

## CHAPTER III

### THE METHOD OF REFORM

THE main propositions, previously established and vindicated in the last chapter, are:—

All men have equal rights to the use of land, and each of them is entitled to the exclusive possession of all the wealth which his labour produces or his services procure, provided he infringes not the equal rights of all others. Disregard of the equal right to land necessarily involves violations of the unequal right to wealth. Social injustice in the production and distribution of wealth thus arises from the disregard of the equal rights of all men to the use of the earth. Hence social justice cannot be achieved till, through the recognition of the equal rights of all to the use of land, each of them is made free to produce as much wealth as his capacity and industry enable him; and till, through the abolition of all private monopolies and of the taxation of justly acquired wealth, each is secured in the exclusive possession of all the wealth which his labour produces or his services procure through free contract with its producers.

And further: All men and women being members of a social body, the sole object for which a social body exists being to secure the greatest aggregate sum of happiness to its members; such happiness being unattainable except through the establishment and maintenance of justice—justice demanding the recognition of the equal rights of all to the use of land, and the individual right of each to the produce of his labour; it is the paramount duty of every social body to frame and enforce regula-

tions which will safeguard these rights for every one of its members.

That the land of civilised nations is now owned by some to the exclusion of others ; that consequently the equal rights of the majority of the members of every State are violated, cannot affect this duty. Were men now for the first time confronted with the question how land shall be dealt with ; were a body of men now to discover an uninhabited and fertile island ; the rights of each of them would be no greater and no less than the rights of those who live in countries where all the land is held as private property. For violation of rights does not abolish or even lessen rights. All the difference which can be claimed is, that the establishment of justice could inflict no hardship in the former cases ; while in the latter case it might inflict hardship upon some of the persons who profit and have profited by existing injustice. On the other hand, however, it must not be forgotten that the continuance of private ownership of land and consequential injustice, inflicts hardship, and inevitably much greater hardship, not only once but perpetually, upon those far more numerous persons who are injured by it. All that can be claimed on behalf of those who profit by social injustice, therefore, is, that the injustice shall be removed in a manner, which, while inflicting no avoidable hardship upon them, shall not needlessly prolong or aggravate the hardship of the victims of social injustice. Hence the substitution of the equal rights of all for the unequal rights of some to the land, having as its aim the greatest production and the just distribution of wealth, must be effected in a manner which will avoid all unnecessary hardship to both classes.

Other conditions must be observed. A sudden introduction of great and far-reaching social changes, however just, not only inflicts the maximum of temporary hardship on the whole people ; not only generates new evils more or less lasting, but places the change on insecure foundations. The hardships and evils unnecessarily provoked cause a revulsion of feeling, and may result in reaction, restoring conditions analogous to those which it was intended to remove.

Moreover, it may well be questioned whether the masses of the people are as yet fit to live under conditions of absolute social justice. The industrial warfare between employers and employed would inevitably be aggravated by any sudden and radical alteration in the relative power of the combatants. The workers largely made independent of capitalistic employment, lacking the experience and moral development necessary for the co-operative conduct of industries, would misuse their newly acquired power, as power has been misused by the capitalistic classes. When, however, by slow increments of justice, general conditions are improved gradually, there will take place such a gradual moral growth, as will ultimately enable men to live under conditions of absolute justice. For all these reasons the sudden transformation of unequal into equal rights to land must, if possible, be avoided.

The essential condition for the most productive use of land is security of possession of the land, and of all improvements effected on the land. The absence of such security, where, as in the United Kingdom, land is mainly used by tenants; or where, as in most other countries, the nominal owner is heavily indebted to a mortgagee, is a main cause of the inferior and inefficient use of land. The contemplated reform, therefore, must be effected in a manner which will give to the users permanency of possession in the land and assurance of full compensation for improvements on their relinquishing such possession.

