Objectives, Prejudice and Techniques

in

THE TEACHING OF ECONOMICS

by

HARRY GUNNISON BROWN

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Objectives and Methods in Teaching the 'Principles' of Economics

READING A HISTORY of Greece back in my high school days, I recall running across a story—perhaps apocryphal—of a teacher of music who charged double rates of any pupils previously taught by any other teacher. There was so much for them to unlearn that the task of making competent musicians of them was, he felt, especially difficult.

Something of this same difficulty confronts the trained and conscientious teacher of economics. For many—perhaps nearly all—of those he teaches have picked up a very considerable amount of misinformation. This is largely in the form of popularly held fallacies which they have read in newspaper editorials, heard in political speeches or gathered in from street or barber shop conversations. And it is really pretty important—I was on the point of saying superlatively important—that they come to see clearly wherein each such common opinion *is* fallacious, and that the lesson and conviction be not temporary and superficial but permanent and profound. Otherwise these same students, in turn, will be —like those from whom they absorbed their ill-considered views—the sponsors and protagonists of unwise and injurious policies.

Among such fallacies are the following:

(1) That it is conducive to the general prosperity and to one's own prosperity to purchase goods in one's home town notwithstanding they can be purchased more cheaply elsewhere.

(2) That, however desirable it may be for us to trade with foreign countries, it is injurious for us to purchase goods

from a country on a "lower standard of living" than one's own.

(3) That if and because the people of a country have a low standard of living, therefore they are able to and will sell their goods at lower prices, *i.e.*, "undersell" goods produced in high standard of living countries—whereas, in fact, whether the standard of living is high or low has *nothing to do with the matter*.

(4) That business depression and unemployment result from the paying of low wages to employees who, therefore, are not able to "buy back what they produce," thus making these goods unsalable, and

(5) That to increase wages provides more employment.

(6) That for government to take by taxation or borrowing, the money *we* would spend or invest and to use this money for public works, is an effective remedy for unemployment.

(7) That to tax others for the purpose of helping out a special group—*e.g.*, to give benefit payments to farmers or pensions to the old—adds to the prosperity of the persons taxed because the recipients of the payments have more money with which to buy goods from those taxed.

(8) That it is the nature of machinery to reduce the opportunities for employment.

(9) That higher sale prices for land constitute a general economic gain.

(10) That the maintenance of the value of paper money is dependent upon their being a specie reserve, *i.e.*, "something back of it."

In the process of refuting these fallacies, the teacher can sometimes free the student from a number of his group or class prejudices, too. Of course it helps if the teacher himself is not too greatly thus afflicted!

I

THE STUDENT SHOULD LEARN—if he is ever to reason competently on economic problems, he must learn—the usefulness of deductive reasoning from broad generalizations. Such an empirical generalization as that men prefer more to less and, therefore, will usually choose to work in industries where the pay is larger rather than where the pay is smaller, does not have to be true without any exception in order to be most useful to us. If it is true *in general*, we can deduce, for example, the effect of a tax on production of a particular kind of goods—*e.g.*, potatoes or cigarettes—in raising the price of the goods taxed.

It is from such generalizations that we are able to deduce some of the most important truths of economics, truths that are highly significant for the determination of wise public policy.

Thus, the student may advantageously be taught how impossible it is to arrive by direct induction at the conclusion that a protective tariff does or does not make a country more prosperous. He may—and should—learn to look with suspicion on those superficial commentators who refer to the carefully worked out deductive reasoning on the matter as "mere theory" and who insist on direct appeal to "the facts." He may—and should—have pointed out to him that the relative prosperity of a country is the result of many things, *e.g.*, abundant natural resources, sufficient and good machinery, well-trained and skilled workers, unrestricted trade *within* the country, etc.; and that the contribution of either unrestricted trade with foreign countries *or* a protective tariff against their products, to this happy result cannot be inductively ascertained unless the effect of each other cause is first subtracted. In short, a valid inductive process would have to be, in this problem, the "method of residues," and in such a problem this method is obviously impossible of application.

To bring home to the student the ridiculousness of the contention that we should, in this matter of free trade versus "protection," reject deductive theory and rely on direct induction from "the facts," reference may be made to a satirical presentation of a similar inductive argument, attributed to Mark Twain. The statement was, in effect:

> The most dangerous place anyone can be is in bed. For more people die there than anywhere else.

We can imagine this line of argument to be carried further—as, in the case of the protective tariff, it often has been—as follows:

> Yes, your *theoretical* medical men may contend that sick people should be put to bed for recovery. But they're just *impractical, academic theorists,* unfamiliar with practical things. I'm a practical man. I certainly don't take any stock in mere *theory.* I look for the *facts* and the facts are that more people die in bed than anywhere else.

In considerable degree a good course in fundamental economics is also a training in applied logic. If the student has already been through a thorough course in formal logic, he may be somewhat advantaged. But the requirements for the first year or two of college work and, also, the chronological order in which college courses are taken vary from one institution to another and I am not inclined to urge that the course in logic be made, generally, a pre-requisite for the course in the "principles" of economics. Indeed, advantage may lie in either order: the applied logic of the course in economics—as of the course in any of the physical sciences—may be helpful in the course in logic if the chronological order of exposure is reversed!

II

WHERE THE THEORY being surveyed readily permits of it, the student should learn to see and express in quantitative terms, the relationships discovered. The relationships are

likely thus to become much clearer in his mind and to be better remembered. This does not mean that use should be made of the calculus or even of complicated algebraic formulae or of complicated graphs. If the study of economics is to have appreciable influence on policy in a democracy, it should be open to others than students who have majored in mathematics. *And it can be.* An understanding of the advantages of international trade, of the effects of increasing and decreasing circulating medium on the price level, of how deflation may affect employment, of the relation of price to cost of production, of the determination of a rate of interest, etc.—these do not require extensive preliminary training in mathematics. Such mathematical formulae and problems as are introduced into the basic course in economics should be simple. They should not be introduced for their own sake—and certainly not to give prestige either to the teacher as a skillful mathematician or to mathematical methods—but only as and when they really do help the student to comprehend important economic relationships. This, in my experience, they sometimes do in marked degree. And to accomplish this result I have found it unnecessary to go beyond arithmetic and the very simplest algebra. But students with considerable mathematical training and ability of course will handle even such simple problems as I thus give, with a quickness and facility which other students may not display.

Sometimes the analyses of economics are referred to caustically as not enabling us to make precise predictions. And economics is thus contrasted unfavorably with physics and chemistry. But, in truth, the difference is, at most, rather one of degree than of kind. Determining where a projectile will strike is a problem of physics. The investigator may calculate the initial force with which it leaves the muzzle of the gun. He may then correct his estimate of the path the projectile will follow by allowing for the influence of the earth's gravitation, and conclude that this path will not be a straight line but a curve. But before he decides just what the shape of this curve will be, he should take into account the resistance of the earth's atmosphere. Furthermore, if the projectile has been shot upward at (say) a forty-five degree angle, and with great initial velocity, allowance must be made for the fact that it goes through air of different densities. And what if, after calculations have been made, the barometric pressure changes? Or what if the wind is blowing? What, especially, if there are shifting winds which differ at various places through which the projectile passes? Would the person who scouts the reasoning of the trained economist then say to the physicist:

> Your alleged "science" is no good. It's just a lot of impractical theory such as we naturally expect from a cloistered "professor." According to your calculations the projectile ought to have struck this maple tree about ten feet from its base. In fact, it did not hit the tree at all but passed well to one side of it, and was considerably higher than you calculated. Hereafter, when I want to know how to aim, or where a projectile aimed in a certain way will hit, I'll listen to some practical man who doesn't bother with your academic "theories."

Again the reasoning of the man who insists that "the most dangerous place anyone can be is in bed, for more people die there than anywhere else"!

The truth is that the physicist, like the economist, can tell only what will happen *under given conditions* and can predict exact occurrences only as he knows precisely the forces in operation. In the laboratory he can exclude such forces as varying winds. But when applying his theories in the great out-of-doors, he is in much the same position as is the economist who applies his theories to a great and complex society.

Nevertheless the theories, alike of physics (or chemistry, etc.) and of economics are useful. The economist may not

be able to predict, in case a tax is levied on (say) the growing of potatoes, that the price of potatoes will be higher in the succeeding season or year than in the year before the levy of the tax. An exceptionally good growing season or year may make the output larger and the price lower despite the tax. What he can say is that the price will be higher with potato growing taxed *than* it would be under the same seasonal and other conditions if potato growing were not taxed. Here he is like the physicist who cannot say that if an arrow or other projectile is started on its course a little more to the right than on a previous occasion, it will necessarily land further to the right than before. An uncalculated gust may deflect it. What he can say is that it will land further to the right than it would land under the same conditions of air currents, etc., if it had not been pointed so at the beginning.

III

IN PRESENTING TO MY STUDENTS in the "principles" course the subject of international trade and that of the protective tariff, I make use of an illustrative arithmetical problem. By means of it, I endeavor to make them see clearly that a country with "a low standard of living" is definitely *not* able, on that account, to sell its products more cheaply than if it had a relatively high standard of living. And I am convinced that by using this problem, introducing additional and realistic modifications during the discussion, I can give my students a picture and an understanding of the approximate reality that I could not give them equally well in any other way. Thus I can make them see that, in the application of economic principles to this particular problem the economist follows much the same method as does the physicist who, by introducing into his hypothesis successive forces (initial velocity, gravity, resistance of atmosphere, etc.), is able approximately to picture and explain the course of a projectile.

Here is the problem as it is presented in the Appendix of my "Basic Principles of Economics":[1]

Assume that, in Country A, which has a high standard of living, a day's labor of one man can produce:

10 bushels of wheat or
2 tons of coal or
40 gallons of gasoline or
20 yards of cotton cloth or
5 yards of heavy woolen cloth or
10 bushels of rice.

But in Country B, which has a low standard of living (just because of the low productiveness of its labor), a day's labor of one man can produce

1/2 bushel of wheat or
1/6 of a ton of coal or
3 gallons of gasoline or
4 yards of cotton cloth or
1 yard of heavy woolen cloth or
2 bushels of rice.

We shall suppose, also, that these goods will sell in the world market at prices of

Wheat, $0.80 per bushel;
Coal, $4.00 per ton;
Gasoline, $0.20 per gallon;
Cotton cloth, $0.25 per yard;
Woolen cloth, $1.00 per yard;
Rice, $0.50 per bushel.

So as to make the problem as simple as possible, we shall ignore transportation costs. To do so will simplify and will not at all invalidate our reasoning so far as concerns the main point at issue.

On the basis of the above assumptions, what would be the income of the worker per day in Country A, if he produces wheat, coal or gasoline?

What price per yard or per bushel would be necessary to make such a worker willing to produce cotton cloth, woolen cloth or rice?

How high would the tariff have to be, therefore, to shut out the cloth and rice from Country B and establish these industries in Country A?

Now consider the case of Country B. What would a worker earn per day if he produced cotton cloth, woolen cloth or rice and sold it at the assumed world market price?

[1] Lucas Brothers, Columbia, Mo., 1942, pp. 509–10.

What price per bushel, per ton or per gallon would be necessary to make him willing to produce wheat, coal or gasoline?

Is it not clear that the people of Country A, with their *high* standard of living, could afford to sell wheat, coal and gasoline at a lower price, each, than could the people of Country B? Is it not ridiculous, therefore, to conclude that the lower standard country would undersell the other in all lines?

How high a tariff would Country B have to levy, to shut out the wheat, coal and gasoline from Country A?

My method is to spend some class time in advance discussing the general theory of international trade and the tariff; then assign this problem in the Appendix of my book for study; then give the class a similar problem with different figures to work during a class hour. During that hour I answer freely any questions on the problem which individual members of the class ask. For, simple as the problem may seem to a trained economist, not a few students seem puzzled as to just how to go to work at it. Another hour of class discussion may be necessary and is usually given. After that, nearly all members of the class (though perhaps not absolutely all!) have, I am convinced, a pretty thorough understanding of it.

As a rule, in giving the practice exercise for class work, I add a paragraph to the problem as given in my book, as follows:

Now multiply all the figures for a day's production in Country B (the country with the low standard of living) by twenty. This makes Country B have a *higher* standard of living than Country A, for its output per person is now higher in almost every line. Will its people still undersell the people of Country A *in the same goods* or will they not? If they will and do, does a low standard of living *have anything to do* with the ability of a country to undersell the people of another country?[2]

[2] If some carping critic should suggest that Country B's now enlarged output might somewhat lower (depending on the relation of its contribution, to the total world supply) the prices on the world market of the goods specialized in by Country B, his attention should be sharply called to the fact that it is then the *high* productivity and standard of living in Country B—*not* its *low* standard of living, as so often claimed—which is tending to reduce these prices!

For a good many students these last questions seem to clinch the matter, not always previously understood, of the irrelevance of standards of living. It is most interesting to hear students say at this point: "Why, the standard of living doesn't have anything to do with the matter, does it?"

But, as has already been noted, the physicist studying the theory of projectiles, would have a most incomplete and inaccurate picture of what happens to projectiles in actual battle, if he considered only initial velocity and the force of gravity. He must certainly pay attention to the resistance of the atmosphere. Likewise the economist, in such a problem as the one we have been discussing, must introduce the fact of *different* costs of production within the same country. Even if it is assumed that Country B cannot fully supply itself with wheat except at a (marginal) cost per bushel of $2.00, it needs to be recognized that perhaps *some* wheat can be produced in that country at a much lower cost. There may be *some* persons in Country B who can perform that kind of work so well or other work so ill that they would be willing to produce wheat for $0.80 per bushel *or less* rather than engage in another occupation. And there may be some farms or parts of farms so good for wheat raising and so relatively unfitted for other crops, that it would pay to devote them to wheat production even at a price of $0.80 per bushel or, even, considerably less.

By giving due attention to such facts, the student learns why the people of a country may advantageously produce at home a part of what they want of a given commodity (as much as can be produced at a less cost, or no greater cost, than the price of the foreign good) and import the rest.

Space can hardly be afforded here, nor is it appropriate, to go on with all the further complications, monetary and other, that are necessary to an approximately complete theory of international trade and the effects of tariff barriers.

Enough has been presented for the purpose, which is to indicate, in part, a method of approach in teaching economics to the undergraduate student; and to indicate, perhaps especially, a way of making him see that the "mere theory" he may have heard mentioned slightingly can, if carefully studied, give him a far better picture of economic society and the forces at work in it than he could possibly get in any other way.

IV

No study of economics is at all complete, of course—and this is implied in some of the previous discussion—if it does not lead the student to some awareness of the pressure groups and political forces in general by means of which, though inconsistently with what may be considered the normal mode of operation of the system of free private enterprise, laws are promulgated which lay some of us under tribute to others of us. Greater realism and interest will be given to the course if the teacher—or the text or both—cites particular cases. Protective tariffs combine such collection of tribute with general economic waste and loss, *i.e.*, even if and when some gain at the expense of others, they do not gain (on the average) what the others lose.

