

# Rent and the Tax Fund

By ROBERT SCHLEY

## THE PROBLEM

THE question whether the public collection of land rent would, if adopted, yield an adequate public revenue, presents one of those queer cases which sometimes occur in a controversy where neither proponents nor opponents seem able to say anything enlightening. On the one hand, the discovery of a rent fund so clearly created by society-at-large and so perfectly adapted to collection by society for its common needs, falls in so aptly with what we feel *ought* to be, that its existence seems to be a providential arrangement of nature, and the advocate of rent for revenue feels something like an irritation at the question, as though he had been asked to demonstrate the obvious. On the other hand, a hostile critic who in studying Henry George's analysis of the economic system has been irritated by the feeling that it is too thorough, too rounded—that it leaves too little necessity for independent thought—to be a sound generalization of the actual visible chaos of social conditions, cannot help wondering if the identification of public revenue with the unearned increment is not suspiciously facile; he cannot find means to refute it, but he feels that the apt presence of the rent fund may be no more than a coincidence; and in the absence of any indication of relation between the rent fund and the public revenue, that sense of a coincidence seized and exhibited as an argument, increases and buttresses his whole vague suspicion that the entire analysis is opportunist.

Some Georgeist men appear to concede the point. Professor Harry Gunnison Brown in his book, "The Economic Basis of Tax Reform," seems to lean towards the view that the rent fund may be insufficient for tax purposes. J. F. Muirhead writes in his "Land and Unemployment": "It is doubtful whether (as conditions now are) this (the belief that the land value tax would make all other taxes useless) would prove to be correct." These writers take the practically satisfactory view that it is immaterial whether the fund is fiscally adequate or not, as in any case it still remains to the community to impose what additional taxes may be necessary. But this solution fails to still the theoretical question. Is there any reason to think that the rent fund may be equal to the tax requirements of government?

Clearly, nothing short of a careful survey which calculated the actual total of land rent over a given period of time and collated this with the total public revenue for the same period, would be competent to direct an intelligent estimate upon the subject. And if such a survey showed (what is incredible) that the public revenue ex-

ceeded rent, the fact could not be held as conclusive evidence that the public collection of land rent and the abolition of all other taxes would result in a public deficit; since the disciple of Henry George holds that if this reform were instituted it would modify existing land values, increase the sum of collectible rent by increasing production, and permit important savings in governmental tax machinery.

However, in the absence of any such reliable scientific survey as a starting point, is there any line of intuitive reasoning that will reveal a ground for believing that a confiscatory tax on land rent will be sufficient for the needs of government?

## THEORETICAL LINE OF APPROACH

There is, to begin with, the fact that the land lies at the foundation of the production out of which taxes must be paid in any event—access to the land is a preliminary condition in default of which production cannot occur at all; so that consequently the proprietor of the land, whether he be a private person or a government (assuming the land to be the monopoly of either), can demand and get any terms for provision of such access as he may choose to impose, short of the absolute starvation of labor and destruction of capital. A government (as the absolute owner of land), in laying a land value tax could certainly collect whatever impost, less than the total product of industry, it wanted to collect, without troubling itself about economic theory, and this tax would undoubtedly be rent, which is whatever the landowner can extract from the user of land. Public authority might, from its vantage ground as the universal landlord, exact from producers the whole substance of their production except a bare maintenance wage as the condition on which they might be allowed to get anything for themselves at all. The question here, however, is as to whether land value taxes sufficient to support government must be so extortionate as to throttle industry.

The share of the produce the government might take without hampering production more than it is now hampered is greater than the share it actually does take now; for the present burden upon production is equal to the weight of present government revenues plus that of the present revenues of landowners, and all of the tax burden that is not borne by rent must fall as a check upon production. Evidently, then, a governmental budget equal to the present one might be collected as a land value tax without impoverishing industry more than it is now im-

poverished. If the present budget is greater than the actual rent fund, then such an imposition must absorb the whole of economic rent and something besides. Nevertheless, in so absorbing the whole of rent it would have eliminated the landlord's share; and the sum which productive industry would be required to make up would be less than it now contributes by an amount equal to the rent fund.