With the same object in view, the most productive use of land, there must be avoided all interference with individual control over the use of land. No State official must be allowed to dictate to the possessor of land in which manner and for what purposes the land must be used. On the other hand, the reform must be effected in such manner that the self-interest of every holder of land compels him to place it to the most profitable use.

Leaving ethical considerations mainly to be dealt with in the succeeding chapters, the present one will be devoted to the comparison of the several, theoretically possible, methods of reform, with regard to their economic and political advantages and disadvantages.

One such theoretically possible method is the purchase of the land by the State. Its necessary consequences would be : purchase of all improvements where the selling owner did not desire to lease the land from the State, and leasing the land, either in perpetuity, with regularly recurring adjustments of rent and sale of improvements, or for short periods at a fixed rental, including interest for improvements.

As no government is possessed of the necessary wealth, the purchase would have to be made with interest-bearing bonds. The interest charge thus created would, however, enormously exceed the rent and interest which the State, for many years, could receive for the land and improvements. For these reasons—

It has already been shown<sup>1</sup> that, in addition to natural rent, there arises under private ownership a spurious rent, the result of the non-use or partial use of land. This spurious rent not only adds to the capital value of the unused or partially used land, but also to the value of all the land fully used, and in addition confers a value on some land which is not required for present use. Apart from this great and fictitious increase in the value of land thus arising, there is engendered an additional and speculative value of some land.

Wherever exists even a remote possibility of land increasing in value in the future, land bears a price in excess of the capitalisation of its present rental value. The anticipated future increase in rental value is discounted in advance. This additional and speculative value increases with every increase in the probability of the future advance of rental value. The action of this force, though not confined to this limit, may most clearly be discerned in the neighbourhood of growing towns and cities. Surrounding land used for grazing or agriculture, or not used, is bought and sold at prices which many times exceed its value as grazing or agricultural land. Though both sellers and purchasers know that all this land cannot be required for building purposes for perhaps a century to come, yet each of them buys and sells, on the possibility or probability of a

<sup>1</sup> Part II. chap. viii.

particular piece of land being so required in the near future.

These causes of artificial values, existing everywhere, are most active in quickly progressive countries. In the United States, Australia, South Africa, and other new countries, the areas of valuable land unused, or only partly used, are very large. Speculation in land is also generally active, and from both these causes the artificial value adhering to land is very great.

As soon, however, as the Government would have purchased the land all this artificial value would disappear. The land not needed by the people would pay no rent; the rent paid for other land would be far less than the expectation on which its capital value rested. The rent would, therefore, fall far below the interest charge on the purchase value of the land. To the loss so incurred must be added a loss on the purchase of improvements. Improvements may be antiquated and much the worse for wear and tear and yet fully serve the purpose of the owner in inferior uses of land. Others may be serviceable for some purposes and unserviceable for others. When the land is taken from owners who refuse to continue possession on lease all the improvements on such land will have to be purchased at full value. New lessees, however, may, and generally will, prefer new improvements, and may also want to use the land for purposes for which existing improvements are of little or no value. In either case the State would receive little or nothing for improvements purchased at high value. This loss must be added to the loss on land values.

The deficit thus arising would be enormous, might even equal one-half the interest payable to dispossessed landowners. There is only one way in which the revenue necessary to provide for it could be raised, viz. by taxation—either taxes on incomes or taxes on labour-products through customs and excise. Already, in most countries, the income-tax, yielding a comparatively small revenue, is nevertheless reducing the wealth-producing power of the people. While in some countries a small additional revenue may be derived from this source, its revenue-yielding

limit has been reached in others. The principal part of the additional burden would everywhere fall on labour-products through customs and excise taxation. Even if taxes on imported goods were counterbalanced by equivalent taxes on locally-produced goods, so as to prevent the creation of more private monopolies, the revenue which the State would derive from this source would fall far short of the sums which the masses of the people would have to pay. For manufacturers, importers, and dealers are compelled to add the tax to the cost price of their goods, and, making the average profit on their cost, must make such profits on the tax as well.

