the payment of subsidies out

The concerted quitting characteristic of the strike of labor is a not uncommon phenomenon of our industrial life. But it does not invalidate the principle stated. In fact, the principle operates not only where labor is unorganized but also where it is organized.

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of money raised by taxes, and, especially, on the claim that the expense of the subsidies to taxpayers will be less than the gain to consumers in lower prices. The basis of this claim has been that the subsidies will need to be paid only to the “high-cost” firms. But our analysis has shown that *much* of the production of a so-called “high-cost” firm is actually low-cost production, in the sense that some of the land, labor and capital used by it would, if product price were forced down, nevertheless remain in that line of production for less rather than transfer to another line or lines. Our analysis showed, too, that a part of the production of a so-called “low-cost” firm is high-cost production, in the sense that some of the land, labor and capital used by it would be shifted to another line or lines rather than accept any less remuneration. Presumably, the “firm” which is said to operate at “low cost,” tends to employ these factors *as long as* there is any gain to the owners and operators of the firm – or *up to the point where* there is no longer any gain – and, therefore, could not normally employ as much of each and all of them at a forced reduction of

product price. In short, the effort to distinguish “firms” of the “high-cost” variety from “firms” of “low cost” and to base policy on this distinction is utterly superficial and leads only to confusion and to unwise legislation and administration.

To illustrate, suppose we consider the proposal sometimes made –and sometimes acted upon, *e.g.*, during World War II –that prices in specific lines be kept down through the payment of a subsidy to producing “firms” by government. This was done in various lines during World War II, was defended by President Roosevelt as necessary and effective and is currently part of the administration program. The thought is that if (say) milk would sell in an unsubsidized market at 22 cents a quart, a subsidy from government of 4 cents a quart would enable the producers to sell the same quantity for 18 cents a quart. The consumer, as such, would pay the 18 cents. The government would pay 4 cents.

Assuming this 4 cents a quart to be paid by taxation, it should be clear enough that, collectively, the people are still paying 22 cents a quart, though some taxpayers will then probably be paying, in part, for the milk consumed by other families than their own.²

But when it is pointed out that the 4 cents paid by government out

² If the subsidy should be paid, for example, by a new issue of paper money, there would also be price level inflation; but it would still be true that, collectively, the people would be paying for what they received.

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of taxes is just as much a cost as if paid by consumers directly, the rejoinder is made that the 4 cents does not need to be paid to *all* firms but only to the “high-cost” firms, and that there is thus an “economy” in the subsidy system.

As we have seen, however, it is impossible thus to divide firms into “high-cost” and “low-cost” firms. The significant costs are costs for getting and keeping the factors of production –land, labor and capital –in the given line. And these costs are not the same for the various workers or for the different pieces of land or for each of the various units of capital equipment. If, therefore, there is any logic at all in the paying of subsidies to hold down or bring down the prices of specific goods and if it is desired to pay these subsidies only for the *really* high-cost part of the supply, then the subsidies should be paid to *some* workers but not to *all*, to the owners of *some* land but not to *all*, *etc.*

But let us see what this more truly *logical* application of the subsidy plan for the “high-cost” part of the output would mean. To do this, let us return to our assumed alternatives for workers in the wheat fields (for the principle is the same whether the product is wheat, or is milk, butter and cheese). The worker who, because he could make an equal income in another line, would not remain in the wheat business (or the dairy business) for less than \$8.00 a day, is “high-cost” labor, and if the price of the product is to be kept down to where he would not get the \$8.00 from consumers as such, he must receive a subsidy from taxes so that he can still realize his \$8.00 and will still remain in the given line. But for the *equally efficient* worker in this line who could not make more than \$4.00 in another line and who would, therefore, stay where he is despite regulation lowering the price of the product –for him *no subsidy is required*. And the only way to have this so-called “economy” is *not to give him the subsidy*.

Thus, the payment of a subsidy to the one worker and not to the other would mean that one of the two workers – and it could be 160 out of 200 –though equally efficient and productive and thus rendering equal service, would have to be grossly discriminated against. If the price were regulated to half the normal market price, the worker discriminated against would receive only \$4.00 a day. The other, being subsidized, would receive \$8.00 a day for no greater production or service. That such a subsidy system would arouse great resentment is sufficiently obvious.

In a system of truly free markets, the worker who cannot change to another line without substantial loss is protected against having his

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wages greatly reduced on that account by the fact that many others can and will change if wages in the particular line greatly fall. The subsidy system deprives him of his protection.

There is also to be considered, of course, the administrative impossibility of such a system of subsidies. How shall we know *which* of 1,000 or 100,000 workers would change permanently to another line if their wages should be

reduced and which of them would not? Any of them might say he would, if that would get him a subsidy otherwise not obtainable. But, in fact, most of them probably do not themselves know until finally faced with the actual problem, under just what pay conditions they would or would not change their line of work.

It seems unnecessary to repeat the argument of the last four paragraphs, in its application to land and to capital. The reader who has followed the analysis up to this point should have no difficulty in seeing how it applies to these other factors of production.

Since some natural resources –e.g., a rich mine of coal, copper or silver –which yield high rent (or royalty) in one line of production are entirely or almost entirely useless for any other production, it will perhaps be urged that the price of the particular product should be held down and that then the owners of such natural resource will just have to take a lower rent or royalty, to the clear gain of consumers. Or, if the operating company itself owns the resource, it will have to accept a lower “profit” –although the income from the resource, as such, is really no less a rent or royalty, imputable to the resource, than if it were owned by a private individual who received monthly, quarterly or annual checks from the company for its use.

But to hold the price of the product down by force would mean that the price was also reduced on such parts of the product from this rich mine itself as are produced at the “intensive margin” and, likewise, on such parts of the product as are produced from poorer –including marginal –mines. Then some, at least, of the labor and capital used in both cases referred to would probably quit rather than accept any lower return and, short of compulsion, would remain in the business only if subsidized.