Public revenue requirements are either less than, equal to, or greater than the rent fund. If they are greater than the rent fund, their collection through a land value tax must destroy private property in land, and their total weight upon wages and interest must be less than it is now by the amount of present land rent. If they are less than rent their full weight might be taken off industry and imposed on rent, still leaving a surplus for landowners. In either case there must result an increase in the earnings of producers. And if public revenue requirements are neither less nor greater than the rent fund, they must be equal to it.

#### CAN RENT BE MORE THAN THE TAX FUND?

The question of a surplus for landowners does not trouble the Georgeist—it is a condition that could be remedied by fiat. If rent exceeds public revenue, the revenue may be easily increased until the excess disappears, and in the words of Henry George, "This is so easy and natural a thing that we may take it as included in the proposal to tax land values." However, this reads like a cynical inference as to the inevitable rapacity of political bodies, and the theoretical problem remains. We may ask ourselves: If governmental demands fall short of the entire rent fund, what will be the effect of this surplus upon the distribution of wealth?

It is directly evident that any important absorption of rent by government must to that extent reduce the share of landowners and the capitalized value of their land. A piece of property formerly valued at \$10,000 because it yielded annual rent of \$500 must, if the government collected a half or three-quarters of the rent, now be accessible to capital and labor at a half or a quarter of that amount; and the result would be a net increase of that sum in the earnings of capital and labor, which would no longer be charged with that amount in general taxes.

The general reduction of land values must operate to contract the margin of production—to increase the quality and quantity of land on which labor could be exerted without payment of rent. Labor as a whole would move up a step, abandoning lands better than that the marginal worker has been using, and he in turn would move to better free land than he worked before. This increase in free land, again, would reduce the amount of taxable land from which government derived its revenue. Thereafter, each addition

to revenue requirements must be met by a further reduction in the surplus available to landholders, the further depression of land values, the increase of free land, and the consequent further enhancement of the share of the product available for capital and labor.

Still another agent in the reduction of land values must be the constant prospect of increased public expenses, which would destroy all speculative values in land. As the expectation of increased rent drives the exchange value of land up, so the expectation of diminished rent must drive the exchange value of land down. Every one who had land would want to get rid of it now for the best price it would bring, and the general short selling of land must further contract the margin of production, increase free land, and so again force an increased concentration of taxation on lands still retaining an exchange value, with a further depression of that exchange value, and on around the circle again. We may say then, that in the increasing expensiveness of progressive government and in the speculative depression of land values there may be seen the principles of a tendency connected with the Georgeist system, which, even if at the beginning it leaves a surplus of rent, must in the long run operate steadily to eliminate that surplus *until the public revenue and the rent fund approach an equality*. There is reason, then, for supposing that tax requirements probably cannot in the long run be much less than the rent fund.

#### CAN RENT BE LESS THAN THE TAX FUND?

Is there reason for believing that tax requirements cannot exceed the rent fund? Let us approach the matter in this way:

Henry George has shown that any improvement in the efficiency or economy of government is equivalent to an increase in the distributable product of industry. Such an increase under the existing scheme must, by the operation of the laws of distribution made clear in "Progress and Poverty", appear in the economic system as an increase in rent or the value of land. If the government remits to John Labor, tenant, working on land that yields rent, taxes in the amount of one hundred dollars a year, his situation is not thereby improved. The effect of the remission would be to increase the yield of his land by one hundred dollars; and his share of that produce is determined by the subsistence minimum accepted by Henry Margin, who works for what he can get on the best free land he can get, and since the latter pays no taxes, he gets no remission. If John Labor refuses to give up his increase, his landlord will get rid of him and call in Henry Margin, who will be glad to take the job for very little more than he is getting now.

By the functioning of this law of rent, any degree whatever of tax economy must enter the social system as an in-

crease in rent. Even if we suppose the miracle of a one hundred per cent remission of the present impost, the result of the remission could only be to add all present government revenues to the present revenues of land holders.

