

benefit which the Single Tax of Henry George—the taking of ground rent by taxation and the abolition of all other taxes—would give us.

Let us therefore use our energy, not in fighting one another, but in fighting the enemy and when doing this let us use the full weapon, both edges of the sword, which Henry George gave us.

THE LINE OF LEAST RESISTANCE

(For the Review)

By **ALEXANDER MACKENDRICK**

The publication of Dr. Young's excellent survey of "The Single Tax Movement in the United States," has probably stimulated among readers of **THE REVIEW** a desire to understand just where and how the movement now stands. Thirty years of continuous effort have brought us to—where we are: but the question remains "where are we?" That a vast number of men and women have been awakened to the injustice of the private appropriation of economic rent, and have been enabled to trace its results in the strangling of industry, in the increased cost of living, and otherwise in those many evils that are included in the "social problem," we cannot doubt. So far, the movement finds ample justification for its expenditure of effort, but when we ask ourselves whether we are perceptibly nearer the achievement of legislation that will give practical effect to the reform towards which we have been laboriously educating ourselves and others, it is difficult to give an encouraging reply. It may therefore be that the time has come when we may wisely cease reiterating the various articles in our confession of faith, or assuring ourselves of the justice of our demands, and concentrate upon the effort to discover a form in which these demands may be framed, that will command attention as being not only reasonable and just, but workable. This last word suggests perhaps the direction in which we have failed to make progress. We have hammered out the philosophy of the Single Tax and laid bare its first principles, to the point of having a ready reply to every possible objector. We have probably convinced most of those who have retained open minds that the social estates belong rightfully to society, and private estates to private owners; but, to the problem of how best to bring the new and desired order of things out of the old, we may have paid too little heed. To find then, a method of approach that will point straight to the ultimate goal, and at the same time be obviously workable and capable of adjustment to the existing systems of taxation, is today probably the most urgent desideratum.

It has been a matter of surprise to many Single Taxers both in the United States and Britain, that legislators who have been known to entertain feelings of sympathy with the movement have been shy of promoting bills or other-

wise furthering the cause to which in private life they have assented. This has, in all probability, been mainly due to a more acute sense on the part of the politician as to what is practicable and workable—a keener perception than the Single Tax missionary is likely to possess, of the mechanical difficulties to be encountered in the application of the principle. Engineers and masters in applied mechanics are constantly receiving proposals from inventors in which, by an instinct sharpened through much practice, they discover some little element of the unworkable—a weakness which by very reason of the inventor's hopes and enthusiasms had escaped his notice. In many such cases the critic or censor may be unable to demonstrate the reason of his distrust, but, his business being not to explain but to detect such weaknesses, he does so and turns his back on the proposal. Similarly it may be that our legislators who are first and last practical men, have discovered weaknesses in all the Single Tax legislative proposals when viewed strictly from the point of view of workability. If this is so, there need be no apology for proposing a method of reclaiming the social estates for society, the first of whose claims for support will be that it is eminently workable—the second, that it is on the direct line of approach to the full Single Tax.

It is unnecessary as a Single Taxer either to deprecate or defend the General Property tax, a distinctively American institution, but only one among the many prevailing oppressive methods of raising public revenues. What should most concern us is to insist that land with a selling value is not property in any sense that justifies its inclusion in the same category with the products of individual labor; and that the holding of it and the power of collecting or appropriating its annual rent should be classified under the heading of privilege. This would justify and prepare the way for the possible adoption of an entirely different method of taxation than is applied to general property. If property must be taxed, there is probably no more expedient method than according to its capital value, but in the case of privilege we are not shut up to taxing the selling price of the privilege, but may, if we see reason to, tax its fruits or income. Prior, then, to the consideration of how to approach the application of the Single Tax principle it is important to have land value removed from the category of general property. This will leave us free to recognize the difficulties in taxing land value on the ad valorem standard to which the general property tax has accustomed us, and, alternatively, the advantages in principle and expediency of the method which it is the purpose of this article to set forth.

It is to be feared that Single Taxers have not yet adequately realized the difficulties to be encountered in the way of ad valorem land taxation—difficulties which do not arise in taxing labor products, the capital value of which can always be determined by the cost of reproducing them—difficulties so serious as to suggest at once to the reflective mind that this is not the right way, i. e., not the natural or scientific way. For the scientific way of doing a thing is invariably the easiest way. When indeed we discover nature's method it

often seems as though its simplicity and effectiveness had been the chief obstacles to its earlier discovery. That the ad valorem principle is not the right one on which to base the Single Tax is, we submit, attested by the very fact that the difficulties increase rather than decrease in proportion as we investigate more deeply.

