The Effective Answer to Communism

and

Why You Don't Get it in College

by

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with some chapters by
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History as it Might Have Been

THE MARXIST-LENINIST-STALINIST ECONOMIC PHILOSOPHY is to the effect that labor produces all that is produced. Income from property is "surplus value." It is robbery of the workers. It is "exploitation of the proletariat by the bourgeoisie." Adherents of this philosophy manifest, in general, little or no interest in differentiating between the capital that, by working and saving, men produce to *aid* them in further production and, on the other hand, natural resources, urban sites, and tracts of land usable for agriculture, forestry and grazing. *All* income from material property is *equally* "surplus value" and is *equally* robbery of the workers.

Whatever this philosophy may lack in sophistication, it has the appeal of simplicity. It can be—in large degree it has been—"sold" to discontented workers and to considerable numbers of the "intelligentsia" in many parts of the world. Its contemporary supporters "explain" the "class struggle," the recurrence of business depression, and the "inevitability" of socialism, all on the basis of this two-fold division of the product of industry between *owners* and *workers*. A few simple formulas or dogmas, and the injustices and inadequacies of "capitalism" have been accounted for!

But those opponents of the Marxist-Leninist-Stalinist philosophy who receive the most publicity and seem to have the most support among conservatives—including some who call themselves "libertarians"—are also prone to a similar simplicity. They, too, make no distinction between capital and land, as such. They, also, see no essential distinction between private enjoyment of income from the one and private enjoyment of income from the other. They do not, like the Marxists, denounce these incomes as exploitative but, on the contrary, defend them both, and are usually found favoring lighter tax burdens on both. Insofar as they are willing to concede that property or the income from property *should* be *taxed*, they favor taxing capital and land at the same rate.

There is, however, a third economic philosophy, a philosophy that does distinguish between capital and land and between the incomes yielded by the one and by the other. Adherents of this philosophy stress the thought that, since man-made capital can come into existence only as there is work *and* saving, and since capital adds to the productiveness of industry, the private enjoyment of income from capital is a desirable—and a deserved—incentive to bringing capital into existence. But adherents of this philosophy look with less kindly eyes on the private enjoyment of income from land, purely as such, and favor having an increasing amount of such income taxed into the public treasury. For the private enjoyment of such income appears, to those of this philosophy, as a requirement from landowners that others pay *them* for *permission* to use the earth. More specifically, they think of land rent as a required payment to landowners for the latter's *permitting* the payers to *work on,* to *live on* and to *draw subsoil deposits from* the earth—or, at any rate, on and from those parts of the earth which geological forces and community development have made relatively productive and livable.

Is there in fact, or is there not, significant reason for distinguishing between the capital that, by working and saving, men produce to *aid* them in further production and, on the other hand, natural resources, sites and tracts? Is there, in short, good reason for distinguishing between capital and land?

Among the professional economists who seem to feel that there is no such distinction of any real consequence, is Professor Frank H. Knight of the University of Chicago. Here is the way he has expressed this view:[1]

"It is of the very conception of economic behavior that, in so far as the individual knows what he is doing, the 'return' from any activity, as estimated by himself, will be equal to the outgo, in terms of the individual's own estimate of the next best alternative of the resources employed. Any return amounting to more or less than 'cost,' in this sense (which is the only sense having any intelligible meaning), is due to accident or miscalculation—*i.e.,* to the speculative element in the activity. There is no evidence, a priori or empirical, either (a) that speculative activity yields a larger return, in any representative sample of cases, than does activity where the results are actually in accord with expectations, or (b) that land acquisition or holding presents anything peculiar in comparison with other economic activities. Every type of speculative element is familiar in connection with land and also in other connections."

Probably most people, other than economists, are so habituated to classing land with capital and to regarding income from the one as similar to income from the other, that it *practically never occurs to them* to *attempt* making any significant distinction.

Nevertheless, it may help to bring home the distinction between man-made capital and land, to some who are thus habituated and to some of those who are inclined to go along with Professor Knight, if I venture to

[1] In a review of George Raymond Geiger's book, "The Philosophy of Henry George," *Journal of Political Economy,* October, 1933.

use what may appear, superficially, to be a far-fetched illustration. For though superficially the illustration may appear far-fetched, it is in fact closely analogous to, if not almost identical with, the case regarding land. Indeed, though this illustration is *not* history, it *is* what *history might easily have been.*[2]

Let us suppose, then, that navigable rivers and lakes have long been recognized as subject to private ownership, as well as land, and that large personal incomes have been securable from charging ships for *permission* to sail on them. This would indeed be exploitative and *would certainly not be to the general advantage.* Yet here, too, the rate of return over "cost," to the owners, might well be not more than—might even be less than—the ordinary return on the capital that men make. And if we cannot assume a return greater than the ordinary per cent on "cost" for those who may have *bought out* the first owners or the descendants of these owners, neither can we assume a greater return to these owners (or their descendants) themselves. For however the first owners acquired their ownership, whether by force, by bribery, or through some legally sanctioned method, there was presumably some sort of "cost" involved. (Conceivably, in certain circumstances where public sentiment was not wholly approving, a troubled conscience might have been a considerable part of this "cost.") And the prospective owner would have been ready to meet this cost whenever or as soon as it was justified by the anticipated returns.

More specifically, let us now suppose that, some hundreds of years ago, legal sanction regularly attached to perpetual control of a lake—*e.g.,* Lake Ontario, Lake Erie, Lake Huron, Lake Michigan or Lake Superior—provided only that certain formalities were first attended to, and that these formalities included *rowing* three times around the lake and performing certain *incantations* at the end of every third mile. This would certainly mean, so far as any would-be owner was concerned, a "cost" of acquisition.

Now let us assume the future income from such ownership, of millions of dollars a year, to be confidently anticipated by two or more aspirants for ownership. Then each of these would be ready to do the rowing, bearing all the incident toil and danger, and to perform the required incantations, on the earliest date when it could be said to pay. In other words, they would be willing to do this as soon as the present *capitalized value* of the future income such ownership was expected to yield, became

[2] The next nine paragraphs are taken, but with some change in wording, from my *Basic Principles of Economics,* 3rd edition, Columbia, Mo. (Lucas Bros.), 1955, Vol. II, Ch. VII, pp. 86–89.

equal to the cost of so acquiring ownership.

Then Dr. Knight could piously pronounce with regard to such ownership of Lake Erie or Lake Huron, as with regard to ownership in land—or in slaves!—that "there is no evidence, a priori or empirical, . . . that the acquisition or holding of a lake—or of *slaves*—presents anything peculiar in comparison with other economic activities. Every type of speculative activity is familiar in connection with lakes—*or slaves*—and also in other connections."

But such pronouncement would have no bearing on the question whether deriving private income from charging men to use (say) Lake Michigan—or any other navigable lake or river—was socially desirable or was in any significant way analogous to deriving private income from productive capital the construction of which private saving has made possible. Whatever the *cost* of *acquiring title* to Lake Michigan, there has been *no service* to the community from this acquisition, nor any service to future users of the lake who must now pay large annual sums for *permission* to use it. Whatever the advantages to commerce of Lake Michigan and its harbors, these advantages are not services rendered by the owner (or owners) of the lake. They are not due to his effort. They are not the consequence of his construction of capital. They do not result from and are not enhanced by the fact of his having rowed three times around the lake nor of his having performed the specified incantations nor by any such action on the part of any ancestor or other previous holder of title. The difference between receiving private income from such "property" and from capital which his own productive labor and saving have made possible, is *fundamental* and *profound.* It is this sort of difference on which the land-value-taxation theory is based.

The man who acquired title several hundred years back may have realized—through his heirs—no more than or even less than the ordinary rate of return on *cost,* the return which he could normally have realized, in the average case, by bringing into existence new and useful capital. The important point is that, though the per cent return thus received may be, on the average, no greater, and may sometimes be less, nevertheless this return cannot be justified on the basis of equivalent contribution to those who must pay it; whereas the return on capital can normally be so justified.

If now, at some date say fifty or a hundred years or more after title has been gained by means of the prescribed rowing and incantations, the property is sold to a new purchaser, the price paid will presumably be fixed on the basis of the then anticipated future yield. The *new owner,*

therefore, having purchased the lake at a price fixed by capitalization of this anticipated income, will also make, unless calculations have been inaccurate, only the *ordinary* rate of return. But *anything* he so receives, be it only one tenth of one per cent on his investment, or even much less *than* the investment, is at the expense of the common run of folks from whom it is really drawn and who gain *absolutely nothing* from the fact that *the new exploiter may have paid a substantial amount to the previous exploiter* whom he has thus bought out.

Just because the dominant influences in government some hundreds of years back had established such a system and just because the exploited common folks—whether from intellectual confusion furthered by interested propaganda, or other cause—had allowed the system to continue until the present, it would be argued by apologists of the system that those exploited by it must let it continue forever. Or it would be contended—in effect—that those who were being exploited by it must do nothing to change the system *unless* they first *fully compensated* their exploiters for henceforth giving up the privilege of thus exploiting them. The victims of the system must remain victims forever or must *themselves pay* for their own relief—as slaves might be expected, if they were to go free, to pay their owners what the slaves had been worth as slaves! And so the only method or methods of terminating the system which could be regarded as in any sense politically feasible or practicable, would be ruled out at the start.

The parallelism with the present land system and the private enjoyment of the geologically-produced and community-produced rent of land is, in all essential respects, complete.

Time was when the American Declaration of Independence and the struggle of the American states for freedom from political domination by Great Britain, stirred the imaginations of liberty loving people in many other countries. Today we seek allies and sympathizers in our ideological struggle against the socialistically regimented countries of the communist bloc. *Will it help us* in this ideological struggle, *will it stir enthusiasm* for capitalism, if in the "capitalism" *that we practice* and that *we urge upon others,* there *must be included* vast private income derived from charging (1) for *permission* to use—and history might have been such as to make it so—navigable lakes and streams, *or* (2) for *permission*—and this is the way history really *has* made it—to work on and to live on the earth?

– 2 –

The Vacant Lot Problem in American Cities

THE PROBLEM of keeping weeds and other debris from converting vacant areas into unsightly spots is one of the "headaches" confronting "all public works officials," according to H. H. Hester, Street Superintendent, Fort Worth, Texas.[1] Such unsightly lots reflect on the efficiency of the street and public works department of a city and are a forerunner of deterioration in an otherwise progressive and clean city. For the taxpayer all this adds up to a larger tax bill. In Fort Worth $35,000 is paid annually for this service alone.

Professor Henry E. Hoagland has stated that vacant lots are the largest single class of property in American cities.[2] Dr. Hoagland's statement is substantiated by a survey of eighty-six cities ranging in population from 900 to over 800,000, the results of which were published in 1955.[3] The survey showed that approximately 43 per cent of the land area—excluding streets and water areas—was held vacant.

When land is held out of use speculatively or otherwise, rents which must be paid for apartments or homes and their sites become higher; thus the purchase price of land—and homes—increases. Wherever large amounts of land are held vacant all public utility services become more expensive to install and maintain. For example, electric poles and cables must be extended over a large area when nearly half of a city's land lies unused. The same thing applies to water mains, telephone lines, the cost of delivering milk, mail and all other commodities. Decidedly more important than the cost to the taxpayer or the trouble to the public works official are these other economic wastes. Nor are these expenses offset by any compensating gain, such as more playgrounds and parks. Is there an effective remedy?

Theory indicates that where bare land is taxed more heavily and improvements as well as other capital are taxed less heavily, vacant land is forced into use and land is used more productively. Thus, under such a system we might find in the heart of a metropolis, not a vacant lot but instead a multi-storied office building. And in place of a parking lot—

[1] H. H. Hester, "Vacant Lot Clearance," *American City*, 71 (October, 1956), p. 27.

[2] Henry E. Hoagland, Real Estate Principles, New York, McGraw-Hill. 1949, p. 34.

[3] Harland Bartholomew assisted by Jack Wood, *Land Uses in American Cities* (Harvard city planning studies, XV), Cambridge, Harvard University Press, 1955. Figures given are calculated from data in Tables 3 and 4.

where comparatively few cars could be accommodated—there might be parking on successive floors or levels.

Professor George G. Sause, after investigating the effects of taxation on land use, concluded: "We may say that the effect of shifting the tax burden from improvements to land is to increase the pressure on the owner to use his land as productively as possible."[4]

If our taxes were shifted more largely to bare land and reduced or abolished on buildings and other capital, the building of apartment houses and other dwelling units would increase. Capital, because taxed less and thus yielding more, would flow in, causing rents to fall.

A seldom emphasized factor in the cost of housing is the sale price of land.[5] A tax forcing more good land into use would make land rent for less. Being relieved of paying a very high sale price—resulting from the capitalization of community-produced advantages—for a building site, would-be owners of homes or apartments could more readily afford the cost of construction without incurring heavy indebtedness.

With a shift of taxes from capital to land values, the constructing and owning of capital no longer would be penalized as it is today in most of our American cities. Development of a city would be stimulated. Renters and home owners would be benefited.

Closely related to the housing problem is that of juvenile delinquency, an especially acute problem in slums. A contributing factor to this is the lack of recreational areas. Many city children, often forced to play in streets or alleys, get into trouble. A partial solution is to provide more recreational areas—parks, playgrounds, and swimming pools—within easy reach of city children. This would become more practical with a system which increased available land that could be purchased more cheaply.

In those parts of Australia where the tax system resembles ours, fewer dwellings were constructed than where only land values were taxed. Many more dwellings were constructed in districts that taxed land values and not improvements. The investigator, A. R. Hutchinson, estimated that, in ten cities in the Greater Melbourne area, 46,700 fewer houses were constructed than if these cities had raised their revenue by taxing

[4] G. G. Sause, Jr., "A New View of an Old Tax," *Am. J. Econ. Sociol.*, 13 (1954), p. 380. *Cf.* the preceding with Percy R. Williams, "Pittsburgh's Graded Tax in Full Operation," *National Municipal Review*, 14 (December, 1925), p. 729.

[5] P. C. Walker, "A Neglected Aspect of the Housing Problem," *Am. J. Econ. Sociol.*, 7 (1948), pp. 287–308.

land alone.[6] In contrast with this it was found that, in those parts of Australia where taxes have been shifted to land, relieving capital (buildings, machinery, etc.), the amount of land held out of use had declined greatly. Obviously the same tax policy would produce like effects in Fort Worth or any other American city.

ELIZABETH READ BROWN

[6] Summarized by H. G. Brown in "The Challenge of Australian Tax Policy," *Am. J. Econ. Sociol.*, 8 (1949), pp. 377–400. This summary is reprinted in Chapter 3 of this book.

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The Challenge of Australian Tax Policy

A SERIES OF ARTICLES published in the last few years in the Australian magazine, *Progress*, by A. R. Hutchinson of Melbourne, focuses attention upon studies made by the Land Values Research Group, of which Mr. Hutchinson is Director of Research. The conclusions to which these studies seem to point are almost precisely those which the very few professional economists seriously interested in the taxation of land values would have expected. Nevertheless, to the majority of American economists, these conclusions and the supporting data may come as a surprise. It might be well if such economists would seek to familiarize themselves with the data. In large part, Mr. Hutchinson's articles have been republished in a thirty-two page booklet entitled "Public Charges upon Land Values"[1] and in two folders entitled, respectively, "Housing the Nation" and "Rating Land Values in Practice—Results in Greater Melbourne." These reports will be dealt with here as a unit.

Hutchinson classifies the Australian states into two groups based on the proportionate burden of taxes on land values. The first group of states consists of Queensland, New South Wales, and Western Australia. In all of these, local real estate taxes are, in general, levied on *land values only.* Land-value taxes in Queensland take for the public, he estimates, more than half (54.5 per cent) of the annual rental value of the land; in New South Wales nearly a third; in Western Australia about a sixth. (In Western Australia, though the rural areas tax mainly land values, most municipalities tax land and improvements equally.[2] Besides local taxes there are, in most of the states, state land taxes; but these taxes Hutchinson considers relatively unimportant because in several of the states they are paid only by lands above a certain value and because they raise so much less revenue than do the local taxes.)

[1] Melbourne (Published for the Land Values Research Group by the Henry George Foundation of Australia), 1945.

[2] In Western Australia local government bodies exercise general control over municipalities and road districts. Only four of the nineteen municipalities tax only land values. More than a third of the road districts follow a land-value taxation system throughout their respective districts. The others tax only land values in their rural areas but in the case of town sites tax improvements also. See *Land Value Taxation Around the World*, New York (Schalkenbach), 1955, p. 14.

The second group of states includes South Australia, Victoria and Tasmania. In these states, local taxes are levied, generally, without distinction between land and improvements, although "some of the districts in South Australia and Victoria rate upon the land value basis," *i.e.*, tax only the unimproved value of the land. *In Tasmania, none at all do so.* All districts in Tasmania and most in South Australia and Victoria "rate upon" (that is, levy taxation upon) what is called "the annual value basis" of land and improvements together.

