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Land Value Taxation and Agriculture

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In England the idea that land value taxation is a policy only applicable in urban districts is one of those commonplaces of political discussion that are accepted without reflection. In New South Wales, where this policy was first tried and has ever since been used, in the predominantly agricultural districts, the Shires, and in Denmark, where it was from the commencement applied to all land alike, this idea would not be accepted as a truism. It is therefore desirable that the economic principles involved in the application of land value taxation to agriculture should be subjected to unprejudiced examination.

A satisfactory agricultural policy can only be based on a thorough analysis of the factors which affect agricultural production. These factors can be conveniently grouped as follows :—

(1) Land ; (2) Capital ; (3) Labour ; and (4) General factors not affecting this industry alone—such as transport, money and prices, tariff policy, etc.

We proceed to a discussion of these.

LAND

The general principles of the land question are the same in the case of agriculture as in respect of any other industry. They may be briefly sketched as follows :—

Land is by its nature a monopoly. The supply of land is limited. The supply of the best kinds is still more limited. Lands may be specially productive either on account of their natural fertility, or their composition, or natural drainage, or natural water supply, or shelter from cold winds, or because of their proximity to social advantages such as roads, railways, or large towns, or to numerous other holdings of the same class (which facilitates co-operation). The value of these relative advantages is measured by the rent which will be paid for the land.

The term "rent" is here used to mean what is paid for the use of the land alone, apart from any improvements which have been made in or on it. In practice, of course, the rent which is paid for a farm or small holding includes also payment for the improvements, and this is, strictly speaking, interest on capital. In other words, by rent we mean the annual value of the land alone. It is important to make this distinction because rent and interest are entirely different and influenced by different factors. It is especially to be observed that the capital value or selling value of land apart from improvements is merely a consequence of rent ; it represents the value of the right to draw a certain amount of rent year after year which by existing law is allowed to be exercised by individuals in the community. If the individual right to collect

rent were taken away, and rent were collected by the State, land would have no capital or selling value as between individuals.

Rent then measures the advantage which the possession of any piece of land affords to its owner. It represents the difference between what can be produced on the poorest land (for which no, or a merely nominal, rent is paid) and the particular piece of land in question. As between producers, rent is an equalizing factor; the payment of it places the cultivator of the best land in much the same position as the cultivator of the poorest land, by depriving him of the added advantage which fertility or situation has given to his land as compared with the poorest. This in itself is just, it places the whole body of producers on an equal footing, it prevents any one of them from profiting by something which is not due to his individual exertion.

On the other hand, as between producers and non-producers, the effect is the exact opposite. The non-producer, by virtue of his ownership of the land, takes from the producer the whole of the added produce which is due to advantage of fertility or situation, and, as the progress of society and the increase of population tend continually to raise rent, the gulf between the producer and the non-producer continually widens. The equalizing effect of rent continues as between the producers, but it results in an equality of poverty. Evidently, instead of being taken by non-producers, the rent should be equally distributed among the whole community. The practical means of doing this is to take land values for public revenue, and this would at the same time make possible the repeal of those taxes which burden production and fall most heavily upon the poor.

The foregoing considerations apply not only to agricultural land but to every kind of land, and they apply irrespective of the particular conditions in any one country. So far then as agriculture is a land question, it must be dealt with on the same principles as are applied to the land question generally. There cannot be one policy for agricultural land and another policy for other land, and this is all the more true because there is no fixed line of demarcation; land is constantly being transferred from one use to another according as the changing circumstances of society require; but economic principles and the rights of the people to the land do not alter.

The supply of land is not only limited by nature: it is still further limited by social causes. Land is held out of use for the pleasure of the owners, particularly for various forms of sport. Sometimes it is kept out of use from sheer neglect and inertia. A still more potent reason for land being held up is speculation. This is particularly noticeable in the vicinity of towns and in districts which are being rapidly developed, for example, near a new coalfield. Landowners, land agents and speculators instinctively recognize that as the supply of land is limited by nature and it is the prime necessity of life, its value is likely to increase, and where there is some special demand for it to increase rapidly. It is not like a stack of corn or a cargo of meat—it does not depreciate by being kept. In fact, it does not cost anything to keep land idle. No matter how valuable it may be, it is exempted from rates and taxes so long as it is unused.