Even if it were possible to raise the requisite and huge amounts from this source, which may well be doubted, there would arise an aggravation of existing injustice—the State would appropriate more of the products of individual exertion. Moreover, such taxation falls mainly on the poorer classes of the people; these, instead of being relieved, would therefore be still further injured by the State purchase of the land.

The classes so injured comprise not only the bulk of the landless men, but the great majority of landowners themselves, the owners of small areas of agricultural land and of cheap building sites in villages, towns, and cities. The additional taxation would generally take from them more than the interest on the bonds received by them could amount to. Their land, therefore, would not be purchased, it would be confiscated, and in addition they would have to provide part of the interest payable to the owners of larger areas and of more valuable land.

The entire object of the reform, therefore, would be missed by this method even if it were practicable. Production would be hindered by additional taxation as much as it would be fostered by the establishment of equal rights to land, and the new taxation added to existing ones would immensely aggravate the existing violation of individual rights. Instead of unnecessary hardship being avoided, the utmost hardship would be inflicted upon the victims of existing injustice. Perpetuated under another name—

interest instead of rent—injustice would be aggravated instead of being removed.

New evils also would arise. After the Government had acquired the land it would have to fix the rental of all land, and would have to select the persons to whom leases are to be granted for land relinquished by previous owners, as well as to determine the area leased to any one, and in many cases its use. If perpetual leasing at variable rents were the system adopted, this interference would take place once; if terminable leases at fixed rents were adopted, it would have to take place at perpetually recurring intervals. Two systems are possible. Government officials may determine the area of each holding, and award each to the person offering the highest rent. In this case rack-renting would arise, unjustly diminishing the reward of labour and augmenting rent, though not perhaps to the existing level.

Or the officials, having determined the area of each holding, themselves fix the rent and award possession to applicants selected by themselves or by ballot. The ballot system, however, has been found liable to abuses, to which the term "dummying" has been applied in Australia. These abuses may, perhaps, be worse than those which result from official selection. In either case the temptation to favour particular individuals by awarding them land at exceptionally low rentals, or giving them a preferential opportunity so to acquire it, would be irresistible. Jobbery and corruption in the one case, rack-renting in the other, therefore, are unavoidable and additional results of land nationalisation by purchase.

Reflection will show that purchase of the rental value of land, exempting improvements, must lead to similar results as purchase of the land itself. Both these methods, therefore, fail to comply with the conditions laid down.

The confiscation of the rent of land is another method which might be considered. Apart from the question whether this method is practicable—whether it can be employed without provoking civil war—slight consideration shows that, in addition to the unavoidable suddenness

of the change, it would inflict the utmost hardship on both landowners and landless men.

Present owners of land, suddenly deprived of the rent which to many is the main source and to some the only source of income—unaccustomed as many of them are to any productive labour—would be exposed to hardship approaching injustice. Nor could the landless classes escape. A large proportion of the latter is employed in the production of goods and services which are demanded by the wealthy classes alone. The sudden appropriation of rent and monopoly charges by the State would largely reduce the incomes of all wealthy persons, and would absorb the incomes of many. The sudden cessation of their demand for luxuries and services would destroy the opportunities of employment in this direction without immediately providing employment in other directions. To both these classes, therefore, the confiscation of rent would be provocative for a considerable time of widespread hardship and distress. For this reason, as well as on account of its inevitable suddenness and of the necessity of governmental interference in the use and disposal of land, the confiscation of rent also fails to offer any adequate solution of the question under consideration.

There remains but Henry George's Single Tax method, consisting of the gradual appropriation of the rent of land and of natural monopolies and the similarly gradual removal of all other taxation and charges for the use of equal natural and social opportunities. This method, proceeding slowly and gradually, would not disorganise industry nor inflict appreciable hardship on any one. The great majority of landowners would benefit more by the removal of taxes and charges than they would forgo by the loss of the rent of their land. The owners of large areas or of exceptionally valuable land would lose more than they would gain, but at first the loss would be unimportant. Before it could reach important dimensions many of the existing owners would be dead, and the remaining ones would either have adapted themselves to the new condition by qualifying for productive occupations, or would find consolation in the wealth remaining to them.