Between 1929–30 and 1938–39 the area under all crops increased in the first group of states by 21.5 per cent and *decreased* in the second group by 7.6 per cent. The increase was greatest for Queensland (65.8 per cent), next for New South Wales (22 per cent) and last for Western Australia (3.4 per cent). The decrease in the states not taxing land values (locally) as such was least for South Australia (4.9 per cent), greatest for Victoria (10 per cent) and nearly as great for Tasmania (8.4 per cent). During the same period the "area under wheat for grain" increased in Queensland by 117 per cent, in New South Wales by 17 per cent, and decreased in Western Australia by 4.4 per cent, the average increase for the three land-value taxing states being reckoned as 9.9 per cent. For the other group of states the *decrease* averaged 19.2 per cent and ranged from a decrease of 15.5 for South Australia, through 22.8 for Victoria, to 41.5 per cent for Tasmania in which *no* local district or governing area taxes land values as such.

The author considers next, data in regard to the construction of dwellings between 1921 and 1933. He finds the number of new dwellings constructed per one hundred marriages to be 74 in the land-value taxing states and 59.3 in the other (the "annual value rating") states. Each state in the first group had more building than any state in the second group. Tasmania, with *no districts at all* "rating on unimproved land values," had only 29.7 dwellings per hundred marriages during this period, less than half as many as the next lowest state in the group. However, Western Australia, in which land values are taxed less than in either Queensland or New South Wales and which does have, as we have seen, a much poorer record than those states as regards increase of area under crops, appears to have a somewhat better record in dwellings constructed per hundred marriages.

Hutchinson does not state whether this better record in Western Australia is confined to *rural* districts, although the fact that the municipalities of this state do not have a land-value tax system might lead one to expect

such a result. But his figures on the degree of improvement of land do indicate that, as of 1939–1940, the "ratio of value of improvements as percentage of unimproved land value" in the case of country land was higher in Western Australia as compared to this ratio for city land, than in any other Australian state.

Attention is called to the fact that those districts in South Australia and Victoria which do tax land values as such "are the districts which contributed most to their states' better showing than Tasmania." Thus, in Victoria, "although at the 1921 census only 16 per cent of the state population was in the fourteen districts rating land values, these districts accounted for 46 per cent of the total increase in dwellings for the State between the two census years." And "evidence submitted to the Commonwealth Housing Commission in South Australia showed that dwelling construction in the districts rating land values in that state was markedly superior to that in the districts rating Annual Values," *i.e.*, taxing land and improvements at equal rates.

But Hutchinson is not satisfied with this rather general conclusion. He wants to compare cities or districts which are, as nearly as possible, similar in location advantages and type, except that some "rate on land values" and others do not. He suggests that "In many respects these comparisons may be more reliable than interstate comparisons of development since the comparisons are not complicated by different political policies which may exist in the states." Also, he notes that "It would be absurd . . . . . to compare development of the business centre of the city with a perimeter district." So he selects, first, mixed industrial and residential cities which do and which do not rate on land values, that are in the Greater Melbourne (Victoria) area and about equally distant by rail (five miles) from Flinders Street Station in Melbourne. These cities he classifies as in Zone 4. Next he selects cities further out from the Melbourne business center (seven miles), some rating on land values and some not, and all residential, which he classifies as in Zone 5. And, similarly, he classifies cities still further out (nine and a half miles) and entirely residential, as in Zone 6. Since in Zones 1, 2 and 3 there are no land-value taxing cities, Hutchinson's study is perforce confined to Zones 4, 5 and 6.

Comparing the cities in Zone 4 which tax land values and not improvements with those which tax both, he finds that the number of dwellings constructed per acre available, in 1928–1942, was more than 50 per cent greater in the former than in the latter cities. In Zone 5, he found the number of dwellings in proportion to the acreage available to be more than two and a third times as great in the unimproved land value taxing cities as in the others. For Zone 6, he found it to be twice as great.

The *value* of *all* building per available acreage was, during the same period, in Zone 4, 40 per cent greater for the land value tax cities; in Zone 5 it was 140 per cent greater, almost two and a half times as great, and in Zone 6 it was 134 per cent greater.

Hutchinson remarks in regard to an alleged shortage of houses in Victoria of 40,000, that "if these ten cities in Melbourne which do not now rate on land values had been rating on that system and showing the same building figures per acre as the districts now rating on land values, instead of the 41,293 houses which were actually built there would have been 88,000 built. In other words there would be 46,700 more houses in these districts alone."

The change in holdings of vacant land in 1939 as compared to 1921 is noticeably different in the unimproved land value taxing cities and the others. In Zone 4, the decline in vacant holdings in the land value tax group was 57 per cent as against 30 per cent for the other group. In Zone 5 it was an 8 per cent decline as compared to a 50 per cent increase. In Zone 6 there was an increase for the only land value tax city on which data could be secured of 74 per cent, as compared to an increase for the only annual value rating city on which data could be obtained of 243 per cent. These increases the author attributes to speculative development of holdings previously agricultural. But the per cent increase was less than a third as great for the land value tax city as for the other. Perhaps it is a fair guess that the policy of taxing more heavily the value of land operated to prevent the waste involved in taking well situated land out of agricultural use years before it would be needed for urban uses. Perhaps one can fairly surmise that less adequate taxation of the value of land operates merely to have most of it held during these years in the form of vacant lots.

Coming back to a comparison of the states, we note that the ratio of the value of improvements to unimproved land values in 1939–40, was 151 per cent in the land value rating states and only 79 per cent in the others, and that it was decidedly highest (198 per cent) in Queensland, where the land value tax is highest. Furthermore, the average total value of improvements, for each land taxpayer in the states rating locally on land values, was fully twice as great as in the other states and was greatest of all in Queensland.

Land value taxation has been sufficient in Queensland so that the sale value of land per head of population actually declined 16.7 per cent between 1901 and 1937. In each of the other two locally land value rating states, it has risen by 11.5 per cent. In South Australia and Victoria, where, in general, districts do not rate on land values, the value of land per head of population has risen by 44 per cent and 77.5 per cent respectively. In Tasmania, however, the corresponding rise is given as only 4.8 per cent.

Another comparison Hutchinson makes is of the average income in the land value taxing states compared with the other states, received by non-property owners having incomes high enough to require them to submit a Commonwealth income tax return. The figures here were only slightly favorable to the land value taxing states, but the author shows that the proportion of persons receiving these higher incomes is considerably greater (40 per cent greater) in the land value taxing states.

Comparing money wages in factories paid in the first group of states with those paid in the second, he finds them larger in the first group, and larger in purchasing power.

Mr. Hutchinson's figures show, also, a considerably larger increase in value of plant and machinery in factories in the first group of states than in the second. In two of the second group there were actual decreases.

"One of the most delicate tests of whether conditions are favorable or not in any country," says Hutchinson, "is the flow of migration. If more people are coming to that country than are leaving it we may be sure that the new citizens regard the prospects in their new home as better that those in the land they are leaving. Conversely, when departures exceed new arrivals, it must be regarded as an ominous sign in the development of any state."

The data show a net migration into the land value rating states between 1929 and 1938, per 1,000 of the 1929 population, amounting to 8.8, and an outflow from the other states averaging 10. The inflow for Queensland, the state with the highest level of land value taxation, is the greatest, 16.5. *All of the other states* (the "annual value rating" states) *show an outflow.* For Victoria this is slight. For both South Australia and Tasmania it is considerable, 29.1 per 1,000 and 15.5 per 1,000 respectively.

No doubt it can be questioned whether conditions in the two groups of states are sufficiently similar to make the conclusions reached, purely from the data given, wholly reliable. Some critical readers may question whether, despite the care taken by the author of the studies to select only cities similarly situated, even the conclusions drawn from the data on cities in the Greater Melbourne area should be taken seriously. But certainly the data presented, *pointing with almost complete,* if not complete, *consistency in the same direction,* make a sufficiently good *prima facie* case so that it would seem *inexcusable* for any professional economist *to refuse to examine carefully* and without antagonistic prejudice *the theoretical argument* for land value taxation. And in view of the seeming great advantage of the land value tax policy, there would appear to be little excuse for the failure of many economics teachers to present the relevant facts and theory clearly and with some completeness to their classes. Yet scarcely ever, in the economics courses at American universities and colleges—even in the course in Public Finance—is the theory of the subject—or any such relevant data—presented to students adequately, so that any considerable number of them get any appreciable understanding of what land value taxation can accomplish or why it can accomplish it. *Frequently neither the teacher nor the textbook mentions the subject at all,* —or they mention it only to make a few brief and unanalytical derogatory comments on it.

II

LAND VALUE TAXATION, if sufficiently high, makes it utterly unprofitable to hold good land out of use. It increases, therefore, the amount of land offered for rent or for sale. It lowers the rent of land and thus reduces for tenants the cost per month or per year of housing.

By making more good and well situated land available, land value taxation increases the productivity of labor or of labor and capital both. It thus tends to raise wages. And insofar as it makes possible the abolition or even the reduction of commodity taxes and other taxes resting largely on wage earners, workers are still further benefited.

Heavy land value taxation would make possible the abolition, among other taxes, of taxes on real estate improvements, on livestock, on machinery, etc. Thereby it would definitely increase the net per cent return on capital investment. This would almost certainly cause an increase of saving, and so of capital. But even if saving were not thus promoted, such a tax system would inevitably cause savings made in other communities to be invested more largely in the land value tax community or communities. And the greater amount of capital in any such community or communities would mean that labor could be and would be

better equipped with capital *as well as* better provided with good land. Thus there would be *two* reasons for a *greater productivity of labor* and *higher wages.*

For all these reasons it is easier for a tenant to become an owner of land. *The rent he has to pay while he is a tenant is lower. His wages are higher. From these wages less is taken in direct taxation of his income or in taxation of the goods he must buy. He can save more easily. If he does save and invest, his net per cent return from capital, thus untaxed, is greater and this further increases his ability to save. The price of land is lower.*

Some writers have contended—for example, Prof. Lewis H. Haney[3] and, apparently, Prof. Willford I. King[4]—that, though the price of land is lower, the tax which the owner must pay on it annually is higher and that this offsets for him the advantage of being able to purchase it at a lower price.

But such writers consistently and persistently overlook some very important points. They overlook the great reduction—and it might be even the abolition—of many or most other taxes. They overlook the lower rent of land, consequent on the forcing of good unused land into use. They overlook, therefore, the fact that, even if the land value tax takes *all* the rent, this tax will nevertheless be lower for the ex-tenant owner than the rent was previously when he was a tenant. They overlook the fact that the (marginal) productivity of labor is higher, so that more of what is produced from the land is wages ("imputable" to labor) and less is rent ("imputable" to land). They overlook the effect of the land value tax system in increasing the amount of capital in the community or communities adopting the system, thus further increasing the productivity of labor and the wages of labor. And they overlook the effect of a higher net interest rate on capital, along with the lower land rent from forcing speculatively held land into use, in reducing the sale price of land by *more* than the capitalization of the tax at the old (and lower) interest rate. In short, *there are serious gaps both in their appreciation of the relevant economic facts and in their comprehension of the relation of these facts to the appropriate mathematical calculations.*

Obviously, the most ideal system of taxation would hardly suffice to

[3] In his "Value and Distribution," New York, Appleton-Century, 1939, pp. 736–7.

[4] "The Single-Tax Complex Analyzed", *Journal of Political Economy,* Vol. XXXII, No. 5, October, 1924, p. 609. Dr. King mentions the point herein criticised, as something that "a captious critic might assert" and perhaps he does not mean himself to assert it; but he seems to be seeking to make sure that the reader will see it stated and he does not offer any refutation of it. One must perhaps judge his meaning and intent from the general tone of his article.

bring as much productive activity and agricultural and manufacturing development in the Sahara desert as might come to a region highly favored by nature, even though the latter has a very bad tax system. But do not the Australian data which have been summarized herein, re-enforce the argument from theory? And does not the theory—which has long since been well and rather thoroughly worked out, even though various economists of reputation write as if they did not at all understand it—make the figures presented by Hutchinson seem entirely credible?

Yet teachers of economics continue to stress "the ability theory" of taxation and, in lesser degree, what they are pleased to call "the benefit theory" and appear to have, usually, no appreciation of the overwhelming advantages to a community or a nation, of making the annual rental value of land the first source and, in so far as reasonably possible, the chief source of taxation. The truth is, despite the sniping of an antagonistic economics professoriate, that, certainly within the limits of what a tax taking substantially all of the annual rental value of land would yield, such a tax would be *more advantageous even to propertyless wage earners* of small income, *than the most drastically progressive tax on earned incomes or on all incomes together*, and this *even though such drastically progressive income tax were to take nothing at all from such wage earners.* Then *why* should any economics professors plume themselves on their "liberalism" when they are putting chief emphasis on the "ability theory"? And how can they think of themselves as sympathetic toward the ordinary worker, when they persistently refuse to present fully and fairly to students who would eagerly listen, the demonstrable advantages of and the convincing arguments for such land value taxation? Or *are ambition, hard work, efficiency, and the willingness to save and invest,* so *deserving of punishment* that we should tax them *in preference to* taxing land values, *although the latter tax policy is better even for average and below-average propertyless wage earners!*

Is it, perchance, regarded as academically more "safe," or less "radical," for economics professors to emphasize a tax system that goes a considerable distance toward the Marxian ideal—"from each according to his capacity, to each according to his need"—than to emphasize land value taxation, *which is of the very essence of a truly self-consistent philosophy of free private enterprise?*

The basis of the case for the public appropriation of most or nearly all of the annual rental value of land by taxation, is the fact that geological forces, not men, made the earth, and the further fact that the location advantages of land, in so far as they result from human activity, are a by-product of the activities and choice of habitat of many millions of human beings. They are not produced by one man or a few men. But capital—buildings, machinery, locomotives, livestock, planted fruit trees, ships—can be brought into existence only through work and saving.

There is a related distinction between the two kinds of income stemming from these two kinds of property. In the case of capital which one's own work and saving have made possible, and *without which the capital would not be in existence,* the income the owner receives comes to him from the added product of industry which this capital makes possible and which, therefore, is in no sense abstracted from others. In the case of natural resources and valuable city sites, the facts are far otherwise. When, for example, geological studies and investigation and (perhaps) actual drilling show clearly that there is oil under a particular tract of land, oil which the landowner did not put there, which the landowner did not find, and which the landowner does not help to get, the royalty (rent) which he receives comes to him merely for *permitting* others to withdraw the oil. Similarly, when, as has happened, the growth of the tributary territory makes it important that millions of people live on and near New York Harbor in order that the world commerce on which all of us depend may be most effectively carried on, this means that the owners of New York City land are in a position to secure hundreds of millions of dollars a year merely for *permitting* men and women to work and live where the rest of us need to have them work and live in order that our wants may be adequately served. The difference between receiving income from capital which, without work and saving, would not even be in existence, and receiving income because one is in a strategic position to forbid others the use of a part of the earth which has been made desirable because of geological forces or community growth and development—*this difference is fundamental and profound.* What shall we say of learned professors of economics in whose economic philosophy—and in whose teaching and textbooks—it has *no place at all?*

- 4 -

Tax Policy and Commercial Site Development[1]

AN EXTENSIVE SURVEY of the stores ("shops" to the British) in the eastern states of Australia—Queensland, New South Wales and Victoria—shows that where taxes are levied on land values, with consequent tax-exemption for buildings, modern stores predominate. But where taxes are levied (as in Great Britain and the United States) on the assessed value of the composite subject, land and buildings, a much larger proportion of the stores are "obsolete."[2]

The survey[3] was undertaken by the Director of the Land Values Research Group, Mr. A. R. Hutchinson. A trained and practiced observer, Mr. Hutchinson traveled thousands of miles by plane and car during his last three annual vacations. In more than one hundred of the towns through which he passed he examined and recorded the condition of commercial properties. In this way new statistical evidence has been compiled which supports one of the claims made by the advocates of land-value taxation, namely that it tends to promote good management.

It may be useful to state briefly the theoretical explanation of why land-value taxation has this effect. Under the land-value tax system in force in certain parts of Australia, the tax rate payable on any given plot of ground is the same whether the site is vacant, poorly used or highly developed. As a result, holding of land out of use is penalized and land is used more productively. On the other hand, no penalty by way of increased tax assessment is incurred when land is developed—fertility added to the soil, the land irrigated, or drainage ditches installed, etc.—or an existing building is enlarged or improved.

Mr. Hutchinson's research indicates that when all other things are equal, merchants react in the same way as industrialists and home owners:

[1] This article, originally entitled "Shops in Australia," is reproduced by permission, from *Land & Liberty*, 64 (London, England, March, 1957), pp. 36–7; also "Correction—Shops in Australia" (June, 1957), p. 88. Only such changes or adaptations have been made as would, it was felt, make the article more meaningful to the American reader. [The editing is by Elizabeth Read Brown.]