Obviously many things in the student's background and training may help him to understand and appreciate the nature of the problems that confront him in the field of economics. If he has a broad background of history, if he has studied government and comprehends the working of political forces, if he has a practical understanding of psychology either from a study of that subject or from wide reading in general or wide experience with men, if training in the natural sciences and mathematics has familiarized him with careful research and quantitative thinking, if a study of logic has developed skill in distinguishing valid reasoning from fallacy—if the student beginning the study of economics is equipped with all this background he will thread the devious paths of economic analysis with a sure-footedness that would otherwise be impossible for him. But teachers of economics cannot expect most of their beginning students to have had all of this very desirable preliminary training. In practice, the college student pursues various lines of study simultaneously and the teachers of none of them can well exclude—nor would most economics teachers wish to exclude—all students who have not given extended study to all the others.

In this connection, however, I do want to register my dissent from a view that seems to have gained favor at a few institutions of higher learning which enjoy a certain prestige, the view that in place of beginning courses in various separate social studies, such as economics, there should be a more general and all-inclusive course. This course includes or is expected to include work in history, government, economics and perhaps anthropology and sociology. It is supposed to be, thus, an "integrated" course in the social sciences.

Unless a very great deal of the student's time is devoted to such a course for perhaps a year or more, the economics part of it is likely to give him only the merest smattering of economic principles.

But what concerns me especially here is the assumption that the student is better equipped to understand and profit from economic analysis through having it preceded or accompanied by (and so in some sense "integrated" with) all or most of the other social studies, than by having it preceded or accompanied by work in a variety of other fields such as some of those referred to several paragraphs earlier. And since a student's period in college is limited, it is unlikely that he will ordinarily be prepared in *all* of the various fields which might be helpful in his study of economics.

My own opinion is that we should encourage the would-be economist to seek an understanding of many things other than economics, to the end, among others, that he may be a more trustworthy guide in the field of economics itself. But I would not prescribe for him a particular and extended sequence of courses in the "social sciences," to the probable exclusion of work in some of these other fields, on the basis of any theory that thereby his study would be more "integrated."

I do not think the general course in economics should be chiefly descriptive and factual nor that it should be burdened with definitions. Rather should it be, in the main, a course in applied logic. Some textbooks in the subject are heavily padded with factual data which the student feels he must learn in order to "get a grade" but from which he will gain no understanding of cause and effect relationships and no significant economic philosophy. Those facts, almost inevitably, he will soon forget.

Nor do I believe that the college student should be required, or encouraged, to take, before beginning his course in the "principles" of economics, an introductory "description of economic life." Such a course gives no training in analysis of cause and effect relations. To the student who enjoys reasoning, it is likely to be a bore—and, in general, college students ought to be trained to reason rather than merely to memorize detailed facts. Furthermore, it is not likely that such a purely factual and descriptive course will be much help in the course in "principles," even on the factual side. Students commonly have some knowledge to begin with of the superficial aspects of our economic life, enough to build on in the "principles" course. Some bits of detailed factual information may, indeed, have to be given them. But such information is, as a rule, most effectively presented along with the study of its fundamental significance; surely it does not justify a year-long or a semester-long preliminary course devoted merely to factual details. There is too much else—mathematics, logic, physical science, psychology, etc.—that is of greater value.

V

STUDENTS SHOULD BE ENCOURAGED to question the teacher fully and freely. They should be encouraged to bring up for careful consideration their objections to the reasoning presented by the teacher and the textbook. Such objections should be considered fairly. No attempt should be made to discredit any objecting student (unless he be deliberately discourteous) or to raise a laugh at his expense. The student should not be asked to accept any statement of principle, any chain of reasoning, as right, on the authority of the teacher, however able the teacher may be, or on the authority of the textbook, however competent the teacher may believe the author to be. If the teacher cannot make clear to sincere and conscientious students (who are not hopelessly allergic to learning) that the economic forces in operation are such as to make inevitable—or, at any rate, most probable—the conclusions at which he has arrived, then there must be something wrong with the conclusions or with the teacher's own understanding or skill in exposition.

The student should be made to see the relation of his study to welfare. This should not be a difficult goal and, in fact, reference to the significance of the laws or principles studied, for the determination of welfare policy, is bound to add to the interest of the subject. But such emphasis does not mean—it must not be allowed to mean—subjectively warped analysis. Instead, every effort must be made to train him in objective thinking on cause and effect relationships. Indeed, only as he gains an understanding of these relationships can he have confidence that he will ever know through what economic policies the general welfare can be furthered.

Nor is there any intention to suggest that the teacher should become a preacher or exhorter, even for so good an end as the general welfare. If the home, the playground, the school, the church, etc., have not given to the student any spark of altruism or any spirit of idealism, it is not likely that a college course in economics will do so. The task of the teacher in any science is supposed to be primarily to train the mind, not to develop idealism or sympathy. But some part of the analysis presented should be—and often is—directed to showing that exploitation or parasitism has other forms that are less obvious than burglary, highway robbery, bank robbery and forgery, and that the more subtle forms of parasitism are nevertheless of the same genus as the more obvious ones. From such a showing, though the teacher do no exhorting, there may issue, as a by-product, a strengthening of social sympathy and idealism and, if there be already a conscience, an informed and sensitive social conscience.

One of the most important illustrations of parasitism—perhaps, in our society, the most important—is to be found in the private enjoyment of the rent (including royalties) of natural resources and sites. Yet because of long habituation and, too, the common and unanalytical use of the term "real estate" to include both land *and* constructed capital such as buildings, the beginning student of economics ordinarily, has not even thought of such rent as involving parasitism or as essentially different from any other property income. He will need to have the different types of income explained. If this is not done—and thoroughly done—in his course in economics, he will be, however fully inconsequential topics are treated, only superficially educated in the most fundamental economic problem of all, *viz.*, that of the relation of men to the earth on which and from which they must live.

How shall the essential facts be brought home to him? In my opinion he should have called to his attention early in the course the general idea of exploitative or parasitical income, with due reference to burglary, highway robbery, forgery, etc., as means of getting something for nothing. Such relatively "respectable" incomes as the excess gains of monopoly should be compared with these others. So, likewise, should be compared the gains realized by such methods of competition as are prohibited by the Clayton Act and the "cease and desist" orders of the Federal Trade Commission. Also, it may be well to refer to the limited number of frequencies for broadcasting and the consequent high value which can inhere in an *exclusive privilege* of using one or more of these frequencies. The question may be advantageously raised whether an income so received does not resemble the income a person might derive from the exclusive privilege (which he might rent to others) of using Lake Michigan or New York Harbor, or the exclusive privilege (again, rentable to others) of enjoying the sunshine.

Preferably, I think, at a later point, after capital has been studied, its dependence on saving pointed out and its serviceability or productivity made clear, the student should have called to his attention the important distinction between capital and land. He ought certainly to arrive at a realization that the individual landowner did not and does not bring his land into existence by saving and that it was not through saving by such owner that his land gained its location advantages and rental value. In any analysis that is at all adequate land rent becomes assimilated, in large degree, to income from monopoly, from the exclusive privilege of using a radio frequency or a river, lake or harbor and, indeed, from the ownership of slaves.

Superficial analysis will not suffice. The effects of monopoly, slavery and private income from the rent of land must

be understood in their social aspects. A particular owner or part owner of a monopoly may have *bought* this monopoly from a previous owner at a high price (because of the anticipated high income) and may, therefore, receive thereafter *only an ordinary per cent return on the price he paid* for this ownership. But the student should be made to *face the fact* that the excess price charged by the new monopolist for goods or services produced by the business, over a price which would yield a normal competitive return on a reasonable *cost of construction* of the plant, is none the less parasitism. It is as if a particular tapeworm in a human host's intestine had gained his place by *purchasing it from a previous occupant*. Would the human host consider that he "ought" for such a reason to remain a host forever!

A similar analysis and questioning of the ultimate relations involved should be made with regard to income from slave owning *and* income derived from charging others for *permission* to work on and live on the earth in those locations where work is reasonably productive and life reasonably pleasant. Is it the moral duty of the slave to continue to be a slave if and because his master has *purchased* him for a good price and is, therefore, making only a "reasonable" or *ordinary* per cent on his investment? Is it the moral duty of the landless *never* to protest the land rent system in *any way* or to urge *any change* in the comparative tax rates on land rent income and other income—even a change so *gradual* that it would require a *hundred years* to complete it!

Whatever may be said as to an appropriate remedy, I believe it can be fairly insisted that a study of economics which claims any semblance of completeness—which claims to deal at all adequately with the principles and significant phenomena of the subject—but which does not bring the student *face to face* with the problem of parasitism, *including in parasitism the institutional land rent system to which he is habituated*, is pretense and sham.

In this connection it is worth while contrasting the problem of the economist who seeks to promote desirable economic policy, with that of the physician who seeks to apply a new drug or technique in healing. To get his drug or technique used, the physician has to persuade, at the start, but a single patient. It is then—unless something goes very wrong—not too difficult to try the method on others. Indeed, with a few fairly obvious successes, its use may spread rapidly. But the economist eager to promote economic reform cannot even get his proposals tried at all in any democratic community or country without the support—at any rate the tacit consent—of a majority. Until it is tried, many will argue against it as "untried" and "pure theory." Yet until these objections are somehow overruled, it cannot be tried!

The idealistic economist, nevertheless, must not succumb to defeatism. He must believe—certainly he may at least hope—that even majorities can be sometimes persuaded, at any rate in some communities which may then become exemplars of other communities. He must believe that his science contains the words—at any rate *some* of the essential words—of social salvation. Only so can his work continue to be inspired by the zest of anticipated usefulness.

- 2 -

A Teaching Approach to the Incidence of Taxation on Capital

THE INCIDENCE and the various possible effects of taxation of capital and of the income from capital are, unfortunately, none too well understood by legislators or the general public. Confusing comments on the subject appear even in the writings of some professional economists. Yet the principles which must be appealed to for the explanation of the incidence and effects of such taxation are simple. With an appropriate technique of exposition, these principles can be made clear to college undergraduates and, indeed, to students in the beginning course (the "principles" course) in economics. If only we could hope, thus, to give a clear understanding of this and a few closely related economic problems to the majority of students in *most* of our colleges and universities, the chances should be at least a shade better for more intelligent future tax legislation!

I

TO UNDERSTAND THE SUBJECT of taxation of capital it is essential that the student have some understanding of the relation of the interest rate to the productiveness of capital. An important fact in this story is the fact—or principle—of "diminishing returns." The more capital a community has available, the less is the significance of an additional unit of capital. If we have only a little capital, we seek to have it in the most important forms. If we have a great deal more capital, we can afford the less essential buildings, machines, etc., and we can afford many desirable—but not superlatively important—improvements in quality.

The principle of diminishing returns from capital can be simply illustrated by the case of a farm which the owner, we may suppose, cultivates with the aid of two sons. To have *some* capital—tractor, harrow, reaper, barn—is overwhelmingly important. Without any capital at all it would not be worth while for the owner to try to farm. But to have, for use on his farm and with the three workers, $1,000,000 worth of capital would be ridiculous.

There is not space here—nor is it desirable—to go carefully into all of the complicated ramifications of the theory of interest. What I particularly want to do, rather, is to present a type of arithmetical problem which I regularly require students in my classes to work on, illustrating the principle of diminishing returns, and to show how such a problem can be used in making clear to undergraduate students the facts regarding taxation of capital. There is nothing new in what the figures show or in the use of such figures to illustrate diminishing returns. It is, however, my very strong impression that almost no teachers of economics make their students actually practice on such problems even in those cases where such arithmetical illustration is given. And it is my experience that the working out of such problems by students, as compulsory practice exercises, with ample opportunity for questions and discussion, is pedagogically most advantageous. I was about to say it is indispensable!

Following, in smaller type, is a problem—taken from the Appendix of my "Basic Principles of Economics,"[1]—such as I regularly assign to students in my class in "General Economics." I have interpolated here, between the quoted paragraphs, some explanation and discussion. In my class, I do not assign the problem until the general theory of the subject has been discussed during a number of class hours.

[1] Columbia, Mo., Lucas Brothers, 1942.

Assume a miniature community having one hundred business establishments. Each establishment includes a piece of land, improvements and other capital and a certain number of workers (which number we shall suppose to remain unchanged for the period covered by this problem). These establishments we may call A, B, C, D, E, A′, B′, C′, D′, E′, A″, B″, and so on. On each of these establishments the added net output from the use of successive units of capital is as follows:

From the fifth $1,000	$85
From the sixth $1,000	75
From the seventh $1,000	70
From the eighth $1,000	66
From the ninth $1,000	63
From the tenth $1,000	60
From the eleventh $1,000	57
From the twelfth $1,000	55
From the thirteenth $1,000	53
From the fourteenth $1,000	52

If $980,000 of capital has been accumulated and is to be used in the community, what is the rate of interest that will satisfy the conditions of equilibrium in the market?

The interest rate satisfying the conditions of equilibrium for this problem is 6 per cent. At 6 per cent each establishment (*i.e.*, its manager) would eagerly bid for the ninth $1,000 of capital, which he expects to add $63 to the output of the establishment, since the capital would thus add to the user distinctly more than must be paid to the lender. At 6 per cent or but infinitesimally less, it should be possible to persuade the owners (or managers) of (say) eighty of the establishments to borrow a tenth $1,000 of capital, since the tenth $1,000 would add to the output a net (*i.e.*, in excess of repairs and allowance for depreciation) of $60 a year. If each of the other twenty establishments might also possibly be willing to borrow a tenth $1,000 at about 6 per cent, it should be clear that they would not offer any higher interest rate to get it, since then the outlay in interest paid to the lender would exceed the $60 yield to the user.

It will probably be clear to the reader that a *higher* rate of interest than 6 per cent could not continue under the assumed circumstances since there would be capital left over which could not yield the higher rate and which the owners would offer in competition, so lowering the rate down to 6 per cent. Suppose, for example, a rate of 6.5 per cent. With such an interest rate it is obvious that no establishment would use any capital—if it must be borrowed—beyond the eighth $1,000. For the ninth $1,000 would add to the annual output only $63 and the tenth only $60, either of which is less than the interest that must then be paid to the lender for the use of this additional capital. With each of the one hundred establishments using only $8,000 worth of capital, the entire one hundred establishments would be using only $800,000 of the available $980,000 of capital. This would mean $180,000 of capital unused and yielding the owners nothing—unless the owners used excessive amounts on their own establishments and so reduced their returns well below 6 per cent. Rather than do so, they would offer to lend at less than the rate of 6.5 per cent and their competition would certainly tend to bring the rate down to 6 per cent.

But if the rate of interest under the conditions assumed in our problem could not be above 6 per cent, neither could it be below. A rate appreciably below 6 per cent would make the manager of each establishment desire to use at least $10,000 of capital and a rate below 5.7 per cent would make each such manager eager to use $11,000 capital. Thus there would be a total wanted, for the hundred establishments, of $1,100,000. But since the amount of capital available is only $980,000, the amount wanted is $120,000 in excess of the amount to be had and bidding of would-be borrowers must inevitably push the rate up to 6 per cent. At approximately 6 per cent, several establishments (*e.g.*, eighty) might be induced to use $10,000 of capital each, but none would use any more.