These reasons explain why so much land is held out of use and why so much more is only indifferently utilized. As a result, the community is injured in two ways. It is deprived of the benefit of the land held out of use. The

competition for the land actually in use is increased, and the price that has to be paid for using it is correspondingly higher. The share of the national production of wealth which goes to actual producers is diminished, and the share which goes to non-producers is increased.

If land were rated and taxed upon its full economic value (but not including the improvements on it), it would no longer pay to hold land out of use. A continuous pressure would be imposed upon the owners to develop it, or to dispose of it to those who were able and willing to develop it. Land would be obtainable more cheaply. A less proportion of the produce would be taken by mere-owners, and out of what they did obtain they would have to return to the community at large, in the form of public revenue, a share depending upon the rate of taxation enforced.

The throwing of unused land into use, and of under-used land into better use, would stimulate the production of wealth; it would increase the demand for labour and so would enable the workers to demand and enforce a better return for their labour.

Land value used for public purposes would perform its proper function of equalizing the position of all members of society in relation to the land. The person who occupied highly productive or favourably situated land would gain no personal advantage out of that accidental circumstance, but the whole community would share in its higher value, and those who occupied less valuable land would be compensated by sharing equally in the whole land value.

On every ground, therefore, an overwhelming case is made out for taking land value for public revenue, and if it be taken by rating and taxation, the burdens which now hamper production and impose an unfair share of taxation on the poor and the industrious can at the same time be abolished. In addition, the process can be carried out by such steps and with such rapidity as may be convenient, and the benefit of the reform will be felt at its very earliest stages.

Carried to its logical conclusion, the State would become the universal rent collector. The occupier would have to pay the full value to the State. Land value would no longer be saleable between individuals. Land would be valuable only for use. The improvements alone would be bought and sold.

TENURE OF LAND

The two methods of land tenure at present in use in this country are freehold tenure and leasehold tenure. Freehold conveys the maximum right of ownership which the law allows. It has the advantage of giving to the cultivator the greatest freedom to make use of the land in whatever way he thinks best, although as we have also seen it leaves him free not to use it at all. It also has the advantage of giving the cultivator security for the improvements which he makes, and therefore encourages him to improve. On the other hand it has the disadvantage of requiring a large capital outlay to purchase the land, and this means that the cultivator has either to acquire less land or else he is left with less capital to improve and stock his holding.

Leasehold tenure saves the cultivator from the necessity of providing capital to purchase the land, but his freedom is restricted by the essential nature of this tenure. He is bound down to a definite method of cultivation by the strict covenants of his lease and is prevented from displaying originality

and applying more scientific methods. He is deterred from making permanent improvements by the knowledge that they will revert to the owner, and that he will lose in whole or in part the benefit of them. He is perpetually handicapped by the insecurity of his tenure.

The ideal tenure is one which is as nearly perpetual as possible at a rent which is based on an impartial valuation of the value of the land apart from the improvements, and revised from time to time as the land value varies. The cultivator paying that rent would have security of his holding, would not require to lay out money on purchasing it, and would be able to improve it with security. He would enjoy the practical advantages of a freehold tenure without its disadvantages. If the State collected the rent the rights of the community would be safeguarded. Tenants who have to pay the full rent for their land do not as a rule leave it idle or regard it as a mere counter for a gambling transaction. If the rent were revised periodically in accordance with the land value there would be nothing to gamble on. The State would take the value, be it greater or less. The tenant would therefore be forced to improve in order to pay the rent, but he would be charged no higher rent however much he did improve. He would only be charged more if the land itself increased in value owing to causes outside himself.

A system of this nature would be brought about by the application of the rating and taxation of land values.

It is sometimes said that although the taxation of land values is applicable to urban land, a better method of establishing the right of the community to agricultural land would be for the State to purchase it. Apart from the ethical and many other objections to it, this would be a financially disadvantageous proposal. The value of land, as we have seen, is at present inflated by speculation and holding of land out of use. The object of the State, we must assume, would be to have the land developed and not to play the part of the speculator. This means an increase of the available supply of land and a reduction of rents. The rents received would therefore not be equal to the interest on the purchase price, let alone supplying a sinking fund. There would be a deficit on the transaction (at least for a considerable period), and the deficit would have to be charged on the general taxation of the country.