[2] The terms "modern," "semi-modern" and "obsolete" are not defined.

[3] A more comprehensive study was made several years ago by the Land Values Research Group, of which Mr. Hutchinson was also then the director. The findings were set forth in a series of articles by Mr. Hutchinson which appeared in *Progress* and were published in 1945 for the Land Values Research Group by the Henry George Foundation of Australia. This pamphlet was summarized by H. G. Brown in "The Challenge of Australian Tax Policy," *Am. J. Econ. Sociol.*, 8 (1949), pp. 377–400.

they are more ready and financially able to improve their properties if buildings are exempt from taxation than they are when the local tax assessor "fines" them whenever their buildings are newly painted or have other improvements made which, incidentally, benefit their own town or city.

In an article by Mr. Hutchinson in *Progress*,[4] Melbourne, Australia, the results of the survey are reported. In regard to the condition of the stores, Mr. Hutchinson found them generally better maintained in New South Wales and Queensland than in Victoria. This he attributes to the fact that land-value taxation, with exemption of buildings and other improvements (including cultivation) has been in force for forty-eight years in New South Wales and for sixty-six years in Queensland. In Victoria, while a number of municipalities do tax on the land-value basis and each year more towns change to that system, many remain on the old system of taxing, as well, buildings and improvements. By this means the social scientist is provided with a laboratory in which to compare and contrast the effects of the two methods of deriving local revenues.

Towns in New South Wales and Queensland through which Mr. Hutchinson passed were generally more compact than those in Victoria. There was very little ribbon development or needless extension of services which is brought on whenever a large portion of a town's area is held out of use in "vacant lots." In Victorian country towns, such as Mornington, Rosebud, Inverloch, Healesville and Lilydale, the shopping areas are strung along road frontages. This, of course, causes needless inconvenience to shoppers and unnecessary extra expense to the local authorities responsible for servicing the area. It is caused by the large number of idle sites—"vacant lots"—scattered between the business establishments. Another point Mr. Hutchinson noted was that, compared with the Victorian towns, there are very few really derelict buildings in the other two states where taxation is based on the land valued as bare land.

A summary of the town-by-town analyses is presented in the accompanying table. These analyses were based on material published in *Progress* (for the very large towns) and other material received privately from Mr. Hutchinson. It does not include some of the most highly developed towns in New South Wales and Queensland through which he passed, and because the method of classification does not differentiate between remodeled old buildings and recently constructed stores, there is a certain range in the proportions within each group. Nevertheless the number of towns

[4] *Loc. cit.*, January, 1957.

studied is large enough to permit reliable conclusions to be drawn from the survey. As may be seen from the table, where buildings are exempt from taxes the proportion of fully "modernized" stores is nearly double

Table I. Tax Basis and Store Improvement in Australia

No. of Towns	Taxes on	Average No. of Stores	Percentage of Stores which are: Modern	Semi-Modern	Obsolete
	Very Large Towns (More Than 90 Stores)				
16(a)	Land Values	134	62	25	13
16(b)	Buildings	133	35	36	29
	Large Townships (40–90 Stores)				
12(c)	Land Values	61	66	24	10
18(Vic.)	Buildings	62	35	30	35
	Medium Townships (20–40 Stores)				
6(d)	Land Values	30	63	11	26
14(Vic.)	Buildings	29	20	21	59

(a) *Queensland:* 4 towns. *N.S.W.:* 5 towns. *Victoria:* 7 towns.

(b) *Victoria:* Includes cities of Castlemaine, Sale and Warrnambool which recently adopted L.V.T.; part of development since change is reflected in the figures.

(c) *New South Wales:* 6 towns. *Victoria:* 6 towns.

(d) *N.S.W.:* 2 towns. *Victoria:* 4 towns, of which 3 have recently changed to L.V.T.

what it is where buildings are taxed. In the smallest towns (five to twenty business establishments) the difference was less marked, presumably because competition between merchants is less keen.

Comparing Victorian towns of similar size, those which tax buildings as well as land are less well-developed than those where taxes are levied on land values alone. Even so, the latter are not so fully modernized as their counterparts across the state border. This is because only the general taxes are on land values whereas in New South Wales (except for Greater Sydney and two other cities) water and sewerage taxes also are levied on the basis of land-values.

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Tax Policy and the Modern City[1]

THE ADVANTAGES of raising public revenues by taxing community-produced land values, rather than by penalizing industry and thrift, certainly are not confined to cities. Nevertheless, an appreciation of these advantages will perhaps be etched most sharply on the reader's mind if we pass in review, briefly, certain salient characteristics and problems of the modern city and of modern city life.

I

THE CITY is a much larger part of the economic life of the modern world than it was of the economic world of the ancients or of the middle ages. To begin with, it is a trade center. That, the city has been always, but never before have the efficiency and cheapness of transportation made this function so important. Great fleets of passenger and freight trains rush daily into and out of magnificent passenger stations and large freight depots, coming from places hundreds and thousands of miles distant and from many directions. Concrete roads, grey ribbons stretched across the fields and through the woods of the countryside, converge on the city. From all parts of the sea-faring world, if the city is a seaport, come giant ships to cast anchor in its harbor. The products of distant mines, plantations and factories pass through on their way to far markets and are, in part, intercepted and used by the city's people. Many of these products are raw materials which must be manufactured and sent out again in finished form for sale to widely scattered consumers. Trade, indeed, is ancient, but trade on the contemporary scale is wholly modern.

The location of the city is partly a matter of position in relation to the territory to be served. The city may be as the hub of a wheel of which roads and railroads are the spokes. Its location may be dictated in part by the results of physical forces which operated in remote geological ages. Ships must dock and land their cargoes where there is a harbor. Railroads must focus where ships come in. Men must work where work is to be done. There must be men at the wharves, men at the railroad stations, men to build and to repair stores and factories and houses, men to operate trucks and taxis, men and women to work in the factories, men and women to sell to all these workers the food and clothing they need, the luxuries they desire and can afford. There must be insurance agents, bankers, ship

[1] This paper is adapted—with additions and some rewording—from my book, *Basic Principles of Economics,* 3rd ed., Columbia, Mo., Lucas Brothers, 1955, pp. 478–82.

brokers and men of numerous other occupations. In a single one of the towering buildings which make for the eyes of the approaching visitor a picturesquely jagged skyline there may be thousands of workers—accountants, lawyers, investment bankers, brokers, and others.

In the city is now done much of the work which, a few generations ago, was done in the country. Spinning and weaving are done in the factories, not in the home. Clothing is purchased ready-made. Food is canned, frozen or otherwise processed largely in factories. Farm work which used to be done by hand or with simple tools inexpensive to make and to buy is now done with the aid of expensive machinery made in the city. Proportionally less labor, and so less of the population, is needed on the farms. Competition tends to force down, relatively, the remuneration of farming and to drive the excess farm labor supply to the cities, where there is the lure of apparently much higher wages—the evils of city life for the poor not being clearly visualized.

For all these reasons the city draws its millions to do the work which can be done adequately nowhere else. And here their work is effective, aided by every device that inventors can plan and by the workers' nearness to each other and their high degree of specialization.

But because the work must be done here and because the workers who do it must live here—or near here—those who are allowed to claim this part of the surface of the earth as their own reap rich returns. Men must pay them *for permission to work in this area,* must pay them *for permission to live on this part of the earth.* And because, as the city grows, this land becomes more and more valuable, there are persons who buy land and hold it vacant hoping for it to rise in value that they may sell it at a profit.

Thus is land made still more expensive. Thus are the poor compelled to live in even smaller quarters. Thus is home ownership made, for many, a yet more impossible ambition. Land becomes so expensive that the people of the city, even in their corporate capacity, feel they cannot afford to buy sufficient space for parks and playgrounds and school athletic grounds, since *the city must pay private owners for the very values that the city itself creates.* And so the children whom high land values have crowded in their homes are, from the same cause, denied relief outside.

Why must Americans of "liberal" tendencies continue to think of the land problem as purely *agrarian* and as having to do mostly with *European and Asiatic peasants* whom the United States must somehow try to help?

In this situation, when privileged owners of land are pocketing the rents which the growth of the city and its suburbs and its tributary territory,

and not any activities of their own, have produced, when land rents, thus the result of general community development, are the highest they have ever anywhere been in the previous history of the world, we hear constant pleas that land should be *relieved* even of part of the taxes it now pays, and the burden put elsewhere. Such relief would but encourage speculation; it would leave *yet more of community-produced value* in the hands of *privileged private owners,* and it would make land *still more expensive* for the poor man's home.

At the same time we hear men talking about rising land values as if such increase were to be desired! This seems to be the ordinary popular view, perhaps because the tone of opinion is set by speculators in land, while the masses of common folk, working for salaries and wages and living, often, in hired apartments or tenements, are not directly and acutely conscious that *land* is something they have to pay for the privilege of using, *both* where they work and where they live. The truth is that high sale values for land are, could these common folk only realize it, *an economic and a social calamity.* Who would boast of a high price, in his city, of bread or meat or clothing, as if that were desirable for the people who must live there? Then why think of high land values, brought about by allowing private individuals to enjoy, to capitalize into sale prices, and to speculate in, community-produced advantages, as desirable?

For the highly civilized countries with their efficient technology which transfers so much production to towns and cities, the old days of life in the country are gone, so far as a large proportion of men and women and children are concerned—gone, probably never to return. The open fields and woods, horizons not shut from view by skyscrapers and closely-set dwellings, the healthful work of the out-of-doors—these are largely things of the past. Men must live close to their fellows; they must work in towering buildings, twenty, forty, sixty or more stories from the ground; they must rush in busses, surface cars, elevated trains and subways to their work in the morning and back to their homes at night, for the millions who work in a great metropolis cannot all live within a few blocks of where their work is to be done. Yet they must not live too far away. And so, land in the great cities *and their suburbs* comes to have a tremendous value, and speculators, holding part of it for higher prices, make it artificially scarce and still further increase this value.

Gardens, green grass, trees and play spaces are too seldom seen. And for too many children there are, in place of the woods and fields, only the dingy and dirty and traffic-filled streets and the crowded city sidewalks. Yet childhood demands, and will have, its play. The instincts of the race cannot be entirely thwarted, however bad the environment in which they have to be expressed.

Some day there may come into existence the ideal city, a city that, from our present conservatively cruel point of view, may seem a dream city, although there are, even now, some remote approximations to it. In that city a tax will take all or nearly all the rental value of all the land, to be used for the common benefit. Improvements, brought into existence by the labor and thrift of individuals, will be tax exempt or nearly so. Tax burdens on the necessities of the poor will not be preferred to tax levies on community-produced land values.

No one will be able to afford to hold land out of use for speculation. Except for the tax, land will be costless or nearly costless, for there will be no large privately-received site rent to capitalize into a gigantic sale price. And so the city government can afford, without risking bankruptcy, to construct beautiful and spacious public buildings and to provide sufficiently numerous playgrounds and parks. Then we shall have for all, including the city's children, the best substitutes available for life in the country and the country village, enjoyed by a majority of children in the generations which have passed. And these we shall have without sacrificing but, rather, while extending, those opportunities for education and culture which city life, whatever its evils, has tended to promote.

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Zoning Objectives and Tax Policy

DURING THE LAST FORTY YEARS since New York City first established zoning[1] (1916) many books and articles have been written on the subject. From New York, the first city in the western continent to have zoning, the practice has spread until it has come to be regarded as the most important part of city planning.[2] The objectives of zoning are many and varied but only a few can be considered in this discussion. More specifically, let us consider whether a tax policy can help to achieve certain zoning objectives.

City authorities often feel a responsibility to protect home owners and others against injury to their neighborhood from construction of an inferior dwelling or business property,—*e.g.*, a "shack."

Professor Glenn E. Hoover (Councilman, City of Oakland, Calif.) has stated that: "In nearly all American cities a chief deterrent to the improvement of a property is the discredited general property tax."[3] Such a tax—familiar to Americans—penalizes the owner who makes improvements, not just when they are made but as long as they last. Again in the words of Professor Hoover, such taxes "breed slums." Any section of a city deteriorates—becomes slumlike—unless the houses and other buildings are painted and kept in repair and lawns and shrubbery are cared for. As an alternative to the general property tax, Glenn Hoover urges that land be taxed more heavily and that improvements, which are capital, be relieved of taxes. Owners of land would then be penalized for holding land vacant and would be induced to make as productive use of land as possible. Land could be purchased more cheaply. Crowding in residential sections would be reduced. Ownership of homes would be fostered.

Fairhope, Alabama, is an example of what can be accomplished.[4] This colony—located about twenty-five miles southeast of Mobile—was founded in 1894 by people who wanted to test an idea. The founders of Fairhope believed that if taxes were levied on community-created values instead of values produced by human effort, citizens would benefit. Seeking to demonstrate this idea, the colony association acquired land through donation

[1] Harold MacLean Lewis, *Planning the Modern City*, New York, Wiley, 1949, Vol. I, p. 255.

[2] Thomas Adams, "Zoning in the United States," *Encyclopaedia Britannica*, Chicago, 1956, Vol. 23, p. 961.

[3] Glenn E. Hoover, "New Programs for Old Slums," *American City*, 70 (May 1955), p. 112.

[4] Paul E. and Blanche R. Alyea, *Fairhope, 1894–1954: the Story of a Single Tax Colony*, University, Alabama, University of Alabama Press, 1956.

and purchase. Leaseholders paid, to the association, an annual rental charge equivalent to the rental value of the land. In turn, the association relieved the leaseholders of taxes on capital—by paying the local taxes—and spent the remaining rent for general community purposes. What was the effect of relieving man-made capital and taxing land values instead?

Many comparatively poor settlers were attracted to Fairhope because land was obtainable at low annual rentals as well as because they were relieved of paying taxes on their improvements. Some began with a "trailer cabin, or worse," a condition which today would be prohibited in many cities by zoning ordinances. Some of their more prosperous neighbors were displeased and "petulant" over the presence of these lowly dwellings. But nearly all who started in this fashion have been able to add to or improve their dwellings, "until they now own quite valuable homes." They did this under a tax system which leads to "an economically and otherwise properly balanced land utilization, without formal restrictions or zoning ordinances."[5]

Early in 1957, A. R. Hutchinson reported on an extensive survey[6] which, also, has a bearing on the results of this tax policy. Mr. Hutchinson had surveyed the three eastern states of Australia—Queensland, New South Wales and Victoria. He had found that where taxes were levied on land values, with tax exemption of buildings, modern stores predominated. But where the taxes were levied (as in Great Britain and the United States) on the assessed value of the composite subject, land and buildings, many more proportionately of the stores were "obsolete." Mr. Hutchinson's research demonstrated that merchants, like industrialists and home owners, are more ready and financially able to improve their properties if such improvements—as well as the original buildings—are exempt from taxation.

City planners could find in these examples, and in the supporting theory, much to recommend *a tax system which thus motivates citizens to improve their business properties, dwellings and, therefore, their neighborhoods.*

ELIZABETH READ BROWN

[5] *Ibid.*, p. 276.

[6] "Shops in Australia," *Land & Liberty* (London, England, March 1957), pp. 36–37; also "Correction—Shops in Australia" (June 1957), p. 88. This account was rewritten for American readers by E. R. Brown in "Tax Policy and Commercial Site Development," *Am. J. Econ. Sociol.*, 17 (April, 1958), pp. 282–5.

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The Cost of Housing and the Void in College Economics

IN AN ARTICLE IN THE NOVEMBER, 1939 ISSUE OF *The Atlantic Monthly,* "Business Looks Ahead," Professor Sumner H. Slichter of Harvard University wrote of high real estate taxes as an "important obstacle to cheap housing." He referred to the Detroit Bureau of Governmental Research as estimating the rate of real estate taxation in 274 cities as "about 25 per cent of rent or rental value." This, he said, meant that "the present real estate taxes are equivalent to a 25 per cent sales tax on shelter," and he urged that sources of local revenue be "broadened" so as to "make it possible to cut real estate taxes in half."

Professor Slichter ought to know that taxation of land values does not have the same effects as taxation of buildings and other real estate improvements. He ought to know that to cut in half the part of the real estate tax which rests on land values, thereby reducing the penalty for holding good land out of use, even below what it already is, would make land rents and land values higher rather than lower. The theory of the subject is clear and convincing. The data from Australia summarized in an earlier chapter[1] of this book certainly do not tend to support Dr. Slichter's views, unless his views are wholly different from what his words make them appear clearly to be. And if it be said that the particular data there summarized were not available to Professor Slichter when he was writing his article, it is still to be noted that the theoretical argument against him is unanswerable. In fact, the views Professor Slichter presents in his article are inconsistent with views he himself presented, several years earlier, in his *Modern Economic Society.*[2]

Without understanding of the theory of land-value taxation as it is set forth herein and verified by the data cited, no economist, however distinguished he may be and however erudite he may be in other matters, can be expected to advise wisely regarding what tax policy is favorable to low-cost housing. Without such understanding, he cannot realize how the slum problem can be effectively dealt with otherwise than through purchase of slum properties by government at relatively high cost, and government subsidization of slum clearance and new residence construction. Nor can he advise wisely on what tax policy is favorable to indus-

[1] Chapter 3.