In real life, the figures for gain would not be thus precisely the same for each establishment, and perhaps understanding of the solution of the problem will be aided if allowance is made for that fact. The variety of real life—as contrasted with the formality of the illustrative figures used—I usually mention in discussing the problem with my students. Thus, it might be that the 10th $1,000 of capital will add $60.01 or more on each of eighty of the establishments, will add barely $60.00 on the eighty-first, and will add $59.99 or very slightly less on each of the remaining nineteen. On that basis, it should be clear that eighty establishments would definitely gain by borrowing the 10th $1,000 of capital at 6 per cent and that nineteen would definitely lose by doing so, while one would be on a margin ("on the fence") of indifference. The rate of interest satisfying the conditions of the problem would still be 6 per cent.

But in setting out a formal problem for students to work, it seems best not to include such complications, however desirable it may be to bring them out in discussion after the problem is worked (or while it is being worked, if questions make this seem necessary).

II

LET US NOW, however, go on with the next step in our problem:

> If the owner of establishment A has saved and himself owns $14,000 of this capital, then would he be likely to lend some to others or to borrow still more for use in his own business? How about the owner of B if he has saved $12,000? How about the owner of K″ if he has saved and himself owns only $4,000 of the total $980,000 in the community. Would he lend or borrow and why and how much?

After having had a similar problem explained in their textbook and, perhaps, by lecture as well, students will, nearly all of them, realize that A would lend the 14th $1,000, since it would add to output on his establishment only $52 a year or 5.2 per cent, whereas he could lend it for $60.00 or 6 per cent. A would lend, also, for a like reason, his 13th $1,000 of capital, his 12th and his 11th, for even from the eleventh, using it himself, he can gain only $57 a year whereas the competition of borrowing establishments for it will enable him to get $60.00. As regards the 10th, he will be indifferent whether to use it himself or lend it—might decide by flipping a coin! B, also, will lend, but not so much. K″ will borrow, for, from the 5th $1,000 of capital his net output will be increased by $85 while the interest he must pay is $60, giving him an advantage from borrowing of $25. There is also an advantage, though a progressively smaller one, from his borrowing of the 6th, 7th, 8th and 9th $1,000. As regards the 10th, he would be, at 6 per cent, indifferent whether to borrow it or not.

Though the theory of interest on capital has been carefully and fully explained in advance and though it has been illustrated in a way similar to that in the problem which we are here discussing, I have found it advantageous to give students a problem like this as a *practice* exercise before holding them responsible for it on a *test.* While they are working on this practice exercise, I go from one to another, answering their questions. We spend a class hour on it and, by the end of the hour, most of them seem to have pretty well got the idea, although there may be some further questions at a succeeding class period.

One of the difficulties is the fact that, to contain the problem in limited space and make it not too long to work in a reasonable time, I give the capital in $1,000 units and, therefore, the gains from successive units of capital are discontinuous. That is, instead of the gains diminishing infinitesimally

as they would if the capital were represented as increasing by infinitesimal increments, the successive figures for gain from capital diminish by jumps,—from $85 to $75 to $70 to $66 and so on. Some students, working on the problem given here, think the answer may be 6.3 per cent or something between 6.3 per cent and 6 per cent. To those who ask if it would not be 6.3 per cent, I direct the inquiry whether they would themselves borrow a 10th $1,000, paying $63 a year for its use, when it would yield them only $60? The usual answer is in the negative. Then I ask if they think others would be likely to do what they admit they would not do? When I receive a negative answer I ask how, then, the owners of the last $80,000 worth of capital, out of the total of $980,000, are going to get it used and whether they would rather use it themselves, getting 5.2 per cent, 5.3 per cent, 5.5 per cent and 5.7 per cent from it, when they might instead lend it at 6 per cent. It is important, I think, thus to bring the problem home to the student, making him *personalize* it,—making him consider what *he* would do under the given circumstances.

Those students who think that the interest rate in this problem might be *between* 6.3 per cent and 6 per cent are not fundamentally illogical. For if the total capital of the community, $980,000, is divided into units much smaller than $1,000, no establishment would have to take the entire 10th $1,000 but, in place of its doing so, each establishment would take a *part* of the $1,000, say $800. But this solution would mean a division of the total capital into units of $100 or, if the total capital were (say) $982,723, into units of $1; and it would mean that the stated problem must indicate how much *each such unit* would add to the annual output on each establishment—for the gain does not necessarily diminish at an even rate. Thus, the mere statement of the problem would require far more space and the process of finding a solution would certainly be longer. Yet the result would be only slightly different and the principles involved would not be different at all.

We must remember, of course, that in real life the borrower, like the lender, does not know just how much will be added to his output by each successive improvement in machinery or increase in any kind of capital. He can but use his best judgment in deciding whether to borrow or lend and how much. A borrower of optimistic proclivities may find lenders, on the other hand, so pessimistic towards his abilities and prospects that they will not lend to him except at rates which look excessive to him but which look to the lender, who may balance them in thought against possible loss from failure of the would-be borrower's enterprise, not high at all.

We may note, too, that a particular establishment might increase its labor force by drawing labor away from some other establishment, and so be able to use advantageously an increased amount of capital. And it may, in similar manner, draw *land* away from other establishments. However, an establishment of excessive *size* as regards labor *and* land *and* capital, may be, just for that reason, relatively inefficient. In any case, the total labor force and sites and natural resources are limited. If, therefore, there are in the United States at any given time, $320,000,000,000 in capital, it should be clear that the interest rate must be lower than if—all other things being the same—the available capital were less by (say) $15,000,000,000. It should be equally clear that the savings of any one person (amounting to, for example, $20,000) could not normally be lent at a rate higher than the marginal gain from capital—6 per cent in our problem under discussion—since these savings would have to compete with the savings of many others. Borrowers would use the savings of

these others and would get along without the less necessary kinds of capital or the marginal additions to the quantity or quality of their capital, rather than pay a particular lender more than this 6 per cent. Thus they would leave the too grasping lender with no one to borrow from him.

But let us go on further with the problem:

What would be the effect on the total annual output of goods and what would be the effect on the rate of interest if, because of widespread spendthrift habits, too little is set aside for replacement of depreciated capital, and the capital of the community decreases to $885,000?

What would be the effect on the interest rate if widespread saving increased the capital to $1,084,000?

If the student has understood the foregoing solutions—and I believe the method I follow with my classes results in substantial understanding by 95 per cent or 98 per cent of the students—he will experience no difficulty here. On the assumption given, that spendthrift habits have reduced the total capital of the community to $885,000, the total annual output of goods will be less. The lost $95,000 of capital would have aided labor and in its absence productive efficiency will inevitably be decreased. But the interest rate which will get the available capital all used while yet not leaving a demand from borrowers in excess of the capital available to borrow, is now 6.3 per cent. And if, on the other hand, thrifty habits and consequent increased saving, with resulting increase of capital equipment, brings the total available capital to $1,084,000, the interest rate will tend to be at or about 5.7 per cent.

III

AND NOW WE TURN to the last paragraph of the problem, in which, for the first time, there is reference to the taxation of capital:

Going back now to the interest rate found for a total capital of $980,000, what would be the interest rate lenders would charge and borrowers would pay to lenders, if the state should take, each year, in taxation, two per cent of the value of all capital, *viz.*, $20 on each $1,000?

Perhaps this question, as stated, is not quite clear to the common run of students. Most students are entirely unfamiliar with current taxation practices. They may not realize, therefore, that the property tax, as levied in American states and cities, is commonly charged against the titular owner regardless how much of the property is offset by debt. Thus, if K″, in our example some paragraphs ago, has saved and himself owns $4,000 capital and has borrowed (say) $6,000, so that the total capital to which he has title is $10,000 worth, this tax would take $200 a year from the income yielded by the $10,000 of capital to which K″ has title. Note that it is not the lender who is taxed in this case, by taxation law and custom, but the *borrower* and *user* of the capital. But perhaps the burden finally rests on the lender, nevertheless, so far as concerns the amount of his loan. We shall see.

Consider again borrower K″ and how low an interest rate the lender must charge if K″ is to borrow the 10th $1,000, which adds only $60 a year to his output. On the basis of our previous assumptions he would be "marginal," *i.e.*, "on the fence" or *hesitant* about borrowing this 10th $1,000 at 6 per cent but would definitely gain could he borrow at any lower rate, even at 5.99 per cent. But now the tax will take $20 out of the yield of $60 from this added capital and so will leave him only $40. Obviously he *cannot now afford* to borrow this capital unless the interest rate is lower than before, *i.e.*, 4 per cent instead of 6 per cent (or 3.99 per cent instead of 5.99 per cent). And *similarly with all other borrowers.* The interest paid to lenders definitely tends to be *lower than before by the amount of the tax.* If it is not lower to that degree, borrowing will decrease and lenders will be unable to get their capital used by borrowers.

But in order to make perfectly clear to the student that the interest return must be less by the amount of the tax on capital, I call the attention of my class particularly to the case of the lender. The lender's case is that of (say) B who has $12,000 of capital and was inclined, in our earlier reference to him, to lend the 12th and the 11th because a return of $60 on each was better than to use this capital himself and get from it only $55 and $57 respectively. How is it with him now that we are supposing a tax on capital? Surely he will be as eager (relatively) to lend at 4 per cent as he previously was to lend at 6 per cent. For the tax on capital, of $20 a year per $1,000, will reduce his net return from the 12th $1,000, if he uses it himself, from $55 to $35. Surely he would rather *lend* it and receive $40! And the return from the 11th $1,000, if he uses it himself, will be reduced by the tax from $57 to $37. This, too, he will be glad to lend for $40 or 4 per cent rather than use it himself.

Any tax, then, on capital, which is levied on the *user* of the capital, will reduce his income from it by the amount of the tax if he is the unencumbered owner and, in so far as he has borrowed what he uses, will reduce in like degree the income of the lender.

This fact it is important to make the student understand, to the end that he may contribute to public enlightenment on a matter concerning which confusion of thought is widespread. Again and again it is claimed that bonds, mortgages, and notes unsecured by mortgages must be especially taxed, on the ground that the owners of these so-called *intangibles* "escape" the taxes levied on such tangible property as buildings, machinery, livestock, etc. Of this view the student now knows what to think. He sees that lenders, whether on mortgage or otherwise, do *not* escape but that, on the contrary, by whatever amount the gain from the use of borrowed capital is cut down through taxes on it, *by that amount* lenders are *really* taxed, since the per cent they can get on their loans is reduced.

There is here no intention to argue that lenders *ought* to be thus taxed or that capital ought to be taxed. The contention is merely that *if* capital is taxed and *if* its net yield to users, including borrowing users, is thereby reduced, the loss, as regards the amounts borrowed, *falls on the lenders*—that they definitely do *not* "escape" taxes which titular owners of capital have to pay.

This fact has been too seldom clearly brought out even in books on taxation and public finance. Ordinarily there is comment on the difficulty of collecting special and additional taxes on "intangibles" and on the resulting temptation to evasion and false statement on the part of taxpayers. There may be suggestions looking to reduction of the *rate* of taxation on intangibles, in the thought that thus evasion might be substantially lessened. But rarely is there forceful presentation of the fact—as indicated above—that bondholders, mortgage owners and lenders generally, *do really pay* when capital in general is taxed, and that the whole idea of a special and additional tax on intangibles is economically foolish. Such a tax is unfairly discriminatory. It is economically harmful in that it takes more from the income of capital loaned than from capital used directly by the owner and thereby discourages lending and tends to interfere with the use of capital by borrowers who may well be, in many cases, able to use it more productively than the owners.

The contention has been made in this paper that when capital is taxed, the lender does not "escape" but loses, so far as his lending is concerned, the entire amount of the tax on the capital in which his savings are embodied. This conclusion would not apply, of course, as regards loans made *before* *the imposition of the tax on capital.* If, for a long time, capital were not taxed and its net marginal yield were, on the average, 6 per cent and if certain savers had loaned at 6 per cent to borrowers, the borrowers would still be liable for the 6 per cent to the lenders when, later, a 2 per cent tax on capital made their returns minus taxes only 4 per cent. But *new loans and renewals would be made at the lower interest rate* of 4 per cent.

Capital is everywhere taxed in the United States and pretty generally in other countries. But it is to be noted that *if* we had a *purely local* tax on capital, it would not compel lenders to lend at appreciably lower rates than if there were no such tax, since they would have the alternative of lending in surrounding areas where the tax was not levied.

It should be noted, however, lest someone get the idea that lenders would then have an advantage over users of their own capital, that a similar alternative is available to any persons who might be saving and investing, even though they were not and did not intend to be lenders. For they could invest their savings directly in the construction of capital in the jurisdictions where the tax did not apply and where, therefore, they would themselves receive the entire product of their capital, undiminished by claims of government.

Here we may note a significant fact about taxes on capital in one jurisdiction when there are none—or, since complete freedom of capital from taxation is indeed rare, when the taxes on capital are appreciably *lighter*—in other jurisdictions and especially in neighboring ones. In general, those who save will invest in capital construction where their return from the capital is more rather than where it is less. Inevitably capital tends to decrease in the jurisdiction where it is heavily taxed and to increase in the jurisdiction where it is taxed lightly or not at all. And where capital decreases, labor, being less well equipped, tends to be less productive and unable to command wages so high.

In the jurisdiction where capital is heavily taxed, the relative scarcity of capital tends to raise the rate of return on it so as, partly at any rate, to offset the tax. Thus, owners of capital, *including lenders,* may, finally, not have their returns on capital in that jurisdiction reduced by the entire amount of the tax. But this is *only because* a considerable number of savers—including lenders—have sent their savings to other jurisdictions and have so made capital in the capital-taxing jurisdiction relatively scarce and its marginal yield (before subtracting taxes) higher. In any case, if and so far as the net rate of return from capital is reduced by a tax on capital, lenders' returns would be reduced along with the returns of capitalists who themselves personally manage their capital.

It is reasonably probable, too, that taxes on capital which greatly reduce the net per cent return on capital to those who save, will not merely drive capital into other jurisdictions but will lessen the inducement to save and invest and so make the total amount of capital less. For this reason also, the heavy taxation of capital or of the income from capital may bring it about that labor is less well provided with tools and equipment and is, therefore, less productive and not able to earn wages as high as otherwise it might earn.

Taxation which draws, for public expenditures, on the geologically-produced and community-produced annual rental value of land, even though it may take substantially *all* of this annual rental value, definitely does *not* drive capital into other jurisdictions. It definitely does *not* discourage saving and capital construction. But it *does* discourage speculative holding of good land from productive use. Thus, such taxation is in every way, as compared with taxation of the buildings and other equipment men make, favorable to effective production and to the welfare of those who contribute to the productive process. Taxation of land values (natural resources and sites) does not penalize labor or the saving which is essential for the accumulation of capital. It draws only from what landowners are able to get by charging for *permission* to work on and live on the earth in those locations made advantageous by geological forces and community development and for *permission* to draw from the earth mineral and other subsoil deposits.

Conceivably, in generations to come, broadly trained historians will look upon it as one of the most amazing evidences of men's prejudice and lack of understanding in outgrown economic "dark ages," that for centuries a privileged group, the landlords, were allowed to appropriate for their own use and enjoyment the rent of land.

