

details need to be worked out. Even the Constitution of the United States is still being interpreted after 150 years of successful operation. Wherever an attempt has been made to tax land at a higher rate than the improvements thereon, substantial progress has been made in the problem of differentiation.

Then again, many adverse arguments are founded upon a misconception of the nature of the Single Tax. Many economists contend that it would involve a discrimination against the landowner and would stifle initiative. The Single Tax, however, will encourage initiative in that it will free from taxation the results of human labor. The landowner who does not let his land lie idle and who makes diligent use of it has nothing to fear from the Single Tax. There will be adequate demand for the output of farm and industry because purchasing power will be fairly distributed.

There may be, however, several weaknesses and disadvantages of the Single Tax, which though perhaps not insoluble or unanswerable, have a great amount of weight. For instance, what shall we say about the following arguments: That the Single Tax is generally not advocated until it is too late. It should be put into effect when a country is young and before private property in land has become entrenched. At that time, however, the Single Tax is not championed. The people are land conscious, they want the fee simple, the marginal productivity of capital and labor is large, interest rates and wages are high, opportunities abound. When the country has become more mature and developed, and interest rates have fallen and there is a pressure for increased wages, the demand for the Single Tax arises. By that time vested interests have become well rooted and landowners raise the cry of discrimination. Though the Single Taxer can show by arithmetic that there is no such discrimination against landowners who make adequate improvements and do not let their land lie idle for speculative purposes, he finds it difficult to argue against sentiment. Moreover, there is by this time a desperate search for new objects of taxation. The people cannot afford the luxury of a reform for the sake of reform. So the pure Single Tax has little chance of adoption.

Finally there is the question as to whether allowance should be made for the distinction between the site value of land and its fertility value. This point has been well developed by Professor John R. Commons. Fertility is reproducible and exhaustible and in some respects resembles capital. On the other hand, site value is non-reproducible and bears no resemblance to capital. Shall site value and fertility value be subjected to the same rate of tax? In a sense, also, the site value may in effect be exhaustible through shifting population and changing customs. How shall such "decrement" be treated?

¹Fosdick quotes Sizzi as saying, "The satellites are invisible to the naked eye, and therefore can have no influence on the earth, and therefore would be useless, and therefore do not exist."

²John Stuart Mill—"Principles of Political Economy." (1848) Book II, ch. II, par. 5.

See also Book V, ch. II, par. 5, where Mill comes out for an unearned increment tax on the increase of rent.

³Page 139.

⁴"Tax Systems of the World," seventh edition, 1938.

⁵See Geiger, George R. "The Philosophy of Henry George," ch. IV, for an account of George's predecessors.

⁶"The Influence of Henry George in England," by J. A. Hobson in *Fortnightly Review*, December 1, 1897, p. 844.

⁷Read "Progress and Poverty"—Introduction, books VII, ch. II; VI, ch. I; and ch. V.

⁸"The Influence of Henry George in England," by J. A. Hobson in *Fortnightly Review*, December 1, 1897, p. 835.

⁹Geiger, George R. "The Philosophy of Henry George." Pages 59-60.

¹⁰*Review of Reviews*, January, 1898, page 74.

Some Theoretical and Practical Aspects of Land Value Taxation

By F. C. R. DOUGLAS, M.A.

IN "Progress and Poverty" Henry George achieved in a unique degree the enunciation of a sociological theory combined with a practical method of putting into operation the rules for the conduct of affairs which are deduced from it. Hardly any objection has been offered to the main line of his argument which is not answered in advance in the book itself. But Henry George would have been the last to contend that no improvement could be found in the method of presentation of the essential truth contained in his work.

PROPERTY IN LAND

Experience has shown that one of the obstacles to the reception of his policy is the idea that he proposed to destroy or confiscate property. In evidence of this passages are quoted in which he said that we must "abolish private property in land" and "make land common property." Against these may be set other passages in which he said: "It is not necessary to confiscate land, it is only necessary to confiscate rent." The object in fact is not to destroy rights to land but to establish "equal rights to land," and the means of doing so is "to appropriate rent by taxation" or "to abolish all taxation save that upon land values."

