

PROF. ALVIN SAUNDERS JOHNSON AND THE SINGLE TAX



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FOREWORD

Mr. Codman, the author of this pamphlet, is an electrical engineer by training, having graduated from Harvard College in 1890 and from the Massachusetts Institute of Technology in 1893. Since that time he has been engaged continuously in electrical work and is now in the electric automobile business.

Professor Alvin Saunders Johnson and the Single Tax

In the Atlantic Monthly for January, 1914, there appeared an article on the "Single Tax" by Prof. Alvin Saunders Johnson, of Cornell University, and it was stated by the publishers that this article was in reply to an article on the same subject by Mr. F. W. Garrison which appeared in the December, 1913, issue of the same magazine. It seems probable, however, that Prof. Johnson had prepared his article without regard to the previous one and without having seen it, since he does not refer to Mr. Garrison's article nor does he reply to his arguments; but instead attacks the Single Tax from a somewhat unusual standpoint.

This article by Prof. Johnson is likely to carry considerable weight not only on account of the smooth English and plausible arguments, but also because it is written by a man who is presumably one of the "well trained economists" to whom he refers on his first page. It contains, however, a number of incorrect assumptions and a number of false conclusions and only goes to show that a "trained economist" is not necessarily a careful student nor a logical thinker.

On page 28, Prof. Johnson says:—"And since the value of land is ultimately depend-

ent upon its rent, the adoption of the Single Tax would, necessarily, result in a great depreciation of land values." This is a careless statement, but presumably by "the value of land", Prof. Johnson means "the price at which the land will sell" or the "selling value" as it is often called; and by "rent" he means the "net rent," that is to say the sum for which the land will rent for use minus the taxes upon it.

Effect of Taxes on the Price of Land

Assuming the above definitions it is doubtless true, as Prof. Johnson probably meant to say, that any tax on land values, by reducing the net rent, tends to depress the selling value of the land. For example, if a certain piece of land can be rented for \$1,000 per year (gross rent) and the owner has to pay \$200 per year in taxes, the net rent will be \$800 per year. This sum capitalized at, let us say, 5 per cent, indicates a selling value to the land of \$16,000. If now the tax be increased, let us suppose, to \$400 per year, and assuming for the moment that the gross rent (\$1,000) remains unchanged, then of course the net rent will be reduced to \$600 (\$1,000 minus \$400) and the selling value at the same rate of capitalization will be reduced to \$12,000.

The Single Tax Not Necessarily Followed by Lower Prices for Land

With the above explanation made we are now in a position to see the incorrectness of

Prof. Johnson's statement; viz:—that "the Single Tax would necessarily result in a great depreciation of land values." In the first place he entirely overlooks the fact that an increase in the taxes on the selling value of land *accompanied by an off-setting decrease in the taxes on buildings and other improvements* has generally resulted, owing to the stimulus given to business, in an increased value of the land for use and a consequent increase of the gross rent. This increased gross rent has frequently been more than equal to the increased taxes with the result that the net rent and the selling value have actually increased rather than decreased.

Suppose, for instance, in the example above that the increase of the land value tax to \$400 per year were accompanied by a corresponding decrease in the tax on buildings and improvements and that the resulting greater building and business activity had increased the demand for land so that the gross rent of the piece in question had risen from \$1,000 to \$1,300 per year. Under such conditions the net rent would have increased from \$800 (\$1,000 minus \$200) to \$900 (\$1,300 minus \$400), instead of being decreased to \$600; and the selling value would have increased from \$16,000 to \$18,000, (\$900 capitalized at 5 per cent.)

If the taxes on the selling value of land were increased greatly and suddenly, undoubtedly there would result a depression in the selling value of the land, but Prof. Johnson is entirely wrong in assuming that the adoption of the Single Tax would necessarily mean any

such great and rapid increase in such taxes. He himself says:—"All that is essential to the system is that no tax other than that upon land shall be levied mainly for revenue purposes," and it is a fact that if taxes on land selling values are increased not too rapidly and only enough to enable other taxes to be abolished, no depression of the selling value of land will, as a rule, take place.