Such holding down of the price by subsidization would not only arouse resentment from some workers, as indicated above, but would tend strongly to encourage a larger use of the product as compared with other goods, at, of course, the expense of taxpayers. Unless a rationing system forcibly held down demand, the amount of these goods consumed, as compared with other goods, would be larger than if marginal

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costs were covered by prices to consumers instead of being partially covered by taxes. The economy would be thus more largely a directed economy and less an economy based on voluntary choice. To a considerable extent, in fact, the so-called non-communist world has been moving toward a directed economy and away from the freedom in which its leaders~~ pretend to believe.

If any advocate of a directed economy is inclined to take satisfaction from such a possible case as this, in the thought that rents or royalties (including “profits”) to owners of natural resources would thereby be reduced, it can be pointed out to him that such reduction could be accomplished through taxation of the unearned gains from natural resources and sites, without disturbing effects on the operation of a free-market economy. Such taxation could –and should –be general on all land values rather than discriminatory on the land which has only one advantageous use. It would not substitute regimentation and control for the normal operation of the private enterprise system, but would, in ways that have been frequently pointed out, remove obstacles to its most effective operation and conduce to strengthen and maintain it.

The subsidy policy of World War II was an outgrowth of a rising price level which was itself a consequence of failure of government to balance its budget. Since taxation –plus individual investment in government bonds from saving –did not provide the desired funds, and since Congress would not levy taxes nearly sufficient to do this, there was resort to inflation of the circulating medium, through extensive financing of the war by borrowing from the banks. Then, although rigid price regulation had been held out as the remedy, the administration decided that there must be *not only* regulation *but also* subsidies. Subsidies were demanded as the *necessary* means of making regulation effective. Yet such subsidies meant additional expenses when expenses were already far outrunning tax revenues. Such additional expenses must then require still further borrowing from banks and bring about still further inflation of the circulating medium, with a resulting increased upward pressure on average costs and prices. That so many of the “intelligentsia and so many “good” organizations supported the subsidy idea (and that two successive administrations have employed and defended it) would appear to be significant evidence of the general economic illiteracy.

The Prospector and Economic Rent

THE CASE FOR APPROPRIATION by government of all or most of the annual rental value of land and natural resources is so strong that refusal to accept it seems hardly to be accounted for otherwise than from failure to understand it. Many of the misconceptions of it which tend to prevent acceptance I have sought to analyze in various books and articles previously published. But perhaps not all of the misconceptions have been analyzed with sufficient clarity and fullness.

Occasionally someone objects to the appropriation –or very heavy taxation –of the royalties from such subsoil deposits as gold, silver, copper, coal and oil, on the basis that such a policy would deprive the prospector of an adequate return. This objection may not be sound, but it ought certainly to be given careful consideration.

But whatever reasonable claim the prospector may seem to have, we must be careful not to use it as a basis for rewarding persons who do no prospecting. Consider, for example, the case of oil deposits. In general, the prospecting is done by an oil company through its employees. Skilled geologists are hired, drillers are employed, capital is used. Yet some wells prove to be dry. The company must, on the average, if it is to continue in business, make enough extra on production from the good wells, to compensate for the labor and the use of capital

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applied to searching for and drilling the wells that never yield. But the owner of a piece of land, from which the oil company gets oil, commonly did not himself discover the oil. He certainly did not *make* it or deposit it beneath the surface. He derives an income only because he is in a strategic position, under our present land tenure and tax system, to

charge those who do these things for his *permission* to remove from the ~ ground what he did not discover or make or deposit. As Henry George said: 1

It is a well-provisioned ship, this on which we sail through space. If the bread and beef above decks seem to grow scarce, we but open a hatch and there is a new supply, of which before we never dreamed. And very great command over the services of others comes to those who as the hatches are opened are permitted to say, "This is mine!"

If such an owner is entitled to anything, it can be only to compensate for possible injury to capital he has invested

on (or, as with fertilization and drainage ditches, *in*) the land.

If it should be said that without hope of appreciable reward he will refuse his *permission* to drill, there appears to be a simple and logical answer. It is to assess his land higher and, therefore, tax it more, because of the likelihood that it does contain oil. This is what the free market does to the value of such land, in our present system. Such a tax would, in general, bring consent to drilling and, of course, if no oil could be found, the assessment (and, therefore, the tax) should be at once reduced to its former level. And in case the owner is ready from the start to permit drilling without delay and does permit it, there is no argument for raising the assessment or tax prior to such drilling and the discovery that oil is present.

If, in spite of the above considerations, any reader nevertheless continues to insist that the mere owner, *as owner*, must receive a royalty as an inducement to *permit* drilling, it can still be contended that beyond a relatively moderate royalty, the tax could be so steeply graduated as to take most of the rest for the public, without significant adverse effect. But a provision for assessing and taxing as, probably, oil bearing, those pieces of land whose owners refuse to permit drilling, is, I believe, the logical and best solution.

¹*Progress and Poverty*, Fiftieth Anniversary Edition, New York (Schalkenbach), p. 243.

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As regards the so-called prospector, it must be said that when land has been privately appropriated, with the owner's title including all sub-soil deposits, it is the owner – unless he is unaware of what the prospector has found – who is in a position to demand a royalty. The prospector, whom some of the opponents of a land-value tax program appear to be so eager to help, can hope for large gains only if he can buy (or lease) the land from a landowner who does not know – and perhaps does not even suspect – that it contains what the prospector has found to be in it.

Nevertheless, it must be admitted that there have been prospectors who have discovered mineral deposits on the public domain, where they have been allowed to file claims and get legal sanction for exclusive exploitation. How about their rights?

We have here, I think, a claim that may fairly be compared with the reasonable claim of an inventor, and perhaps the discoverer should be dealt with approximately as is the inventor. We do not give to the inventor a perpetual monopoly but a temporary one; it may run only for seventeen years. For this policy there are two good arguments. One of these is that a temporary monopoly is likely to be a sufficient inducement to the invention and its use.