- 3 -

Some Recent Academic Criticisms of Land Value Taxation: Are They Intellectually Respectable?

A YOUNG ECONOMIST FRIEND who had become interested in Henry George and the proposal to appropriate the rent of land by taxation, once told me that when, as a graduate student, he had commented on the matter to one of his teachers, he received a friendly warning. He was informed that the land-value tax idea was not generally favored by economists and the suggestion was made to him that, as a young economist, he would do better not to give it too hasty support. Another professional economist, of somewhat greater years and experience, and joint author of a book in which a high land-value tax was favored, confided to me that, on that account, he had taken considerable "razzing" from colleagues.

But the question can certainly be raised—and I think it is *high time for it to be raised* among professional economists—whether it is really the advocates of a land-rent-taxation system who are properly to be considered beyond the pale of intellectual respectability. An unbiased scrutiny of the evidence may indicate that this distinction should be reserved rather for various professors of economics who argue sophistically against such a system.

Some of the evidence on this matter I have presented in my book on "The Economic Basis of Tax Reform,"[1] where what may fittingly be called the malapropisms of these professors are analyzed. Conservative economists who respect unduly the views and arguments of these professors are invited to examine this evidence.

[1] Columbia, Mo., Lucas Brothers, 1932.

In the present paper I shall comment only on some pronouncements appearing in one recent textbook. This is "Modern Economics—Its Principles and Practices,"[2] by Justin H. Moore, William H. Steiner, Herbert Arkin and Raymond R. Colton.

I

IN READING THE AUTHORS' comments on land speculation which precede by about a page their discussion of land-value taxation, one might, if he were unwary, almost suspect these authors of favoring the socialization of land rent. For in commenting on land speculation they remark:[3]

> The land involved is usually bought by speculators and is thrown out of use as farm or truck land, and eventually subdivided into lots for sale to the public. There are often social losses incurred in this process of preparing land for urban use. First the services of the land as a farm are lost—and frequently for as much as 20 years; second the time and labor of the subdivider and his crew; third the capital invested as "improvements" may be lost if the city does not grow in that direction; in many communities there may be seen miles of sidewalks and curbing with no houses along the way; fourth there are losses due to dislocation of economic relations in the community. In Los Angeles in 1924 there were 256,557 lots vacant. Their estimated value, based upon an adjustment of assessed valuations, was $1,100,000,000 and the annual carrying charge about $100,000,000.

They then point out[4] that "when, by reason of population growth, land rises in value the increment is frequently called the *unearned* increment."

"Ah! Now we have it," says the reader who favors the land-value-tax program. "Surely the authors are really starting to show us that private enjoyment of the rent of land should be done away with."

But the very next sentence apparently indicates a feeling of the authors that, on the average and in the long run, there

[2] New York, Thomas Nelson & Sons, 1940.
[3] P. 338.
[4] *Ibid.*

just *isn't* any *net unearned increment* worth serious consideration. For this is what they say: "Yet, in fact, for the fortunate few, or their descendants, who benefit from such an increase in value, there are many who took similar risks in buying and holding other land only to see it decline in value."

Just a little further down the page they express the same idea by saying: "Enormous *decrements* of land values have ensued."

And still later,[5] under their summary of "Criticisms of the Single Tax," the authors say:

> If unearned increment in land is to be discriminated against, it would be only fair to use the tax proceeds thus obtained for compensating other landowners for unearned decrements. There are thousands of owners of farm and urban land today who would not obtain as much for their property as they paid for it.

By this time it must be obvious to readers familiar with the writings of other economists that the authors are following the conventional pattern of opposition to the basic ideas of Henry George. And they seem to be exhibiting a conventional lack of understanding of Henry George's real proposal,[6] notwithstanding they do say that "the object of the single tax is to tax away the unearned economic rent."

For the complaint which those who follow Henry George make against the present set-up is not at all about the "unearned increment" in the sense that some land will now bring a higher price than the owners paid for it.

To illustrate, let us compare the land problem in this regard with the problem of slavery. Those who have opposed human slavery have not put their opposition on the ground that some slave owners may find their slaves worth more than they paid for them or may be able to sell them for more than

[5] P. 341.

[6] See my paper, "Anticipation of an Increment and the 'Unearned Decrement' in Land Values," AM. JOUR. ECON. SOCIO., Vol. 2 (April, 1943), No. 3, pp. 343–57.

the price at which they bought them. For example, suppose that Smith has bought a young slave for $1,000 that he is able to sell later for $1,700. The real exploitation involved is surely not to be measured by the *increase* of $700 in the value of the slave. Though the total value of any slave or of all slaves may indeed be an indication of the amount of exploitation going on, the question whether slaves are *becoming* more valuable—or *less valuable*—than at some previous date has little or no relevancy. The real question is not whether Smith has got more for his slave from Jones than he formerly paid in purchase price to White. The question is rather, aside from the matter of deprivation of personal liberty, whether Smith is getting more *from the slave* than he pays *to the slave.*

The principle is similar in the case of land. Whether a particular piece of land or land in general has now a higher sale value than it had at some specific date in the past, is not the important question. The really important question is whether some must pay rent to others for *permission* to work on and to live on the earth in those locations which geological forces and community development have made relatively productive and livable. It is, expressed in reverse, whether a part of the people shall have the exclusive privilege of collecting this rent. The sale price of a piece of land or a site—as distinguished from any improvements on it—is but the capitalization of the expected future rent to the owner. And so *any sale price at all,* even though it be lower than some previous sale price, so that there is what our authors call a *decrement,* nevertheless indicates an expectation that the private owner of the land may still collect tribute merely for giving his *permission* to make use of advantages due not at all to his efforts but to geological forces and to community development.

II

IN THE FIRST OF their "Criticisms of the Single Tax," the authors say,[7] among other things: "The imposition of such a tax would cause a major panic which would profoundly upset all business."

The contention that a panic would ensue from "the single tax" is reminiscent of the contention often made by Republican politicians just before and after the turn of the century, regarding "Democratic free trade." For years, one of the principal campaign arguments used by the Republicans was that, if given the power, the Democrats would reduce the tariff and that such reduction would cause business depression and unemployment. The panic of 1893 and the succeeding depression were thus explained, notwithstanding that the Democrats did not pass their tariff reduction bill until late 1894 and notwithstanding that the reduction then made was so inconsequential that President Grover Cleveland referred to the law as "an act of party perfidy and dishonor." And when the objection was raised to this Republican argument, that a tariff reduction late in 1894 could not cause a panic in 1893, the reply was made that the *fear* of this imminent reduction occasioned the panic. Indeed, I distinctly recall running upon an even more extreme form of this argument in connection with the causation of the panic of 1907 and the ensuing depression. The statement here was, not that there had been a reduction of the tariff and not, of course, that a *different party had come into power* with the *intention* of reducing the tariff, but that there had been *criticism* of the tariff as too high. Men had *talked* about the tariff rates adversely. Hence, the business interests were *frightened* and depression followed!

The authors of "Modern Economics" do not say *why* the adoption of "the single tax" program "would"—or even why

[7] P. 341.

it might—bring a panic. They do not say whether or not they think a gradual adoption of it would have precisely the same effect as its sudden adoption. They make no attempt whatever to show, by reference to the steps which have been taken toward such a system in Australia, Northwestern Canada, New Zealand and Denmark, whether there is the slightest factual basis for their statement. They merely assert (for the benefit of such students as might otherwise find the land-value-tax idea an appealing one?) that the imposition of such a tax "would cause" a "major panic." And whatever they may mean by this statement, most readers will naturally assume that they mean business depression in the usual sense, with unemployment and reduced output.

Yet in the second of their "Criticisms," they say:[8] "If all vacant land were utilized,"—presumably because of a high land-value-tax—"the result would be to bring about an overproduction of crops or goods."

Do the authors mean, therefore, that the application of Henry George's remedy would at the *same time* decrease output and *also increase* output,—that it would at the same time *decrease* employment and *increase* employment? If this is not what they mean, then what do they mean? Could it conceivably be that, in their view, the substitution of a desert like the Sahara for much of the better land of the United States would make us *more* prosperous by preventing "overproduction?" Is it their opinion, perchance, that by *producing less* and having less and thus avoiding "overproduction," we avoid depression and thus have more employment and have more to enjoy and, therefore, really *produce more?*

The seventh point[9] in the authors' "Criticisms" includes *two* points! The first is that "the Single Tax is not a cure-all,"—as if anyone would claim that it is! The second of the

[8] P. 341.
[9] P. 342.

two is that "it would cause such an upheaval in established ways of doing business, that a major panic might ensue." This second part of Point Number 7 seems to be essentially (but substituting "might" for "would") a restatement of the first point mentioned in Number 1. However, there is added to it, and without explanation, reference to "an upheaval in established ways of doing business." "Upheaval" is a rather startling word and it is natural to ask for a bill of particulars. Will retailers disappear? Will business men cease to borrow from banks? Will barter take the place of transfers of goods in return for money and checks? Just what sort of "upheaval" do the authors think would result from such a change in our system of taxation and *why?*

III

An allegation by the authors that returns on improvements could not be distinguished from land rent appears in Point Number 3 in the form of a statement that[10] this would be "impossible" and that, therefore, "the single tax would either be in excess of the economic rent, in which case capital would be taxed, or less that the economic rent, in which case the single tax would fail of its purpose."

Isn't it a bit startling to see a statement that, in case every last cent of rental value is not taken in tax, the "single tax" must "fail of its purpose?"

In Point Number 6 of their "Criticisms" the authors have in essence repeated the point made in Number 3 about the difficulty of distinguishing land rent from the yield of improvements. True, the authors do not say in Number 6 that improvement returns *could not* be separated from rent and they do not again use the word "impossible." What they say in Number 6 is that there would be "great difficulty" in "ascertaining the value which had been added to the land by

[10] P. 341.

improvements, such as draining, clearing, fencing and cultivating."[11]

Clearly, if we were to tax only land values and were not to tax improvements at all, there could be no reason whatever for "ascertaining the value which had been added to the land by improvements," unless the reason were that to do this would help in estimating how much of the value of a piece of property was pure land value. Either, therefore, Number 6 is altogether irrelevant or else it is, for all practical purposes, just a restatement of Number 3.

Besides the statement that the single tax "would cause a major panic," a conclusion for which, as has been noted above, the authors give not a scintilla of evidence, Point Number 1 contains also the assertion that "The present owners of land would find it impossible to sell their holdings. The present capitalized value of land would melt away due to lack of purchasers willing to assume new burdens."[12]

In the second sentence quoted above we find stated as a "criticism," a point that those who urge the socialization of land rent consider a very great advantage. For a falling sale price of land, coupled with removal of taxes on improvements and commodities, makes for greater ease in securing ownership of land by those who would use it and, therefore, for a substantial diminution in tenancy. Also, a high speculative price of land stands in the way of every scheme to provide low-cost housing for the poor. The fact is that high sale prices for land are not at all to be desired but are, rather, an economic and a social calamity.

The authors' hodge-podge of "criticisms" under *seven* headings, with the same point given under headings 1 and 7 and another point given under both 3 and 6 and with, in at least two cases, a number of separate and distinct points under

[11] P. 341.
[12] *Ibid.*

a single heading, surely is not very impressive. Indeed, perhaps the least uncomplimentary interpretation of their presentation would be that the authors really believe in the principle of rent socialization, that, however, they somehow fear to confess their sympathy directly and openly, and that they are, therefore, trying to support the principle by indirection, *viz.*, by making the case of the opposition look ridiculous!

But there are reasons for concluding that this least uncomplimentary interpretation of their treatment of the problem is not the correct interpretation. For the fact that the authors are definitely opposed to the land-value-tax program is made sufficiently clear in their chapter on rent and elsewhere. Thus, they refer to Henry George's "Progress and Poverty" as having "received wide acclaim from socialists."[13] Why mention *especially* the socialists, since Henry George's economic philosophy is essentially individualistic, since many who are not socialists have "acclaimed" him, since his professed followers are generally opposed to socialism and perhaps more so on the basis of their general economic philosophy than almost any others, and since not a few socialists have been contemptuous of his proposed reform? Can it be that this emphasis on "wide acclaim from socialists" is given with the idea—and the wish—of discrediting Henry George among the anti-socialist majority of American college students!

And what shall we say about the statement that "the cult has not completely died out?"[14] Or about the authors' later pronouncement on what is desirable tax policy:

> The only safe rule is to institute a mixed system of taxation, including both direct and indirect taxes, levied on property, income and consumption, the whole conforming, so far as possible, with the various theories already discussed.[15]

[13] P. 339.
[14] P. 340.
[15] P. 433.

These "various theories already discussed" are "the benefit theory," "the faculty theory," "the social theory" and "the equality of sacrifice theory." And nowhere do the authors reveal any real understanding of the reasons why the rent of land is an especially desirable source of public revenue.

IV

"The practical effectiveness and sufficiency of the Single Tax to pay the increasing costs of government," say our authors, "have never been demonstrated. . . . To declare the hotels, skyscrapers and other buildings immune from taxes, and to levy only upon the land beneath them would leave a fiscal gap so serious as to bring government to a standstill."[16]

Assuming it to be proved—and here again our authors merely *assert*, though they certainly make their statement sufficiently horrendous!—that the "single tax" would be insufficient to meet all the revenue needs of government, this would be *no argument whatever* against the socialization of land rent. It would be *no argument at all* against using the annual rent of land as *the* chief source or *a* chief source or the *first* source of revenue, to be supplemented by other taxes in the order of their desirability. *Why don't the authors say so?* Why do they *insist* on tieing up, throughout their discussion, the fundamental problem of the socialization of rent with the relatively unimportant question whether such socialization would take care of *all* public needs?

But note, nevertheless, how very "liberal" and broad-minded these authors are! For they are willing to admit that, after all, Henry George may have done some good in the world. Of course there was nothing in the main idea on which he spent much of his life! It is simple to show, in just a few well-chosen words, how fundamentally fallacious and utterly impracticable his main idea and his program of action

[16] P. 341.

were, so that any elementary student of economics can easily see that Henry George was altogether wrong-headed! But George was quite a man for all that! As our authors put it, he "did not live in vain, for his ethical ideas were pure and noble and served to convince the following generation that economic problems cannot be solved unless reasoning, observation and experience be animated by a driving moral force."[17]

And just think, young men and women in the college classes in economics, Henry George really helped, too, to bring some "practical" reforms or, anyway, *one* practical reform. The authors of "Modern Economics" say it like this: "One practical reform which he indirectly set in motion was the Torrens system of registering titles to real estate."[18]

As the authors' story proceeds, however, it appears, first, that the Torrens system was introduced into South Australia by Sir Robert Richard Torrens in 1857, which was more than twenty years before Henry George's "Progress and Poverty" was published and some years before he arrived at his conclusions in his own thinking. And it appears, second, that, although the Torrens system is on the statute books of eighteen states of the United States, it is a dead letter in most of them so far as actual operation is concerned, and that this is because "the influence of the title companies, lawyers and mortgage companies has been too strong for it to supplant the long-established procedure."[19] But, anyhow, Henry George "indirectly set in motion" this "practical reform!"