First of all we face the obvious difficulty of the gradual disappearance of the capital value—the price the land will sell for—in proportion as the tax is increased. Thus the assessor has less and less to lay hold of for taxation purposes, or as Prof. Davenport expresses it in *The Economic Review* for March, the plank on which he rests is progressively sawed off as the tax rises. This involves an increase in the rate at which the diminishing capital value is taxed—an increase almost in a geometrical ratio. To take, for example, 10% of the rental in taxation would require only a fraction over $\frac{1}{2}\%$ in the capital value, while to take 90% of rental would involve a tax of 45% on capital value. To minds with a natural talent for dealing with subtleties, these difficulties may not seem insuperable, but to the average man (who includes the vast majority) they are dark and inscrutable. Tell even the clearest-headed business man who has purchased for \$200 a bit of land on the assurance that it will yield him 5% on his outlay, that he is to be taxed 45% annually on his capital expenditure; he will stare in incredulous anxiety as to your sanity, and yawn in unaffected tedium while you attempt to explain. It is of course needless to point out that on the ad valorem principle it will be impossible to tax away the whole of economic rent, as there will then be no assessable value to lay hold of. The alternative method has been suggested of registering the value of all land as it would be if there were no taxes, the services for which such taxes are paid remaining the same; and equating the rate of taxation to that hypothetical value. This, however, will certainly meet with opposition from the average man, who will object to being assessed on a valuation that has no correspondence with the actual price for which his land will sell. Moreover, while it might be possible to determine as to used land, not only its actual rental but its actual value if taxes were eliminated, it will be much more difficult in the case of unused land. The value of a vacant lot might conceivably be suspended on or determined by, the tax-free value of the adjacent built-on lot; but how would the tax-free value of a copper deposit be ascertained or that of a tract of unused agricultural land? Any attempt to find its value could only proceed along the familiar lines of "feeling the market," and any price offered would be made in full view of all the prevailing conditions including the knowledge that taxes on its value, as yet undetermined, would be imposed. Here, too, we submit, the difficulties increase as we face the problem steadily.

In the second place, under the ad valorem standard of taxation as applied to land, which would of necessity include land at present yielding no rental, but having a selling value, we lay ourselves open to the charge of injustice, in

that (as pointed out by Prof. Davenport) we would tax the shadow or expectation of a future income which we have no guarantee could be realized now, thus in strict equity foreclosing us from taxing the real income when it materializes: as though we were to tax a rich man's son on the expectation of an income to be enjoyed on his father's demise, and continue to tax him when that income becomes his. Again a feeling of injustice which we cannot wisely ignore is generated by the obvious fact that the services for which taxes are paid are rendered exclusively to already utilized land or its occupiers.. A vacant lot cannot be burned: it cannot be burgled: it has no children to be schooled: it needs no removal of ash barrels: no water supply: no sanitation: therefore it demands no service from fire stations, police departments, school boards, water or health committees. Only in proportion as occupiers appear and economic rent is actually being enjoyed or collected is any draft made upon the energies or finances of these various departments. A system which thus engenders among its opposing forces a consciousness of real injustice should be, to say the least of it, regarded with a little suspicion. It may be an unreasoned faith, but one which its holder will be pardoned for tenaciously clinging to, that when we find the absolutely right way of applying the taxing power in the interest of true economic justice, it will encounter no opposition except from open and avowed selfishness.

But a much more serious difficulty remains for consideration, when we contemplate an ad valorem tax on all land—a difficulty of so subtle a nature as to be more easily felt than argued about, and one which probably has been felt by our practical politicians in their endeavors to visualize the capital land value tax in operation—a difficulty too, which might possibly defeat the very object it has in view, that of restoring to society its rightful enjoyment of the economic rent of the country. Economists generally have not dealt exhaustively with the doctrine of "marginal utility," but most students will understand what is meant by that expression. Where there exists a definite supply of a certain commodity, and a potential consumption which must of necessity be spread over a considerable length of time, immediate value attaches only to that portion of the commodity that can be utilized today. The remainder has only at best a speculative value, and if offered for use today would probably have none. Thus if half a loaf will satisfy the appetite of a hungry man, he will pay a price for it: for the second half he will pay nothing; it has for the moment no value to him. The selling price or market value of any commodity therefore is contingent on the assumption that it will be carefully held until required by the consuming public. Is there any valid reason to suppose that this general principle does not apply to unused land? If not, then we are within sight of the paradoxical position that we have been proposing to tax today values which have not today an actual existence, but which have their roots in the social needs of the future. Not only will this arouse feelings of injustice that are not without foundation; it will probably only have the effect

of putting holders of unused land to the trouble of proving that for the greater part of it there is no present demand at all, and therefore no present value. In the language of the exchange, "the bottom will fall out of the unused land market." To many readers the first impulse will be to exclaim, "Why this is what we want to do: to take the speculative value out of unused land and vacant lots is exactly what we aim at." But the problem is not quite so simple as that. If the speculative or prospective value is entirely eliminated from unused land, how about the values of lands that are already used or built upon? Will the owner of a built-upon house lot consent to taxation based solely upon the assessed value of his land, if the owner of the unused adjacent lot refuses to pay his tax on the ground that the public appetite for lots is satisfied and that his land has no immediate value, there being no buyers or lessees forthcoming? It requires only a little effort of imagination to picture a chaos of conflicting interests, to reconcile which will baffle the ingenuity of the cleverest and wisest assessors we can ever hope to secure.