The other argument is, I think, seldom stated, though it should be. It is based on the principle that reward should depend on contribution, that a proper economic system rewards those best who best serve the consuming public, and rewards them in rough proportion to the amount of their service in any given period and to the length of time the service is given. On this principle the inventor is not entitled to a perpetual monopoly. His invention is, in large degree, the indirect product of the work of many minds. By now we would have the airplane, even if the Wright brothers had never been born. But we would not have had it so soon. Thus, the particular inventor is properly credited with our having the use of the idea sooner than we would have had it without him. It seems reasonable, therefore, that he should have a monopoly during that period; and, of course, we have to make an *estimate* of how long it is likely to be, since nobody can exactly tell. But the inventor is definitely not entitled to a permanent monopoly, to payments for his services during many years after we would have got the invention even without any of his services.

I see no good argument for treating the discoverer of a natural resource or piece of land of any kind, any more generously in this respect

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than we treat the inventor. For it is not to be supposed that if the particular discoverer had not found the resource or piece of land it would never have been found. A monopoly of his discovery for a limited period should be enough. And I think there may be good reason for some special limitation or restriction in the case of discoverers beyond what is called for in the case of inventors. For, in the case of a natural resource, even though monopoly is allowed only for a limited number of years, the holder of the temporary monopoly may try so hard to secure the *maximum*

possible return during those years, as to destroy or ruin the resource prematurely and so reduce greatly the total wealth which can be produced from it. It would seem appropriate, therefore, either to limit the total amount which the discoverer is permitted from the resource, or to make rigid requirements regarding the method of extraction.

When the inventor's monopoly has reached full term, the logical policy is to open the field to competition. When the prospector's privilege has reached full term, the logical and reasonable policy is to appropriate or tax drastically thereafter the royalty or economic rent. And of course, when the owner is also the operator, the tax should logically be based on what the royalty would be if the owner and operator were different persons.

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Plant Location and Community Tax Policy

THE IMPORTANCE, for *profit*, of choosing intelligently the location for a new factory, store or warehouse is of course recognized by most corporation managements. But one aspect of this, having to do with two divergent tax systems, is often overlooked. And recent enabling legislation in Pennsylvania,' which could easily be copied in oTher states, indicates that perhaps this aspect of the question cannot be indefinitely overlooked without financial penalty. Indeed, if sharp attention were to be given to the matter by a considerable number of companies, with frank explanation of its significance for them in choosing where to establish plants and where to enlarge them, there can be little doubt that Pennsylvania's recent tax legislation *would be* copied in other states. Then the range of choice of desirable locations would be substantially increased.

The fact that the particular tax policy or tax system thus favorable to corporate profits is also most favorable in the long run to the welfare of workers, is obviously not a reason for refusing to stress it. Corporations can urge its adoption in good conscience, since not only are their own gains promoted thus, but also the productivity and the wages of workers, the diminution of blighted areas and slums, and the increase of home ownership.

¹Cf W. Lissner, Pennsylvania's New Optional Graded Tax Law," *Am. J. Econ. Social.*, 11 (1951), pp. 41-2; G.G. Sause, Jr., "A New Year View of an Old Tax," *ibid.*, 13 (1954), pp. 379-88.

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These conclusions are not drawn merely from theoretical research, important as such research undoubtedly is. They are indicated as well by factual studies and statistical comparisons. These studies and comparisons resemble those made in connection with medical research. They constitute, in effect, a "controlled experiment" such as is made use of in medicine. Is a particular vaccine a possible means of giving immunity against a dangerous disease, or a particular serum a possible cure? The vaccine or the serum is tried on a thousand persons, while water or some other innocuous but obviously useless liquid is injected into another thousand, and the results are compared. The conclusions of such studies in the field of medicine are taken seriously. Few of us are in a hurry to die or have any desire to suffer desperate illness. We are unlikely to let prejudice keep us from submitting ourselves to the vaccine that will prevent or the serum that will probably cure. If we refuse to take seriously a conclusion regarding the consequences to general community welfare from a particular tax system, when such a conclusion is confirmed by an *essentially similar* controlled experiment (even though the tax system was not adopted for the special *purpose* of experiment), such refusal is surely *not* indicative of intelligence. And it is surely not indicative of managerial efficiency to ignore a significant difference in the tax policies of different cities, counties, etc., when to do so may *prevent* maximization of a company's profits.

II

A comparative study of states, districts and cities in Australia where the local taxation is on land value exclusive of improvements, with those where such taxation, as generally in the United States, is on both land and man-made capital, shows decided differences in effects.² In the first group, the number of dwellings constructed during a period, per 100 marriages, is greater; the amount of new building is much greater in proportion to available acreage; the amount of good land held speculatively out of use tends to be noticeably less; the ratio of the value of improvements to the value of land is nearly twice as high, and is higher in Queensland where the tax rate on land value is highest, than in any other state; the total value of improvements owned by each land taxpayer is twice as great and is greatest of all in Queensland; the increase of plant and machinery in factories is greater; the incomes of persons deriving their income wholly from labor average higher; the

² Cf. H.G. Brown, "The Challenge of Australian Tax Policy," *Am. J. Econ. Social.*, 8 (1949), pp. 377-400.

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movement of population is away from the other jurisdictions and into the land-value-tax jurisdictions.

Surely men do not thus invest their savings to a greater extent in the land-value-tax jurisdictions –by building factories, installing machinery, constructing stores and improving farms –because they expect to enjoy *less* gain than if they invested in the other jurisdictions. The reason they invest to a greater degree in such jurisdictions must obviously be because they consider it more profitable to do so.

If, therefore, in several of our states, taxation were changed in the direction of that in Queensland and some of those other areas in Australia, business executives would almost certainly be induced to have their companies invest in, and build plants in, those states to a greater degree than they now do. Indeed, more than this can be reasonably predicted. It is a reasonable forecast that, if there comes to be wide understanding among our corporation executives of the effects of such taxation and why it produces these effects, many of them will be announcing publicly that, with other conditions anything like equally favorable, they will choose to have the new plants of their companies built in such states (and cities and counties) rather than in others. And such announcements will work strongly towards the adoption of such a tax policy in still other states.