There may be said to be two degrees of the Single Tax, viz:—The Single Tax Limited and the Single Tax Unlimited. The former plan involves an increase in the taxes on land selling values sufficient only to make up for the loss of revenue from other taxes which are to be abolished; and this certainly does not mean an increase in the former taxes sufficient to cause a "great depreciation of land values." In the example above quoted in which the tax on the selling value of the land was assumed to have been doubled, that is, increased from \$200 to \$400, there would be a depression of 25 per cent (\$16,000 to \$12,000) in the selling value of the land, but only *provided the effect of the tax was not in any way off-set by an increase of the gross rent due to the stimulation of business following the abolition of taxes on buildings, improvements and personal property.*

Single Tax Does Not Mean State Ownership of Land

The advocates of the Single Tax *Unlimited* propose to go further and to take nearly all the gross rent of the land in taxes, leaving to

the landlord only enough to induce him to continue ownership. It is to this plan that Prof. Johnson refers when he says on page 28: "If the tax is made so heavy as to absorb the entire net income from land—and this is the express object of the Single Taxers—the value of the land will utterly disappear." Prof. Johnson is wrong again, however, in assuming that even those who advocate the Single Tax Unlimited do, therefore, propose to "absorb the entire net income." This would mean the complete disappearance of the selling value of the land as Prof. Johnson says and its reversion to the State unless put to its most profitable use. Such a result, however, is not the desire of Single Taxers. Henry George himself made the following statement in regard to it, in "Progress and Poverty", Book VIII, Chap. 2: "Nor to take rent for public uses is it necessary that the state should bother with the letting of lands, and assume the chances of favoritism, collusion and corruption this might involve. It is not necessary that any new machinery should be created. The machinery already exists. By leaving to land owners a percentage of rent which would probably be much less than the cost and loss involved in attempting to rent lands through State agency, and by making use of this existing machinery, we may, without jar or shock, assert the common right to land by taking rent for public uses."

Single Tax Platform

As a matter of fact the great body of the

Single Taxers today, although they may believe in the fundamental justice of the Single Tax Unlimited, do not urge the sudden adoption of the Single Tax, even in the form limited merely to the abolition of all taxes other than those on the selling value of land. What they propose is a gradual exemption from taxation of all property other than land with the consequent automatic shifting of all taxation onto land; this process to be continued only as each step proves beneficial, until all other taxes are abolished. The platform of the Single Tax Conference adopted in 1893 and reaffirmed in 1912 includes the following statement.

"Since in all our states we now levy some tax on the value of land, the Single Tax can be instituted by the simple and easy way of abolishing, one after another, all other taxes now levied, and commensurately increasing the tax on land values, until we draw upon that as the source for all expenses of government."

It is freely admitted, however, that the greater number of Single Taxers believe that by the time we have adopted the Single Tax Unlimited, that is to say, by the time that we have gotten rid of all taxes except those on the selling value of land, the desirability of going further will have become so plainly evident that the people will then unhesitatingly increase the tax to the ultimate point of taking all but a small proportion of the rental value of land. This final step would undoubtedly cause the selling value of land to depreciate greatly and to the assertion that this would be

confiscation, the reader might well be referred to Henry George's statement in Chapter 3, Book VII of "Progress and Poverty" or to Mr. Garrison's article already referred to, page 744; but a few words here are not out of place.

Single Tax Not Confiscation

The Single Taxers maintain that the exclusive possession of land is a privilege conferred by the community on the individual, for which privilege the recipient should pay the full annual value. They maintain that under the present system of taxation, the recipient of the privilege pays only a small proportion of that annual value with the result that it is necessary, in order to raise revenue for the government, to tax the earnings and wealth of others. They maintain that this taxation of one portion of the community in order that others may enjoy a privilege for which they do not pay full value is rank confiscation. On the other hand, Prof. Johnson and other opponents of the Single Tax, maintain that it is confiscation to make the holders of the privilege pay what it is worth. Which is right? Does justice consist in perpetuating an injustice in order that those who gain by the injustice may not be inconvenienced?