But the public collection of land rent has this double aspect: it is not only the imposition of a particular tax, that on land values, but it is also a hundred per cent remission of all other taxes. Since the remission of those other taxes must swell by exactly their own bulk the fund from which the new taxes are to be drawn, evidently the single tax on land values or the public appropriation of rent must yield a revenue at least equal to the present one. So long as the decreases of other taxes all enhance rents by just the amount of the decrease, the yield of a land value tax can never be less than the yield of an alternative tax. The land value tax must, indeed, yield a revenue superior to the present one by the amount of present unappropriated rent, and superior also by the difference in cost of collection; for of course the machinery necessary to collect the single tax exists already in form nearly as costly as would be necessary under the new system, while under the new system all other expensive tax machinery might be dispensed with and its cost saved.

Thus since there is reason to believe that, in the long run, rent cannot exceed public revenues under the single tax system, and reason to believe the revenues can never exceed rent under the system, it follows that the rent fund and the tax fund tend to be equal.

## When the War Ends

THE fifty Members of Parliament comprising the Parliamentary Land Values Group in England have a plan to meet post-war problems, according to a letter received recently by Mrs. Anna George de Mille from R. R. Stokes, M. P. This plan is set forth in seven articles, as follows:

1. When the war ends concerted efforts will need to be made to absorb both munition workers and demobilized soldiers into productive work. This will mean embarking upon vast schemes of public works which will lead to a rise in land values in the immediate vicinity. This value, unless otherwise provided, will go to the benefit of local landlords and not to the community whose efforts will have gone to create the value. A tax on site values will meet this point.

2. Each one of these schemes will entail the purchase by the Government of greater or lesser areas of land. A tax on site values will keep the purchase price down.

3. In addition to public works, private owners of land should be made to help by putting all land to its best use. A tax on site values of all land whether used or idle will make

it unprofitable to the landlord to put any land to its wrong use or to keep it idle.

4. Vast credits will be needed to finance schemes of development. From a business point of view there will be no difficulty about obtaining such credits provided it can be shown that the benefits are going to the borrower thereby proving the means of repayment. A tax on site values will ensure that the borrower (i.e. the community) gets the benefit.

5. Slums must be removed and Garden Cities built. A tax on site values will make it impossible for slum landlords to keep filthy dwellings in the midst of towns on valuable sites: they themselves will be forced to put up modern up-to-date buildings. Equally, such a tax will keep down the purchase price of land needed for Garden Cities.

6. There need be no unemployment and no enforced poverty arising therefrom if the natural resources are used in the common interest. Until these resources are exhausted it should be possible to create a state of society wherein there are more jobs than people—at present this state is only likely to arrive in wartime—and wherein the laborer will get his fair hire. This can be brought about by freeing natural resources by the one just, quick and efficacious way: *taxing site values of all land used or unused.*

7. The Exchequer would ultimately receive at least £500,000,000 a year which now goes tax free to individual owners. Unemployment and the evils arising therefrom would disappear. There are only three ways of getting the land back for the people—confiscation, purchase or taxation. The first would be unjust to the present owners: the second would be unjust to the people who would by such a method have to pay interest on the purchase price for ever after: the third, a graduated tax over a period of years, would be unjust to no one and provision should be made *now* so that it may be made effective as soon as the war ends.

A LITTLE insight into the land question of Puerto Rico is gained from a letter received recently by Sr. Rogelio Casas Cadilla from Sr. Miguel Guerra-Mondragon, prominent attorney of San Juan, P. R. We quote from this letter, through the kindness of Sr. Casas:

“The land question becomes more acute daily in Puerto Rico. Fortunately, a new party with pronounced agrarian principles has just been elected to the legislative chambers. Much is expected of them by every one. On the other hand, the Washington authorities do not endorse very enthusiastically our efforts to break up land monopoly and distribute the land among the greatest possible number of farmers. Only in this manner can land monopoly and absentee landlordism be killed.”