It is a mistake to regard this reform as having only humanitarian aspects. It has a clear and definite relation to *business profits*.

To untax all real estate improvements of every kind and all other capital and instead to draw heavily on the rental value of land, as such, including sites and natural resources, would be to adopt a form of taxation *more consistent* with

the principles on which free *private enterprise* is defended and more favorable to capitalist *incentive*, than any other form of tax whatsoever. When business leaders gain a clear understanding of this, it is hardly likely that they will prefer a continuance of heavy taxes on capital and its income to an increase of taxes on land values.

In 1951 the legislature of Pennsylvania (by overwhelming majorities, and unanimously in the Senate) gave local option to the forty-seven third-class cities of the state to discriminate in tax rates between land and buildings. These cities may now tax land at a higher rate and buildings at a lower rate, within the limit set by the tax limitation law.³ Here is a chance –and perhaps some neighboring states will before long have similar legislation –for business men to let the various city councils know that the tax policies they follow should have and will have an

Sause, *op. cit.*, pp. 381-2.

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important bearing on whether industrial plants and other capital will be invested in their cities. And in so doing, these business men will be not only serving their companies. They will be, also, strengthening and thus helping to perpetuate the system of free private enterprise.⁴

~ This paper was circulated by the authors as a letter to the managements of several companies in which they are stockholders. letters of acknowledgment from these companies include such statements as the following:

1. With plant investment located in each of our forty-eight states, and with fee land holdings in several of these states, we are certainly interested in the tax rate on 'both land and man-made capital' as mentioned in your letter. A copy of your letter is being transmitted to various individuals in the ____ Company who are concerned with the subject raised in your letter."
2. "... especially interested to learn that the system of taxing only land and not taxing the improvements has actually been in effect for some time in some provinces in Australia. We would, of course –everything being equal –prefer to locate a factory in a location that has this tax system provided that other forms of taxation did not make up the difference."
3. "You can be sure that the ____ Corporation is actively aware of the importance of profit in choosing intelligently the location for a new factory, store or warehouse. Corporation's choice of location for its ____ Plant in ____ County. Pennsylvania, was influenced by the fact that their County imposes no personal property taxes. ...We are well aware of the 1951 legislation of the State of Pennsylvania which you mention because so much of our business operations are in that state. The state went further in 1953 and prohibited the local taxing districts from taxing machinery and equipment, which is one step farther along the road which you propose.

Academic Freedom and the Defense of Capitalism

IN THE ACADEMIC ECONOMISTS' WORLD –as with many others among the professoriate – there is widespread objection to and resentment of, interferences with teaching. Anti-communist oaths as a condition of employment are resented. Many doubtless feel that the current antipathy to communism will lead to –and has already led to –“witch hunts” and the dismissal of teachers who are not communists but are regarded as merely too “liberal.”

But why do teachers of economics *almost never* use such freedom as they do have –and they have a great deal –to explain to their students the demonstrable advantages of a kind of tax that is more favorable to free private enterprise than is any other form of tax whatsoever? Why do they seemingly prefer to support taxation that goes unnecessarily far in the direction of certain Marxist tenets that, in their extreme form, are utterly irreconcilable with free private enterprise? Are they actually more afraid of being rated as too consistently anti-Marxist and anti-socialist than of being suspected of a leaning toward socialism?

Yet if these teachers have a clear understanding of fundamental economic relationships –which, unfortunately, many of them do not have –they should not too greatly fear persecutors, either inside or outside of academic walls, whose advocated policies must tend to weaken capitalism. Why not put these persecutors –if and when there are any –publicly and dramatically “on the spot,” as being manifestly aiders and abettors of the Marxists?

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There are two tenets of Marxism which are utterly irreconcilable with free private enterprise. The first is that private income from capital is “surplus value” and is “exploitation of the proletariat by the bourgeoisie.” The second is that the ideal distribution of the product of industry is “from each according to his capacity, to each according to his need.”

What are the implications of the first of these tenets? Capital –as distinguished from land –can come into existence in a free enterprise system only as there is private saving and investment. Capital which depreciates or which becomes obsolete can be replaced only as there is private saving (which may be, of course, the saving of privately owned corporations).

But communists, since they insist, with Marx, that the enjoyment of income from capital by the owner of it, is “exploitation of the proletariat,” cannot tolerate such enjoyment. They cannot, therefore, confidently rely on private saving and investment to provide the capital without which industry is unable to function effectively, and they certainly do not rely on such saving or contemplate relying on it. By their very philosophy of exploitation they must –and they certainly do –rely only or almost only on the State to see to it that capital is accumulated and that capital which wears out or which is obsolescent is replaced.

Thus the doctrine that private income from capital is unjust leads inevitably to State ownership of capital, compulsory saving via a five-year plan or a four-year plan, State construction of capital, State repair of capital, State –and, therefore, compulsory –provision for replacement of capital. The State becomes the manager of industry and the universal or almost universal employer. No place is left for individual initiative or spontaneity. Economic life in general is regimented. All the influence of communist ideology tends towards regimentation, centralization and dictatorship.

Those who would use the tax machinery to accomplish the purpose of preventing –or mostly preventing –private enjoyment of the income from the capital that private saving has made possible and that adds immeasurably to the annual output of industry, are going in the same general direction. If they should attain this end or, even, come close

to it, how much individual saving and investment in capital construction would we have? Might it not be widely contended that “private saving is inadequate for the requirements of industry,” that “the

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profit motive doesn't function as its defenders say it does,” that “the system of capitalism has failed,” and that ‘government must undertake what private initiative and thrift are failing to accomplish’?”

For a long time now, some of us have been urging the abolition or, at worst, the substantial reduction of taxes on capital, and the heavier taxation of the geologically-produced and community-produced rental value of land. There is no form of taxation more consistent with the principles on which private enterprise is defended or which can be more truly referred to as strengthening the incentives of capitalism. Yet those who most loudly proclaim their opposition to communism, both conservatives and “liberals,” persistently oppose land value taxation, despite mounting evidence of its beneficial effects. Or, at best, they studiously ignore it. Do they definitely prefer continuing heavy taxes on capital and its income rather than have any increase in the taxation of land values? Or do they hope to relieve capital by increasing the burdens of the comparatively poor?