As stated by Herbert S. Bigelow, President of the recent Ohio Constitutional Convention:—"In the case of the present landlords it does not seem that they have a right to demand more of society than this, namely, that reasonable deliberation shall be used in shifting taxation from property to land value."

Contentions of Single Taxers Incorrectly Stated by Prof. Johnson

We come next to the most important part of Prof. Johnson's article. On page 29 he states that there are two contentions of the Single Taxers upon which the whole issue turns, which if valid force us to accept the Single Tax program, but if not valid, necessitate our rejecting it, "or accepting it as a step in the direction of the confiscation of all private property."

The two contentions referred to above are stated by Prof. Johnson on page 28 and are as follows:—first that according to Single Taxers land owners form a class who, like the slave owners, may be advantageously despoiled and "are regarded as typical monopolists and men of great wealth, an unacknowledged landed aristocracy," and, second, that "whether rich or poor, the landlord is, in Single Tax theory, a social parasite."

This statement shows very clearly that Prof. Johnson does not understand the Single Tax doctrine and the Single Tax movement, and consequently cannot be expected to write intelligently about them.

Anybody at all familiar with the Single Tax arguments will appreciate that the Single Taxers do not desire to "despoil" anybody; but, on the contrary, desire to give to each individual the full value of his earnings, a thing which is not possible if some individuals are to be permitted to appropriate the land values which are created not by the individual

but by the community as a whole. The Single Taxers admit that some persons may be losers under the Single Tax, namely, those who are today gaining at the expense of others, but they absolutely deny that this is spoliation.

Single Tax and the Middle Class

However, having asserted that the depression of the selling value of the land through increased taxation is "spoliation" or "confiscation," Prof. Johnson next takes the inconsistent and immoral position that such "spoliation" is justified if "the individuals so sacrificed form a class that may advantageously be despoiled." He then states that the slave owners did form such a class, "since their essential function was to oppress their fellow-men," and he undertakes elaborately to show that the land-holders do not form such a class because, forsooth, the greater part of the land values are the property of the "middle class" and the "middle class" cannot advantageously be despoiled. What a preposterous conclusion!

Why should not the "middle class" or any other class be deprived of the privilege of appropriating the earnings of others? And it is only provided the "middle class" is now enjoying such a privilege that it will be deprived of anything under the Single Tax.

As to the statement of fact that the "middle class" will lose, it is impossible to refute it until Prof. Johnson gives some definition of the "middle class," but at least it may be said that under almost any fair definition a very large proportion of the moderately wealthy

will be found to be owners of land of small value as compared with their other forms of property and therefore would be immediate and direct gainers under the Single Tax.

Single Tax Will Increase Wages

If the poor are to benefit from the Single Tax it must be, as Prof. Johnson says, page 31, "either through a reduction in the cost of living or through a rise in wages." He asserts:—"Not increased wages, but increased money profits would be the most prominent effect of the Single Tax," but he offers absolutely no proof nor even a reason why this should be the result.

"That this would be the probable result will appear to anyone who will put the problem in its simplest terms," he says; but, if we accept his suggestion the statement of the problem is about as follows:—

The abolition under the Single Tax of all taxes on buildings, machinery, materials and capital generally will, in the first place, lower the cost of production of the necessities of life and in the second place will stimulate business. This in turn will increase the demand for labor and increased demand for labor must tend to raise wages. The increased taxes on land values by making it more burdensome to carry land on speculation will result in more land of value being put to productive use which again means greater business activity, more employment for labor and higher wages.

Single Tax Gives Land Owner All He Earns

In regard to the second of the two contentions attributed to Single Taxers by Prof. Johnson, viz:—"that whether rich or poor, the land owner is in Single Tax theory a social parasite," the question at once arises whether such contention really is supported by the Single Taxers and the answer is:—"Certainly not." The land owner is a parasite only in so far as he absorbs the wealth created by others. Single Taxers do not desire that he shall cease to exist. On the contrary, they desire him to remain, and to be permitted to keep all his earnings as he is not permitted today in the many cases where he is also a wealth creator. On the other hand, they desire that he shall no longer be in a position to absorb the earnings of others. So far as he does absorb the earnings of others, he is, whether rich or poor, most certainly either a parasite or a pauper.

