[agricultural] rent and . . . profits," are based on the recurrent and continuous use of the land — that is, on "original and indestructible powers" such as do not exist in mines. "This is a distinction of great importance," says Ricardo, and it is this to which his discussion of indestructible powers is directed. As is indicated in the passage which I have quoted in a preceding paragraph, the essential of his reasoning about rent is that it constitutes a differential return. And the fundamental question regarding rent and interest, land and capital — a most complex question, on which one should speak with much reserve — is whether in fact there is a differential return from land of a kind which is not secured from "capital" in the sense of instruments made by man. As I have elsewhere stated, the answer depends on the effectiveness of competition in bringing about equality of return from concrete capital.[1] Discussion on the exhaustibility of the soil and the fixity of land supply helps us little on this cardinal question.

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SOME CONSIDERATIONS ON LAND TAXATION

Single taxers favor heavy land taxes and tax-free improvements in order to increase building, relieve congestion and lower rents. The argument is that one would not suffer for long a burdensome tax on a vacant lot; he would build and rent in order to recoup. "The owner of a vacant city lot," says Henry George, "would have to pay as much under a single tax for the privilege of keeping other people off of it until he wanted to use it, as his neighbor who has a fine house upon his lot. It would cost as much to keep a row of tumble-down shanties upon valuable land as tho it were covered with a grand hotel or a pile of great warehouses filled with costly

[1] See my Principles of Economics, ch. 46, § 3.

goods." Mr. George was not aware of the fact that the same would be true were lots tax-free. It costs as much to hold a tax-free lot as a tax-burdened lot. Why ? Lots are valued according to their anticipated yield. Taxes are allowed for in the capitalization of land and are, therefore, no burden to the purchaser of land. A tax is a subtraction from yield, therefore a tax increase means a value decrease. A low value means a small interest burden. An increased tax burden is but a substitute for a high interest outlay. The cost burden on your real capital is the same whether land be subject to a single tax or tax-free. Your dollar will buy as many land uses under the one as under the other. If this is not so the accepted theory of capitalization on the basis of net earnings is a delusion. If you encourage building by freeing improvements from the tax you equally discourage the improvement of a lot by extracting its value in the form of a tax. The one equalizes the other. If you tax me $100 I am little concerned whether you assess it against my house or against my lot. The single tax would little influence the amount of building, rent burdens and congestion.

The opponent of the single tax argues that under a single tax régime the tenant's rent must pay the interest on the value of a lot, the single tax, and interest on the cost of a building, otherwise no one would build and rent him a house. Thus they believe that the single tax would be shifted to the tenant in the form of a higher rent. This would result in congestion, in getting the most out of a limited space, in building high into the tax-free air. The single tax would be as a fixed charge on tenantry and its burden could be lightened only by distributing it widely, therefore low rents could be found only among a numerous tenantry on a limited space.

This, in my judgement, is a criticism without foundation. In this is met the same principle above mentioned. The single taxers and their opponents are but exhibiting the backward and the forward looking faces of the same thing. Higher land tax, lower capitalization and less interest outlay go hand in hand. The air is as interest free as it is tax free; there is no more reason for building high to dodge the tax than to dodge the interest charge. The logical conclusion for these thinkers (so far as I know they have shied from it) is that a tax on land is shifted. In the above I have given their thought a rather bold wording; the use of the word *shift* would save them from much circumlocution. If the single tax would discourage building on idle land then a limited area would be more intensively used — less land would have to do the land work. The greater the intensive utilization the greater would be the cost and the higher the price of land products. High taxes would be shifted to high prices. Idle resources, misdirected energy, scarcity of product and high prices would, according to their thought, be the unprofitable reward of a single tax régime. The futility of this word logic is that returns relative to costs would not be modified by a single tax, the thing changed is the form of the cost and not its amount. The motivating force of investment is profits and profits would remain the same.

Another set of kindred arguments is that of the diffusion of the unearned increment. These arguments form another unworkable tax-shifting scheme. The idea runs that the lure of the unearned increment is the cause of early frontier settlements. Reversely a single tax would discourage frontier settlements by absorbing the unearned increment. Under a single tax régime, asks Professor A. S. Johnson, " when would our Western forests have been cleared, our prairies transformed into fields of wheat and corn? Not in decades, but in centuries." Further, " under such a condition of development Kentucky would doubtless still be a dark and bloody ground, and the Ohio forests a haunt of outlaws." [1] The thought is that, in anticipation of the unearned increment, frontiersmen, for the time being, will tie up capital unproductively and work for a lower return than the normal wage. The development of new lands, the sacrificing of labor and capital upon them cause greater abundance of agricultural products and therefore lower prices.[2]

[1] " The Case Against the Single Tax," Atlantic Monthly, January, 1914, p. 33.

[2] Johnson, ibid., p. 34, and T. S. Adams, American Economic Review, June, 1916, p. 271.