II

‘The second Marxist tenet is the doctrine that the State should take **I** “from each according to his capacity” and give “to each according to his need.” This tenet, too, ignores completely the significance, for incentive, of letting reward have some relation to contribution.’

But those professed defenders of income from efficiency and thrift who are unwilling to suggest any substitute for taxes that heavily penalize incentive, except increased burdens on the comparatively poor, are adopting a strategy that is certain to appear, in the minds of many of those they seek to persuade, the reverse of disinterested. On the other hand, there is an alternative strategy which would be obviously disinterested, sincere and logically defensible. It is to point out that, within the limits of the revenue either could be made to yield, a tax appropriating practically all of the annual rental value of land would be more advantageous, even to the worker without property, than the most drastically graduated tax on incomes in general; and that this would be true even if such worker were completely exempt from the income tax.

For the land-value tax has two advantages –even for the property-less worker –over the income tax. The first is that it makes unprofitThis does *not* necessarily mean that the motive of gain is entirely selfish. One may prefer more to less because he loves wife or children or because he wants to contribute to charity or to a great cause.

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able the speculative holding of good land out of use, and thus enables the worker to be better supplied with land and thereby to produce more and, therefore, be worth more.

The second advantage is that the land-value tax leaves to those who save the full natural reward of this saving, in the added productiveness of industry made possible by the additional capital. They truly own their capital instead of having it, as now, largely owned, in practical effect, by the taxing government which takes a large part of the annual income it yields. Therefore, capital would –and some highly significant but as yet little publicized Australian data show that it does –flow into and increase in such a commodity or state or nation, and its workers would be better provided with capital as well as better provided with land. Thus, again the workers would be able to produce more and could command higher wages.

The Australian studies² to which allusion has just been made, compare the increase of crops on farms, the degree of improvement of land, the increase of machinery in factories, the construction of dwellings in proportion to marriages, the construction of dwellings and of buildings in general in proportion to available acreage in cities, the amount of land held out of use, the sale value of land in proportion to population, incomes from work, immigration into and emigration out of various areas, in those parts of Australia where land values are taxed rather than other property and in those parts where the tax system is like our own. If most American teachers of economics have never run across or even heard of these studies, this is probably because they have such an inhibition against betraying any support for or interest in a land-value tax policy that they have never bothered to look. Yet here is a

way to work for the strengthening of the incentives of the private enterprise system and so to work for its perpetuation.

Both the theory of the land-value tax and data from Australia point in the same direction as regards effects on housing, on ease of transition from tenancy to ownership, on amount of investment in capital, on incomes from labor. Both the theory and the data indicate that such taxation, within the limits of what it would yield, would be better even for propertyless workers of moderate and small incomes, than the most drastically progressive taxation of incomes in general, even if these workers were completely exempt from the latter. Then why, unless

² These have been summarized in my article, now a pamphlet, on *The Challenge of Australian Tax Policy*, obtainable from the Robert Schalkenbach Foundation, 5 East 44th Street, New York, N.Y. 10017.

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they are either *indoctrinated against* land-value taxation or are *afraid* to discuss it adequately, should teachers of economics persistently refuse

–or just neglect? –to present carefully and fully to their students the demonstrable advantages of and the impressive arguments for such taxation? Can they possibly think that hard work, efficiency and thrift so deserve being penalized that we should tax them *in preference to* using a kind of taxation that is better even for average and below average unpropertied workers? Do they feel that it is *safer* academically and less *communistic* thus to go part way with Marx than to emphasize land-value taxation which is of the very essence of a truly self-consistent system of free private enterprise? Is it fear that influences them? Or indoctrination? Or preference for conformity with what is taught in the academically ‘best circles?’ Or just lack of understanding?

III

Recently the American public followed the story of a controlled experiment in medicine. In various states half of the school children received the polio vaccine developed by Dr. Jonas E. Salk and the other half received an inert control substance. The efficiency of the vaccine was established by statistical analysis of the results.

The reports from Australia described above tell us the results of what is essentially a controlled experiment in taxation, even though it may not have been entered into for the purpose of experiment. There has been widespread interest in the controlled experiment in vaccination against polio. Few –indeed, almost none –are interested in or even aware of the controlled experiment in taxation. People want to know –up-to-date doctors feel they must know –the results of the vaccination against polio. For polio can kill. And when it doesn’t kill it may paralyze for life. People want their children to live and to have strong, healthy bodies.

The economic system we call free private enterprise or ‘capitalism’ can be killed, too, as in some countries it has been. Or it may live, yet be paralyzed and weak. Those who want it to live and to be strong might do better than just prate wishfully of ‘capitalist incentive’ and of ‘incentive taxation.’ They might at least examine the evidence as exhibited in this illuminating experiment.

There is little question but that the results of the polio vaccine experiment will be brought to the attention of every student in our medical colleges. How long must it be before college and university students of economics will be made cognizant of this comparable experiment in

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a matter most significant for the health –and possibly for the survival
– of our economic system?

Time was when medicine was in a position similar to that in which economics is today. It was in 1847 that a young Hungarian obstetrician, Dr. Ignaz Philipp Semmelweiss, became aware of the cause of puerperal (or childbed) fever which doctors were themselves carrying on their infected hands –usually after dissecting cadavers –to the mothers whose babies they delivered.³ He learned how this could be prevented easily and inexpensively. Evidence that the methods of prevention he prescribed (especially adequate washing of the hands of doctors with antiseptic) were successful, became overwhelming. Yet he was dismissed from the job where, by requiring these methods, he had been at the same time saving the lives of hundreds of women and building up a compelling demonstration of the effectiveness of his methods. Rumors were spread that he had been supporting himself by performing abortions. He was refused the privilege of seeing the official records of the Division he had managed. Doctors, denying the truth of his conclusions, declared that puerperal fever was due to a miasma, that the disease

had thirty causes including wounded modesty, fear, location on the banks of a river and a feeling of guilt; that the cause was constipation and the proper cure was to give purges; that puerperal fever was caused by the stretching of the uterus which inflamed the peritoneum; that it was caused by insufficient contraction of the uterus, overcrowding, and miasma; that it was caused by bad ventilation; that it was caused by blood changes due to cosmic-telluric influences, etc., etc.