CAPITAL

The capital employed in agriculture consists, on the one hand, of the permanent improvements such as buildings, drainage, embanking, levelling and so on whose useful life is of long duration; and on the other hand, of the live and dead stock such as cattle, horses, seeds, manures and the rest which require to be replaced at frequent intervals. Corresponding to this division is the demand of the farmer for long term loans to finance his permanent improvements, and for short term loans to finance his stock-in-trade. In the latter case the term for repayment must be short, otherwise the asset would be exhausted before the loan was repaid. This distinction is also expressed by the phrases, "long term credit," and "short term credit."

The word "credit," however, is one that is used in many figurative phrases which obscure its real meaning, and which foster the belief that this intangible something can be increased or decreased by manipulating the currency of a

country, and that by this means an increase can be made in the nation's capital, that is in its tangible labour products. Credit, strictly speaking, means ability to borrow the use of capital; and ability to borrow, in its turn, depends upon ability to repay or upon the security which can be given for repayment. The security which the borrower can offer consists first of his personal ability and character, a factor which is important but which is generally not sufficient, especially for bankers and others who have to invest other people's money; secondly, the land itself and the improvements thereon; thirdly, a guarantee by some other person or society.

Under a system of tenancy where the farmer can be removed from his farm at comparatively short notice, it is evident that the farmer cannot borrow for the purpose of making permanent improvements because he has no assurance that he will continue to enjoy them. Neither is it practicable for the farmer to secure upon the land the repayment of a loan for any purpose, except with the concurrence of his landlord, who would then become a joint borrower with him.

Under a perpetual tenancy it is possible for the farmer to give a charge on the land to secure a loan, but if the rent is revisable so as to absorb the whole of the land value, the security in this case would only consist of the improvements on the land. This is the state of affairs that the application of land value taxation would create. The improvements alone would be the effective security. This would, however, be no disadvantage to the farmer, because under existing circumstances of private appropriation of land value, land is most frequently mortgaged not for the purpose of providing improvements, but for the purpose of buying the land itself. The possibility of offering the land value as security, by increasing the competition for land and the price which has to be paid for it, injures the farmer more than it helps him.

The giving of security by means of a guarantee by a third party is, of course, well known, but the best means by which it can be done is through co-operative credit societies. These provide a mutual guarantee, reduce the risk of the individual guarantor, and enable the expert knowledge of those engaged in the industry to be applied to determining the wisdom of the proposed borrowing and the likelihood of it being repaid.

Co-operation can be applied not only to the supply of capital, but also in the utilization of capital. Every society of farmers who arrange for a common system of transport to collect their produce for market is applying the principle of co-operation in the use of capital, which is nothing more than economy in the use of capital.

Co-operative purchasing organizations and co-operative insurance organizations illustrate both economy in the use of capital and the increased credit possible to an association as compared with an equal number of isolated individuals.

LABOUR

The problem of labour in agriculture is to ensure that the labourer shall be adequately remunerated and have a better living, and that his labour shall be employed to the greatest advantage.

The rate of wages in agriculture is notoriously low, and although hours of labour have been reduced in recent years, they are still long. One of the main

factors keeping down wages is the lack of alternative employment, and particularly the difficulty of obtaining small holdings which would make men independent of an employer, and enable them to demand a better standard of payment. The shortage of housing accommodation accentuates the compulsion upon the worker to accept low wages. When he is housed in a cottage belonging to his employer he can be expelled from it the moment his employment is terminated, and he may then find it almost impossible to obtain other accommodation. This difficulty can only be remedied by the provision in rural districts of a greater number of cottages not tied to farms. The provision of these is hindered largely by the high prices asked for building sites and the burden of rates imposed on cottages when erected—two obstacles that the rating and taxation of land values would remove.

Apart from the actual rate of money wages paid to him, the agricultural labourer also suffers from the conditions under which he must lead his life, especially his comparative isolation and lack of social amenities. These have been somewhat mitigated recently (but at the cost of increased expenditure out of a meagre wage) by the advent of the motor-bus and of broadcasting. The primary cause of this isolation still remains: it is the excessive number of large farms, occupying a great area, but only employing a few men. More intensive cultivation and a greater number of small holdings would result in a greater density of population, and enable better social amenities to be provided.