[2] New York (Holt), 1931, p. 742.

trial development! Nor on what tax policy is favorable to labor productivity and, consequently, to high wages!

How shall we account, unless by the existence of an unfavorable intellectual climate among the economics professoriate, for the persistent ignoring, by most—not, of course, quite all—of our economists and their textbooks, of cause and effect relations so clear and so significant? Leadership in essential economic reform may come from idealists outside of the universities who have followed fortunate suggestions in doing their own reading and study. But can we reasonably expect such leadership from college graduates—including those who choose economics as a profession—whose minds have thus been turned away from investigating one of the most fundamental and important of our economic problems?

In view of the contemporary intellectual climate among economics teachers, is it particularly surprising that our Federal government, which levies no taxes at all on land values as such, is now, as it was in the early days of the New Deal, actually *paying* owners of agricultural land to take a considerable part of their land out of use? Thus, in America, the wage earner who would like to acquire a home or a farm, must contribute in higher taxes toward "soil bank" payments which not only tend to make food scarce and high in price, but which inevitably tend, also, to make *land* more expensive to buy. It is not the farm laborer who is rewarded out of tax money, for quitting agriculture. It is the owner of *land* who is thus rewarded at taxpayers' expense, for withholding his *land* from productive use and thus *depriving tenants and farm laborers* of the chance to work on it.

Can such a policy—if Moscow makes the most of it, as Moscow must be expected to do—help us in the ideological struggle for the minds of the peasants and wage workers of other lands and other continents?

If there is occasionally a teacher who is eager to present fully and fairly the case for a land-value tax policy, he is quite likely to be limited in his opportunities to do so by the prejudices of colleagues. Texts are selected and assignments arranged which all must use and follow. Dull and, from the point of view of the general welfare, *relatively inconsequential* topics are dwelt on for weeks. Almost no time—if any at all—remains for a consideration of the question whether some men should have to pay other men for *permission* to work on and to live on the earth in those locations where work is relatively productive and life reasonably tolerable. One university teacher—probably in such a strait-jacket—told me he was trying to work out a method of presenting the subject in a single class meeting. That amount of time is, obviously, utterly inadequate for giving real understanding, especially in view of the prevailing lack of comprehension of what is proposed and the confused and confusing antagonistic arguments that the students will have to meet. The situation is much as it would be in a medical college if the lecturers on cancer and rabies were forced to devote their time chiefly to the subject of poultices and dressings and were allowed hardly any time for the explanation of surgical techniques, radium and x-ray treatment, and vaccination!

In one case that came to my attention, the hindering prejudice was not that of the teacher's colleagues—for he was *the one* economics teacher in a very small college—but of his own former teachers. He feared to use a particular textbook that clearly stressed the advantages of land-value taxation, because he felt that, if he did use it, his former teachers at the university where he had earned his Ph.D. degree might learn about his doing so and might be unwilling then to recommend him for some better position elsewhere!

What *should* determine the amount of time—and of textbook space—to be devoted to the theory of land rent and its taxation? Other taxes and tax systems cannot, so long as any considerable part of the annual rental value of land is left to private owners, be so favorable to productive efficiency and so advantageous to the majority of the citizenry of a country as can taxation of land values. The proponents of other tax systems, however inadequate they may consider the inductive data herein cited, on the effects of land-value taxation, have never, so far as I am aware, presented inductive evidence anything like so convincing, regarding the prosperity inducing tendencies of the taxes or tax systems they urge.

Furthermore, the study of land-value taxation and its relative merits makes necessary a thorough study of the theory of the production and the distribution of wealth and applies this theory to tax policy. Most certainly such a study can be used to train the student in logical analysis. And if it be argued that chief emphasis should be put, rather, on the study of the taxes and tax systems now actually in force in the United States and Western Europe, the answer is that such a view completely misconceives the proper aim of university and college education for citizenship. What our college students should get, if they are to be intelligent and helpful leaders of public opinion, is such an understanding of cause and effect relations *that they can point the way to better policies* than those of the past and present and can explain cogently and effectively why such policies *are* better.

It is my experience that students in the "principles" of economics—and in public finance, too—are more interested in the land-value-tax part of the course than in any other part. Individual students have informed me that they have heard about this topic as a part of the course and that they wanted to take the course especially for that reason. Any adequate presentation of this topic reaches for fundamentals. It stirs discussion. It is dramatic. The students talk about it outside the class. Toward the end of my teaching at the University of Missouri, one of my best students said to me that "the question of the land tax is the most discussed question on this campus." Students endeavor to explain the theory of it to others not taking the course. They talk about it at home during vacation. Teachers who omit or "soft-pedal" this part of economics can scarcely hope, if other things are at all equal, to make their classes as interesting to their student customers. No amount of money spent from the income of large endowments, to hire instructors or "tutors" to stimulate discussion in small groups, can compensate for leaving out of the work in economics, the most exciting and vital topics on which it can shed light.

A land-value-tax policy would reward industry, efficiency and thrift. It would stop the waste of vacant land speculation. It would further ownership of land as against tenancy by those who use it. It would be better for workers as such, whatever their prejudices in the matter, than any other tax policy. It would, along with effective anti-monopoly policy, the *ending of special government privileges* to various groups, stabilization of the dollar as the yard, pound and quart are stable, etc., conduce powerfully to strengthen the system of free private enterprise (capitalism) and increase its attractiveness as compared with the proposals of socialists. If our military leaders had ever had this tax policy adequately explained to *them* in their college days, it might have been applied to occupied countries, hastening their recovery from the ravages of war, making more distinct the advantages of free enterprise over socialism and communism and increasing our influence as against that of the communist states.

"Capitalism" is indeed under heavy attack in a large part of the world. And the college graduates our economics professors have taught, are but poorly armed against the bombardments of communist and socialist ideology, when they can oppose the optimistically idealized programs of the "planners" with nothing better than the contemporary caricature of what capitalism could be at its possible best. Why have they not been shown the blueprint of a free private enterprise system which would be for many a college student, were it adequately explained to him, an acceptable societal goal and an inspiration to personal effort towards its realization?

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The Prospector and Economic Rent

THE CASE FOR APPROPRIATION by government of all or most of the annual rental value of land and natural resources is so strong that refusal to accept it seems hardly to be accounted for otherwise than from failure to understand it. Many of the misconceptions of it which tend to prevent acceptance I have sought to analyze in various books and articles previously published. But perhaps not all of the misconceptions have been analyzed with sufficient clarity and fullness.

Occasionally someone objects to the appropriation—or very heavy taxation—of the royalties from such subsoil deposits as gold, silver, copper, coal and oil, on the basis that such a policy would deprive the prospector of an adequate return. This objection may not be sound, but it ought certainly to be given careful consideration.

I

BUT WHATEVER REASONABLE CLAIM the prospector may seem to have, we must be careful not to use it as a basis for rewarding persons who do no prospecting. Consider, for example, the case of oil deposits. In general, the prospecting is done by an oil company through its employees. Skilled geologists are hired, drillers are employed, capital is used. Yet some wells prove to be dry. The company must, on the average, if it is to continue in business, make enough extra on production from the good wells, to compensate for the labor and the use of capital applied to searching for and drilling the wells that never yield. But the owner of a piece of land, from which the oil company gets oil, commonly did not himself discover the oil. He certainly did not *make* it or deposit it beneath the surface. He derives an income only because he is in a strategic position, under our present land tenure and tax system, to charge those who do these things for his *permission* to remove from the ground what he did not discover or make or deposit. As Henry George said:[1]

It is a well-provisioned ship, this on which we sail through space. If the bread and beef above decks seem to grow scarce, we but open a hatch and there is a new supply, of which before we never dreamed. And very great

[1] *Progress and Poverty*, Fiftieth Anniversary Edition, New York (Schalkenbach), p. 243.

command over the services of others comes to those who as the hatches are opened are permitted to say, "This is mine!"

If such an owner is entitled to anything, it can be only to compensate for possible injury to capital he has invested on (or, as with fertilization and drainage ditches, *in*) the land.

If it should be said that without hope of appreciable reward he will refuse his *permission* to drill, there appears to be a simple and logical answer. It is to assess his land higher and, therefore, tax it more, because of the likelihood that it does contain oil. This is what the free market does to the value of such land, in our present system. Such a tax would, in general, bring consent to drilling and, of course, if no oil could be found, the assessment (and, therefore, the tax) should be at once reduced to its former level. And in case the owner is ready from the start to permit drilling without delay and does permit it, there is no argument for raising the assessment or tax prior to such drilling and the discovery that oil is present.

If, in spite of the above considerations, any reader nevertheless continues to insist that the mere owner, *as* owner, must receive a royalty as an inducement to *permit* drilling, it can still be contended that beyond a relatively moderate royalty, the tax could be so steeply graduated as to take most of the rest for the public, without significant adverse effect. But a provision for assessing and taxing as, probably, oil bearing, those pieces of land whose owners refuse to permit drilling, is, I believe, the logical and best solution.

II

As REGARDS the so-called prospector, it must be said that when land has been privately appropriated, with the owner's title including all sub-soil deposits, it is the owner—unless he is unaware of what the prospector has found—who is in a position to demand a royalty. The prospector, whom some of the opponents of a land-value tax program appear to be so eager to help, can hope for large gains only if he can buy (or lease) the land from a landowner who does not know—and perhaps does not even suspect—that it contains what the prospector has found to be in it.

Nevertheless, it must be admitted that there have been prospectors who have discovered mineral deposits on the public domain, where they have been allowed to file claims and get legal sanction for exclusive exploitation. How about their rights?

We have here, I think, a claim that may fairly be compared with the reasonable claim of an inventor, and perhaps the discoverer should be dealt with approximately as is the inventor. We do not give to the inventor a perpetual monopoly but a temporary one; it may run only for seventeen years. For this policy there are two good arguments. One of these is that a temporary monopoly is likely to be a sufficient inducement to the invention and its use.

The other argument is, I think, seldom stated, though it should be. It is based on the principle that reward should depend on contribution, that a proper economic system rewards those best who best serve the consuming public, and rewards them in rough proportion to the amount of their service in any given period and to the length of time the service is given. On this principle the inventor is not entitled to a perpetual monopoly. His invention is, in large degree, the indirect product of the work of many minds. By now we would have the airplane, even if the Wright brothers had never been born. But we would not have had it so soon. Thus, the particular inventor is properly credited with our having the use of the idea sooner than we would have had it without him. It seems reasonable, therefore, that he should have a monopoly during that period; and, of course, we have to make an *estimate* of how long it is likely to be, since nobody can exactly tell. But the inventor is definitely not entitled to a permanent monopoly, to payments for his services during many years after we would have got the invention even without any of his services.

I see no good argument for treating the discoverer of a natural resource or piece of land of any kind, any more generously in this respect than we treat the inventor. For it is not to be supposed that if the particular discoverer had not found the resource or piece of land it would never have been found. A monopoly of his discovery for a limited period should be enough. And I think there may be good reason for some special limitation or restriction in the case of discoverers beyond what is called for in the case of inventors. For, in the case of a natural resource, even though monopoly is allowed only for a limited number of years, the holder of the temporary monopoly may try so hard to secure the maximum possible return during those years, as to destroy or ruin the resource prematurely and so reduce greatly the total wealth which can be produced from it. It would seem appropriate, therefore, either to limit the total amount which the discoverer is permitted from the resource, or to make rigid requirements regarding the method of extraction.

When the inventor's monopoly has reached full term, the logical policy is to open the field to competition. When the prospector's privilege has reached full term, the logical and reasonable policy is to appropriate or tax drastically thereafter the royalty or economic rent. And of course, when the owner is also the operator, the tax should logically be based on what the royalty would be if the owner and operator were different persons.

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Land Value Taxation and the Rights of Property

I

HIGH LAND VALUE TAXATION tends to force good land into use and thus to make the rent of land lower. It offers more incentive to saving and to investment in the production of useful capital. It encourages increase of capital in the land-value-tax communities. It thus better provides labor with both land and capital, thereby makes labor more productive and tends toward higher wages. It lowers the expense of housing for those who must be tenants and lowers the sale prices of homes for would-be home owners. It makes easier, because less expensive, the providing of children's playgrounds and public parks. Why do our teachers and textbook writers in economics, with relatively few exceptions, either attempt to discredit the theoretical case for this reform while ignoring the impressive supporting data from Australia,[1] or else completely ignore the theory, the data and the subject?

In this connection it may be especially appropriate to examine an objection to the land-value-tax policy, which seems to have been the one most stressed by the textbooks. The objection in question to introducing additional taxes on land values or to increasing taxes on land values relatively to other taxes, is that to do so would be "unjust." A common way of putting the thought, has been to say that for a state or community to retain the rent of land might have been right and proper if this had been done from the very beginning. It could have been right, in this view, only if the policy had been begun when there was *no land rent* and when *no one* had paid for *any land* a sum based on *any future expectations* which the introduction of such a tax would—or might—prevent him from realizing. But, it is said, when men have purchased land on the assumption—based on custom and perhaps on very long custom—that it will not be taxed more heavily in relation to other property values or incomes in the future than it has been in the past, then the introduction of a land value tax system or of any relative increase of taxation of land values is "unjust" and, therefore, inadmissible.

In general, teachers and writers of textbooks in economics seem to have followed in this matter the lead of Francis A. Walker who was a contemporary of Henry George. Walker referred to Henry George's pro-

[1] For a summary of the data, first presented by A. R. Hutchinson of the Land Values Research Group of Melbourne, Australia, see my pamphlet, "The Challenge of Australian Tax Policy," obtainable from the Robert Schalkenbach Foundation, 50 East 69th Street, New York 21, N. Y.

posal as "this precious of villainy"[2] and added: "I will not insult my readers by discussing a project so steeped in infamy."

Contemporary textbook writers who are, in practical effect, seeking to indoctrinate their student readers with the Walker viewpoint—or to assure their conservatively-minded fellow professors of their own safely conservative attitude?—are indeed, as a rule, somewhat less truculent in their phraseology. But the essential thought is still there. Thus, Professor Shorey Peterson says:[3] "Confiscating rent would destroy the value of land; and its present owners, for the most part, are not the ones who held it when it acquired its value." What is meant by this statement if there is not at least an implication that it is *wrong* to adopt a land value tax policy *after* early owners have sold land at a profit to later owners? And is there not the same implication when Professor Ralph H. Blodgett, after noting the contention that many landowners "have managed to escape with the booty," concludes his discussion by asserting that "a number of ethical and practical obstacles would stand in the way of a program for socializing economic rent."[4] Certainly there is nothing in Professor Blodgett's presentation to suggest to his student readers that he could effectively, or would wish to, defend the land value tax policy. The view of objectors—really the Walker view—has "the last word."

So far as one can judge, neither Walker nor the many teachers and writers of economics who are his present-day prototypes, would be willing to concede that any increases in any other tax or taxes, or any other changes in public policy, weaken in the slightest the case for their presumption that taxes on land values will not be and must not be increased relatively to taxes on real estate improvements and other capital. To them the frequent and, often, considerable relative changes in other taxes, do not create a reasonable presumption that land value taxes might sometime be relatively increased. These changes do not suggest to them that buyers of *land* should be regarded as having bought *it* on any such presumption. Instead they retain the firm conviction that no other change in taxation policy or in any other public policy, creates the slightest presumption that this *particular* change will ever be made or that it can, justifiably, ever be made.

In 1913 the Pennsylvania legislature established the Pittsburgh and Scranton graded tax system, providing that the city tax rate on buildings should become, in 1914, only 90 per cent of the tax rate on land; that in 1916 it should become 80 per cent; in 1919, 70 per cent; in 1922, 60 per

[2] *Political Economy*, New York, Holt, 1887, p. 418. (The text reads ". . . price of villainy," obviously a typographical error.)

[3] *Economics, revised edition*, New York, Holt, 1954, p. 674.

[4] *Our Expanding Economy*, New York, Rinehart, 1955, pp. 439–40.

cent, and in 1925, 50 per cent. In the view of those economists who follow the lead of Walker, the Pennsylvania legislature thus committed a sinful act. Will they now say that this law itself created no presumption that further laws of the same sort might sometime be passed and could reasonably be passed?

In the view of Walker's contemporary followers—who seem to be the dominant group among economics teachers and textbook writers—buyers of *land* purchase *it* with an implied "pledge" that the particular change to a very heavy land value tax will never be made either suddenly or gradually. The followers of Walker hold this view regardless of the multiplicity and magnitude of other tax and policy changes. And they hold this view even though there are some cases of increase of land value taxation itself, as in the cases of Pittsburgh and Scranton. They do not seriously entertain the idea, whatever risks are taken by *others* in our economic set-up, that any buyer of *land* can be fairly regarded as "taking a risk" of his future net rent or the future price of his land being lowered by an increase, relatively, of the tax rate on land. To subject *him* to such a risk, they feel, is "unjust," is "a precious piece of villainy" or, as one widely known economics teacher and writer expressed it to me in a private letter, "pretty raw."