Apparently the situation was little or no better in the later 1870's. De Kruif tells us ~ about a physician holding forth with "long Greek and elegant Latin words" on the cause of puerperal fever –about which he showed no understanding despite the pioneer work of Semmelweiss. The lecturer was interrupted from the back of the room by Pasteur, who told him he was wrong, that it was "you doctors" who carried the microbes of childbed fever to their patients. When the lecturer intimated Pasteur would never find this microbe, the latter replied that he had found it, and proceeded to sketch its appearance.

By 1890, as the younger men replaced the dying older doctors, the views of Semmelweiss began to spread. Yet to the best of my knowledge and belief, it was of puerperal fever that my mother died in 1891,

The reader is referred here to Morton Thompson's historical novel, *The Cry and the Covenant*, Garden City, N.Y. (Doubleday and Co.), 1949. In *Microbe Hunters*, New York, Harcourt, Brace and Co., 1926, PP. 145-6.

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more than forty-three years from the time Semmelweis had clearly pointed the way to the sure method of its prevention.

Why should teachers of economics smugly assume that their own profession in the 1950's is completely exempt from such blindness, such obstinate determination to resist the truth, such fallacious attempts at "refutation," such insistence on teaching lethal falsehood, as afflicted the medical profession from the late 18⁴⁰'s into the 1890's? How can it be reasonably contended in the light of the facts alluded to in this paper, that their thinking and their teaching are at the same time completely objective and completely unaffected by fear of being looked at askance by colleagues as not belonging to the "best circles" academically, by fear of losing their institutional jobs or merely of not being promoted, by indoctrination or by prejudice?

To one who reads with understanding the gripping story of Semmelweiss, as told by Morton Thompson in *The Cry and the Covenant*, the parallelism between the treatment meted out by distinguished physicians to the conclusions of Semmelweiss and that meted out by distinguished economists to the case for land value taxation, seems indeed a striking one. But how can awareness of this be aroused among university and college teachers if the professional periodicals that most of them read *will not offend* any specialized group among them by calling attention to the facts and if the professors do not often – if ever

– read the periodicals that will?

IV

A well-known economics teacher who had collaborated in the writing of a book in which increased taxation of land values was favored, told me in private conversation that he had, because of this, taken considerable "razzing" from colleagues. Another economics teacher confided to me that when, during his graduate school days, he had made his interest in land-value taxation known to one of his teachers, the latter suggested to him that, as a young economist, he should be careful about committing himself thus to a view not generally held in the profession. A third economist, after some experience in teaching economics and in collaborative writing, remarked to me that "economists seem to have closed minds on the subject." And a fourth economics teacher told of making reference, in a graduate course at one of our most distinguished universities, to Henry George as an economist, whereupon his professor replied: "Well, if we call Henry George an economist."

Toward the end of my teaching at the University of Missouri, a student

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coming there from a small college and enrolling in my course in "Public Revenues" remarked to me that a former economics teacher had asked him: "What do you want to take that *for*?" The teacher referred to the land-value tax idea as "mediaeval" and said, in regard to my course: "Well, don't pay too much attention to it."

During my years of teaching at the University of Missouri, we had many students who had done their first two

years of college work elsewhere. Almost without exception they had been taught nothing, or next to nothing, about this really fundamental reform for the strengthening of the free private enterprise system. Will there continue to be practically no chance to learn anything about it in some ninety-nine per cent of our colleges, where, of all places, its study would seem to be most appropriate and desirable?

The clear logic of the matter –and the data cited herein from Australia are consistent with it –indicates not only that to relieve capital from taxation, so far as we can, by drawing heavily on the annual rental value of land, tends definitely to the strengthening of the free private enterprise system. The same logic indicates that to follow the opposite policy, *i.e.*, to abolish the tax on land and take by taxation practically all the yield of capital, must lead to the management of all or practically all industry by the State, with saving thereafter compulsory.

Do we honestly believe the private enterprise system to be preferable to socialism, and do we want to keep it for ourselves and successfully “sell” it to countries now susceptible to socialist propaganda? If we do, what can be more important in our teaching of economics than that our students should come to understand why the second of these two divergent tax systems is so threateningly different in its to-be-expected consequences from the first? Yet this is precisely *the* aspect of economic theory and policy about which, in probably more than ninety-nine per cent of our universities and colleges, they learn *nothing at all!*

A letter received a few years ago from a college teacher of economics commented on this situation as follows:

“The thing that is both curious and amazing to me is that I could have attained a Ph.D. degree, having gone, among others, to two state universities, without having been subjected to more than a few pages of literature, mostly derogatory, and without having spent more than five minutes of class time on Henry George’s philosophy.” And a very able and distinguished economist of my acquaintance, definitely friendly to land-value taxation, who has done most useful work in another field of economics, explained to me some years ago that he does not express this sympathy publicly lest, with the prevailing

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tagonism among economists, his studies in this other field might have relatively little influence.

But what periodical, professional or other, purporting to be interested in academic freedom, has ever publicized or will now publicize such facts as those presented in this paper?

V

In an article⁵ prepared before the communists had driven the Nationalists from China, I wrote, in part, as follows:

Students have come from *far* countries to study at American universities and especially at the larger institutions, such as Columbia University. In these institutions students from the Chinese Republic, whose founder, Dr. Sun-Yat-Sen, was greatly impressed by Henry George’s contribution to economics and wished to make some application of George’s principles to Chinese taxation policy, have been indoctrinated with a contrary philosophy and have returned to China to teach this contrary philosophy in Chinese colleges and universities.