The hardship, if any, to the owners of land would thus be minimised, while the masses of the people would derive a great advantage from the first introduction of the system, an advantage which, growing with its extension, would culminate with its completion. For the imposition of even a small tax on land values, especially if its augmentation be apprehended, would lower rents, induce a more efficient use of land, increase the demand for labour, and therefore tend to increase wages. For these reasons: The owners having to pay the tax on the rental value of land, and not according to the income which the use of the land yields—having to pay the same amount whether the land is used and yields an income, or whether it is unused and yields no income—would either themselves use the land in the most advantageous way, or let or sell it to others who would so use it. There would thus arise a greater competition between landowners for tenants and buyers, and consequently a fall in the capital and rental value of land; there would arise a greater demand for labour to work upon land—whether urban, agricultural, or mining land—and consequently an increase in the reward of labour. Other forms of taxation being simultaneously reduced, the increased earnings of labour would be less infringed upon by the State, and monopolies based upon such taxation would gradually disappear. Higher money wages and lower prices of labour-products would thus combine to enhance the well-being of the masses of the people, and the consequent increase in their consumptive power would tend still further to increase production and the demand for labour. Every addition to the tax on land values, and every further reduction of other taxes, would strengthen these tendencies, until, with the completion of the system, there would have arisen an enormous consumption and production of wealth, an illimitable demand for labour, and a distribution of wealth which, denying reward without service rendered, would secure to every one a reward equal to the value of the service rendered by him.

The gradual appropriation of the rental value of land would thus secure equal rights to land and unequal but equitable rights to labour-products, without appreciable

hardship to any one, and so gradually as not to provoke reaction or to disturb industrial organisation. Yet the land would be as effectually nationalised as if it had been appropriated by the State. For, as previously shown,<sup>1</sup> the value of land is nothing else than the price some people are willing to pay for the power to levy tribute upon present and future users of land. As land-values fall and rise with the fall and rise of rent, land-values would disappear if rent disappeared. Likewise, if the whole rent of land goes to the State, private persons will not give wealth in exchange for land. Land would lose all market value, would no longer be bought and sold, and as society would receive all that benefit from land which is not due to individual labour, the collective ownership of rent nationalises land as effectively as the collective ownership of the land itself.

There would, however, be a total absence of the interference of State officials, unavoidable when the land itself is made collective property. Present owners can be left in possession, and would gradually transfer to users any land which they themselves could not use to fullest advantage, while unused land could be appropriated by any one desirous of using it without let or hindrance. The rental value of land can be assessed, and the tax can be collected periodically by local bodies, from whose assessment appeal can be made to a revision court, either by the aggrieved party against over-assessment of his land or by any one for under-assessment of others' land. The rent which the State receives would thus fall and rise, not through the caprice of officials, but through natural causes. Likewise, the area allotted to each and the use made by him of it would, when the tax is paid on rental value without rebate for inferior use, be determined by the capacity of each and by social necessities finding expression in price, in a manner most advantageous to society and without governmental interference.

At the same time there would prevail the most absolute security of possession both of the land and of improvements made on the land. As long as any man

<sup>1</sup> Part II. chap. iv.

paid the rent periodically assessed no one could dispossess him or his heir or assignees unless the land were required for public purposes. In such case, or whenever any holder of land wanted to dispose of it to any one else, the value of improvements alone would be paid for. This security would lead to the fullest use of land, to the most extensive application of labour and capital; while land, having no rental value, land at the margin, could be used without payment of rent or tax of any kind till such time as increase of population and extension of public works had given it a value.