II

DESCRIBING "Pittsburgh's Graded Tax in Full Operation,"[5] Percy R. Williams (later chief assessor of Pittsburgh) said that, in "a typical residential district," this plan of taxing the land more heavily than the buildings involved a lower tax burden for 99.2 per cent of the homes than if the city had raised the same revenue by taxing at the same rate both buildings and land. The owners of homes in this district were, it appears, definitely benefited. Ought they to have received, also, "compensation" because of the higher tax on their land? Or was the lower tax on their improvements a sort of compensation?

A land value tax system does operate in the direction of lowering the sale price of land. Hence a home owner, even though his annual tax burden has been reduced, might argue that if he were to sell his land, he would have to accept a lower price for it. But on the other hand, if he sold his home *in order to buy another* home, also in the land value tax jurisdiction, he would be able to *buy* at a lower price than if land value taxation were not in effect.

Should the evidence from Australian experience begin to influence American opinion toward a similar policy, we can be very sure that such

[5] *National Municipal Review*, 14 (December, 1925).

a policy would not be put into effect completely and at once all over the United States. It would be tried sooner in some cities, counties and states, not so soon in others; also, the policy might be applied in much or all of some states before it was applied in any parts of other states. And this probability may have a bearing on our problem. For the rather extensive data from Australia seem to indicate that capital investment flows into—and it certainly increases in—the cities, districts and states where land values are taxed rather than buildings, machinery, orchards (the extra value over that of the bare land), trucks, fertilization of land, and other man-made capital. In those cities, districts and states, the total value of improvements for (on an average) each land taxpayer is vastly greater. In those cities, districts and states there has been a great deal more construction of dwellings and of buildings in general and less land held from use.

Of course landowners, purely *as landowners,* have to pay higher taxes in the jurisdictions where land value is taxed more heavily and where the capital that men make is not taxed. But those among them—the majority—who own capital as well as land, are largely compensated and may, in many cases, enjoy a sizable net advantage, because their improvements and other capital are not taxed at all.

If it is contended that the owners of vacant land would, in general, suffer a net loss from the adoption of a land value tax system, it can also be said that the holding of good land out of use brings increased cost of housing, increased congestion and economic loss to the community. Can we effectively prevent the waste and loss from this speculative holding, if we insist that neither through our tax system nor in any other way must we visit upon those who thus hold land from use, any significant penalty?

It is possible, however, that advantage will sometimes accrue from the adoption of a land value tax policy in a city, county or state, *even* to an owner of a vacant lot who has no improvements on it at all and has been hitherto impeding the growth and development of the community by holding it out of use. For the removal of taxation from improvements and all other capital means that the net per cent income from improvements and other capital in that community compared with the net income they yield in communities still operating under the old system, will be, at least for a time, definitely higher.

To illustrate, suppose that the yield from capital (before subtracting taxes) has been averaging 8 per cent and that the tax on it has taken 3 per cent, leaving only 5 per cent to the investor. But now capital in the land value tax community is no longer taxed and owners who improve their land can hope to receive the entire 8 per cent. But investors in communities where capital is still being taxed as before, can hope to make only 5 per cent after taxes; and for the most part they are not likely to recognize quickly the better opportunities suddenly opened in the land value tax community. (How can they be expected to recognize such facts quickly if their economists have never called attention to the probabilities and if they have heard mostly the propaganda against this tax reform? A young graduate student at a mid-west university whom I met only recently, told me of his being warned by one of his economics professors to give up his sympathetic interest in it or "you'll only blackball yourself.") Hence our vacant landowner in the community which has now adopted the land value tax policy, if he cannot himself save enough to improve his land, may borrow at 5 per cent or not much over 5 per cent, from someone living where the old tax system is still in effect and to whom anything *over* 5 per cent looks *really* good.

Throughout Queensland and New South Wales in Australia, all local governments must follow a land value tax policy, which means that improvements and other capital are not taxed. In South Australia and Victoria some districts follow a land value tax policy and some do not. It is interesting to note that the local adoption of a land value tax policy in South Australia requires a poll of landowners. *Only* landowners can vote on the matter.[6] The system cannot be introduced unless (1) three-fifths of the landowners voting favor it and unless (2) one-half of the *total number* of landowners *including* those who *do not choose to vote,* favor adoption. Nevertheless nearly a third of the population of South Australia live in jurisdictions having this system. It would seem, therefore, that very many of the *landowners themselves* in South Australia definitely prefer that their local governments raise from taxes on land values alone, as much revenue as would, under the old system, be raised by taxing both land and capital. Of course this is not to say how many of them would prefer a system—*if* they *had the choice*—that would entirely exempt *them* from *all* taxes and put the tax burden on persons who owned no property!

Would those who contend that any change in the direction of a land value tax system is "unjust" to landowners and an infringement on their "vested rights," insist that if a majority of landowners prefer a tax on land to a tax on all property, any dissenting minority among them must be protected from the majority by (say) some sort of constitutional prohibition?

But if the introduction of a land value tax policy in a particular community—or communities—might be advantageous even to most of the

[6] *Land Value Taxation Around the World,* New York, Robert Schalkenbach Foundation, 1955, pp. 10–11.

landowners in that community or those communities, it could still be disadvantageous to many—or perhaps all—landowners in adjacent communities. For capital would flow—if other conditions were equally satisfactory—from the non-land-value-tax communities into the land value tax communities. Industrial concerns would prefer—other things equal—to build new plants in the land value tax communities rather than in the others. The opportunities for workers, thus better supplied with capital—and land, too, since the holding of good land out of use would be substantially penalized—would be better. Demand for land in the non-land-value-tax communities would be less. Landowners in the non-land-value-tax communities would be poorer than if the land value tax communities had not adopted the new system. It might be appreciably more difficult for (say) even owners of improved residential land to find tenants.

Shall we say, therefore, that the communities which have adopted the land value tax policy have infringed on the vested rights of landowners in non-land-value-tax communities and have thereby been guilty of injustice? If we do say this, must we not, to be consistent, say that it is wrong or unjust for the people of any community to seek *in any other way* to make their community so productive and prosperous, or so clean, well landscaped and beautifully shaded in the summers, that it attracts residents from other communities and thus lowers the demand for and the value of land in those other communities?

Could it be, perhaps, that with an increasing number of jurisdictions abolishing their taxation of improvements and other capital and, instead, taxing land values much more heavily, many of the landowners in the other jurisdictions would indeed become increasingly interested in having their own cities and counties do likewise? For industrial plant construction and increase of capital of other kinds would probably, as Australian experience indicates, take place in the land value tax jurisdictions. Workers, therefore, would be likely to find themselves better equippd with capital—as well as with land—in those jurisdictions, and hence more productive and able to earn more there. This could make it increasingly difficult for owners of land in nearby non-land-value-tax jurisdictions, to find tenants for their houses and their store buildings.

III

BUT IT IS PERHAPS HIGH TIME for us to turn from these various side issues (as they may be called) and concentrate on the logical implications of the Francis A. Walker viewpoint. Let us examine this viewpoint carefully, seeking a really tenable ethics, a really tenable philosophy of society and

of individual rights and duties in society in so far as they relate to the justice of substantial increase of land value taxation. In making such an examination, we must raise a number of rather fundamental questions:

1. If "society" is under an obligation—a "pledge"—to make no changes in tax policy which would be detrimental to landowners as such, just what is the precise *nature* of this "pledge?" It does not seem to be contended, in general, that "society" has made any *formal* pledge that the tax system will never be changed in this direction, although there may conceivably have been, at one time or another and at some place or other, some group or "bloc" temporarily in power which has *assumed* thus to speak for the entire "society." The thought of those who hold to the doctrine of an obligation or "pledge" appears rather to be that the *long* continuance of a system of leaving to private owners the major part of the rent of land, has somehow created a *presumption*—an irrebuttable presumption?—of its *permanent* continuance. "Society" has allowed the system to continue for generations; men have purchased land, supposedly on the assumption that no change would be made (ever?) and at higher prices than they might otherwise have been willing to give; "society" has, thus, "encouraged" such purchase of land, by the very fact of not having changed the system over a "long" period; and by "its" *silence* as regards "its" *intention* to change, has conveyed the *implication* that "it" will *never* change, even by the most gradual steps, to the system of taking land rent in taxation for public needs. Hence, for "society" to institute such a change and thus be false to this implied "pledge" would mean that "society" would be guilty of "a violation of good faith,"—of a "precious piece of villainy." Is not this the view to which Walker adhered and to which a good many contemporary economists adhere?[7]

2. Does this principle that "society" is bound by an implied "pledge" not to change "its" policy, apply to other matters than the increase, relatively, of taxes on land values? Does it mean, for example, that after having followed for years a protectionist policy, "society" is under an implied "pledge" to continue that policy and that, therefore, any substantial reduction of tariff duties—unless with "compensation" by subsidies or other privileged income—would be "a violation of good faith" and an action "steeped in infamy?" Does it mean that if a particular state in the United States has, because of political pressure, bribery or mere carelessness and neglect, allowed its public utilities to go unregulated or ineffectively

[7] For a critical analysis of this view as it was expressed in various textbooks of a generation ago, see my book on *The Economic Basis of Tax Reform*, Columbia, Mo., Lucas Brothers, 1932, pp. 288–308.

regulated for years or for decades, the final institution of effective regulation would be "a violation of good faith?" Would it be fair to citizens using the service, for the courts (*e. g.*, the United States Supreme Court) to forbid such effective regulation, on the ground that it might "deprive of their property without due process of law" purchasers of stock in such a monopoly who had bought this stock at higher prices than they would have been willing to pay had they anticipated later effective regulation? And is there a difference in the extent to which any such implied "pledge" is a real obligation, based on whether it is a custom of fifteen years, fifty years or a hundred and ninety years? And just how long must a system have continued in order that *any* change ought to be regarded as utterly inadmissible?

3. Since we are told, in effect, that "society" has made an implied "pledge," may we not fairly ask just who—or what—constitute "society" and whether all members of a "society" can properly be held responsible for this "pledge?" Often—perhaps one could properly say almost always—*some* members of a "society" disapprove of institutions and policies that others support. Can it, then, be reasonably contended that, if those who in the past have disapproved of slavery, of monopolistic extortion, or tariff restrictions on exchange, *or* of allowing private enjoyment of the rent of land, have long been in the minority and thus forced to accept these institutions and policies, they cannot rightly abolish them even if and when they get into power, without violating an implied "pledge?" In other words, shall we say that, since "society" must not violate this "pledge," therefore those members of society who in the past disapproved and even, perhaps, fought against these (as they believed) evils, but without success, are committing a sin if, when they have the power, they abolish or partially abolish them? And if it is truly "a violation of good faith" and, therefore, *wrong,* for "society" to abolish them, is it not necessarily wrong—a "sinful act," an act "steeped in infamy"—for a *minority* to *urge* the majority thus to *do wrong?* Must not contemporary Walkerites logically insist that there can be no obligation on "society" without a similar obligation on each and all of "its" component parts?

4. Assuming a time honored system of exploitation of some by others—whether by monopolists, by slave owners, *or* by owners of the earth who can charge others for *permission* to work on it and to live on it—just how *can* such exploitation be ended except by taking *something* away from *somebody* and thereby causing "society" to be guilty of "a violation of good faith?" Consider, for example, the abolition of slavery. If the slaves are freed by an emancipation proclamation, has not "society" violated "its" implied "pledge" to their owners? And *if* these owners are fully *compensated,* must not others be taxed *extra* to provide the compensation; and could not *these others* fairly contend that "society" has violated "its" implied "pledge"—based also on long custom—not to take income or property *from them* in order to compensate slave owners? Or should the slave owners be, indeed, compensated, but only by making the *slaves* pay them the compensation,—*i. e.,* by making the slaves *buy* their freedom?

Analogously, how about compensation to *owners of the earth* who are in a strategic position to make others pay them for their *permission* to work on and to live on the earth, in those locations made desirable by *geological forces* and by *community growth and development,* and to draw from the earth subsoil deposits? If this condition is ended by the adoption of a land value tax policy, those who argue for "compensation" to the to-be-henceforth more heavily taxed landowners, certainly do *not* get to the *heart* of the question when they assert that "society" should provide such compensation. Inquiry is needed as regards just *who* should or would provide it. Insofar as landowners do not themselves provide for their own compensation by (collectively) paying from one pocket into another, the compensation must be provided by the victims of the landlord system. Victims? Why? Because this system has *reduced* their net income from capital the existence of which their thrift has made possible, *lowered* their wages, *made harder* the transition from tenancy to ownership, and *increased* rents and congestion. To say glibly that "society" must provide compensation is to *avoid facing* the question of *just who* would have to provide it and whether the *victims* of the landlord system would have to provide much, or most, or all of it. If the *victims* provided *less than all,* would not the Walker view have to be that there had been "injustice," "villainy," and "a violation of good faith" towards landowners? Why do so many of the teachers of economics and the authors of economics textbooks *completely ignore* such considerations?

5. Are the victims of an evil economic or social institution under an ethically binding "pledge"—because they are a part of a "society" which is assumed to be under an implied "pledge"—even though they never consented to such an institution understandingly but only through the misleading propaganda of its beneficiaries? And are those also under "pledge" who never consented to it at all but consistently opposed and protested against it? Is it not, indeed, a fact that, throughout the history of landlordism, the rich and influential have mostly favored it, that arguments against it and in favor of the land value taxation policy have but rarely appeared in the public press, and that most teachers and textbook writers in econom-

ics have either ignored the land value tax policy or have attempted to discredit this policy while giving but superficial consideration to the really impressive case for it? Is it not a fact, therefore, that the victims of the present land and tax system have had very little chance to know the basic cause of their unhappy predicament? And shall we conclude that if interested groups and "blocs," with the aid of ignorance, prejudice and propaganda, succeed in establishing an exploitative institution, then the longer its victims have suffered, the more they are under an ethical obligation or "pledge" to continue to suffer?

6. Are the victims of a socially undesirable institution or set-up, under an implied "pledge" not to abolish or essentially change it without contributing to the "compensation" of its beneficiaries, even though this institution was established before they were born and even though it was ignorantly—and perhaps only tacitly—consented to by some of their ancestors? Does such vicarious "consent" morally bind the present victims not to support any change that will lower/the incomes or the property values of any of those who own the property in question?

7. On the Walker assumption, and that of all those economics teachers and textbook writers who contend that when a particular kind of property has long been "sanctioned" by "society," those who have bought such property with their "honestly earned savings" have "an indefeasible right" to its future income and sale value, undiminished by any change in public policy—on this assumption would it not be *sinful*, a "precious piece of villainy," for *slaves* to *run away* without *reimbursing* their owners? Would it not be, on the Walker assumption, especially sinful if the slaveowners had indeed *bought* their slaves with "honestly earned wealth"? And would it not be a sin for the slaves to abolish slavery and their own servitude without giving compensation to those whose slaves they formerly were? Could it not even be argued that, in some parts of the world, the slaves have—or have had—a vicarious responsibility for the existence of slavery, because their ancestors approved of it and, possibly, sold their own children—or some of them, perhaps to obtain food for the rest of them—into slavery? And, to repeat a suggestion of four paragraphs back, if the funds for compensating the slaveowners were to be taken from others than the slaves themselves or their owners, would this not be an "injustice," *i.e.*, "a violation of good faith," towards these others, who presumably acquired their *non-slave* property on the basis of an implied "pledge" that none of it would be taken from them for the purpose of abolishing a long established system of slavery and abolishing it at the expense, wholly or in any part, of innocent owners of *non-slave* property who bought this property with *their* "honestly earned savings?"

Is it an evidence of intellectual penetration when economics teachers and textbook writers ignore such considerations?

Surely the Francis A. Walker type of argument is not philosophically tenable. It is not part of a tenable ethics. And yet it has long served, together with a variegated lot of economic confusions and fallacies,[8] to block serious consideration by the majority of economics teachers and writers, of one of the most promising of economic reforms, a reform *consistent with, and tending to promote the incentives of, the free private enterprise system.*

IV

BUT NOW LET US TURN from this discussion of logical implications and philosophical fundamentals, as such, and inquire regarding their relevancy to the practical situation. And first, in this connection, is there really any implied "pledge" by government or by "society" not to change the tax system or not to change it in the particular direction of a heavier tax on land values? The fact is that taxation has changed so often and in so many ways as to suggest, not a long continued and "hallowed" custom but the lack of any consistent pattern or policy of taxation. Thus the notion of an implied "pledge" takes on very much the appearance of a myth. And this is true even with regard to the introduction of a land value tax policy.