These are but a few hints of the obstacles that must be faced in the attempt to achieve the Single Tax by way of an ad valorem tax on all land. That more will be discovered in proportion as we get to closer grips with the problem is firmly rooted as a suspicion in the mind of the present writer, but even those suggested seem to come like a warning that this cannot be the right way, the scientific or natural way. To find what may seem likely to be the right way is incumbent on him who points to suspicious land marks on the road we have been travelling, and with this obligation in mind we reiterate the truth on which we are all agreed, that land value or the privilege of collecting rent either from oneself or others, differs in origin, in essence, and in its obvious ultimate utility from all or any of the things that are properly called "property." The recognition of this fact being an entirely new departure in the science of economics there should be nothing incongruous or inconsistent with it in the suggestion of a method of dealing with land value or economic rent which differs vitally from anything with which we have hitherto been accustomed. That method is the almost absurdly obvious or simple one of appropriating economic rent only as it comes into actual existence and is collected.

This method of approach to Single Tax can be defended on account of (1) its simplicity and workability: (2) its direct appeal to that inherent sense of justice which is probably much more widely diffused than we have imagined, and (3) its ultimate social effects.

The rent that is at any moment being collected for the use of a piece of land can be determined with ease and accuracy. From the total rental of the estate we have only to deduct the amount that is clearly attributable to the improvements (the value of which depends upon present labor and material costs) and the remainder must go to the credit of the location, i. e., it is economic rent. The rental that is being paid for the use of real estate, or which the owner could obtain if he did not wish to use it himself, is a fact, not

a theory. It is a fact which an assessor can get at in many ways and check by various methods even though (as is unlikely) there were collusion between owner and occupier with intent to falsification. Economic rent actually being paid, is thus the least disputable, the most easily discoverable, the solidest possible base on which to begin the erection of the Single Tax edifice. Its yield could be calculated to a dollar: it would have no tendency to shrink in the handling as the ad valorem tax does, or to disappear before the assessors' eyes while he is endeavoring to extract a public income from it.

A tax on ground rent actually being collected appeals to the general sense of justice, not only in that it lays the burden on a value that actually exists and is obviously a social creation, but that it bears in its other hand the gift of exemption from the taxes to which we have grown accustomed, those on houses and improvements, an exemption not only on existing, but on all future improvements. These are considerations to which, if this issue were presented by itself and quite apart from the disturbing questions associated with the ad valorem standard, the average common sense of humanity is probably not so impervious as we have imagined.

Again, a tax on actually collected ground rent would achieve justice in the distribution of the burden with probably as great accuracy as on the capital value standard. Let us think of a site in a fashionable street which, divested of buildings, would sell for \$40,000, and another site in a back street of similar area which would only bring \$10,000. We all agree these should bear tax burdens in proportion of four to one, whereas under present conditions they may be taxed to the same gross amount because the one proprietor has a \$10,000 building and the other a \$40,000 one. Now, as capital value is always a definite multiple of annual rental, the rental of these two buildings will be the same. By deducting, therefore, in the one case the part of the rental attributable to the \$10,000 building, and in the other case to the \$40,000 building, the strictly just apportionment of the tax burden will be achieved.

As to the social effect of such a plan for taxing public wealth into the public purse, the first objection will rest on the assumption that it will fail to take the speculative value out of unused land and so bring it within access of those who really want to use it. This assumption will not bear the test of examination. It may be appropriate at this point to quote a remark of Prof. Davenport in the article referred to, "it is even more important to have a clear rule than a right one," with the implied assumption that any lack of clearness or uncertainty of incidence in the falling of a tax will be reflected in the selling price of the thing to be affected. In other words, the chances of escape from the tax will be discounted in the market-place where the subject of taxation is bought and sold. This has already been notoriously evident in the case of "intangible" property. An ad valorem tax on all land will inevitably be subject to this uncertainty, and the opportunity for differences of opinion as to what really is the value of unused land in the vicinity, let us say, of large