From the foregoing, it will be appreciated that the so-called contentions of the Single Taxers as given by Prof. Johnson, are not really their contentions at all, or at least not in the misleading form in which he has expressed them; and it might, therefore, be thought hardly worth while to continue the discussion. Nevertheless, there are in the remainder of the article so many erroneous statements and unwarranted conclusions it will be well to continue the criticism a little further.

Why Profits and Wages are High in a New Community

Near the end of page 31 appears this statement:—"The land owners, according to the common formula, have enjoyed two incomes: the rent of their land and the advance in its value." "If this view were just it would be hard to account for the fact that in a new agricultural community it is not the land owners, with their two incomes, who attract attention by their rapid accumulation of wealth, but the bankers, etc." And again on page 32:—"What the land owners have received is a dual income, not a double one. If we have found business men willing to invest their capital in trade and industry, the only satisfactory explanation of the fact is that they believed that the annual profits of enterprise are superior to all the gains from land."

Now, whether the income of the land owners be a "dual" or a "double" one is a question trumped up by Prof. Johnson and is not of the least importance, but, whichever it may be, there is no difficulty in accounting for the fact that land owners are not *per se* those who first accumulate wealth in a new community. By most writers this fact has always been looked upon as extremely easy to account for. In a new community the land values are at first insignificant. Land is cheap and both capital and labor have easy access to it with the result that profits and wages are high, business thrives and wealth is accumulated rapidly through enterprise. The success of

the community attracts more Capital and Labor and then land values begin to rise, rents increase and the reward of Labor and Capital tends to fall to the level of older places. Then only do the original land owners begin to reap an unearned profit in increased rents or sales at high prices.

Capitalization of Land-Ownning Privilege

Prof. Johnson says:—"As a consequence of the universal belief that land values will rise, land is commonly overcapitalized;" and again:—"The buyers look to the unearned increment to recoup themselves for the loss of income involved in tying up their capital unproductively." Of course, the second condition is the necessary result of the first. The land being overcapitalized on account of the possible future "unearned increment," the buyer must tie up an abnormal amount of capital in making his purchase and he must look to the "unearned increment" to recoup himself. If we tax away the "unearned increment" there will be no overcapitalization and no unnecessary tying up of capital.

Another quotation from Prof. Johnson, page 32, is as follows:—"On much the greater part of our lands, urban as well as agricultural, the unearned increment, together with the rent, is hardly sufficient to make up a normal return on the capital invested in the land. If then there is a reason for taxing away the future 'unearned increment,' that reason does not consist in the fact that the land owners form a privileged class."

The first part of the above is substantially true because the purchaser of the land has to pay the capitalized value of the expected 'unearned increment' and if the latter proves to be no greater than expected, the purchaser will get no more than the normal return on his investment. The conclusion in the second part of the quotation, however, is not justified. The land owners certainly do form a privileged class since they are permitted by the community to hold in their exclusive possession the source of all wealth, and are thus enabled to take in rents a large proportion of the earnings of the landless. It is true, however, that a holder of this privilege does not always profit by it and, in fact, often loses; but this is due to the fact that in purchasing the privilege from the previous holder he has paid too much for it.

Present System Responsible for the Slums

In the sixth section of his article Prof Johnson undertakes to show how the unearned increment has opened up this country and "laid the basis for our present colossal industrialism." "It was not free land," he says, "but land that was certain to rise in value, that attracted the millions of men from our own East and from Europe to the edge of civilization." He asserts that if the Single Tax principle had been in operation from the beginning of our history the wages of the pioneer would have had to be made very high. "And this means," he says, "that the opening of new lands would necessarily have waited upon the time when

the pressure of population in the older centers and the increasing miseries of the poor should expel some of their number to the frontier."