Higher taxation of land than of improvements has not only had for decades the active support of a considerable number of persons; it has been actually introduced in a large part of Australia, in New Zealand, in parts of Northwestern Canada, in Denmark, in South Africa, and (through state legislation) in Pittsburgh and Scranton, Pennsylvania, and legislation looking to the possible extension of a similar policy to smaller cities has been passed in this state. Surely, too, despite the usual silence on the matter—when there is not definite antagonism—in academic circles, there have been voices raised elsewhere to protest vigorously against the land and taxation system of the past, a system substantially and fundamentally wrong.

Then why is it not common sense to say that a purchaser of land does not purchase with any "pledge" that there will be no relative increase in the taxation of land, but that in purchasing he must be presumed to know that this particular type of tax reform is possible as well as other tax changes and that he assumes this risk when he purchases?

Again, though it is indeed unreasonable to ask the *victims* of a bad economic system to "compensate" those by whom they are victimized (how-

[8] *Ibid.*, pp. 253-88. See also, "The Challenge of Australian Tax Policy," *op. cit.*, pp. 9 and 15.

ever innocently and even though the exploiter of Smith has *purchased* from Jones the latter's position as Smith's exploiter), the change to a land value tax system does, of itself, naturally and justly give to many landowners in higher returns on their capital or in greater productivity of their labor or both, substantial compensation for their loss of land rent. Even if they do lose *as* landowners, some of them will actually be more prosperous than before.

Let us again notice, here, the point raised earlier in this paper, that in a considerable number of local jurisdictions in South Australia where only landowners can vote on any proposal to substitute land value taxation for taxes on land and capital both, landowners have themselves voted to do this. Let us note again the considerable advantage to many landowners in doing away not only with taxation of their present improvements and other capital but also with taxation of any future additions to their capital. Let us note again, too, how the adoption of this system in some communities may draw investment and labor away from other communities and thus keep down the demand for land and the price of land in those other communities. And let us ask again whether a policy the adoption of which furthers the development of industry and promotes the prosperity of the communities which adopt it—even, perhaps, of most of the landowners in it—must be frowned upon if it could reduce the income of (and the value of the land owned by) landowners in adjacent communities which continue to follow the old system and which thus cannot offer equal inducement to industry and to workers?

It appears from the comments they have made, that opponents of the adoption of a land value tax system often greatly exaggerate the extent and suddenness of loss to some landowners, likely to follow adoption of such a system. Such opponents have, it would seem, pictured in their imaginations, widows, orphans, and aged persons no longer able to work, who own nothing at all but some vacant and unimproved land—or land the improvements on or in which belong to others—and who are made suddenly and unexpectedly penniless (not even social security?) by a sudden and country-wide adoption of this reform.

That a large number of landowners would become poorer than if the reform were never put into effect is of course to be expected. But to say this is quite different from saying that any class or, necessarily, any individual will become suddenly penniless. For even if the actual and complete adoption of the land value tax system were almost instantaneous over (say) the entire United States—and this is utterly improbable short of a violent revolution, which would almost certainly go in an entirely different direction—there could be no *beginning* of the reform prior to there being a widespread demand for it. And during all the years while this demand was growing, owners whose land was in use by themselves or others, would continue to draw their accustomed rents. And though, as the reform came to be nearer and more certain, the sale value of land would presumably fall, yet until near the time of its complete adoption there would still be *some* value remaining, even of a good deal of vacant and unused land, which could be realized by sale.[9]

Surely, most objectors must know very well that any adoption which is both sudden and nation wide, is ridiculously unlikely. Though many proponents may work ardently for this, adoption will come—if it does come—now here and now there, in some places relatively soon and in others more slowly. There is no practical justification, even if there could be a theoretical justification, for worry about the distressful state to which widowed, orphaned and aged landowners might be reduced. There is far more practical justification for worry about the widows, the orphans and the aged who have been and are handicapped by the current form of landlordism. There is little or no need to be concerned lest the reform come too fast. *There is much reason for concern lest it never come at all.*

There is cogent theoretical analysis relative to the effects of a land value tax system on housing, on tenancy, on wages and on the economy in general. There are impressive inductive (statistical) data on much of this, comparable to the evidence from a controlled experiment in medicine, such as the recent experiment to test the efficacy of the Salk vaccine. A change in tax policy which would tax land values at an increasing rate and reduce —perhaps, ultimately, abolish—taxation of real estate improvements and other capital, would clearly be favorable to capitalist incentive. It would, as we have noted, tend to increase the productivity of labor and to raise wages. It would both lower the rents charged tenants and make easier the transition from tenancy to ownership. It would strengthen and tend to perpetuate the system of free private enterprise.

But these advantages of increased reliance on land value taxation are

[9] A proposal which has, apparently, intrigued a few economists is that no tax subtraction be made from the rent of land *during the lives of present owners*, but that all or nearly all the rent be appropriated by government after the present owners have died. Such a plan would by no means silence those who consider any increase of land value taxation "unjust" or "a violation of good faith." On the contrary, those defenders of the *status quo* would—and must, if consistent—protest that the plan would make it impossible for an aging owner to sell his land, however good and well located, for anything like the price it would sell for if the private enjoyment of rent from it were not to cease with his death.

Furthermore, such a plan overlooks the important fact that *corporations* own much of our most valuable land,—and *corporations do not die.*

not obvious even to those who would gain the most from them. The investor seldom thinks of a distinction between capital and land as of any importance relative to tax policy. The worker who has no income at all except from his labor is never—or almost never—aware that, *within the limit* of what a land value tax will yield, it is better for him than the most drastically graduated income tax even though he is himself completely exempt from the latter. Indeed, his prejudices are likely to lead him to prefer the income tax. The dweller in a tenement seldom if ever has the slightest idea that a high land value tax with no tax on improvements and other capital would be of any advantage to him. The tenant who is eager to acquire ownership of a home, a farm or other real estate, does not in the least understand that such a change in tax policy would in any way help him. The child of the slums, starved for a place to play, certainly does not understand that—or why—the current tax system tends to restrict the number and size of playgrounds by keeping the price of land high.

There is need of leaders who can and do understand, or else these advantages will *never* be realized. Without such understanding, whatever changes do come are likely to be in a wrong direction, as has happened during this century over a considerable part of the world. And where shall we get these leaders if the colleges will not help? Where shall we get them if some of the textbooks most widely adopted and which are recommended by professors whom the publishers quote in their advertising circulars, as "distinguished," "superb," etc., fail to mention that anyone, anywhere, at any time has even suggested any steps in this direction?[10] And where shall we get our leaders if other widely used textbooks continue to impress on the minds of the students who read them, the idea that any plan or proposal to work for this really promising reform must be rejected as "unethical"—yet never so much as hint at a single one of the objections to this view which have been presented herein?

[10] Among very recent textbooks to which this comment is applicable are George Leland Bach, *Economics, an Introduction to Analysis and Policy*, Englewood Cliffs, N. J., Prentice-Hall, 1954,—also second edition, 1957; and Burns, Neal and Watson, *Modern Economics*, second ed., New York, Harcourt, 1953.

In contrast with these—as also with the other textbooks referred to in this chapter—is the presentation by Mitchell, Murad, Berkowitz and Bagley in *Economics: Experience & Analysis*, New York, William Sloane Associates, 1950, pp. 457–65. *Cf.* Bye and Hewett, *The Economic Process, its Principles and Problems*, New York, Appleton-Century-Crofts, 1952, pp. 684–7.

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A Quoted Satire in Verse

BACK IN 1919 there appeared in *The Public*,[1] a satire in verse by an American poet. This satire certainly does not include all the arguments, counter arguments and qualifications that the sophisticated would be likely to consider essential for an adequate exposition of the land rent problem. But it may be worth reading and thinking about, nevertheless. So here it is.

UNCIVILIZED

An ancient ape, once on a time,
Disliked exceedingly to climb,
And so he picked him out a tree
And said, "Now this belongs to me.
I have a hunch that monks are mutts
And I can make them gather nuts
And bring the bulk of them to me,
By claiming title to this tree."

He took a green leaf and a reed
And wrote himself a title deed,
Proclaiming pompously and slow:
"All monkeys by these presents know."—
Next morning when the monkeys came
To gather nuts, he made his claim:
"All monkeys climbing on this tree
Must bring their gathered nuts to me,
Cracking the same on equal shares;
The meats are mine, the shells are theirs."

"But by what right?" they cried, amazed,
Thinking the ape was surely crazed.
"By this," he answered; "if you'll read
You'll find it is a title deed,
Made in precise and formal shape
And sworn before a fellow ape,
Exactly on the legal plan
Used by that wondrous creature, man,
In London, Tokyo, New York,
Glengarry, Kalamazoo and Cork.
Unless my deed is recognized,
It proves you quite uncivilized."

[1] Vol. 22, p. 546 (May 24th, 1919).

"But," said one monkey, "you'll agree
It was not you who made this tree."
"Nor," said the ape, serene and bland,
"Does any owner make his land,
Yet all of its hereditaments
Are his and figure in the rents."

The puzzled monkeys sat about;
They could not make the question out.
Plainly, by precedent and law,
The ape's procedure showed no flaw;
And yet, no matter what he said,
The stomach still denied the head.

Up spoke one sprightly monkey then:
"Monkeys are monkeys, men are men;
The ape should try his legal capers
On men who may respect his papers.
We don't know deeds; we do know nuts,
And spite of 'ifs' and 'ands' and 'buts,'
We know who gathers and unmeats 'em,
By monkey practice also eats 'em.
So tell the ape and all his flunkies
No man tricks can be played on monkeys."
Thus, apes still climb to get their food,
Since monkeys' minds are crass and crude,
And monkeys, all so ill-advised,
Still eat their nuts, uncivilized.

EDMUND VANCE COOKE, 1866–1932.

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Foundations, Professors and "Economic Education"

I

RECENTLY I RECEIVED from the American Economic Foundation, 295 Madison Avenue, New York 17, an illustrated folder by Fred G. Clark and Richard Stanton Rimanoczy entitled "What Are Tools?" The authors state that "any piece of mechanical equipment is a tool of production." Then they go on to include among such tools not only the roof over the equipment, the walls around it and the floor under it, but also "the land under the floor." And then they add: "A coal mine, an oil well, a forest, an ore deposit, or any other natural resource becomes a tool of production to the men who extract from nature the raw materials which go into manufacturing."

By thus putting all land and, in general, all natural resources into the category of "tools," the authors turn the reader away from considering a very fundamental question. This fundamental question is whether an income derived from man-made equipment that *cannot come into existence at all* unless there is *both labor and saving*, is on no stronger an ethical and social utility basis than is an income one can receive just because others must pay him for his *permission* to work on and to live on the earth, in those locations made productive and desirable because of geological forces and community development, and for his *permission* to withdraw fuels and minerals from the earth's subsoil deposits.

Lest this statement seem to some readers not entirely clear, we may illustrate by reference to the case of New York City.[1]

New York is situated on a great natural harbor. If there were none to use the harbor except a few pioneer farmers on Manhattan Island trading their surplus produce for the textiles and other goods of Europe, landing space for a very few boats or perhaps for a single one would be all that would be needed. But as the rich interior of the North American continent was settled, with its mines of iron ore, copper and coal, its prairie and river-bottom wheat and corn land, and its other resources, more and more goods were produced to be poured through the port of New York into foreign countries. And, of course, more and more foreign goods were wanted in exchange, which could most advantageously pass through

[1] The following five paragraphs are taken, with only slight changes, from my *Basic Principles of Economics*, 3rd edition, Columbia, Mo. (Lucas Brothers), 1955, vol. I, pp. 490–1.

the same port. Today there is needed in New York City a large population to meet the requirements of this great tributary country.

If all the present population of New York were whisked away overnight, the land of New York would still have great value because of the need for millions of men and women on it to serve the commerce of the back country. A new population would move in and take up the important work for the rest of us which can be done nowhere else so well. Those who own that part of the earth's surface would be in a position to make this new population pay handsomely for the privilege of working for us there and of living where we need to have them live in order that this work may be effectively done. In short, the newcomers would have to pay for *permission* to work and to live on that part of the earth.

The demand of the tributary country for this service makes a demand for the use of the land by the people who must live and work there in order to render the service. Incidentally, too, it makes necessary a tremendous demand—and correspondingly high rents and values—for the use of especially well-situated lots for the location of department stores, lunch rooms, banks, lawyers' offices, etc. Such sites and buildings are needed to shelter those who supply near at hand the requirements of those who must live there to serve the non-sea-coast sections.

Surely, the rent of land is in a very peculiar sense socially produced rather than individually earned, and ought to be sharply distinguished in thought from interest on capital produced by men's labor and saving. And if there is any kind of return which is peculiarly fitted to be a source of public revenue, it is the rent of land.

In this connection we must remember that fertility elements put into the soil—including fertility elements maintained through constant renewal—by a farmer, are, in the economic sense, capital rather than land. In the city we construct capital mostly *on* the land. In the country we often put it, largely, *into* the land. The investment in such fertilizing of the land is capital as truly as the buildings, drainage systems, terracing, planted fruit trees, machinery and livestock.

No one can deny, of course, that the building of roads and railroads and the way in which population is distributed near or about a given piece of land affect the usefulness of that land for production and so affect its value. *Such* value is *community*-produced and is *not* produced by the owner of the land. An individual or a comparatively small group of individuals may produce or reproduce a house, a machine, a factory or a locomotive. But no group that does not approximate a hundred million or more in numbers can produce, or reproduce, the situation advantages of

Manhattan Island. Such situation advantages are, in the main, by-products of activities not directed to the end of producing these advantages. When all superficial resemblances are allowed for and all qualifications made, it remains true that there is, in general, a most significant distinction between land and capital, a distinction of the greatest importance for public policy.

If facts like these were noted in the Clark-Rimanoczy pamphlet or folder, there might be readers who would wonder whether an income received from being able thus to charge others for *permission* to work on and live on the earth, should not be taxed more heavily than income derived from capital *brought into existence by work and saving.* Instead the authors hurry their readers on to the statement that "profit" is collected from customers "on behalf of the people who supply the tools of the business," that "profit is the key to tools and tools are the key to prosperity." Without a hint that the *earth* with its subsoil deposits and other resources was not made by men and that its *existence* is *not* the result of "profit," they hurry along to the statement: "No profits, no tools—no tools, no prosperity."

Then, finally, comes the authors' peroration:

> When and if the American people ever become convinced that profit is evil and that suppliers of the tools do not deserve a reward, America will have reached the beginning of the end.

Thus is the incautious and gullible reader tricked into applying a perfectly logical defense of income from the tools one's work and saving have brought into existence, to the utterly *different* case of income derived from giving others *permission* to *work* on and to *live* on the *earth,* in those locations made productive and reasonably livable by geological forces and community development.

II

BUT LET US TURN to another "Foundation," this time the Foundation for Economic Education, Inc. (FEE), Irvington-on-Hudson, N. Y. Let's inquire whether the "economic education" it purveys helps those who read—or "study"—its literature, to get some comprehension of the distinction between income from man-made capital and income that stems from title deeds to valuable parts of the earth.

In this organization's monthly publication[2] appears a short article, "Help Wanted," by F. A. Harper, staff member of the Foundation and formerly a teacher of economics at Cornell University. The article pictures the case of a man who reads an advertisement in his evening paper, offering $22,705 a week for an "experienced tool operator" who must, however,

[2] *The Freeman,* Irvington-on-Hudson, N. Y., March, 1957.

provide his own machine. In the morning he telephones, makes an appointment and applies for the job, assuming that whatever the machine may be, he can get one easily enough from Sears, Roebuck and Company or some other establishment. He is dumbfounded to learn that the "machine" required weighs over ten thousand tons and costs several million dollars.

This introduction gives Dr. Harper an enticing lead for his argument that "tools" come "from prior sacrifice in the form of savings," that the mere wage earner gains greatly from having "tools" to aid him and that it is "foolish" for him to refuse to operate tools unless he receives, also, some of the income "required to induce savers to save."

It is true, of course, that capital cannot be produced unless there is saving. How, for example, can men who do not have independent means spend their entire time building a factory or a ship or tunneling under city streets and (perhaps) under a river for a subway, unless somewhere there are others through whose saving they can receive the food, clothing, fuel, etc., without which they and their families could not live? If they were not so provided for, would it not be necessary for them to spend much or most of their own time catching fish, picking fruit, digging potatoes, hunting game, baking bread, making themselves clothing, etc.?

This relationship between saving and investment and the production of capital is one I constantly stress. To that extent I go along with Dr. Harper. But it is precisely because of this relationship that I favor a tax policy which bears more lightly on the capital that really *does* depend on saving for its coming into existence, than on community-produced land value. There is, however, nothing in Dr. Harper's article which even remotely suggests that he would favor such a tax policy—*i.e.,* that he would favor taxing community-produced land value at any higher rate than the capital men make. Let me recall the argument for doing so.