So you see, do you not, young men and women of the college economics classes, how very great Henry George was, what practical influence he had, how this practical influence really came to nothing, how very wrong he was in all his analyses, and how "pure and noble" were his ethical ideas!

[17] P. 342.
[18] *Ibid.*
[19] *Ibid.*

Truly a remarkable combination of fundamental lack of comprehension—not to say of stupidity—of practical influence which was at the same time practical futility and of moral greatness!

And thus we come at last to the exciting climax—or is it rather the almost unbelievable anti-climax or the stunning ideological debacle?—of another college textbook presentation of the land-value-tax question!

But there are still, it seems, numerous members of the economics professoriate who believe that those who argue in *favor* of the land-value-tax policy thereby put themselves intellectually outside of the "best circles" and that the analyses of those who *oppose* any appreciable relative increase of taxation of land values are intellectually on a higher plane!

- 4 -

The Alleged Injustice of Increasing Land Value Taxation Without Compensation

I

Of all the seemingly radical reforms the advocacy of which has aroused the bitter and determined, albeit uncomprehending, opposition of conservatives, perhaps none is capable of being realized more imperceptibly than the reform of our land and taxation system as proposed by Henry George. Why, then, has this reform been so persistently and violently objected to?

In part, at least, it may well be that the truculence of the objectors comes from the frank and even challenging recognition by Henry George of the ultimate implications of his proposal and from the provocative manner of his advocacy of it. This is not necessarily said in criticism. It may be, indeed, that a less provocative phraseology, though arousing less opposition, would also have done less to arouse interest and support. But the opposition has to be reckoned with. And the better we understand its ideological source or sources, the better chance we have to deal with it effectively.

In Chapter II of Book VI of "Progress and Poverty," Henry George says that, as "the remedy for the unjust and unequal distribution of wealth apparent in modern civilization, and for all the evils which flow from it:

"*We must make land common property.*"

Here at once is a challenge to nearly all conservatives. "Surely," they are likely to think, "this is a most revolutionary proposal containing a most vicious element of communism or of other alien and wicked 'isms.' "

Yet it appears on careful examination that the one specific change in policy which Henry George sought was the substitution of a land value tax for other taxes and the taking, thus, *by taxation,* of all or nearly all land rent. This, to be sure, may be said to amount to making land "common property," on the ground that if the rent of land goes mostly to the public, the land is, in effect, owned mostly by the public. But *if* the conservative critics of Henry George *take that tack,* they must logically admit that buildings, ships, trucks, orchards, livestock, machinery and other capital (as distinct from land) *are right now partly owned by the public,* since they are taxed and since, therefore, much of *their* annual yield goes to the public. If for the public to take, in taxation of such property, a large proportion of its income does not make this property in *some* degree "common property," then how can anyone logically claim that to take, instead, most of the rent of land in taxation, makes *land* "common property"?

Conservative opponents of Henry George's proposal must therefore admit, it would seem, that *only* if this proposal is put into effect and taxation is removed from the things men make, such as trucks, buildings, ships, etc., can it be said that these items of *capital* are *truly* and *solely* owned by individuals. In short, if these conservatives reason at all consistently, they must admit that Henry George's reform, as regards all the capital that results from individual work and saving, would take us *not towards but away from* the socialistic and communistic ideal of *common ownership* and socialized operation.

Nevertheless, it is probably true that many an uncomprehending and, therefore, illogically shocked conservative has reacted antagonistically to the proposal for increased land value taxation, because he has it labelled as "making land common property."

In a later chapter of "Progress and Poverty"[1] occurs a passage thoroughly consistent with the passage already quoted but one which perhaps tends to arouse even more passionate protest from conservatives. It runs as follows:

The truth is, and from this truth there can be no escape, that there is and can be no just title to an exclusive possession of the soil, and that private property in land is a bold, bare, enormous wrong, like that of chattel slavery.

And a little farther on in the same chapter, which deals with the "Claim of Land Owners to Compensation," Henry George still further offends the sensibilities of conservative defenders of the *status quo*. For here he comments that

by the time the people of any such country as England or the United States are sufficiently aroused to the injustice and disadvantages of individual ownership of land to induce them to attempt its nationalization, they will be sufficiently aroused to nationalize it in a much more direct and easy way than by purchase. They will not trouble themselves about compensating the proprietors of land.

And so the conservative respecter of the *status quo* receives from Henry George a three-fold shock. He is shocked at the proposal that land be made common property. He is, perhaps, deeply offended to have private property in land referred to as "a bold, bare, enormous wrong, like that of chattel slavery." And he is outraged at the advocacy of doing away with any "respectable" form of private property *without compensation.*

Nor will he be greatly mollified to read, several chapters later:[2]

Let the individuals who now hold it still retain, if they want to, possession of what they are pleased to call *their* land. Let them continue to call it *their* land. Let them buy and sell, and bequeath and devise it. We may safely leave them the shell, if we take the kernel. *It is not necessary to confiscate land; it is only necessary to confiscate rent.* . . . What I, therefore, propose, as the simple yet sovereign remedy, . . . is—*to appropriate rent by taxation.*

[1] Chapter III of Book VII, first paragraph.
[2] Book VIII, Chapter II.

Nevertheless, a philosophical, unbiased and really careful consideration of the problem must lead to an entirely different state of mind than the attitude of shock we have been discussing.

Suppose we take note, in this connection, of the case of a localized and partial application of the land value tax policy in the United States. When, in 1913, the Pennsylvania legislature established the Pittsburgh (and Scranton) graded tax system, it provided that the city tax rate on buildings should become, in 1914, only 90 per cent of the rate on land; that in 1916 it should be 80 per cent; in 1919, 70 per cent; in 1922, 60 per cent, and in 1925, 50 per cent. This meant that to get the same revenue for the city, the tax on land values had to be gradually raised. If this gradual change had been continued by corresponding stages until 1940 and applied also to the taxes levied by other taxing authorities, such as the County and the School District, all taxes on buildings in Pittsburgh (and Scranton) would have been then done away with, and the land value tax rate would presumably be high enough by now to absorb for public use by far the greater part of the situation rent of land.

Are we to conclude that, if such a change in the tax system can be shown to be conducive to efficient production and favorable to the common welfare, society ought to be estopped from introducing it?

Whether we regard it as desirable that such a reform as that proposed by Henry George be realized fully right away or only after a lapse of years, we should recognize that its sudden, complete and immediate adoption is hardly possible politically. Short of revolution, certainly—and even revolution, if directed toward a specific reform, can come only after years of agitation and of growing desire for change—such a reform must almost inevitably be gradual, or else not be realized at all. In the case of land value taxation, as in the case of other significant reforms, the slower the process of adoption the longer delayed are the full benefits which may be fairly anticipated from it. Nevertheless, significant reform, in a democratic society, can come only as rapidly as mass opinion and sentiment permit.

Is, then, the opposition of conservatives to the land value tax program, based on an unreasoning fear that it may be introduced both completely and all at once? Or is it an opposition to *any* continuous change in this direction, *even* a change so *gradual* that not within a hundred years would the tax reach ninety per cent of the annual rent!

However this may be, something can probably be said for the view that the advocates of the socialization of land rent would have used better strategy had they been less impatient for its adoption. When they have proposed its full and immediate adoption—or, even, its substantially complete adoption in a short period such as ten years—they, by arousing a frantic fear of the unknown, may have been instrumental in preventing serious consideration of it by others as a reasonable reform. There is a possibility, at least, that we can actually get such a reform adopted *more quickly* if, in our propaganda, we ask for its adoption only little by little!

But even though our publicity campaigns may have sometimes involved such a tactical blunder, this is hardly an adequate excuse for the opposition of professional economists. They, at least, should approach the problem objectively. They, most of all, should assume the responsibility of gaining a full comprehension of the considerations on which advocacy of the land value tax program is based. Where others might react adversely to this reform because it seems sharply different from what they are accustomed to and because, not comprehending its real significance, they are frightened at the thought of its sudden or rapid introduction, the trained student of economics should be easily capable of a quite different and, indeed, a completely unprejudiced scrutiny. And if, by chance, he does believe that many protagonists of the reform are unduly impatient for its adoption, this should certainly not cause such a student to reject the reform but merely to suggest a more gradual approach to its complete realization.

II

WITH SOME WHO OPPOSE the land value tax reform, especial objection is made to the fact that its proponents intend to introduce it without "compensation." And this objection is made despite the complete or almost complete lack of *any precedent* for "compensating" those who are *disadvantaged by tax changes!* So let us give a little attention to the "compensation" idea.

There is a very real sense in which, should we adopt the land value tax system, most landowners would automatically enjoy compensation. For most owners of land are owners of capital, too—factories, machinery, trucks, livestock, planted fruit trees, stores, houses, etc. And these it is proposed *not to tax at all.* Is not such relief from taxes on capital a very valuable compensation for higher taxes on one's land?

In his description of "Pittsburgh's Graded Tax in Full Operation,"[3] Percy R. Williams tells us that, in "a typical residential district," this plan of taxing land more heavily than improvements involved a *lower* tax burden on 99.2 per cent of the homes than if the city had raised the same amount of revenue by taxing land and buildings at the same rate. The owners of homes in this district, it would appear, were definitely benefited. *Should they, in addition, have received other compensation?*

[3] *National Municipal Review*, Vol. XIV, No. 12, December, 1925.

It is true that a land value tax system tends to lower the sale price of land, so that even a home owner whose total taxes have been reduced might contend that, in case he wished to sell his property and use up the monetary proceeds, he would be a loser by the reduction in its sale price. Should he then receive some special "compensation" because of such a *contingent* loss?

Of course, too, if a land value tax system is introduced, it does not automatically provide "compensation" for all landowners. Owners of valuable unimproved land (*e.g.*, vacant lots) and of valuable land which is but slightly improved, will not generally gain through their relief from other taxes as much as they will lose from the heavier tax on land values; but since other taxes are many and rest on different taxpayers with very unequal weight and since the vacant land of some is worth more than that of others, we cannot say categorically that all owners even of vacant land will suffer a net loss.

But if the owners of vacant land would, in general, suffer a net loss, it is also true that the holding of good land out of use involves economic loss to the community. How can we effectively prevent the waste and loss from this speculative holding, if we are determined that neither through our tax system nor in any other way shall we visit upon those who thus hold land from use, any convincingly substantial penalty?

If a community is tormented by a superfluity of dogs and imposes a dog license tax as a discouragement to dog owners, "compensation" is not customarily demanded. *Should it be?* Ought "society" to make no such change in its municipal regulations without first "compensating" all who may have acquired dogs prior to and without specific warning of such regulations!

The very heavy tax on cigarettes certainly discriminates against smokers relatively to coffee drinkers, motion picture addicts, *et al.* Yet the conservative economists who are so ready to snipe at land value taxation without "compensation," as causing discriminatory loss to landowners have never, any of them, so far as I am aware, offered the faintest suggestion that smokers should be "compensated" because of the discrimination against them in the cigarette tax or in the various increases of it. Why do they not insist, at the very least, that all persons who learned to smoke prior to and not anticipating the tax—or prior to and not anticipating any particular *increase* of the tax—ought to have been or ought now to be "compensated"! *Why* is such protest so much more vocal for—*or reserved solely for*—changes in taxation which affect *landowners!*

It was suggested, at an earlier point in this paper, that much of the opposition to the land value tax program may be due to a fear of precipitate change. Some opponents of the plan have, perhaps, pictured in their imaginations, widows, orphans and aged persons no longer able to work and who *own nothing but unimproved land*, being *left suddenly penniless* by this tax reform!

It is an obvious fact that no important change in public policy, however fundamentally desirable, will affect equally all individuals and classes. There will, indeed, nearly always be some who lose in their annual incomes or in the total value of their property. But to say this is very different from asserting that any class—or even any individual—will be made suddenly penniless.

If the land value tax system goes into effect not suddenly but over a period of years, much of the annual rent of any land which is not being held out of use, during the period of gradual transition, will still accrue to the landowner. And if a particular landowner—even an owner who has been holding valuable land out of use—desires to sell, the fact that the succeeding owner can for some time draw a net rent from the land, if he will himself use it or let it be used, means that the land still has a value which the previous owner has been able to realize by selling it.

Following this line of analysis, the objection of conservative opponents that the introduction of a land value tax system would make any appreciable number of landowners penniless can be effectively answered. If and when the proposal becomes a live political issue and is discussed heatedly in political campaigns, and this objection is raised by (say) a heckler, the skilled campaigner should have a ready and crushing comeback. "If any owner of land," he can say, "is so convinced that our program is going to cause him loss, let him *sell* his land *now,* before our party has even come to power. Let him realize hard cash for it *now.* If any landowner present *doesn't want to realize hard cash* for his land *now* and so is *determined not to sell,* isn't it *ridiculous* for him to argue that the program is going to so lower the sale value of land as to reduce him to poverty? Furthermore, you all know, and he probably knows, that under our program *all the improvements he makes on his land* will be *relieved of taxation* and that, therefore, if he saves and so is able to make such improvements or have them made, all the income they yield *will belong to him.* If any landowner doesn't want to take advantage of this propect or thinks he cannot do so conveniently, let him sell his land *now* for real money to someone who does want to."

No doubt it can be logically contended that the mere anticipation of an imminent beginning of a land value tax policy would bring an incipient fall in the selling price of land. "Coming events"—or, rather, the expectation that the events will come, and regardless whether or not they do finally and actually come—"cast their shadows before." Thus the

growth of the land value tax sentiment might, prior to the enactment of any tax change, reduce somewhat the price securable for his land by a landowner desiring to sell it. But this would obviously not be due to the land value tax, since it has not been actually introduced. Rather would it be the result (manifesting itself through the prices bid and asked by would-be buyers and sellers of land) of the *opinion* that land value taxation will be adopted. This *opinion* is in turn the result of a growing popular belief that such a tax system is desirable and so *ought* to be adopted. And this growing popular belief, in turn, is, at least in large part, the consequence of the persuasive arguments and evidence presented by the advocates of the proposed change.

Probably conservative opponents of the change would prefer to use the word "agitation." And some, too, would wish to *suppress* all such agitation, on the ground that it tends to reduce the sale price of land and so to disappoint landowners' previous "reasonable" expectations. If they regard the tax change as "wrong" because it would reduce the sale value of land, must they not regard the "agitation" for it as likewise "wrong" and for the same reason? And if they think such "agitation" to be a "wrongful" act, why should they not try to make it an *illegal* act thus to voice "dangerous thoughts"?

But in any event, the landowner who fears more than do others the actual introduction of the land value tax system, should logically be willing to offer his land for cash at a price which less fearful buyers are quite willing to pay.

Enough has been said on this matter, surely, to make clear to the comprehending reader that the most rapid introduction of a land value tax taking practically all the annual rent of land, would not suddenly make penniless even persons who owned nothing but unimproved land. For however rapidly the new system might be put into effect once change was begun, there could be no *beginning* of the reform until there had come to be a widespread demand for it. During all the years of growth of such demand, owners would continue to draw their accustomed rents. And though the sale price of land would presumably fall as the reform came to be nearer and more certain, yet until or almost until its actual and complete adoption, there would still be some sale value remaining. Most assuredly, then, no landowner would find himself reduced overnight from riches to poverty!