The Single Tax method of securing equal rights to land, therefore, avoids the objections which adhere to all other methods. There would be no avoidable hardship, no sudden and profound change in social relations, no interference by State officials with the allotment and use of land, and no power to fix rents arbitrarily or enforce rack-rents. The exaction of the rent charge would compel holders to make the most profitable use of all land, and at the same time there would arise the most absolute security of possession by the users of land.

The monopoly-use of land for social purposes, as in the case of railways, tramways, canals, and in the supply of gas, electric light, and power, and of other commodities the supply of which depends upon special privileges in the use of land, lends itself to the same treatment. The value of such properties is seen easily in that of their share-capital and debentures. Deduction from this total value of the value of labour-products owned by the company reveals the value of its monopoly-rights. This value, therefore, could be taxed in the same manner as the value of the ownership of other land, and would gradually disappear under taxation.

Nor would such taxation lead generally to an increase of the price charged by these monopolies for the services which they render. For this price is generally not determined by competition, but by the consideration of greatest total profit. Where this is the case, an increase of price, far from recouping the monopoly owner for taxation, would, by reducing consumption, augment the reduction

of the total profits. Taxation, therefore, would secure to the whole people the value of the monopoly without necessitating public management of the industry.

There are, however, other considerations which may be urged for a different ultimate treatment of these monopolies. Railways, tramways, and canals are as much highways as ordinary roads and streets. The considerations which have led to the public ownership of roads and streets apply with even greater force to these modern routes of communication, and the reasons which have caused the almost universal abolition of tolls on roads and streets equally apply to them. Cheapness of transport stimulates production and aids in the development of national resources. Private control of public highways leads to inequality of treatment and corrupt practices.

It is, therefore, in the highest degree desirable that these modern highways also shall be owned by society, and, like all others, shall be open to public use without charge. But there is as little necessity for the State conduct of the transportation business over railroads, tramroads, and canals, as there is for the State conduct of this business over ordinary streets and roads. For the ownership of locomotives and other motors, of cars and boats, is not a monopoly. The monopoly resides in the ownership of the road. The State, therefore, may acquire the road, and regulating the traffic so as to ensure safety and equality of treatment to the users of the road, may throw open the business of transportation to free competition. Just as no charge is made to recoup the State for the expense of making and maintaining ordinary roads, no charge need be made for the use of these roads. The State would be repaid, and repaid abundantly, by the consequent increase in production and the value of land. And just as competition between carriers secures to the public the advantages which have arisen from the abolition of road-tolls, so would competition between carriers over railways, tramways, and canals secure to all the advantages arising from their free use. For such carriers owning locomotives, cars, motors, or boats would compete with each other over every road and canal, and such com-

petition would result in the lowest rates for the carriage of goods and passengers, in the readiest adoption of new inventions and improvements, and in immense advantages to all industries.

The supply of gas, water, electric light and power, and of pneumatic and hydraulic power, however, is not open to the same treatment. Here the choice lies between absorption of the monopoly value by taxation or collective conduct of the industry. The objections to the municipal ownership and conduct of such industries, while not without weight, are nevertheless much less serious than those urged against the socialisation of unprivileged industries. For not only is the resulting bureaucracy far less numerous and powerful, not only would there remain freedom of employment, but the loss of efficiency also would be less serious. For these privileged industries, economically and ethically distinguished from unprivileged industries, are also industrially distinguished. Dealing with the supply of goods and services not subject to variations in quality, design, colour, and shape, the demand for which can be estimated with facility, these industries can be managed by permanent officials with less loss of efficiency than other industries. Moreover, as private monopolies, they are now generally managed with less efficiency than competitive industries, and the further loss of efficiency arising from municipal management would, therefore, be minimised. Nevertheless, such loss might arise, and to it must be added a tendency towards corrupting municipal government as well as the possible domination of the municipality by its servants. On the whole, therefore, it seems preferable to treat these monopolies also by the Single Tax method, *i.e.* appropriating the monopoly-value adhering to them by a gradually extending system of taxing the monopoly-value and leaving the conduct of the industry in the hands of private proprietors and their employees.