If *communism –or socialism –and the incident regimentation should win*, in the United States, in Western Europe, in China and elsewhere, *over the present caricature of free enterprise*, those professoral economists whose economic philosophy has contributed to make our economic system such a caricature cannot be held free of all responsibility for the system’s ultimate collapse. For capitalism is indeed under heavy attack in a large part of the world. And the college graduates our economics professors have taught are but poorly armed against the bombardments of communist and socialist ideology, when they can oppose the optimistically idealized programs of the “planners” with nothing better than this caricature of what capitalism could be at its possible best. *Why have they not been shown the intriguing blueprint of a free private enterprise system clearly worth fighting for?*

Were the great majority of the teachers of economics in the universities and colleges of the United States *convinced communists* desirous of

following the “party line,” were the leaders of the party in Moscow seeking to corrupt capitalism into as poor a system as it could be made, in order that it might operate so badly as to *provoke revolution*, and had the communist leaders, for that very reason, given to all these teachers of economics definite instructions either to *keep* students from ever thinking about the land-value taxation program at all or to cast discredit on it, the situation as regards education of university and college students on land rent and its taxation could hardly be worse than it actually is.

And in the same article⁶ I said: “There is tragedy in the fact that among those who have been led into communistic activities and even into betraying the interests of their own government to those of an alien power, are some who followed communism because of their own social idealism and who might have been saved from this personal tragedy had the influence of our economics professoriate not been in the direction of discrediting and hushing up all serious advocacy of the public appropriation of the annual rental value of land.”

o The Challenge of Australian Tax Policy, op. cit., p. 25.

⁶*Thid.*, p. 23.

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This is a matter in which, when it is adequately explained, students of economics appear to be especially interested. No devices or special techniques of teaching can possibly compensate, I think, for leaving out of the work of economics the most dramatic, exciting and vital topics on which it can shed light. And if there was ever a time when it was or is particularly important for us to consider without being inhibited, how we can make our system of private enterprise what it could be and ought to be, it is now, when it is in conflict with an entirely different system based on an entirely different ideology.

Again at the end of this article, therefore, I inquire, as I inquired at the beginning: Why do teachers of economics *almost never* use such freedom as they do have –and it’s a great deal –to explain to their students the demonstrable advantages of a kind of tax that is more favorable to free private enterprise than is any other form of tax whatsoever? Are they too hopelessly indoctrinated against it? Or are they fearful that, if they thus go in the *opposite* direction from Marx in the matter of the two Marxist tenets here discussed, they will be rated as “leftist” or “radical”?

Yet had they been interested enough in the land-value tax movement to pay much attention to its progress, they would have heard not only of the data from Australia but also of the 1951 legislation in Pennsylvania. This legislation gives to each of its forty-seven third-class cities, local option to discriminate in taxation between land and buildings and to tax the former at a higher rate and the latter less, to whatever degree of difference (within the limit set by the tax limitation law) its council may desire. They might have heard that the bill passed the Senate fifty to nothing and the House by a hundred and eighty to one and that it was signed by that well-known Republican leader, Governor John S. Fine. Are they so *fearful* of being rated as “leftists” with Governor Fine and the others, that they must instead support by preference, taxation tending to weaken the incentives of capitalism and going at least part way in the communist and Marxist direction as regards tenets that, carried sufficiently far, are utterly irreconcilable with an acceptable functioning of capitalism? *Is an unpublicized professorial fear the Achilles heel of capitalism’s answer to communism?*

If the men in the Kremlin could know what some of our indoctrinated –or is it fearful? –intellectuals are about and could sense its possible ultimate significance for us and for them, might not the gravity of their councils be relieved recurrently by waves of sardonic laughter?

Tax Policy and the Modern City^t

THE ADVANTAGES of raising public revenues by taxing community-produced land values, rather than by penalizing industry and thrift, certainly are not confined to cities. Nevertheless, an appreciation of these advantages will perhaps be etched most sharply on the reader's mind if we pass in review, briefly, certain salient characteristics and problems of the modern city and of modern city life.

The city is a much larger part of the economic life of the modern world than it was of the economic world of the ancients or of the middle ages. To begin with, it is a trade center. That, the city has been always, but never before have the efficiency and cheapness of transportation made this function so important. Great fleets of passenger and freight trains rush daily into and out of magnificent passenger stations and large freight depots, coming from places hundreds and thousands of miles distant and from many directions. Concrete roads, grey ribbons stretched across the fields and through the woods of the countryside, converge on the city. From all parts of the sea-faring world, if the city is a seaport, come giant ships to cast anchor in its harbor. The products of distant mines, plantations and factories pass through on their way to far markets and are,

^tThis paper is adapted – with additions and some rewording – from my book, *Basic Principles of Economics*, 3rd ed., Columbia, Mo., Lucas Brothers, 1955, pp. 478-82.

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in part, intercepted and used by the city's people. Many of these products are raw materials which must be manufactured and sent out again in finished form for sale to widely scattered consumers. Trade, indeed, is ancient, but trade on the contemporary scale is wholly modern.

The location of the city is partly a matter of position in relation to the territory to be served. The city may be as the hub of a wheel of which roads and railroads are the spokes. Its location may be dictated in part by the results of physical forces which operated in remote geological ages. Ships must dock and land their cargoes where there is a harbor. Railroads must focus where ships come in. Men must work where work is to be done. There must be men at the wharves, men at the railroad stations, men to build and to repair stores and factories and houses, men to operate trucks and taxis, men and women to work in the factories, men and women to sell to all these workers the food and clothing they need, the luxuries they desire and can afford. There must be insurance agents, bankers, ship brokers and men of numerous other occupations. In a single one of the towering buildings which make for the eyes of the approaching visitor a picturesquely jagged skyline there may be thousands of workers – accountants, lawyers, investment bankers, brokers, and others.