There have been a few economists, impressed with the economic advantages of the land value tax system but nevertheless considerably worried regarding its adoption without "compensation," who have urged that the change be made after the deaths of present owners who would, therefore, receive during their lives undiminished rents. In fact, it is questionable whether such a plan gives any more—if as much—consideration to the interests of present owners than does a gradual increase in the taxation of land, going along concurrently with a diminution of taxes on capital and of various other contemporary taxes. While a gradual increase in the land value tax does reduce from year to year the land rent remaining to the owner, it also leaves him the option of being able to sell his land at a price based on the lower net rents of future years; and he may be able, therefore, to "cash in" before his death on net rents continuing for a time afterward.

It is to be noted, too, as an objection to the scheme of terminating rents at and only at the deaths of present owners, that a great many of the most valuable city sites, power sites, mines and other resources are owned by corporations and that *corporations do not die.*

III

BUT THE OBJECTION which seems to be most commonly urged by economists is that, even though the introduction of land value taxation is not sudden but gradual, even though many landowners gain by it, even though no landowner suffers great and sudden loss and even though the change is demonstrably for the common welfare, nevertheless it is "unethical." Since, however long the prior period of growing favorable public opinion and however gradually the reform is put into effect, some landowners will become poorer than if the change were never made at all, the change is held to involve an "injustice." "Society," it is said, would thus *violate an implied "pledge"* of *permanence* in existing arrangements.

No claim is put forward, ordinarily, that government or "society" has made any *formal* pledge that the tax system would never be changed. The thought appears to be that the *long* continuance of a system of allowing private individuals to realize the major part of the rent of land, has created a *presumption* of its *permanent* continuance; since that system has continued for generations, it is argued that "society" has allowed it to continue. Men have purchased land on the *assumption* that no change would be made (ever!) and at higher prices than they might otherwise have been willing to give. "Society," by the fact of not having changed the system over a long period and by "its" *silence* as regards "its" *intention* to change, has *implied* that "it" will *never* change the system and has thus "encouraged" such purchase of land. "Society" has thus, by implication, "pledged" that "it" will *never* change to the system of taking land rent in taxation for the public in place of other taxes *even* by the most *gradual* steps. For such a change would be likely to reduce, at least in some degree, the sale price of land and, too, though some landowners, even, would definitely gain, others would undoubtedly pay higher taxes and receive lower net incomes. Thus "society" would have done them injury by this change in the tax system and would have been guilty of a "violation of good faith."

Just what *is* this "society" which, in a world of continual change, has impliedly pledged that there will be no change in the tax system such as to increase even slightly the taxes on owners of land in comparison with taxes on others? And is "society" similarly estopped from making changes of policy detrimental to any other class? Does this mean that "society" violated an implied pledge if in the United States, after control by the Republican party from 1861 to 1885, a triumphant Democratic party adopted a new policy which reduced relatively the welfare of some who had counted on a continuing control of government by the Republicans? Does it mean that, in Great Britain, "society" will be violating some implied "pledge" of consistency in economic policy if the Labor party, which is a relatively new party not even in existence throughout hundreds of years of Parliamentary history, and which has never hitherto had a clear majority in the House of Commons, should now introduce and pass legislation not favored by any previous British Parliament, and which would change in any way or in the slightest degree the relative wealth and income of different classes or individuals?

Will not *some* conservatively minded economist be so frank as to declare himself unequivocally on this matter of an implied "pledge" by "society" and assure us that no party long out of power and, above all, no *new* party which has *never had* power, has any *right* to change the policy of the party or parties *previously* in power, when such change of policy is likely in any way or in any degree to reduce relatively the income or the value of the property of any class or individual—*unless* that class or individual is fully "compensated" with funds taken from other classes of persons? Certainly it would be most refreshing to hear or see a statement by at least one economist of conservative persuasion, that he *does* or that he *does not* subscribe to that view!

What, after all, does it mean to say that a particular change in policy—*e.g.*, a change in taxation—cannot be fairly made because "society" has impliedly "pledged" that the existing set-up will continue? Just who (or what) constitute "society"?

Human affairs are full of complexities. Policies may be determined by a king and some advisors, by a king or an emperor with his mind on the danger of antagonizing a feudal aristocracy, by a Fascist party subject to a tight discipline and (perhaps) limited in numbers, by a "democratic" parliament which in turn is swayed especially by the most selfishly alert and blatant pressure groups, and so on. And often—one is tempted to say *always*—*some* members of "society" disapprove of institutions and policies that others favor. Does the fact that those who disapprove of slavery, monopolistic extortion, tariff restrictions on exchange, or other such economic policies, have long been in the minority or, for some other reason, out of the seats of power, mean that if and when they get into power it is a *sin* for them to abolish these evils against which they have been protesting, unless they *buy* ("compensate") from those who derive income therefrom the "right" to abolish the evils!

If part of "society" is being exploited by another part—by monopolists, slave owners, owners of the earth who can charge others for permission to work on it and live on it, or by any other privileged class—how *can* such exploitation be ended *without* taking *something* away from *somebody* and so making "society" violate an implied "pledge"! How, for example, can slaves be freed without such a "violation of good faith"! If they are freed directly by means of an emancipation proclamation, property value is certainly taken from the owners. If the owners are fully compensated, something has certainly to be taken from others *who might similarly claim* that "society" has been guilty of "bad faith" toward them!

Will our conservative economist friends, then, be frank enough to say, without equivocation, that if slaves are to be freed, not only must their owners be fully compensated but that this compensation *must rightly come chiefly or only from the slaves?* Will any one of these text-writing economists have *the frankness to say either that he does believe this or that he does not?*

If "society" is under a moral obligation, by virtue of an implied "pledge," not to change any existing and long continued economic institution or tax system without full "compensation," are the *victims* of that institution or tax system properly to be regarded as a part of that "society"? If, for example, in a slave state, the slaves are thus to be regarded as part of the "society" and so as morally responsible for "society's" implied "pledges," and if the slaves eventually become numerous enough and strong enough, or get enough sympathizers to help them, so as to be thereafter the *dominant force* in the "society," what are their "rights"? Are they guilty of a *sinful act* in case they stage a revolution, establish a new government and become free *without* contributing anything in future taxes to "compensate" their former owners?

Will some conservative professional economist please be so kind as to tell us, without equivocation, that he *does* or *does not* accept this view?

Then let him go further and confide to us his view that the freed slaves would be—or that they would not be!—still *more* sinful if they should go so far as to make their former masters pay taxes to compensate the one-time slaves for their various handicaps in education, health, etc., stemming from their long years in slavery!

Analogously, should landlords compensate the landless instead of vice versa!

But what if the slaves themselves, never having enjoyed any

other condition of life and having been duly proselyted (or "converted") into the religion of their masters, have accepted or (anyhow) pretended to accept their masters' "ethical" judgment that they—the slaves—are *rightly* slaves, that their enslavement is part of "the divine plan." Might not the conservative economics professoriate then contend all the more vigorously that the slaves, by their long "acceptance" of their status, are clearly *participants* with the other classes of "society" in the "responsibility" for the maintenance of property rights in slaves? Would such conservative professorial economists say, therefore, that the slaves have some "obligation," along with the rest of "society," to help see that no change is made in their status *unless* with full compensation to their owners? For must not such economists logically insist that there can be no obligation on "society" *unless* there is an obligation on the *component parts* of such a "society"?

Again, what if some slaves have inherited their slavery from forebears who were sold into slavery by their own parents, so that, if the present slaves have not "accepted" the institution in their own persons, they may still be said to have "accepted" it through acceptance by their ancestors who may even have profited by thus selling their children! (But it is not inconceivable that these ancestors were themselves exploited in some other way, *e.g.*, by landlordism, and felt obliged to sell some of their children in order to be able to feed the others!) Would our conservative professorial textbook-writing economists say, therefore, that the present slaves, vicariously through their ancestry, may properly be regarded as "responsible" along with the rest of "society" for the "institution" of slavery so as to make it their "duty" to oppose any steps toward their emancipation without compensation? Would such conservative professors say that, under such circumstances, the slaves must continue to suffer—and "justly"

—from the actions of their ancestors, since "the iniquity of the fathers" is visited "upon the children unto the third and fourth generation"?

In precisely what sense are the victims of the present land system "responsible" for it so that they *ought* to insist *either* on its continuance in perpetuity *or* on being themselves taxed to provide "compensation" for the to-be-henceforth-more-heavily-taxed landowners? Has the present land system been *agreed to,* consciously and understandingly, by its victims? Are we to conclude that they have vicariously—and hence bindingly!—agreed to it if any of their ancestors have ever approved it? What shall be said of the fact that, throughout the history of landlordism, the rich and influential have mostly favored it, that arguments against it and in favor of the socialization of land rent have rarely appeared in the public press, that university professors of economics have *mostly* either ignored it in their textbooks or have *attempted to discredit it* while giving *only cursory attention* to the case for it, and that the victims of the present system have, therefore, had very little chance to know the basic cause of their unhappy predicament? If interested groups, with the aid of ignorance and prejudice, succeed in establishing institutions that exploit the masses, must we conclude that the longer these masses have suffered, the more they are under an ethical obligation to continue to suffer?

Will conservative college and university economists take issue with these statements and insist that those who are handicapped by the existing landlordism *have* had a good and adequate chance to learn and to understand the cause and effect relations involved, that it *is fair* to assume they *should have* understood it long ago and that, therefore, since they have not previously changed it, for them to change it now would be *wrong?*

Or will our academic text-writing economists follow a different line? Will they admit that the victims of the system have *not* had, in the past, a good opportunity to reach understanding and that their lack of understanding of the matter may be partly the result of the very bias and the antagonistic propaganda of the system's beneficiaries? And will these conservative economists then say that if and when the victims of the system do gain understanding of it and come to dominate the political scene, these victims still cannot ethically change the system except as they arrange for "compensation" to be provided by the victims?

Why cannot our conservative friends in the economics professoriate meet the issue frankly and tell us either that they *do* believe or that they do *not* believe that the victims of a bad economic system cannot ethically demand relief *except* as they give "compensation" to those from whose exploitation they wish relief? Why hide forever behind the vague term "society"?

No doubt it can be pointed out that some persons who own no land may have been able, through land rents received by their parents, to enjoy an education in (for example) law or medicine which they could not otherwise have had and because of which they are now able to receive above-average incomes—*though not without working.* Also, it can be urged that there are some persons not now landowners who have gained from the present system—by which, in general, common folks have suffered—through sale to others of land which community development has caused to increase in value. But *few such will have reinvested the proceeds without again becoming owners of land.* In *most* cases they will not have purchased buildings, etc., without purchasing the land on which these rest. And no thoroughly *competent* economist can conscientiously contend that if such sellers of land have invested in the stocks of corporations, they no longer own land—*unless the corporations own no land*.

But those professorial economists who are forever seeking some objection, *however microscopic*, to the land value tax program, must surely realize that there is no way of proving what persons, not now landowners, have indirectly gained from the landlord system or how much these have gained, and so of making *them* provide the desired "compensation." Such economists must surely understand, if they are at all able to analyze the matter objectively, that in any system of "compensation" which could in practice be adopted, the "compensation" would, in fact (unless paid by those to be "compensated"!), be largely even if not entirely extracted from those who had been—and who thus would still be—victims of the landlord system. To assert that "society" would provide the compensation *merely serves to prevent us from inquiring* into the question of who precisely would provide it and whether the *victims* of the system would mostly provide it.

And so it is difficult to avoid the suspicion that the presenting of these various considerations is a bit disingenuous, that they are not presented with any serious idea of finding a satisfactory way of getting to the land value tax system but rather with a desire to make any such reform appear so complicated and difficult as to be not worth attempting.

Since our conservative economists claim that it is "wrong" or "unfair" or "unjust" for "society" to change its tax system toward public appropriation of land rent, *however gradually* and *after however long discussion,* unless there is "compensation," must they not logically contend that it is equally "wrong" for previously uncomprehending victims of the present system to support or *urge in any way* this "wrong" or "unjust" policy? Might not some of these economists

truly feel that "society" should do "its" best to *suppress* any such "dangerous" agitation?

IV

The fact is that the notion of any "pledge" by "society," making it a "violation of good faith" to change the tax system, is fundamentally preposterous. The implied "pledge," if it could be said to have any reality, would be nothing more than a long continued economic policy or custom, a sort of community habit. But taxation has changed in such numerous ways as to suggest, rather, the *lack* of any consistent taxation policy or custom and to give the notion of an implied "pledge" very much the appearance of a *myth!*

Tariffs on trade between countries have been subject to alternating increases and decreases. Taxes on the production of specific commodities have been successively introduced, increased, decreased, abolished and again introduced. Property taxes have been the main source of revenue, have been then supplemented by other taxes, have been increased and have been decreased. Federal income taxes have been introduced, abolished (by decision of the Supreme Court), reintroduced, increased, decreased and again increased. States which had previously taxed property but not incomes as such have added income taxes. These income taxes have been levied at a fixed per cent (above exemptions) and at graduated per cents according to the amount of the income taxed. Our Federal income tax has at one time been levied at the same rate on incomes of a given size, regardless of source and at another time has been levied at a higher rate on income from property than on income from labor. Taxes on inheritances and bequests have been introduced and raised to very high levels after long immunity from such taxation had given the impression to accumulators of property that all of this property could be bequeathed to and be enjoyed by their heirs.

The Federal government and the various state governments have levied excise taxes on specific articles, such as intoxicating beverages, cigarettes and gasoline and, later, many of the states have introduced, also, the general retail sales tax. One state legislature, that of Pennsylvania, has enacted the "graded tax law" applying to cities of the "second class" in Pennsylvania and providing for higher rates of taxation on land than on the buildings thereon. This is the system described above in this paper in connection with Pittsburgh. In various other sections of the United States campaigns have been waged and—sometimes—a substantial number of votes have been cast for a land value tax system. Not a few cities in Australia, Northwestern Canada and New Zealand tax sites and not improvements on them, or tax sites at a higher rate than improvements. Steps have been taken toward this system in Denmark and in British South Africa and the policy has been debated at length in Great Britain where a good many cities, through their local governments, have formally requested Parliament to make possible for them the system of (as they express it) "rating on land values."

Surely, then, those who insist that "society" has made even an *implied* "pledge" not to change the tax system *or* not to change it in any particular direction *or* not to change it in *this* particular direction, are the gullible victims—though gullible, probably, largely because of their prejudices—of a fatuous myth.

Indeed, in many of our economic policies other than taxation, change has been frequent and, therefore, is reasonably to be expected. We first allow the manufacture of intoxicating beverages, then prohibit it, then allow it again. We allow monopolistic businesses to be free of prosecutions and of regulation and subsequently apply one or both of these devices. We permit young men to spend years of apprenticeship mastering a trade and later set up trade schools, or curricula in the regular public schools, in which we train other young men to compete with them. We establish a monetary system through which the general price level sometimes rises and at other times falls. Some of our policies have been, indeed, unwise and unfair but, if so, it is because they are intrinsically bad and lead to bad results and not because they violate an implied "pledge" to make no changes. In the world in which we live, it is more accurate to say with the poet, Longfellow,[4] that

> All things must change
> To something new, to something strange:
> Nothing that is can pause or stay:
> The moon will wax, the moon will wane,
> The mist and cloud will turn to rain,
> The rain to mist and cloud again,
> Tomorrow be today.