An improvement in his wages and hours of work, his housing conditions and the social amenities available to him would no doubt increase the efficiency of the labourer. The economy of high wages applies as much in agriculture as in other industries.

The efficiency of the individual depends also upon the efficiency of the group, and here there is much lacking in British agriculture. Co-operation in agriculture provides an alternative to the large scale production which is possible in other industries. It applies to the buying of seeds, manures and other supplies, to the marketing of produce, including grading and branding and the other steps taken to secure a uniform and reliable standard of quality, to the provision of capital, to the organization of transport, to research and education and in other ways.

Although co-operation is so desirable and beneficial, it must be recognized that it suffers at present from great obstacles. It is only on a firm basis when the co-operators have a more or less equal interest in carrying on the system. It therefore requires a body of small holders or farmers who are not too dissimilar in economic conditions and who all feel the impetus to co-operation. It also requires that the members of the society should form a comparatively compact body geographically, otherwise many of the activities of the society will become more expensive and less beneficial. In England, with its great expanse of parklands, large farms, unused land, waste and woodland and its comparatively rare small holdings, the conditions required for successful co-operation are at present largely lacking.

It appears, therefore, that the most urgent of all problems is to improve the access of labour to the land by way of small holdings, and that the more this process goes on the more will that co-operation which is the basis of a sound rural economy be possible, the more will the small holder be able to earn, and

the easier will it be for the labourer to insist upon adequate remuneration and conditions of labour.

EXTERNAL FACTORS

The condition of agriculture is affected by various external factors, such as transport and monetary policy, which are amenable to the control of the State.

Irrespective of actual public ownership, the State has always reserved to itself the right to control the rates charged by such essentially monopolistic undertakings as railways. If, however, the viewpoint is conceded that such undertakings should be run so as to provide the maximum of service at the minimum of cost, the only effective means of securing this is by public ownership, as the object of the private undertaker always is to earn as large dividends as possible and service is only an incident to this. In any event, although it is feasible to control charges, it is much more difficult to control the actual quantum of service which is supplied in return, and to ensure that this is given at such times and with such frequency and under such other conditions as satisfy the consumer.

Motor transport has provided an alternative means of transport and has enabled speedy communication to be made to districts which were without railway facilities, but the control of motor transport is rapidly being assumed by the railways and the agricultural producer is being confronted with a still greater monopoly. If his industry were well organized on a co-operative basis he could provide his own transport or be in the position to bargain more effectively with existing undertakings, but at present he must take what is given to him.

The effect of Government borrowing and inflation upon the price level has been only too apparent during and after the war; and although its result has generally been detrimental to the farmer, a belief has been stimulated of the possibility of manipulating prices so as to benefit him. An alteration of the general price level, however, would not affect agriculture any more than other industries, and it is to the benefit of producers as distinguished from speculators that the general level of prices should remain as constant as possible.

Agriculture suffers, however, from certain fluctuations which are largely peculiar to itself. It is a seasonal occupation, and the product, especially the cereal harvest, becomes marketable at one particular time of the year. The price of corn is consequently depressed immediately after the harvest, and recovers during the later part of the agricultural year. The farmer who is compelled by financial necessity to dispose of his crop soon after the harvest gets a smaller return than the one who is able to wait. Farmers can remedy this difficulty by adopting co-operative methods of marketing, such as are operated by Canadian farmers who put the whole of their wheat into a pool and draw a payment on account and at a later date a balance payment adjusted to take account of the quality of the wheat supplied by each farmer and of the average price realized by the whole quantity marketed.

It has been suggested that a similar result could be achieved through stabilization of prices by a State marketing board. The danger of this method is that it might be used to *increase* average prices, instead of merely to secure to each producer the average price. If stabilization were used to increase

average prices it would become a form of protectionism, and would involve a reduction of imports from abroad. Apart from its undesirable effects upon the consumers of agricultural products, a general artificial increase in prices of such products is not to the advantage of agricultural producers. It merely means in the long run an increase of rent (an increased share taken by the non-producer), but no increase in the remuneration of farmer or labourer. Indeed, in so far as the farmer and the labourer are consumers of agricultural products, they must suffer by the increased price. It is only those who own land that permanently benefit. Similar observations apply to direct subsidies, and to the indirect subsidy given by "de-rating" of agricultural land; their effect also is to increase rent and not to benefit the producer. In any event, measures of this kind which impose a burden of increased prices or of increased taxation upon the mass of the population can never be permanent—they are liable to alteration with every change of government—and the farmer is unable to take a long view of his business because of the uncertainty with which it is enveloped.