Many years after he wrote "Progress and Poverty" Henry George had to consider the question of "equal rights," "joint rights" and "common rights" when examining Herbert Spencer's statements on the land question. He points out in "A Perplexed Philosopher" that Spencer fell into confusion by substituting for the idea of equal rights to land the idea of joint rights to land. As George puts it: "Were there only one man on earth, he would have a right to the use of the whole earth or any part of the earth." When there is more than one

man, each of them does not cease to have a right to the use of the earth, but his right becomes "limited by the similar rights of the others, and is therefore an equal right." This equality of right, as he demonstrated in "Progress and Poverty," cannot be achieved by dividing up the earth itself, but can only be secured by taking the additional value that one piece of land has, as compared with another, and using it for the common purposes of all men; in other words by appropriating economic rent by taxation. "In truth the right to the use of land is not a joint or common right, but an equal right; the joint or common right is to rent in the economic sense of the term. Therefore it is not necessary for the state to take land, it is only necessary for it to take rent."

This is Henry George's considered and final formulation of the ethical side of his theory, and it is entirely in accordance with the economic argument developed in "Progress and Poverty" of which the central point is the theory of rent and the results of allowing rent to be appropriated by individuals instead of being reserved to the community.

The matter must, however, be looked at not only from its economic and ethical aspects but also from the legal aspect. The question is whether the taking of economic rent for public revenue will destroy property in land. This necessitates defining what is meant by property in general and particularly by property in land.

The word property is used in two senses, either to denote the thing which is the subject matter of a legal right or to denote the legal right itself. The former meaning is irrelevant to this discussion, for the material thing, land, cannot be destroyed. We have therefore to examine what the word property, as describing a certain kind of legal right, implies.

Our greatest English writer on jurisprudence, John Austin, considered this question a century ago, and his definition is: "Property or dominion . . . is applicable to any right which gives to the entitled party an indefinite power or liberty of using or dealing with the subject." ("Lectures on Jurisprudence," Lect. 48.) Thus a pawnbroker has no property in the pledges left with him. He has not an indefinite power of using them, but only the specific right of holding them until the owner pays his debt and reclaims them.

More recent writers come to a similar conclusion. Sir Frederick Pollock in his "Jurisprudence" says: "Ownership may be described as the entirety of the powers of use and disposal allowed by law." Sir John W. Salmond says: "He then, is the owner of a material object, who owns a right to the general or residuary uses of it, after the deduction of all special or limited rights of use vested by way of encumbrance in other persons."

"It is difficult to do more than describe it (property) with Austin, as a right 'over a determinate thing, indefinite in point of user, unrestricted in point of disposition,

and unlimited in point of duration'." (T. E. Holland, "Elements of Jurisprudence," p. 205.) The word "user" here does not mean the person who uses, but has its technical application in law—the act of using or enjoying. Property in fact is founded on possession, and the text books usually preface the discussion of property by treating of possession. In this connection it is worth while to note that adverse possession, or adverse user, gives a good title to land in English law after it has continued for twelve years.

To return to the definition of property as given by Austin and Holland—it will be observed that although the power of user is said to be indefinite, it is not said to be unlimited. It is not possible to enumerate all the things which an owner can do with the thing owned; the power of user is indefinite. But there are many things which the owner is forbidden by law to do, yet he is none the less owner. If I am the owner of a shotgun there is an indefinite number of things which I may do with it, but there are some uses to which I may not put it, for example, to fire it at my neighbor.

The other terms of the definition also call for some comment. That the right is "unrestricted in point of disposition" means that it may be transferred by the owner to another, but cases can be conceived in which the right of disposition is restricted, and it is doubtful if this is essential to the definition. That the right is unlimited in point of duration does not mean that it may last for ever, for the subject matter of the right may be perishable. There is moreover an important kind of property in land which is limited in duration. The owner of a lease undoubtedly has a species of property in land for the term of the lease, but only for that period of time.

The definition as given is, however, clearly applicable without qualification to ordinary ownership of land in freehold, or fee simple.

To come back to the question at issue, it will be seen that if the owner of land is required to pay to the state a tax proportioned to its value he is not thereby deprived of his property in the land. His right of user still continues, and is still indefinite. The fact that he has to pay this tax may very well influence him to use the land, instead of allowing it to lie idle, and it may induce him to seek that mode of using it which seems likely to give the highest economic return, but his property in the land still remains.

The definition of property is independent of and has no relation to value. A man may be legally the owner of something which is worthless, or which has no value in exchange. And even if an article has no value in exchange it may still have a value in use to the owner, which is sufficient to give him an incentive to maintain his property in it.