In such a world of constant change, *including change in social and economic policies,* surely it is a *ridiculous* assumption that human beings are committing a *sin* when they try to change one particular line of policy—involving land rent and its taxation—of which they feel many are victims. Surely it is reasonable to presume, rather, that men purchase their property or make their other commitments knowing that tax policies and taxed objects have changed, do change and are likely again to change, and assuming this risk when they purchase. Surely it is a fair presumption that purchasers of property have, if anything, even less right, and certainly no more right, to block a *desirable* change in tax policy or to be "compensated" because such a change is made, than to block any of the various changes to *worse* systems or from one bad system to another!

Each substantial effort to educate the electorate to the

[4] In *Keramos.*

advantages of the public appropriation, by taxation, of the major part of the rent of land, is a notice to landowners that they may not always be able—or that the next generation of owners may not be able—to live on the rent of land. Each step in substituting land value taxation for various other and relatively undesirable taxes constitutes a notice to owners of land to prepare for a time when they can no longer live by charging others for permission to work on those parts of the earth where work is relatively productive or for permission to live on those parts of the earth where life is relatively pleasant or for permission to draw from the earth subsoil deposits placed there by geological forces.

Let those who themselves understand the evils of the present system strive, then, to spread understanding among others as widely as possible, to the end that adoption of a land value tax program be not indefinitely delayed. For *the slower we are* in getting this program adopted fully, *the longer will the victims of the present system continue to be victims.*

But if some of our number are disturbed lest rapid progress of the reform—without which, as indicated above, present evils must continue correspondingly longer—cause sudden and substantial loss to any owners of land for whom their sympathy may be aroused, let them reflect that the change cannot proceed faster than an increasingly informed and interested public opinion will permit; that even revolution, *unless* there has come to be such an informed public opinion, would almost certainly proceed in a quite different direction and on the basis of an entirely different ideology; and that those owners of land about whom they are concerned will have ample time to become adjusted to the land value tax system and certainly need not be both greatly and suddenly injured by it.

Whatever other views may be held by the economics professoriate of the new generation, let us hope they will not hold the *utterly silly* view that, in a world of constant change, some vague inchoate "society" is under a moral obligation *never* to change, no matter how slowly, towards the realization of a tax system which would appropriate all or nearly all of the rental value of land to public use. Let us hope that, with a new generation of teaching and text-writing economists, the *fatuous myth* of a binding implied "pledge" of this sort, on the part of "society," will finally be visited with the ridicule it has long deserved. Let us hope that to this new generation of professorial economists the claim of landowners to future rents undiminished by any greater relative taxation of land values than now will not be the *sacred crocodile* it has apparently been to many or most of the text-writing economics professoriate of the last several decades. Let us, in short, fervently hope that the new generation of text-writing professors of economics—and teachers of economics—will approach the land and tax problem not only with sympathy for the great majority, who are victims of the existing system rather than beneficiaries of it, but also *with a modicum of common sense.*

- 5 -

Rent Theory as a Teaching Problem on the Undergraduate Level

SOME TEACHERS OF ECONOMICS on the undergradute level, and perhaps even many of them, may lose any initial interest they may have thought they had in this article as soon as they realize what it is driving at. They may admit that it is worthwhile to ponder how to make college students understand the operation of the law of rent, although certain of the teachers have now twisted the very word "rent" out of all semblance to its earlier—indeed, its traditional—meaning among economists. But toward any special inquiry into how to make students really understand wherein the rent of natural resources, sites and tracts differs from the interest yielded by constructed capital, and, especially, into how to make students understand the analyses involved in the case for appropriating rent by taxation, if one may judge by past attitudes, a considerable number of economists will be altogether indifferent and some will even be antagonistic.

For the fact is that in a large number of our colleges and universities, students in the beginning course in economics—indeed, often, in all the courses in economics put together—learn nothing at all about the subject. No effort is made to explain it. Even when the textbook used mentions the land-value tax proposal, its exposition is usually extremely brief, perhaps only a page or half a page. And this page or half-page is followed by a stereotyped adverse criticism that takes no account at all of important considerations in rebuttal which have been emphasized over and over again by those of us who believe this reform to be an essential one. Especially is one of the stereotyped objections to this reform, as presented in antagonistic texts, viz., that it involves unjustifiable infringement of vested rights, presented *always* with no accompanying mention of the most cogent and impressive points which have been made in reply.[1]

For on such subjects the masses of men cannot safely trust authority. Given a wrong which affects the distribution of wealth and differentiates society into the rich and the poor, and the recognized organs of education, since they are dominated by the wealthy class, must necessarily represent the views of those who profit or imagine they profit by the wrong.

[1] Henry George replied, for example, and very fully and effectively, in "A Perplexed Philosopher," Chapter XI. Compare my own discussion in "Basic Principles of Economics," Columbia, Mo., Lucas Brothers, 1942, pp. 459–468; and relevant sections in "The Economic Basis of Tax Reform," *ib.*, 1932.

That thought on social questions is so confused and perplexed, that the aspirations of great bodies of men, deeply though vaguely conscious of injustice, are in all civilized countries being diverted to futile and dangerous remedies, is largely due to the fact that those who assume and are credited with superior knowledge of social and economic laws have devoted their powers, not to showing where the injustice lies but to hiding it; not to clearing common thought but to confusing it.

It is idle to quarrel with this fact, for it is of the nature of things, and is shown in the history of every great movement against social wrong, from that which startled the House of Have in the Roman world by its proclamation of the equal fatherhood of God and the equal brotherhood of men, to that which in our own time broke the shackles of the chattel slave. But it is well to recognize it, that those who would know the truth on social and economic subjects may not blindly accept what at the time passes for authority, but may think for themselves.

The paragraphs quoted above are taken from Henry George's "A Perplexed Philosopher," published in 1892.[2] Perhaps a more "modern" and sophisticated explanation of the opposition that still exists to the reform George advocated would refer to a variety of motives, and not merely to the property interests of some teachers and to the possible fear of others of criticism from students and from administrative officers of their colleges or universities and to their fear of losing their institutional jobs. Such an explanation might refer also to the fact that each generation of teachers is largely fixed in its viewpoint by the training received from the previous generation of teachers. Thus, a teacher of economics may not know about or even think it worth while to inquire about a viewpoint his teachers have not discussed except for a few caustically critical sentences. And reference might be made, too, in such an explanation, to the feeling that this particular viewpoint is not, in general, favorably regarded in the intellectual "best circles." Dr. George Raymond Geiger refers, in his book on "The Theory of the Land Question,"[3] to "the wall of indifference and misrepresentation that so effectively surrounds this reform." But we should be altogether naïve did we not recognize that, in the last analysis, such intellectual disfavor stems mainly from a dominant pecuniary interest. This is the chief and fundamental reason why the socialization of land rent has been so discredited among the more ambitious members of the academic world, why there is no intellectual prestige to be gained by supporting it. Without, perhaps, being conscious of any bias, the ambitious young economist vaguely senses that the way to academic distinction is not through a favorable interest in and openly published support of the social ap-

[2] In the "Conclusion."

[3] New York, Macmillan, 1936, p. 205.

propriation of rent. And the more economists there are who thus turn their attention away from the land-value tax proposal, the larger is the proportion of graduate students of economics—the academic economists of the next generation—who are almost or entirely unaware that such a proposal has ever been seriously made.

In this connection it may be well to quote from a letter written to me recently by a university teacher of economics. "The thing that is both curious and amazing to me", says this teacher, "is that I could have attained a Ph. D., having gone among others to two state universities, without having been subjected to more than a few pages of literature, mostly derogatory, and without having spent more than five minutes of class time on Henry George's philosophy. Sometimes I wonder what else I might be lacking because of the influence of vested interests, custom and neglect."

Yet surely, if there is any use at all in teaching the subject of economics, there is good reason for including in it a thorough exposition of the problem of land rent. For in every so-called capitalistic country the landlord class are—despite all excuses, "defense" and qualifications—essentially parasites on the landless. In every such country non-landowners must pay those who own the land, tremendous sums every year, merely for *permission* to work on and to live on the earth, in those locations which geological forces and community development have made relatively productive and livable. On the face of it, the proposition that the payments made for such permission—and certainly for the enjoyment of community-produced advantages—should go to the community, seems altogether reasonable. On the face of it, allowing some men to charge others for such permission seems like allowing some to charge others *for permission to sail boats on the ocean, swim in the lakes and rivers, breathe the air or enjoy the sunshine.* Through what legerdemain of rationalization do our teachers of economics—or most of them—manage to persuade themselves that here is no problem of import to the common welfare? Economics without serious consideration of the land rent problem *as such* is indeed like the play, *Hamlet,* with Hamlet left out. Yet this is the kind of economics which college students usually get[4] and, naturally enough, high school students get no better!

[4] But there is an occasional noteworthy exception. For example, the very well written "Applied Economics" by Professors Raymond T. Bye and William H. Hewett, which has had considerable use as a college textbook, gives appreciable—and definitely favorable—attention to this reform. (See third edition, New York, Crofts, 1938, pp. 470–6 and 535.) Professor Bye is the author also (with Professor Ralph H. Blodgett) of "Getting and Earning" (New York, Crofts, 1937), in which an entire chapter (Chapter IV) is devoted to a careful and clear analysis of the rent of land and of its taxation.

To leave out consideration of this problem—with a fair and full presentation of the reasons favoring the appropriation of rent by taxation—is to leave out a topic which arouses more interest, at least among a good many students, than any other. There will be student objection to this proposed reform, of course, just as there is student objection to the removal of protective tariff duties and student support of the idea that we should always "buy in the home town." But such objection by some students serves to stimulate class discussion and to whet the interest of other students all the more.

For all practical purposes, and with a few exceptions such as the traditional criticism of protective tariffs, the ordinary course in beginning economics is a description of and a mild defense of the price system ("capitalism") *as it is.* Although, in some cases, the textbook used in this course has a chapter on socialism so written as to appear to give a reasonable presentation of the socialist viewpoint and plan, the reader is left with the feeling that, after all, the writer believes the system we now have—and with no very fundamental reform—is much to be preferred. As said above, there is no serious thought given to the abolition of land rent exploitation as an important reform in the existing system of "capitalism."

If really serious attention were given to this reform, the general course in economics could become a most interesting—indeed, a dramatic—story. Even the more involved theoretical aspects of the course, such as the theory of interest on capital, would then take on a new appeal, since the student could be made to see their importance in contributing to a thorough understanding of this basically dramatic subject.

But a theory of economics which does not give the student the picture—so that he realizes its truth—of some men charging others to use the earth, necessarily loses a large part of its vital appeal. To illustrate the present teaching situation, let us suppose that, in a society where the majority were slaves and many of the others, the free, were owners of slaves, economics were taught so as to ignore slavery except as slaves were classed with cattle, buildings and machinery as "capital." Suppose, thus, that the issue of whether slavery was or was not conducive to the common welfare were entirely ignored. Suppose that, while slaves were classed with cattle, planted trees, buildings, machinery and ships as capital "investments," as "aids to labor," as "invested savings," every device of terminology were used to blur any distinction between property in slaves and other property. Such a situation would be comparable to the situation we now actually have (in most cases) as regards land and land rent in university and college teaching of economics.

Any teaching of economics which soft-pedals the issue of parasitism is a teaching that is relatively inconsequential, insignificant and—of course—relatively dry and uninteresting. Exploitation by monopoly in all its industrial and commercial forms, by unfair competition, by protective tariffs, and by the pressure groups organized to secure economic benefits for some at the expense of the rest of the people, and, even more, that which arises from control by the few of sites and natural resources all must use, needs to be analyzed and explained in any economics "principles" course that can be fairly regarded as adequate. However fully other and *relatively inconsequential* topics may be treated, if full and fair presentation of the land rent problem is missing, any claim of real adequacy is, in effect, either confession of utter unawareness of what is truly most significant or is pretense and deception.

Of course our ideals and emotions must not be allowed to sway our reasoning on matters of cause and effect. But they may and should make us eager to do the reasoning. They may and should set the problems, so that our reasoning shall be about the important ones and not about those of no appreciable consequence for human welfare. If, thus, the student is inspired, if he is driven by a powerful inner urge to seek understanding because understanding is here so overwhelmingly important for the wise ordering of our economic life, and if, having attained or begun to attain understanding, he is not satisfied to keep his new-found knowledge to himself but wants to talk about it and to share it with others,—surely, then, the teacher may hope that his work has not been entirely futile.

No mere "teaching devices" or tricks of language or smart techniques of choosing illustrations from the coke-drinking, movie-attending leisure time of students (a technique stressed in their advertising by the publishers of at least one widely-adopted text) can arouse a similar interest. No doubt such techniques have their useful place and can help to give even essentially dull and uninteresting subject matter a sparkle of superficial appeal. But such superficial appeal is utterly different from the intellectual ferment and the keen sense of its import for the establishment of a more equitable economic order and for the welfare of common folks and the eagerness to talk about its problems and, even, do something about them, which economics can and should arouse.

II

BUT WHEN THE LAST WORD has been said on the significance of and the teaching appeal in the land rent problem, and on the importance of a full and fair presentation, there still remains the question of just how—through what mechanism of analysis and illustration—a reasonably complete grasp of the principles involved can be assured.

Of one thing we can be certain and that is that economics students cannot possibly get any such grasp from the half page or the one or two or three pages—ten or twenty per cent of just one class-period assignment—which is commonly all the study required of it in our colleges and universities (when any at all is required). Especially in view of the fact that the prejudice on this matter, of many interested persons and of not a few writers and publicists, leads to the propounding of many sophistical arguments, is it necessary that students be well enough trained in it so as not to be thus too easily imposed on. And so, even economics teachers who agree that the land-value-tax question is important and who do give it some brief favorable consideration, may accomplish practically nothing because they do not devote enough class time to it or assign enough reading to bring about real comprehension.

Some, of course, among the student bodies of our colleges and universities will be influenced, initially at least, by the conservative prejudices of the possessing classes. For this reason, among others, it may be advantageous to build up a clear understanding of various facts and principles of economics, a knowledge of which will help in understanding the subject of the rent of land and its taxation, before this subject is brought directly into view.

My own practice is to take up the subject of interest on capital some time before attempting any intensive study of the rent of land. In presenting interest, I endeavor to make as clear as possible the nature of capital, the fact that capital can come into existence only by work and saving and the fact that the sale value of capital cannot, in general, greatly exceed its cost of construction or, in the long run, be greatly less. Opportunity is taken at this point to note the fact that land does not depend on men's work or saving and that, even though the *location advantages* of land do owe something to human activities, they are rather, in the main, a by-product of the activities of many men, each following his individual purposes without special thought of any incidental consequences to the advantages or value of various pieces of land. The fact is carefully noted, too, that the value of land is arrived at solely by capitalizing at the current interest rate the anticipated annual rental value of the land; and that land value is not determined by any "cost" of "producing" land.