In the city is now done much of the work which, a few generations ago, was done in the country. Spinning and weaving are done in the factories, not in the home. Clothing is purchased ready-made. Food is canned, frozen or otherwise processed largely in factories. Farm work which used to be done by hand or with simple tools inexpensive to make and to buy is now done with the aid of expensive machinery made in the city. Proportionally less labor, and so less of the population, is needed on the farms. Competition tends to force down, relatively, the remuneration of farming and to drive the excess farm labor supply to the cities, where there is the lure of apparently much higher wages – the evils of city life for the poor not being clearly visualized.

For all these reasons the city draws its millions to do the work which can be done adequately nowhere else. And

here their work is effective, aided by every device that inventors can plan and by the workers' nearness to each other and their high degree of specialization.

But because the work must be done here and because the workers who do it must live here –or near here –those who are allowed to claim this part of the surface of the earth as their own reap rich returns. Men must pay *themforpermission to work in thu area*, must pay *themforpermission to live on this part of the earth*. And because, as the city grows, this land becomes more and more valuable, there are persons who buy land and

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hold it vacant hoping for it to rise in value that they may sell it at a profit.

Thus is land made still more expensive. Thus are the poor compelled to live in even smaller quarters. Thus is home ownership made, for many, a yet more impossible ambition. Land becomes so expensive that the people of the city, even in their corporate capacity, feel they cannot afford to buy sufficient space for parks and playgrounds and school athletic grounds, since *the city must pay private owners for the very values that the city itself creates*. And so the children whom high land values have crowded in their homes are, from the same cause, denied relief outside.

Why must Americans of "liberal" tendencies continue to think of the land problem as purely *agrarian* and as having to do mostly with *European and Asiatic peasants* whom the United States must somehow try to help?

In this situation, when privileged owners of land are pocketing the rents which the growth of the city and its suburbs and its tributary territory, and not any activities of their own, have produced, when land rents, thus the result of general community development, are the highest they have ever anywhere been in the previous history of the world, we hear constant pleas that land should be *relieved* even of part of the taxes it now pays, and the burden put elsewhere. Such relief would but encourage speculation; it would leave *yet more of community-produced value* in the hands of *privileged private owners*, and it would make land *still more expensive* for the poor man's home.

At the same time we hear men talking about rising land values as if such increase were to be desired! This seems to be the ordinary popular view, perhaps because the tone of opinion is set by speculators in land, while the masses of common folk, working for salaries and wages and living, often, in hired apartments or tenements, are not directly and acutely conscious that *land* is something they have to pay for the privilege of using, *both* where they work and where they live. The truth is that high sale values for land are, could these common folk only realize it, *an economic and a social calamity*. Who would boast of a high price, in his city, of bread or meat or clothing, as if that were desirable for the people who must live there? Then why think of high land values, brought about by allowing private individuals to enjoy, to capitalize into sale prices, and to speculate in, community-produced advantages, as desirable?

For the highly civilized countries with their efficient technology which transfers so much production to towns and cities, the old days of life in the country are gone, so far as a large proportion of men and women and children are concerned —gone, probably never to return. The open fields and woods, horizons not shut from view by skyscrapers and closely-set

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dwellings, the healthful work of the out-of-doors –these are largely things of the past. Men must live close to their fellows; they must work in towering buildings, twenty, forty, sixty or more stories from the ground; they must rush in busses, surface cars, elevated trains and subways to their work in the morning and back to their homes at night, for the millions who work in a great metropolis cannot all live within a few blocks of where their work is to be done. Yet they must not live too far away. And so, land in the great cities *and their suburbs* comes to have a tremendous value, and speculators, holding part of it for higher prices, make it artificially scarce and still further increase this value.

Gardens, green grass, trees and play spaces are too seldom seen. And for too many children there are, in place of the woods and fields, only the dingy and dirty and traffic-filled streets and the crowded city sidewalks. Yet childhood demands, and will have, its play. The instincts of the race cannot be entirely thwarted, however bad the environment in which they have to be expressed.

Some day there may come into existence the ideal city, a city that, from our present conservatively cruel point of view, may seem a dream city, although there are, even now, some remote approximations to it. In that city a tax will take all or nearly all the rental value of all the land, to be used for the common benefit. Improvements, brought into existence by the labor and thrift of individuals, will be tax exempt or nearly so. Tax burdens on the necessities of the

poor will not be preferred to tax levies on community-produced land values.

No one will be able to afford to hold land out of use for speculation. Except for the tax, land will be costless or nearly costless, for there will be no large privately-received site rent to capitalize into a gigantic sale price. And so the city government can afford, without risking bankruptcy, to construct beautiful and spacious public buildings and to provide sufficiently numerous playgrounds and parks. Then we shall have for all, including the city's children, the best substitutes available for life in the country and the country village, enjoyed by a majority of children in the generations which have passed. And these we shall have without sacrificing but, rather, while extending, those opportunities for education and culture which city life, whatever its evils, has tended to promote.

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1961

Criteria for a Rational Tax System

NUMBER OF ENTHUSIASTIC – perhaps some would call them fanatical – “single-taxers” insist that any tax other than a tax on the rental value of land is *per se* morally objectionable. The state has no right, under any circumstances, to levy on the earnings of labor and capital, they argue. The rent of land should suffice for all legitimate governmental expenditures, they believe, and any governmental services which cannot be financed without drawing on other sources should be foregone.

I do not hold any view so extreme. The services of government are important to all of us, except, possibly criminals. All of us benefit from the existence of government, though perhaps in varying degrees which cannot be precisely measured. The so-called earnings of labor and capital are secured by their recipients, and can be so secured, only when there is the order and protection which government provides. The maintenance of settled government and, if this government is democratic, of the social and cultural conditions essential to the well-being of the citizens may be of supreme importance, therefore, to all of those who receive interest on capital and to most or all of those who receive only wages. If no better and adequate source of revenue is available, it may be proper, therefore, to demand substantial contributions from both capital and labor. Indeed, even though a more desirable source of revenue is available but is not used because popular ignorance and misunderstanding prevent its taxation, it would be better for capital and labor to support