It thus appears that Henry George's practical proposal of taxing land values, even if carried to the extent of col-

lecting the whole economic rent for the community, does not in the legal sense destroy property in land. On the other hand it imposes upon such ownership an important condition, which is necessary in order to secure the equal rights of all men to the use of the earth and to secure the joint or common right to economic rent.

VALUE

Another obstacle which prevents the acceptance of Henry George's proposals today by those who have some acquaintance with current economic teaching is the idea that those proposals are founded upon a theory of value which is now not generally accepted. Henry George himself held that view, as may be seen from the observations which he makes in "The Science of Political Economy" upon the teaching of the Austrian economists. He was no doubt unaware that some of the founders of the psychological or subjective theory of value had arrived at conclusions regarding the land question which were surprisingly similar to his own. Nor could he have foreseen that some of the most distinguished university teachers of economics would, while accepting the new theory of value, endorse his practical proposals. (See for example the statements by Messrs. H. J. Davenport, Irving Fisher, T. N. Carver, Frank D. Graham, John R. Commons and others quoted in "Significant Paragraphs from Progress and Poverty.") Moreover a few years after Henry George's death one of the most brilliant of his disciples, Max Hirsch, wrote in "Democracy versus Socialism," an exposition of the "Single Tax" doctrine based entirely upon the Austrian theory of value.

The acceptance of a particular theory of value is not essential to the main part of Henry George's argument. If any one who is familiar with the modern theories of value will read "Progress and Poverty," he will have difficulty in finding even a single word which is inconsistent with them. (I do not in this refer to Henry George's theory of interest, but this in fact is not accepted by many of his most devoted followers.)

Among the most distinguished of the founders of the new theories of value are H. H. Gossen (*Entwicklung der Gesetze des Menschlichen Verkehrs*), Auguste Walras (*Théorie de la Richesse Sociale*), his son, Léon Walras (*Théorie Critique de l'Impôt, Etudes d'Economie Sociale*, etc.), and Friederich von Wieser (*Natural Value*). All of these most carefully distinguished land (natural means of production) from capital (produced means of production), but the first three go much further because they state quite clearly that in the just society the rent of land should form the revenue of the community and other taxation should be reduced or abolished. Where they failed, as compared with George, was in not seeing how this could be achieved economically and justly by steadily reducing other taxes and increasing the taxes which fall on the value of land.

TECHNIQUE OF LAND VALUE TAXATION

(a) *The Basis of the Tax*

As we have seen, Henry George's practical proposal was "to appropriate rent by taxation" ("Progress and Poverty," Book VIII, Chap. II). A few sentences further on he says that "we may put the proposition into practical form by proposing—To abolish all taxation save that upon land values." The inference usually drawn from this passage is that he intended that the tax should be laid on the capital or selling value of land, and this is in accordance with the method of taxing real estate then and now in operation in the United States.

On the other hand there are passages in which he refers to the proposal as a "tax on rent" as well as quoting with approval from other economists who have used this phrase (See "Progress and Poverty," Book VIII, Chap. IV). It is not clear whether his considered view was that the tax should be imposed on capital or selling value or that it should be imposed upon annual value of economic rent.

The point is of considerable practical importance, and for this reason. Every tax which takes part of the economic rent diminishes the selling value. In actual life other factors which tend towards increase of rent may obscure this effect, but it is nevertheless there. The selling value of land is merely the capitalization of the revenues which the owner expects from it in the future; it is the capitalization of the net rent left to the owner after deducting any tax payable in respect of that rent. Hence, it follows that every increase in taxation of economic rent diminishes the selling value. To raise equal increments of tax revenue requires larger and larger increments of tax, if the tax is based upon the selling value. This may be made clearer by the following illustration in which the rate of interest is assumed to be 5 per cent, and the economic rent of the plot of land in question is assumed to be 100.

Amount of rent taken in taxation	Amount left to the owner	Selling Value of the amount in previous column	Rate of Tax on Selling Value to raise amount in first column (per cent)
10	90	1800	0.555
20	80	1600	1.250
30	70	1400	2.143
40	60	1200	3.333
50	50	1000	5.000
60	40	800	7.500
70	30	600	11.667
80	20	400	20.000
90	10	200	45.000
95	5	100	95.000

The matter is, however, even more complicated because if it is anticipated that the rate of tax on the rent will be increased in the future the value of the land will be depreciated by more than the amount of the existing tax. Moreover the selling value is affected by the variations in the normal rate of interest. If the rate of interest

fell from 5 per cent to 4 per cent, the selling value would rise by 25 per cent, but if the rate of interest rose from 5 to 6 per cent the selling value would fall by $16\frac{2}{3}$ per cent.