cities, is practically unlimited. Rent actually received is, on the other hand, clear and unmistakable as daylight. A tax on it could be made to fall with automatic accuracy and with a kind of mechanical certainty. There could be no chance of escape even with only the average degree of ability and integrity on the part of our tax assessors. Now let us ask ourselves this question, "if it were known in advance that at the moment a vacant lot or a copper deposit began to yield a rental, a clear and definite part of that rental would be taxed into the public treasury—would this knowledge not be quite as effective in deflating its present selling price as a tax on a capital value that is still a matter of opinion—a thing to be 'higgled' over between the owner and the assessor?" Surely the question answers itself. If a vacant lot were assumed to be worth for use \$100 per year, and it were known beyond uncertainty that when built upon its rental would be determined by its total yield minus the usual return on the as yet unbuilt house, and taxed at 90%, then a prospective purchaser would only pay for the reversionary \$10 per annum which he would be permitted to retain; i. e., he would pay about \$200 for the lot.

There remains, of course, the possible objection that by holding out for a few years longer the lot might be worth for use \$200 per annum, and that meantime no pressure lies upon the owner to let go his hold. But here again the advantage of a clear and definite principle is manifest; for it would be clearly known that the tax would also rise automatically to \$180 leaving \$20 of untaxed value for the purchaser to pay for, or double what it would have been at the earlier date. The original owner has, however, lost some years commercial interest on the price he might have had at the first negotiation, and will probably decide that in future he will sell land when it is wanted, and at the price the competing public is able or willing to pay. Moreover, with the lessened temptation to speculative holding-up, and the bettered conditions which may confidently be expected, the reinforcing influence of public opinion will have more room to assert itself and may be expected to operate more freely in preventing anti-social action. The adoption of the plan suggested, however, need not preclude the idea that power might be given the assessing authority to include at his discretion, the potential rental which he had satisfied himself is immediately obtainable or has actually been offered for vacant lots or for unutilized land or natural resources.

In the foregoing paragraph we have spoken of a tax of 90% on actually collected economic rent, and this, though merely a bow drawn at a venture, is not done without some deliberation. For a Single Tax on rent collected, must obviously be at a higher rate than if the tax extends to all land whether used or unused; and if the arguments submitted are sound, than it will be to that extent more compulsive, more calculated to prevent the withholding of land than the universal ad valorem tax—quite apart from the advantage of certainty of incidence already enlarged upon. Vancouver is probably not the only place where the ad valorem Single Tax failed to stop speculation in land, and while there may be other reasons for the failure, it is not unlikely

the chief one is this, that as the tax covered the unused as well as the used land, it was smaller than the annual natural increase in value due to population and industry, and left a margin that was worth the speculator's attention. Another probable reason may be that in a rapidly growing community, the valuator cannot keep pace with the rapidly increasing land values, a re-valuation every year being inconvenient and extremely expensive. Is it not probable then that in the case of Vancouver, both those causes of failure would have been obviated had the city decided to pay its expenses only out of ground rents actually received? The rate would have been so much higher as to have been more effective in choking off speculation; and no valuation or re-valuation would have been required—rent received being a matter of fact and not of opinion or conjecture.

The suggestion then is that in any further movement towards promoting Single Tax legislation, due consideration should be given to the following proposal. The total rentals at present being received from each parcel of real estate within a taxing area, should be ascertained and deductions made for the portion that is attributable to improvements; the remainder being recognized as the normal source from which only the public authorities may rightfully derive their revenue. Whether it may be more expedient to ask only for a 10% tax at first on economic rent, to be increased annually or periodically, with a corresponding decrease and ultimate abolition of the general property tax—which will include real estate as before) or to propose boldly that all general property taxes be at once abolished and the entire burden laid upon economic rent, is a matter for careful thought. The latter course, as we have already argued, would seem to promise the more immediate effect in bringing unused land into the market as it is required; but it may be that a progressive tax if clearly anticipated by holders of unused land, would have the same loosening result.

The Executive Committee of the Massachusetts Single Tax League has lately considered and discussed the question, can the legislature of Massachusetts, under the present constitution of the State, impose an Excise tax on economic rent? It was thought by some of the members that this question may be answered affirmatively by the court, consistently with its former decisions and opinions, on the ground that the legal right to appropriate economic rent to private use is a privilege bestowed by the State (comparable to the privilege of erecting and maintaining a toll-bar across a public way), and that this privilege may be taxed or charged for at a definite percentage of its annual value. In this discussion, however, the members did not contemplate the exemption of unused land, nor did they consider the arguments herein adduced.

If the arguments that have now been laid before the readers of *THE REVIEW* (not without considerable diffidence) should meet with even a small degree of acceptance, and the possibility of a complete change in the venue of the Single Tax movement become the subject of serious debate, the writer will owe a double debt of gratitude to the Editor for the hospitality of his pages.