The land-value tax has two advantages—even for the propertyless worker—over the income tax. The first is that it makes unprofitable the speculative holding of good land out of use, and thus enables the worker to be better supplied with land and thereby to produce more and, therefore, to be worth more.

The second advantage is that the land-value tax leaves to those who save, the full natural reward of this saving, in the added productiveness of industry made possible by the additional capital. They truly own their capital instead of having it, as now, largely owned, in practical effect, by the taxing government which takes a large part of the income it yields. Therefore, capital would—and some highly significant but as yet little publicized Australian data show that it does—flow into and increase in such

a community or state or nation, and its workers would be better provided with capital as well as better provided with land. Thus, again, the workers would be able to produce more and could command higher wages.

The clear logic of the matter indicates not only that to relieve capital from taxation, so far as we can, by drawing heavily on the annual rental value of land, tends definitely to the strengthening of the free private enterprise system. The same logic indicates that to follow the opposite policy, *i.e.,* to abolish the tax on land and take by taxation practically all the yield of capital, must lead to the management of all or practically all industry by the State, with saving thereafter compulsory.

Do we honestly believe the private enterprise system to be preferable to socialism, and do we want to keep it for ourselves and successfully "sell" it to countries now susceptible to socialist propaganda? If we do, what can be more important in our teaching of economics than that our students should come to understand why the second of these two divergent tax systems is so threateningly different in its to-be-expected consequences from the first?[3]

To the best of my knowledge and belief, the Foundation for Economic Education has never published anything, anywhere, to indicate the slightest sympathy for the tiniest movement in that direction, *e.g.,* for the graded tax system of Pittsburgh (and Scranton), Pennsylvania. Nor has the Foundation given its clients any "economic education" on the sharply contrasting effects of local land-value taxation versus local taxation of all property, in the many Australian cities and districts that have the one system and the other. The staff of the Foundation have certainly had adequate opportunity to familiarize themselves with the facts. But their publications seem never to have revealed to their readers any of the results of what is perhaps as closely analogous to a laboratory experiment as we can usually hope to have in economics or, probably, ever have had in the economics of divergent tax policies.

The Foundation for Economic Education has issued recently, however, as part of its "Special Essay Series," an article by Murray N. Rothbard, who is described on the title page as an "economic consultant, writer, and part-time member of the staff" of the Foundation. This essay, which is in typewritten form, is said to be "offered in response to inquiry" from those asking the Foundation "to consider or appraise or explain various aspects of the single tax theory." The article is entitled: "The Single Tax: Economic and Moral Implications." It has not yet been printed in whole or in part in *The Freeman* and, presumably, goes only to inquirers.

[3] "Academic Freedom and the Defense of Capitalism," *Am. J. Econ. Sociol.,* 15 (January, 1956), pp. 175 and 179–80. *Cf.* my *Basic Principles of Economics, op. cit.,* vol. II, p. 136.

Mr. Rothbard's discussion, also, makes no reference to the statistical data from Australia, or to any experience with land-value taxation in Denmark, New Zealand or South Africa. The statistical studies in Australia, particularly, are sufficiently complete and point so consistently in one direction, that it might have been difficult for the author, had he presented the relevant data, to convince his readers of the malign effects of substituting land-value taxation for taxation of man-made capital. Apparently the author was concerned only with *the* "single tax" *theory,* as such. But let's consider some of his statements about it.

"A 100 per cent tax on rent," he says, "would cause the capital value of all land to fall promptly to zero. Since owners could not obtain any net rent, the sites would become valueless on the market. From that point on, sites, in short, would be *free.* Further, since all rent would be siphoned off to the government, there would be no incentive for owners to charge any rent at all. Rent would be zero as well, and rentals would thus be free.

"The first consequence of the single tax, then, is that no revenue would accrue from it. Far from supplying all the revenue of government, the single tax would yield no revenue at all! For if rents are zero, a 100 per cent tax on rents will also yield nothing."[4]

Here we are proffered the statement, under the aegis of a foundation for "Economic Education," that if "the single tax" took *all* of the rent for government, rent "would be zero" and so government would receive "no revenue at all."

Is it here presumed that if a landowner refuses to collect rent from a building owner whose building occupies his land, and thus the landowner is relieved (supposedly!) of paying the tax, government will not collect the tax—or rent—from the tenant but will permit him to *use the land for nothing?* Is it presumed that *all* landowners own *nothing*—whether buildings, planted fruit trees or other improvements—in or on their land? And is it assumed that *no* owners of buildings and other improvements have title to *any* of the land on which their improvements rest? Or is it presumed that landowners who do own improvements on their land, which improvements, under "the single tax," *would not be taxed at all,* would refuse to pay the tax levied on the *land* and thus blithely lose title to it and no longer be permitted to keep their buildings—skyscrapers, for example—and other improvements, on it? Just what *is* the presumption on the basis of which Mr. Rothbard makes his pronouncements?

But Mr. Rothbard contends further that "a 100 per cent tax means that land sites pass from individual ownership into a state of *no-ownership* as

[4] *Loc. cit.*, p. 4.

their price is forced to zero. Since no income can be earned from the sites, people will treat the sites as if they were free—as if they were superabundant. But we know they are not superabundant; they are highly scarce. The result is to introduce complete chaos in land sites.

"Specifically, the very scarce locations—those in high demand—will no longer command a higher price than the poorer sites. Therefore, the market will no longer be able to insure that these locations will go to the most efficient bidders. Instead, everyone will rush to grab the best locations. A wild stampede will ensue for the choice downtown urban locations, which will now be no more expensive than lots in the most dilapidated suburbs."[5]

Here we find Mr. Rothbard contending that "a 100 per cent tax on rent" would make all sites "valueless on the market," that sites "would be free," that rent, too, "would be zero," and that there would be "a state of *no-ownership*" of sites. Yet at the *same time* he contends that "everyone will rush to grab the best locations" which, presumably, if there is *really* "no-ownership," others can in turn "grab" from him!

That a 100 per cent tax on the annual rental value of land would ordinarily leave no inducement to the holding of title to land by a person who has and intends to have *no improvements or other capital in or on it* and who has *no intention of using it productively,* is of course true. So what? It is indeed difficult to see what advantage such ownership could have for the rest of society. Ownership of land under our existing tax system, by those who merely hold it vacant in the hope of gaining by their "foresight," is generally disadvantageous to others. Foresight, purely as such, deserves nothing whatever. The man who, foreseeing a rise in certain land values from a probable increase in or shift of population, puts himself into a strategic position to profit by it, is not thereby rendering any service to those from whom he derives return. Foresight used to give a service may, indeed, earn remuneration. Foresight used to get something for nothing is not deserving of any reward.[6]

In this connection we may note the fact that the "foresight" of land speculators not merely is a frequent means of getting something for nothing but that it may also decrease productive efficiency through holding good land out of use. Then the remaining land must be used more intensively and resort must be had to poorer land. Thus is the productivity (marginal product) of labor reduced, land rendered artificially scarce and dear and the rent of land raised. Thus are fostered congested slums. Thus is made inevitable the waste of extending electric light and telephone wires, gas and water mains, street car and bus service past hundreds of vacant lots,

[5] *Ibid.*, p. 5.
[6] *Basic Principles of Economics, op. cit.*, vol. I, pp. 439–40.

that those may be served whom land speculation has driven far from the center of their city. Wherever men would go to engage in commerce or industry, to establish homes or even to enjoy, near woods and water, a vacation season, there they find land speculators ahead of them.

III

BUT PERHAPS one's criticism of writers on economics outside of strictly academic circles should be tempered by consideration of the extent to which academic economists have blurred the distinction or, even, ignored or denied the distinction between capital and land and the distinction between income from the one and the other. Some textbooks do not even have the word "land" or the word "rent" in the index, and *not a few* omit *all* reference to land-value taxation.

Among the economists of the latter part of the nineteenth century and the earlier part of the twentieth, whose influence was the greatest in leading other economists to blur the distinction between capital and land, we ought certainly to include John Bates Clark. In his book on *The Distribution of Wealth*,[7] "land" is included in "capital" and the income from either or from both together is "interest." The *only* other income is, in Clark's analysis, "wages," except that, in a "dynamic" state there may be "profits." The following passage from this book, in which Professor Clark discussed the contention that capital differs from land because the former can be increased by men, is especially relevant.

> Let us, then, compare *all* land with *all* other capital goods; let us take all society into the field of view. In every group and sub-group there is land, and in every one there is capital in the form of artificial instruments. Neither the one agent nor the other can be increased in the aggregate at will. At any one time the amount of artificial capital in existence is as fixed as is the amount of land. Within any short time it is impossible to increase the general fund of artificial capital enough to make a perceptible difference in the conditions of social industry. At any one time we have to deal with a definite quantity of land, in combination with a definite amount of capital in artificial forms. Moreover, the distinction between land and other capital-goods, based on the notion that land cannot be increased and that other things can be, has obviously no validity in a static study; for the static assumption itself precludes all increase of capital.[8]

Here Clark is saying that one reason for classing capital and land together is that, even though we regard land as fixed in amount, yet "artificial capital," too, is "fixed" in amount at "any one time" and *cannot be increased enough* "to make a perceptible difference," etc., within "any short time" and that, anyway, if we *assume* a "static state," then artificial capital, like land, *cannot be increased at all!*

[7] New York, Macmillan, 1899.
[8] *Ibid.*, pp. 339–40.

Here is the essence, in Clark's own words, of his viewpoint on the distinction between interest and rent:

> What, then, is interest? Is it not a fraction of itself that a permanent fund of wealth annually earns? . . . Does a building, or an engine, or a ship literally earn in a year a fraction of itself? . . . The *capital* that is embodied in the buildings, the engines and the ships of the world does enlarge itself in this way. *It earns interest; but what the concrete instruments earn is not interest, but rent.*
>
> A popular and accurate use of the term rent makes it describe the amount that any concrete instrument earns. . . . In a use of terms which harmonizes with practical thought and which, as we undertake to prove, is entirely scientific, rent and interest describe the same income in two different ways. *Rent is the aggregate of the lump sums earned by capital goods; while interest is the fraction of itself that is earned by the permanent fund of capital. . . .*
>
> Science has proposed a different distinction between rent and interest. It has tried to confine the former to the product of land—and that, too, without taking account of changes in the value of land—defining it as what a tenant pays to his landlord for the use of the "original and indestructible" properties of the soil. This usage probably would never have grown up if the science of political economy had originated in America, where land has always been a commercial article, and where the man who buys a piece of it reckons whether he can get as good interest on his investment in that form as he can in any other.[9]

It is true that the return on land and the return from capital can be stated, either of them, as a percentage or as a lump sum.[10] *Superficially*, then, the return from land and that from capital may seem much alike. But this is *only superficially*. For the return from capital is naturally reckoned as a percentage and ought to be so reckoned—a per cent on the *cost* of the capital. What we are interested in knowing in the case of the return from capital, is how much more we gain by following a roundabout process than a direct process of production, and how much the extra product amounts to *in comparison with* what the product would be had immediately consumable goods (present goods) been produced instead. In other words, we are concerned with knowing the per cent of the excess gain from roundabout production to what would be or would have been secured by direct production. In short, we are concerned with the fact that capital normally yields, during its lifetime, *more* than its cost of production (measured in the present—or consumable—goods and services that might be or might have been produced instead); and we are naturally and

[9] *Ibid.*, pp. 123–4 and 137.
[10] See, for further analysis here, my article, "An Off-Line Switch in the Theory of Value and Distribution," *Am. J. Econ. Sociol.* (July, 1944). This article was reprinted in 1950 as Chapter 4 of *Some Disturbing Inhibitions and Fallacies in Current Academic Economics*, New York, Schalkenbach. See, also, my *Basic Principles of Economics*, *op. cit.*, vol. I, chaps. XII and XIII.

properly interested in knowing how large this gain is *in relation to* the *cost* of producing the capital which makes it possible.

But the value of land is *not* measured by any "cost" of "producing" the land. Hence it is essentially meaningless to inquire as to the per cent yield on *cost.*

It may be said, however, that Clark and the other economists who follow him do not refer to a per cent of cost of production but to a per cent of *value.* And, it may be asked, why is not the per cent of the value of land a matter of significance just as is the per cent gain on the value—and so the cost—of capital.

The answer is that the value of land depends on the expected future yield *and* on the *per cent* at which this expected yield is capitalized into a present value. The market rate of interest used in such a process of capitalizing, itself depends largely on and tends to be equal to the rate of net marginal yield of capital on the cost of production of capital. Knowing the *cost* of capital in terms of present consumable goods and services, and knowing the rate of *net marginal yield* on this cost, we know the per cent interest rate which should be used in capitalizing the anticipated future rent of land into a present sale value. Thus, the sale value of land *has no independent significance* but is merely a derivation from the anticipated rent of land and from an interest rate which is *a function of the productivity of capital.* To talk about the rent of land as a per cent on its value is, therefore, to emphasize as if it were important, a per cent of a value which itself can be arrived at *only by knowing that per cent in advance.*

The rent of land, then, is logically and properly expressed as a lump sum—in dollars; while the interest on capital is logically and properly expressed as a per cent on cost.

One wonders how many of the numerous neo-classical and other contemporary economists who have followed Clark in his analysis have plumed themselves, like Clark, on having seen more deeply into the problem of land rent than did Ricardo and other economists of the earlier (*i.e.,* not "neo") classical school; whereas actually they have seen less deeply into it.

One wonders, too, whether there have not been a number of neo-classicals of conservative bent who, confronted with the contention of Henry George that the rent of land is the most ideal source of public revenue, and reacting antagonistically to this contention but in doubt as to just how to meet it, have been relieved at the thought that land rent is really a *per cent* just like *interest on capital;* and have felt that now, indeed, they could confound the land-value-taxers and discredit their philosophy!

But possibly the day has finally passed of easy victories over the land-value-tax philosophy, for conservative economists who have too easily accepted, and used in their propaganda, various superficialities and half truths and outright fallacies.

Fairhope's Social Experiment

A Review

"REAL LIVE SOCIAL EXPERIMENTS are understandably few." Such is the opinion of Paul E. and Blanche R. Alyea.[1] "They are never completely controlled in a laboratory sense. It is our conviction that all social experiments are precious however imperfectly they are conducted. Certainly it would appear that an experiment which has survived for sixty years—even one which is based upon an idea which Robert L. Heilbroner, in his *Worldly Philosophers,* categorized as belonging to 'the underworld of economics'—has earned the dignity of being evaluated and reported."[2]

The book was prepared primarily for those "who have known Fairhope intimately,"[3] whatever their sympathies. Readers who find sections dealing with history and special problems boring may scan or omit these without missing what is most valuable in the book.

Professor and Mrs. Alyea are trained economists. Dr. Alyea, a native Illinoisan, is currently a professor of finance at the University of Alabama.

The Alyeas have had a long acquaintance with Fairhope, he having known it from childhood, and she for nearly twenty-five years. Notwithstanding their familiarity with the single tax doctrine and admiration for "most of the singletaxers" they have known, yet "neither claims to be a singletaxer."[4] In spite of this understanding and sympathetic background the writers have presented an objective study. The authors examined the official minutes of every colony meeting, every issue of the Fairhope *Courier* until it became less exclusively an organ of the colony, letters, scrapbooks and other fugitive material, and have interviewed individuals.

Fairhope, America's oldest and strongest single tax "enclave," was started by a small group on November 15, 1894. To found a colony, twenty-five men, women and children came from various places—Ohio, Iowa, Minnesota, British Columbia, etc. Some arrived in a covered wagon which served for several days after arrival as a shelter. The site is referred to as "Stapleton's pasture," where fifty years earlier an abortive attempt had been made to found "Alabama City." The odds were against the pioneers.

[1] *Fairhope, 1894–1954: the Story of a Single Tax Colony.* By Paul E. and Blanche R. Alyea. University, Alabama: University of Alabama Press, 1956, 363 pp., $4.50.

[2] *Ibid.*, p. vi. For Heilbroner's comment on Henry George see *The Worldly Philosophers,* New York, Simon and Schuster, 1953, p. 182.

[3] Alyea, *op. cit.*, p. viii.

[4] *Ibid.*, p. v.

The colony's original 132 acres lay in the northern portion of the Mobile Bay area about twenty-five miles by highway from Mobile. The soil was poor—"marginal, if not sub-marginal, for agricultural purposes"[5]—and the topography irregular. The founders, though of meager means, possessed a high degree of intelligence, good will and determination to put into practice an idea.

What was this idea? To what extent did the colonists succeed?

The colony's founders believed, with Henry George, that private ownership of land in conjunction with the present tax system deprives individuals of equal opportunity, lowers productivity, and is unjust. They felt that community created land values should be taxed rather than values produced by human effort and saving. Their plan was to acquire land for the association, through donation or purchase, which would be leased to individuals on a permanent basis. An annual rental charge would be paid by each leaseholder equivalent to the rental value of the land. The association would relieve leaseholders of taxes on capital—by paying local taxes—and spend the remaining rent to benefit lessees. The colony's promoters wanted to demonstrate that by taxing land heavily, (1) land speculation could be stopped, (2) workers would benefit, and (3) incomes and wealth would be greater as well as more equably distributed than under the tax system then—and currently—in force in the United States.