CONCLUSION

Current discussion of agricultural economics is obscured by a number of more or less plausible fallacies. One of these is to regard the owner of land as performing some useful function in the industry. This idea has arisen because it has been more usual for the owner of land to provide the fixed capital, buildings and other long-lived improvements in agriculture than it has been in other industries, and he has been responsible for the repair and maintenance of this capital for the reason, among others, that a tenant on a short lease could hardly be expected to undertake that burden. But the provision of capital is the function of a capitalist and not of a landlord, and it is a function which the landlords of England have been performing more and more inefficiently. Private ownership of land is not necessary in order that capital should be invested in improving it; all that is necessary is security of tenure to enable the improver to recoup himself. The modified form of freehold that land value taxation would create (viz., a perpetual tenure subject to paying the full land value to the State) would provide all the security which is necessary for improvement, and it would also ensure that improvements were made, because the land value tax would be assessed on the full value of the land and collected without any abatement on account of non-use or under-use.

Another common fallacy is to talk of land as the raw material of agriculture. It is no more the raw material of the farmer than a building site is the material of the builder. Raw materials are labour products which are used or consumed in the manufacture of other labour products. Land is not a labour product, and in any case the whole aim of a rational agriculture is not to use up even the fertility of the soil but to maintain it more or less constant.* Land value taxation does not tax the raw material of the farmer, which consists of his seeds, manures, feeding stuffs, immature livestock, and stock-in-trade

* This fact supplies a hint of a practical principle to be observed in valuing agricultural land—namely, that the valuation should be based upon the land being in a normal condition of cultivation. This, I believe, is the practical effect of the rules applied in Denmark, where the system of land value taxation is applied to a highly developed agricultural economy. I do not know what principles are used in New South Wales and other parts of Australasia, where land value taxation is also applied in rural districts.

generally. It only taxes the value of the special natural and social advantages that the occupier of any plot monopolizes.

In any event taxation of land values is not a burden upon the cultivator, as such, but a burden on the landowner. Where the farmer is only a tenant, he does not bear the tax at all, it is borne by his landlord. Where the farmer is owner, he bears the tax as landowner and not as cultivator, and he bears no more taxation, however intensively he cultivates or however much he improves the land. The reasons why a tax on land value is incident on owners and is not shifted to tenants are explained in every text-book of economics. It is sufficient here to point out, that as this tax falls on unused land and has the effect of forcing it into use, the first effect even of a small tax on land values is to increase the competition of landowners to find hirers or purchasers of the land, and instead of their being able to get a higher rent and shift the burden, they will in most cases have to be content with a lower one.

The notion that land value taxation is a burden upon agriculture is possibly also due to a confused idea that it resembles a tax upon area of land, whereas it is based only on the unimproved value. When the unimproved value of land in our great cities runs up to several million pounds an acre, it is evident that tens of thousands of acres of agricultural land would only bear as much taxation as a single acre of this highly valuable urban land. Except possibly in England, where sweeping exemptions from rates and taxes have been given to agricultural land, the common systems of taxation impose a greater burden upon the agricultural districts than on the urban districts; and even in England the apparent exemption from rates and taxes enjoyed by agricultural land is illusory as far as the cultivator is concerned, for it simply means that he has to bear a greater burden of rent. The system of taxation and rating of land values would be far more advantageous to him than the present system.

The greatest handicap to agriculture is the enormous quantity of land which is held out of use, and the still greater quantity which is not used to its fullest productive capacity. This, as we have seen, increases the price or rent of land, prevents its sub-division, hampers a closer settlement based upon small holdings and farms of medium size and prevents the development of the co-operative system which is the farmer's substitute for mass production. For all these reasons, therefore, the application of land value taxation and rating is imperatively necessary for the well-being of agriculture. The small farmers of Denmark have recognized this for many years, and it is largely due to their initiative that a beginning of the policy has been made and that it is only a matter of time till further advances are effected.

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