Then the forces determining interest and the rate of interest are explained at length and a basis is laid for making clear later, even to those who may not want to see, how the rent of land differs from the interest on capital. A simple arithmetical illustration is presented, based on the supposition of a miniature world, which shows how the general rate of interest is fixed. The class is then given a similar illustrative problem to work on during an hour's practice exercise, with chances for any student to ask questions about any part he does not understand. At the next class meeting, or at an early one, there is a general discussion hour in which there are further opportunities for questions. And a particular stimulus to the student's desire to understand is the probability that some such problem will be propounded in one or more written examinations.

In teaching the class how wages are determined, I follow a like method. The relation of wages to the productivity of labor is made clear in illustrative problems on which members of the class have an opportunity to ask any number of questions.

Due allowance is made, here as elsewhere, for such lack of correspondence between the precise "theory" and the unprecise "practice" as is inevitable when competition is "imperfect"; but the student is nevertheless impressed with the fact that, without an understanding of the basic influences determining wage rates, he cannot understand the actual economic world.

In a similar way, the geographer helps us to visualize the real globe on which we live, with its oceans, continental land masses, islands, rivers and mountains, by exhibiting a card-board globe rotating on a wire. What if, during his geography lesson, a critical student were to say: "Your globe doesn't show the grass in my uncle's yard or the big elm tree in front of my dad's house or even the ice pond on my cousin's farm; therefore, you're just a theorist—an impractical theorist—and there's no use studying your globe or your maps"! He would then be talking as some critics talk about the simple illustrations which we need to use in economics to make its major facts and laws comprehensible. These simple illustrations do not and cannot include every minor detail and qualification. They do help very greatly in making the major forces and their operation meaningful to the student and they do give a point of departure for such qualifications as may be called for in varying circumstances.

In the appendix of my book, "Basic Principles of Economics and Their Significance for Public Policy,"[5] along with the various other arithmetical problems on which my class is asked to work and on which, usually, they are later examined, there is one dealing with net interest, wages, land rent and the sale price of land under two contrasting conditions. In the one

[5] Columbia, Mo., Lucas Brothers, 1942.

case, the tax system is like the one we now have in the United States and most other countries. In the other, government takes, for public purposes, nearly all of the annual rental value of land. This problem and the comment that goes along with it in the appendix of my book, follow:[6]

In the country of New Atlantis, the marginal rate of productivity of capital in the various industries averages 6 per cent. There is a general tax on all property of 2 per cent (1/3 of the average income from it). There are also special taxes on cigars, cigarettes, gasoline, soft drinks and moving pictures, as well as other indirect taxes. Carter owns a building and lot from which he receives (in excess of annual repairs and depreciation on the building) \$450 a year. The cost of construction of such a building (his being new) is \$5,000, and \$300 of Carter's annual income is really interest on this capital investment. The remaining \$150 is properly to be regarded as rent on the lot. The taxes on building and lot are, respectively, \$100 and \$50, leaving net returns to Carter, on the building, of \$200, only 4 per cent, and on the land, of \$100. (This, of course, does not include any income Carter may earn by working.)

Assuming a general belief that the rent of the lot and the tax rate will remain the same, *what do you find for the sale price of the lot?*

(Answer: \$2,500, the sum of which \$100, the net rent, is 4 per cent. For no one, when he can invest his savings in capital construction at 4 per cent, will knowingly buy land at a price so high as to yield him a lower return and no owner of land will intentionally sell at a lower price, unless under unusual circumstances. Since, in New Atlantis, the tax rate on land and capital is the same, the answer can be found likewise by capitalizing the gross land rent, \$150, at 6 per cent. But the same answer would not be thus secured if the tax rate on land and capital were not precisely the same.)

In the country of Utopia, most of the revenue required is secured by a tax on land values. Utopia has none of the indirect taxes levied in New Atlantis and no tax on capital. In Utopia, as in New Atlantis, the marginal productivity rate on capital in the various industries averages 6 per cent. Matthews owns a building and lot in Utopia. His building is the twin of Carter's and its cost of construction is also \$5,000. His lot is equally good as regards location. The total income from his building and lot is \$432, of which \$300 is really interest on Matthews' capital investment in his building and \$132 is properly to be regarded as rent on the lot. *Why is this rent assumed to be lower than the rent of the lot of similar location advantages in New Atlantis? Would wages, then, be any higher in Utopia?*

(Hint: Consider the holding of land out of use and the effect of the tax on such holding.)

Assuming the land-value tax rate in Utopia to be 10/11 of the annual rental value of land, there would be a tax of \$120 on Matthews' lot. There is, however, no tax on his building. *What is Matthews' net rent from his lot? What do you find for the sale price of the lot?*

[6] Reprinted by permission of the publishers.

(Answer: $200, the sum of which $12, the net rent, is 6 per cent. Note again that the sale price of Carter's lot, in New Atlantis, was $2,500, more than 12 times as high. Of course, a flow of capital from New Atlantis to Utopia would, if at all rapid, tend to bring closer their rates of interest and so to lessen somewhat this difference in the sale price of land.)

In answering the questions below, refer to the relevant facts and figures given in the preceding paragraphs and in your calculations above.

Which country would be better for a workingman, starting at the bottom of the economic ladder with no property at all but with the ambition to

(a) secure the largest possible wages?
(b) suffer the least subtraction from his wages?
(c) save and invest?
(d) acquire ownership of an unmortgaged home? In this connection suppose that Carter in New Atlantis and Matthews in Utopia do not yet own the property above referred to as theirs, but that each has saved $5,000 intending to purchase the building and lot we have described in each of the two countries, respectively. Each must borrow and pay interest on the remaining money needed for his purchase. Which must borrow the more and how much more? Which one, in case of economic reverses, would be the more likely to lose his newly acquired property?
(e) Antagonistic economists have said that the system of Utopia is of no benefit to the poor man anxious to save for the purchase of farm, home or land for a business, for the lower price of the land is offset by the greater tax on it. *On the basis of your figures, what do you say?*
(f) If you were saving something each year, into which country would you prefer to send your savings for investment? Why? *What country benefits?* Why?

It is unnecessary to go further here into the solutions and their explanation. I do want to comment, however, on how, in my opinion, such a method of teaching can be most effective in promoting understanding. In my own use of it there are prior assignments in the textbook which explain carefully the nature and the law of rent, the relation of rent to community growth, etc., and which explain, with a few illustrative figures but as simply as possible, the various relations indicated above. Also, a problem very similar to the one just quoted is set forth in lectures. The quoted problem, as given in the appendix of the text, is assigned as a lesson to be prepared. Then a class hour is devoted to a similar problem—preferably with somewhat different figures—as a practice exercise. During this hour, questions are invited, and each student, as he works out the problem, can have all the help and explanation he needs. Students are told that merely memorizing the process won't do; that they must *understand;*

that in the examination soon to come, questions will be asked which will trip the mere memorizer of a process.

It is important, for example, that the student understand the logic of the capitalization of rent to find the sale price of a piece of land. Thus, in the problem above, the student may correctly capitalize the $12 annual rent of Matthews' lot in Utopia at 6 per cent, arriving at a sale price of $200, just because he has been told that this is the right process to follow. Yet he may not have the slightest idea—and his questions frequently show this—why the lot, expected to yield only $12 a year to the owner, should not be worth far more than $200. The problem should be personalized for him. It is my own practice to ask him, for example, whether *he* would give (say) $500 for such a lot, in a country where he could use his savings for the construction of capital which would yield him 6 per cent or where he could loan them to someone else at a 6 per cent interest rate. The student then sees that $500 so invested or loaned would yield him $30 a year and realizes—unless he is exceptionally uncomprehending—that no one with ordinary business sense would pay as much as $500 for a lot from which he could expect only $12 a year. In like manner he can be made to see why, in real life, such a building lot would not normally be sold for as little as (say) $50.

The next exercise, following this practice problem, or one very soon after, is given to the class divided into relatively small discussion groups. Here the student who still does not understand the arithmetic of the problem or its significance can raise any questions he wishes to on any aspect of it.

Add to this the *very* strong suspicion on the part of each student that such a problem—of course with different figures and, perhaps, various questions suggested by it—is likely to constitute part of an imminent written examination, and there is a reasonable probability that a large proportion of the class will come to understand (at least temporarily!) the major facts which the problem illustrates. They will see that forcing good land into use tends to reduce the rent of land and to raise the productivity of and the wages of labor (now better provided with land—more good land per person). They will see that taking taxes off commodities makes for larger real wages. They will see that the worker who wishes to save can save faster for these reasons and that his saving is still more facilitated if the income on capital he saves is also untaxed. They will see that capital is likely to be invested in the jurisdiction (Utopia) where it is not taxed rather than in the jurisdiction (New Atlantis) where it is, and that the consequent increase of capital in the former makes labor more productive there—because it is better equipped—and tends further to increase wages. They will see that the increased tax on the rental value of land lowers its sale value for three reasons: (1) because preventing (by the tax) the artificial scarcity for which speculative holding of vacant (and greatly underimproved) land is responsible, makes rent lower; (2) because most of this somewhat reduced rent thereafter actually charged is taken in taxation by government and the sale price of land depends on the net rent anticipated by private owners; (3) because the net interest rate (after subtracting taxes on capital) which is used in capitalizing the rent of land into a sale price, is higher when capital is taxed less or not at all. They will see that, for all of these reasons, it is definitely easier for a worker to acquire title to a farm or home in Utopia than in New Atlantis. They will not—certainly they should not—be deceived by the confused contention of some professional economists who argue that there is *not* any greater ease in acquiring ownership in such a country as Utopia, claiming that the lower sale price of land is offset by the higher tax which the new owner must pay on it.[7] And not only does the sale price of land fall by a greater proportion than the increase of tax on it can offset (see the three points listed above) but, too, there has to be reckoned the great reduction—even the abolition—of the tax on improvements in and on the land, already made or to be made, as well as the greater productivity of labor and the lower or no tax on goods wage earners consume.

That many professional economists do not understand at all the principles requisite to the solution of such a problem as that presented above—though it is presumably understanding of the relevant relations that is

[7] An especially frank and striking presentation of this fallacious view is to be found in Prof. Lewis H. Haney's "Value and Distribution," New York, Appleton-Century, 1939, pp. 706–7. For Professor Haney is not satisfied merely to state the fallacy in *general* terms but even gives it *arithmetical precision* by the use of hypothetical figures. Here is what he says: "But the cheap land of early days no longer exists. Land could formerly be secured at a capital value of $1.25 an acre; but now the mere annual rent is several times that sum, and would be so whether paid to an individual or to the government as a tax. The capital needed to pay that rent (or tax) would be as great under the Single Tax as it is now. Let it be supposed that the rent of a given farm is $1,000 a year and that at 10 per cent the capital value of the farm is $10,000. Under existing conditions, a man, if he be efficient and trustworthy, can borrow the purchase price ($10,000), paying interest ($1,000) on the sum. Under the Single Tax, would he be any better off in paying a $1,000 tax to the government? It must be remembered that, with the coming of a 120,000,000 population, the day of cheap land is forever gone; that today any capable man can get the use of all the land he can pay rent for; and that, as no government can make land, it is not going to mend matters merely to put the government in the position of landlord, and to call the rent a tax."

lacking rather than the ability to go through the simple arithmetical calculations—is not really to be wondered at.[8] Too often such understanding is not, like understanding of various inconsequential things, a prerequisite for the doctorate in economics! Indeed, it is doubtful whether, in more than a small minority of degree-granting institutions of higher learning, any question involving understanding of such a problem is ever asked of any candidate for an advanced degree.[9] And one would judge from the current writings of many economists, including most of the current widely-used textbooks, that the "best academic circles" consider the present system of land and resource tenure and exploitation to be perfectly flawless and beyond the power of science to improve.

But undergraduate students who have been led through such an arithmetical illustration of the land rent question, and those on interest and on wages which precede it, who have had the practice of themselves working out such problems to a solution, together with opportunity for extended

[8] The following passage appeared in an article in *The Atlantic Monthly*, November, 1939, entitled "Business Looks Ahead," by Professor Sumner H. Slichter of Harvard University: "High real estate taxes are the next most important obstacle to cheap housing. The Detroit Bureau of Governmental Research estimates that the average tax rate based on true values in 274 cities in 1937 was $26.90 per thousand, or about 25 per cent of rent or rental value. This means that the present real estate taxes are equivalent to a 25 per cent sales tax on shelter. Everyone knows what an outcry would be provoked by a 25 per cent sales tax on food, fuel or clothing. When shelter is burdened with a sales tax of 25 per cent, is it surprising that people put up with old shelter and avoid heavy new tax liabilities by refusing to spend money on new housing? Surely there is no reason why sources of local revenue should not be broadened to make it possible to cut real estate taxes in half" (p. 597). Since Professor Slichter here makes no distinction between land and improvements (both being included under the term "real estate") he seems to be telling us that a tax on land or site values, even if buildings and other improvements are entirely exempt, would be "an obstacle to cheap housing"! If he does not mean this, then *what does he mean?*

[9] A strikingly interesting illustration of how little likelihood there is, in the case of many colleges and universities, including some of the highest prestige, that the student will learn anything at all about this subject, is to be found by examining a widely known text in the specific field of taxation and public finance. This is "Public Finance" by Prof. Harley L. Lutz of Princeton University. In the second edition of this book (New York, Appleton, 1929), a volume of about 750 pages, Professor Lutz devoted a page to the land-value-tax proposal. However, in 1936 he brought out a new and considerably enlarged edition (the third) of this work. This new edition contains not just 750 pages, but 940 pages, covering numerous and varied ideas and practices in government finance and taxation. Here, one might suppose, space could be spared for a somewhat fuller treatment of this important topic. But, in truth, even the brief comment given to it in the earlier edition has been dropped in the later one; and I have been able to find, in this now massive text, not a single reference to the land-value-tax program as such, or to Henry George who pleaded so eloquently for this reform, or to the various steps which have been taken towards it in New Zealand, Northwestern Canada, Denmark and elsewhere. And so the university or college student whose course in public finance is based on this textbook, in all probability, however faithfully he works at his assigned lessons, will come out at the end utterly unaware that anyone, anywhere, has ever urged land-value taxes much higher than those now customarily levied.

classroom discussion and the prospect of the inclusion of one or more such problems on the final examination, do, ordinarily, get a very good understanding of the significance of land rent and its taxation for the most successful and beneficent functioning of the system of free markets and free enterprise.

There is no intention to say here that, important as this method of illustration is, nothing else is required. Not only must there be ample time given to discussion of the arithmetical land rent problem itself and to discussing fully and fairly and understandingly each objection that may seem important to any student; but there must also be some effort made to contrast the system of free enterprise as thus reformed—and with due regard, also, to other desirable reforms—with socialism or communism.

The subject of the rent of land and its relation to public policy is advantageously presented in conjunction with a study of the economic system as a whole; and, therefore, the broad general course in the "principles" of economics, which aims to give the student an idea of the operation of the economic system as a whole and of its virtues and shortcomings, is most certainly an appropriate course in which to include a full and fair and careful consideration of it. This is the more important since many students take no other course in economics than this one; it seems at least unfortunate—perhaps, indeed, it is ominous—that from this course which reaches the largest number of students such a consideration should be so often omitted.