It will thus be seen that considerable difficulties would arise in attempting to collect all economic rent by taxation of the selling value of land. In particular the task of attempting to explain to the general public why equal increments of tax did not produce equal increments of revenue would be almost foredoomed to failure.

Notwithstanding the fact that in every country where land-value taxation is in operation the tax is based on selling value, it is a matter for earnest consideration whether it would not be better to base the tax on economic rent. In the Bill promoted last year by the London County Council (which unfortunately did not become law) the proposal was that the tax should be levied on annual site value; and annual site value was defined as the amount of the annual rent for which the land would let in the open market on a perpetually renewable tenure assuming that there were no improvements on it. It must be assumed also that the owner or lessor would be legally obliged to pay the tax, and that therefore the rent he would obtain would be the gross rent before payment of the tax. If the valuation is made on this basis no complications arise from diminution of the selling value arising from the incidence of the tax, nor from variations in the rate of interest affecting the rate of capitalization; and every increment of tax will produce a corresponding increment of revenue.

(h) Collection of the Tax

Where the land (and the buildings upon it) are owned and occupied by one person, it is evident that that person enjoys or has the power to enjoy the whole of the economic rent and he should be responsible for payment of the land-value tax. Where the buildings are let to one or more persons for short tenancies, for example weekly, monthly, or quarterly, it may be assumed that the tenants are paying rack rents, and that the landlord is receiving the full economic rent. In this case the landlord should be required to pay the land-value tax.

There are other cases in which the whole of the economic rent is not enjoyed by one person. Particularly where land values are high, it is common to find land let upon long leases. In that event the rent payable under the lease may differ from the economic rent of the land. If the rent payable is equal to or greater than the economic rent, the whole of the land-value tax should be payable by the lessor. If the rent payable is less than the economic rent, then there is a balance left in the hands of the lessee. The lessor should therefore pay the tax on so much of the economic rent as he receives and the lessee should pay the balance. It is inconvenient, however, that the

taxing authority should look to more than one person for payment, and a practical means of arriving at the same result is to provide that the lessee should pay the whole of the land-value tax and should be empowered to deduct the whole tax from the rent he pays if that rent is equal to or exceeds the economic rent or deduct a proportionate part of the tax if the rent he pays is less than the economic rent.

In any case the collection of the land-value tax should be fortified by making the tax a first charge upon the whole property, and if default is made in payment the like powers of enforcing this charge should be granted to the taxing authority as the law gives to mortgagees for enforcing payment of money secured by mortgage.

In some places, for example in Western Canada, defective methods of tax collection have resulted in serious losses and arrears of revenue, and in the land liable for such taxes being allowed to remain for long periods lying idle either in the hands of the owners or in those of the municipality. Where this is due to imperfections in the law, amending legislation should be enacted; and where it is due to indifference or connivance on the part of the taxing authority, public opinion should be awakened to seek a proper enforcement of the law.

(c) Mortgages

A suggestion has sometimes been made that where land is subject to mortgage the owner should be allowed to recover some or all of the land-value tax out of the payments of interest which he makes to the mortgagee. This is a mistaken view. A mortgagee is a lender of money to whom the land is pledged as security for repayment. His position is entirely different from that of a lessor of land receiving a rent. If any such provision were inserted in land-value legislation, the result would be that mortgagees would call in the money lent at the earliest possible opportunity, and if the owner desired to renew the loan he would be required to pay a higher rate of interest which would cover any liability for land-value tax which it was sought to impose upon the mortgagee.

In many cases, and probably in the great majority of cases, the security of the lender is a mixed one consisting both of the land and the improvements upon it. The principle involved can be put to a decisive test if we imagine that the taxation of land values has been carried to the point of taking the whole economic rent. In that event the value of the security would consist merely of the value of the improvements on the land, for the land itself would have no selling value, and it would clearly be inequitable to expect the mortgagee to pay any part of the tax.

When the mortgagee enters into possession of the land for the purpose of enforcing his security, the legal and economic position changes and he should then become liable to pay the tax.