The assumption underlying this argument is that frontiersmen have poor judgment, that they suffer privation from an over estimate of the increase of land values. It follows from their assumption that national development, lower prices and community gain are results of misdirected energy. The greater the error in judgment the greater would be the national gain. If this argument is not based on the misjudgment of frontiersmen then it is self-contradictory, for if more than the unearned increment is shifted to national gain (and it must be more than shifted if wages are below normal and capital is employed at a sacrifice) then no unearned increment could be left for the frontiersmen.

These arguments, moreover, rest on false economic grounds. The extra cost of marketing for one beyond the border of remunerative industry will more than offset the extra costs of production nearer the market. The result of this is a larger total cost of production, and waste energy together with increased prices as a consequence of the reduction in supply. Production is not complete until the products are in the hands of the consumer. Production in the wilderness is not cheapest. If it were, competition would force all producers to the wilderness. It is a false economy which assumes that misdirected energy is a national boon, that production at the greatest cost means the lowest price, that the unearned increment is secured to the public by a scheme that would increase the cost of living. Two difficulties are in the way of such arguments; a false conception of the extent of the so-called unearned increment and the belief that a tax on land cannot be shifted, or at any rate a false conception of the manner in which the shift takes place. If it were seen that an unearned increment is as common to other agencies as to land the single tax bugaboo would have no logical basis. If it were seen how a tax on land is shifted we would have the true manner in which the unearned increment inures to society in the form of more products and cheaper prices.

Space forbids more than the briefest sketch on these points. Large and dramatic changes in values bring benefits both to sleeping partners and to active enterprisers in all lines of industry. The passive owners of land, war stock, lottery tickets, furs, copper, huckleberries, and saw mills may reap large gains from lucky turns in prices. Prices are made in the market and are largely beyond the control of any individual. The active enterpriser with the deep insight that gives foresight can best judge of price changes and movements in capitalization. He can so shape his enterprise as to reap the surpluses which always accompany industrial changes. The unearned increment is a question-begging phrase applied especially to the profit of the land owner. There is nothing peculiar to land profit. The teachings of Walker, Cannan, Hobson, and Clark on the extension of the rent problem and the general applicability made by these and later writers of the law of diminishing returns, cannot but teach that a common principle regulates the returns of all productive agents. The trouble with most economists on this point is that they get their geography and their economics mixed. They think of the supply of other productive agencies in terms of productive capacity and not in terms of bulk or weight, but when it comes to the supply of land they shift from a productive or economic basis to an area or geographic basis. It is but a truism that a superior organization which enables a laborer to turn out ten pieces a day instead of five pieces, really doubles the economic supply of labor; or that a new process or scientific method that enables a unit of land to yield ten bushels instead of five bushels does add to the productivity of land. The supply of productive agents is measured in yield, not in area or bulk. We must measure land as a productive agent in terms of its productive capacity. It is as logical that we do this as that we ask different prices for different qualities of land. Land capacity is what concerns the economist and whatever increases this capacity increases the land supply.

Instances of unearned increments might be multiplied indefinitely from all walks of life. The growth of complex social problems makes the lawyer's fifty thousand dollar fee a possibility; acquisitive advantages and monopoly gain are unthinkable apart from society; political security, educational, religious, and other social institutions are unearned benefits to the individual. National productive capacity in the form of natural resources together with our inherited knowledge of ways and means of how to harness, transport, and bend the utilities of man and nature to our service, form a fund of unearned social heritage. We can soon rebuild the ships, houses and current supplies destroyed by the war. If the war could destroy our knowledge of ways and means or the natural forces upon which they operate, civilization would be set back indefinitely.

The supply of land like that of other productive agents is measured by its yield. Other agents come from the land, therefore, to say that land is limited is to say that other agents are limited — all are limited by the natural principle of resistance. All are limited by and obey in their operation the law of diminishing returns. If the land supply is subject to change then there can be nothing peculiar in the unearned increment of land.

Let us turn to the manner in which a tax on land can be shifted. A tax on marginal land would throw it out of cultivation and thereby cause less land or fewer land uses to be cultivated. The result would be a greater scarcity and therefore a higher price for the products of land. In other words the tax would simply bring about a higher price for the products of land. A tax on the surplus or rent can be shifted. To the extent that you tax land you reduce its net returns to the landlord, but the landlord values his land according to its net returns, therefore to the landlord the land loses in value to the extent of the tax. The principle of proportionality teaches that less expenditure in the form of upkeep and repairs is made on the less valuable agencies. High tax means low land value, the discouragement of upkeep and improvements with the consequent falling off in the supply of land products. Thus a diminished supply means a shift in tax in the form of higher prices of land products. Prior to our Civil War we practised land butchery and that too with sound economic justification. The cheapness of land, the little cost of wearing out old land and shifting to new invited butchery. Labor and capital were scarce and their great value invited their most economical utilization. High tax, little net yield, low value, depreciation, low gross yield and high prices of land products go together.

The thrift which accompanies private property claims attention at this point. To the extent that a tax subtracts from net gain it puts the landlord in the position of a tenant. If a nine year's lease ruins the garden a heavy tax would tend to the same end. If the magic of property turns sand to gold the lower the tax the greater the tendency to that end.

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