It is probably true that "the lure of the unearned increment" has helped to open up the wilderness, but at the same time, the system which permits the taking of the "unearned increment" by the individual has been responsible for the undeveloped land near home. It has been responsible for "the pressure of population in the older centers" and it has been responsible for the "increasing miseries of the poor." Under the present system those who have wished to escape from the older centers have been obliged to leave behind acres and square miles of land near the center of population but held undeveloped by speculators, and have been forced to the edge of civilization and into the hardships of frontier life. Many have been forced to be pioneers in the wilderness because the land near home was pre-empted but not used. If the "Single Tax" had been in operation from the beginning, probably portions of the country would not have been opened so soon, because not needed; but on the other hand the developed portion would have supported the population in greater comfort and the misery of the city slum would have been unknown.

Benefits of the Single Tax

The simplest way to answer the seventh section of Prof. Johnson's article is to amend the last paragraph in harmony with truth and

justice as given below on the left, the original paragraph being given on the right.

If we desire to enter at once upon this process of readjustment, we have only to enact the Single Tax. The more enterprising of the agricultural population, being freed from all taxation on buildings, improvements, machinery, live stock, personal property and income and from the heavy indirect burden of the tariff, will be encouraged to utilize the land to full advantage. What will follow is easy to forecast: an exodus of the urban population to the rural land, a diminution of the crowding and misery in the cities, decreasing agricultural prices, and, in the end, a new equilibrium. It is not surprising, therefore, that the Single Tax has been seriously advanced as a sure means of alleviating poverty.

Single Tax Will End Speculation in Land

Next comes in Section VIII, Prof. Johnson's statement that "it is proposed by the Single

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If we desire to enter at once upon this process of readjustment, we have only to enact the Single Tax. The more enterprising of the agricultural population, despoiled of their property and of an essential part of their income, will cease to produce food for the city laborers, and will enter into competition with them for jobs. What will follow is easy to forecast: increasing misery in the cities, advancing agricultural prices, and, in the end, a new equilibrium. Yet the Single Tax has been seriously advanced as a sure means of alleviating poverty.

Taxers to appropriate to the state the fruits of building speculations that prove successful while leaving to private enterprise the fruits of unsuccessful speculations." There is absolutely no warrant for this unjust statement and it is difficult to deal patiently with it. Under the Single Tax, either "Limited" or "Unlimited," just as is now the case under our present system of taxation, the taxes on land would rise and fall with increase or decrease in the gross rental value of the land. He who guessed right would find his land in increasing demand and his taxes rising and he who guessed wrong would find the demand for his land decreasing and his taxes falling.

Under the present system of taxation, however, only a small proportion of the gross rental value of the land is taken in taxes. Therefore, the rise or fall of land prices greatly exceeds the accompanying rise or fall of taxes and the conditions are favorable to speculative profits and losses. On the other hand under the Single Tax Unlimited, (and it is this degree of the Single Tax which Prof. Johnson is discussing) nearly all the gross rental value of the land would be taken in taxes and the rise or fall of land prices would be completely over-shadowed by the rise or fall of taxes. The result would be the complete disappearance not only of speculative profits, but of speculative losses as well.

The Single Taxer and the Socialist

It would be wearisome to the reader, as well as to the writer, to continue the discussion of

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Prof. Johnson's article any further, although there are many more statements open to criticism, and we therefore close with a few comments on his comparison of the Single Taxer and the Socialist.

The Socialist fails to see that there can be no dominating monopoly of Capital except through private and inadequately taxed ownership of land and public franchises, and he therefore desires that the State shall not only take possession of and rent the land, but shall also take possession of and operate the principal industries. The Single Taxer on the other hand believes not only in the private control of industrial activities, but also in the private ownership of land provided that the oppressive power at present resulting from the latter be abolished by the public appropriation through taxation of all but a small proportion of the gross rent of the land. Like the Socialist, however, the Single Taxer maintains that the present social conditions are unjust and will surely be changed, but he fears that if we do not get freedom by abolishing land monopoly through the Single Tax, we shall inevitably drift into a deadening slavery under some form of Socialism.