The experiment could not, however, be completely controlled in a laboratory sense because Fairhope had to operate within Alabama's tax structure. Only the local tax assessments could be controlled by the colony, thus limiting results.

The difficulties were legion! In the earlier years some socialists were attracted to the colony, but this disruptive element became less prominent. The organizers made mistakes in judgment, controversies arose inside and outside of Fairhope. Even national leaders of the Single Tax Movement sharply criticized or—as did Henry George—simply ignored the experiment. Other difficulties were the failure of a much-needed railroad, the Florida land boom fever which affected the colony, and currently a lack of interest on the part of both members and non-members.

Regardless of early and present troubles this unpromising colony is doing well materially. Fairhope Colony, incorporated (1908) into the town of the same name, today boasts of parks, a system of improved streets, a library, public and private schools, an excellent sewage disposal system, attractive commercial and residential districts. Fairhope has *far* out-dis-

[5] *Ibid.*, p. 33.

tanced its older—one by a hundred years—and definitely better situated neighbor communities. The tenets on which the colony was founded have been tested and proved workable. It has been demonstrated that the results which are claimed in theory will be produced when land values are taxed much more and capital is taxed less or not at all.

Fairhope's long-range objective as phrased by one of its founders, "to educate the public to demand local option in taxation,"[6] is still to be realized. In the opinion of the Alyeas, this educational goal can be achieved just as the material ones have been.

ELIZABETH READ BROWN

[6] *Ibid.*, p. 301.

Depression, Keynes' Analysis and the Tax Burden

How Keynesism Gives Aid and Comfort to the Communists

IN THE LAST TWO DECADES "liquidity preference" has been very much a term to conjure with. But just what does it mean and what is its significance for the understanding of economic phenomena?

The late Lord Keynes, widely regarded as the principal authority on the subject, related it closely to hoarding. "The concept of *Hoarding*," he said,[1] "may be regarded as a first approximation to the concept of *Liquidity-preference*. Indeed, if we were to substitute 'propensity to hoard' for 'hoarding,' it would come to substantially the same thing." If this is so, "liquidity preference" is really just a part of the theory of the velocity of circulation of money and checking accounts. The greater "liquidity preference" is—*i.e.*, the greater the "propensity to hoard"—the lower will be, other things equal, the velocity of circulation. But since other things are often very unequal, the theory of liquidity preference can be only a part of the theory of velocity. Perhaps, indeed, liquidity preference is a small and relatively unimportant part of this theory!

"Liquidity preference" has been presented with particular emphasis on desire for liquidity in preference to a relatively low per cent gain on investment. But there may likewise be a degree of preference for liquidity as compared with the enjoyment of consumers' goods or services. One may give up some pleasure today, not necessarily because he prefers any specific different pleasure today or tomorrow or next week, but because of the possibility that some special opportunity will come to him—or some emergency arise—for which he will be ready if he has not spent his money for today's pleasure. "Household gadgets that are now, apparently, all right, may break or unexpectedly wear out and need to be replaced. Clothes may become badly torn. There may be unexpected occasion to go to a distant city by airplane, bus or train. Exceptionally good shows may come to town before the next salary check is received. And even apart from such considerations as these, the average person likes to have time to decide at his leisure among the various goods for

[1] *The General Theory of Employment, Interest and Money*, New York, Harcourt, Brace and Co., 1936, p. 174.

which he may spend his money."[2] In such cases his preference is not for any specific good or pleasure, but for the "liquidity" which may—yet may not—be advantageous to him at some indeterminate time and in some unforeseen way. If one wants merely not to be hurried into particular expenditures without adequate time to "shop around" and thus be sure that he is buying what he most needs or wants, certainly he is manifesting liquidity preference. And whenever he buys something, he is to that extent sacrificing liquidity.

I

WE LIVE IN A SOCIETY where there is a high degree of specialization and where we must, each of us, exchange the goods we produce for goods produced by others, where buyers have many choices, and where we both have and need to have a medium of exchange to facilitate these exchanges. *Some* degree of liquidity, therefore, is almost a *must* for each of us, that we be not forced to accept and pay for whatever goods come first to our attention, with no chance for deliberation. Our economic system would indeed operate poorly if most of us could have no liquidity at all. Must we nevertheless conclude, perhaps, that in the desire for liquidity there lurks something ominous and something that threatens the system of free markets and free private enterprise?

Suppose, now, we consider the results that follow from rapid increase of circulating medium and the associated price-level inflation. What about liquidity preference then? Do not such conditions put so much pressure on people to spend—*or invest*—quickly, and especially if the price level increase is rapid, that they may not feel they can possibly afford to "shop around?" Their purchases of consumers' goods must be hurried—perhaps to the point of great waste and loss—lest if they delay, their money will buy so very little. Their purchases of business capital must be hurried—perhaps to the point of foolish, because too little considered, investment—since with delay their money is worth so very much less. Rapid inflation makes the maintaining of liquidity so costly, that those who have any understanding feel they cannot possibly afford it. They feel that they *must* part with liquidity as quickly as possible, lest in trying to keep their assets liquid, they will soon have no assets at all—or almost none.[3]

[2] Quoted from my *Basic Principles of Economics*, third edition, Columbia, Mo., Lucas Brothers, 1955, Vol. II, p. 39.

[3] Of course a person can have some degree of liquidity by purchasing platinum, silver, jewelry or other durable goods of somewhat stable value. But these things are not as readily exchangeable and, therefore, do not provide as great liquidity as does money when the money is reasonably stable in its purchasing power.

Although Keynes asserted that "propensity to hoard" is "substantially the same thing" as "liquidity preference," it may be permissible to inquire whether "liquidity preference" is not a misleading term when applied to some hoarding, or to the tendency to hoard under some conditions. Consider the situation when prices are falling several per cent per year and when there is a fairly widespread belief that they will continue to fall for some time. If, in such circumstances, many persons delay purchases—including purchases of income-yielding property—in the thought that their money will buy more for them next month or next year than now, are they motivated by a preference for liquidity as such, or are they motivated by a preference for more as against less? How does the case differ essentially from that of a man who owns a piece of land which he believes will rise greatly in value, and who holds on to it, refusing to dispose of it *now,* because he expects to get *more* by waiting? When prices-in-general are steadily *falling,* is not the man who is holding *money* (or a checking account) thinking much less, if at all, about the advantage to him of liquidity, than he is about the advantage of value *appreciation?*

Consider now the related case of the manufacturer who *fears* that if he invests in raw materials and machinery and hires labor in order to produce manufactured goods, he cannot sell them for *as much* as he paid to produce them. Or consider the case of the merchant who *fears* that if he lays in a stock of goods to sell, he will not be able to sell them for the equivalent of his outlays for goods, salespeople, etc. In these cases, is the desire to maintain liquidity the dominating influence, or is the chief influence a definite *fear* of suffering positive *loss?* And a sufficiently sharp and persistent restriction of bank credit can certainly generate such fear.

Or again, consider the case of a worker who, as unemployment increases, begins more and more to fear that he, too, will lose his job. If, therefore, he and his family do their best to avoid unnecessary expense and to keep their money—or checking account—as large as possible in fear of such unemployment, is it primarily the maintenance of liquidity, as such, that they have in mind? Might they not be willing to lay aside, instead, milk, cheese, meat and other consumable goods, *except* that these are perishable? Is not their motive chiefly one of spreading their limited means over a longer *time,* rather than one of keeping "liquid?"

But in all of these cases, whether or not they involve "liquidity preference," there will be a reduction in the velocity of circulation of money.

II

AT THIS POINT we may pause to ask whether liquidity preference ever did actually start a significant depression or whether it was ever the chief predisposing cause of such a depression. Perhaps, instead, liquidity preference *and* the decreased velocity of circulation resulting from it or from the other causes suggested above, are always sequential to and a result of bank credit restriction or other action or circumstance tending to reduce the circulating medium. In any case, it does not seem unreasonable to ask whether there is real evidence that liquidity preference has ever been the—or even a—significant *initiatory* force in bringing on a depression.

Keynes refers to the experience of Great Britain and the United States after the first world war as "actual examples" showing that accumulation of wealth can be great enough to reduce the marginal yield of capital—what a last increment or unit of capital can add to production—more rapidly than the rate of interest can fall[4] in view of "prevailing institutional and psychological factors." Here we must note that Keynes *defines* the rate of interest as "the reward for parting with liquidity for a limited period." The post-war events in these countries, he concludes, showed that "in conditions mainly of *laissez faire*," such a fall in the marginal yield of capital can interefere "with a reasonable level of employment" and with the standard of life that "the technical conditions of production" could otherwise provide.

But surely, so far as the United States was concerned, the sharply restrictive policy of the Federal Reserve system in 1920–21, and again in 1929 and after, must have been of dominating influence on the events and conditions that followed.[5] How was it possible for Keynes to attribute these depressions so confidently to liquidity preference, in view of the known antecedent facts? Dr. Clark Warburton's carefully worked out statistical data[6] provide impressive evidence that it was bank policy—and not an initiatory spurt of liquidity preference—that can most reasonably be regarded as the principal effective and sufficient cause.

Cogent theory, too, points to the conclusion that a great and rapid decrease of circulating medium must inevitably—or almost inevitably—bring about dull business and unemployment. If the volume of circulating medium declines, during a relatively short period, by (say) a third, how *can* as many goods be purchased or as many workers be hired?

There is, of course, no *mathematical* reason why depression and unemployment must ensue just because the total volume of spending is reduced by a third. These results would not manifest themselves *if* prices, wages, rentals etc., would all decline in as great proportion—*and as quickly*—as the volume of spending. For even though only two-thirds as much money is spent for commodities, just as many commodities can be and will be purchased with this decreased money provided the commodities sell for only two-thirds the previous prices. And even though only two-thirds as much money is spent in the hiring of labor, as many workers can be and will be hired and for as many hours, provided wages are only two-thirds as high. And likewise with the leasing of houses and of business property and other business transactions.

But who will assert that such a decrease of money and resulting decrease of demand for goods and for labor would be immediately succeeded by acceptance of equally reduced prices, wages and rentals? Who will assert that the necessary proportionate reduction in prices (including retail prices as well as wholesale and raw material prices) and of wages and rentals would come within a month or two? Would trade union leaders quickly agree to a one-third reduction in wages? Would real estate owners who have leased their property to business concerns for a ten-year period or longer at agreed rentals, quickly agree to a one-third cut in these rentals? Who, indeed, will declare with confidence that such a reduction of prices and of rentals and wages would come within several months—or even a year?

But then it may be argued by some that even with a great reduction in the number of dollars *available* to spend, there need be no proportionate reduction in the number of dollars spent—or no reduction at all! Men will make up for the decrease, it may be said, by spending money that they had been holding for emergencies. That is, the *velocity of circulation* of money will be greater!

Yet to suppose that there is *no reduction at all* in the amount of money and bank checking accounts spent is to suppose that a man *will spend as many dollars when he has few as when he has many!* The truth is, whatever may be the mathematical possibilities in the case, that human beings spend less money when they have less money, and that to reduce the amount of money and checking accounts in a country causes less to be spent than if the amount of money had not been reduced. Hence the demand for goods declines and prices tend downward.

Indeed, there is a reasonable probability that a decrease in the number of dollars, before very long and at least for some time, will reduce the number of dollars spent in even greater proportion. For the decrease of

[4] *Op. cit.*, p. 219 and, for "definition of the rate of interest," p. 167.

[5] *Basic Principles of Economics, op. cit.*, Vol. II, pp. 160–3 (in chapter entitled "Two Decades of Decadence in Economic Theorizing").

[6] See "Hansen and Fellner on Full Employment Policies" in *American Economic Review*, 38 (March, 1948); "Monetary Velocity and Monetary Policy" in *Review of Economics and Statistics*, 30 (November, 1948), especially p. 309; "Bank Reserves and Business Fluctuations" in the *Journal of the American Statistical Association* 3 (December, 1948).

demand for goods and the incipient fall of prices may give rise to anticipation of further fall of prices. Thereby it may induce business men to delay spending their money lest the goods they purchase with it prove unsalable except at a loss; or may induce consumers to delay spending in the hope of finding better bargains later. That is to say *velocity of circulation* of money may not only fail to become greater but may actually become less.

Under such circumstances, business can remain as active as before only if prices fall even more rapidly than the decline in the number of dollars.

If, however, commodity prices do fall in a sufficient ratio, this will still not insure business activity if at the same time such business expenses as rentals and wages remain comparatively rigid. Thus, if commodity prices fall because of a decrease of money and bank credit, and yet wages do not fall in anything like the same proportion, then the goods produced by labor will not sell for enough to pay these rigidly held wages. Demand for labor must and will decline, unemployment must result and production be cut down.

If charges made by owners for the use of land and capital are rigid despite falling commodity prices, there will be more land and capital left unused. In consequence, labor will be less well equipped with the means of production, will produce less, and must accept even lower wages than otherwise if it is to be employed.

The truth probably is that central banking policy has more to do than anything else with the alternation of prosperity and depression, and that central banking policy affects business activity through affecting the volume of circulating medium of which bank deposits subject to check are, at any rate in the English-speaking countries, the major part. Unduly sharp and persistent bank credit restriction can quickly turn prosperity into depression. This of course does not mean that those who control central banking policy deliberately seek—or have ever sought—to bring about depression. It means rather that bank credit policy may be, and sometimes is, inept, so that evil consequences ensue which the determiners of policy did not intend or expect.

But all this is not to say that, in theory, liquidity preference, or a change in liquidity preference, could have no possible effect on the velocity of circulation of money and checking accounts and, therefore on other economic phenomena.

III

IN ORDER TO EXPLORE the liquidity preference problem theoretically, let us assume, first, the case of a country having a gold standard. Citizens

are saving and investing. Capital is increasing in relation to labor and to land. The marginal net gain (above repairs, depreciation and taxes on the capital and/or its income) from additional units of capital grows less. The net per cent marginal productivity (or "efficiency," if the Keynesian term is preferred) of capital declines. Conceivably it declines to so low a point that an increasing proportion of citizens would prefer *either* to enjoy more in the form of consumers' goods *or* to hold ("hoard") money or checking accounts out of circulation for such uses in the future as may then appeal to them.[7] The tendency or "propensity" to hoard, under such circumstances would be (according to the statement of Keynes with which this paper began) "liquidity preference." What would be the probable consequences?

Such a situation would mean, in one of its aspects, *less investment.* Less capital—in such forms as barns, factories, fruit trees, locomotives, trucks, tractors, machinery, steamships, etc.—would be produced. But unless we predicate depression, other things, for a time, would be produced in greater quantity.[8] If citizens wanted chiefly consumers' goods and services, it is these that would be more largely produced. But if citizens wanted, most of all, *liquidity,* and so hoarded money, *gold for coinage* would be more largely produced. Or, if we are considering a single country and one having no significant gold deposits, gold for coinage would be *imported.*

The hoarding of money, if considerable, would of course have a tendency, other things being equal, to bring the general price level down. But unless there were a rather rapid increase in liquidity preference, average prices would decline but slowly. And circumstances might be such that they would not decline at all. For the conditions in the gold mining industry or in the trade balance with the rest of the world, or both, *might be* such that, were it not for this hoarding (because of liquidity preference), there would be a tendency for the price level to increase a bit. But the hoarding, we may suppose, as the "marginal efficiency of capital" came closer to the zero point, might be indulged in by more and more citizens. In consequence, even though the general price level did not decline absolutely, it might decline *in relation to* the cost of producing gold or to the price level in other gold-standard countries.

Other things equal, a fall of average prices in a gold standard and gold producing country would encourage the mining of gold which could be

[7] Böhm-Bawerk, *The Positive Theory of Capital,* English translation, London, Macmillan, 1891, Book V, Ch. II, especially pp. 250–1.

[8] Unless and until the shortage of capital instruments becomes serious enough to prevent this.

minted into coins that would buy more than previously. Also, a price level decline in a country would encourage the peoples of other countries to purchase goods in the country where prices were thus falling. Or, if prices did not fall absolutely but did fall *in relation to* prices in other gold-standard countries, where prices were *rising,* the peoples of these other countries would tend to buy more from the country where average prices were rising less or not at all.

Gold would, therefore, be produced in and/or would flow into the country and would be minted into coins. This increase in money could mean, then, that the increasing desire to hoard would be fully satisfied and yet the increased amount of money would sufficiently compensate for its decreasing velocity of circulation, to prevent the price level from falling. Any decreased employment in the constructing of new and additional capital, due to liquidity preference, would be offset during the transition period, by *increased* employment in the production of gold *or* by *increased* employment in the production of goods to be exported in payment for foreign gold, or by both of these. If so, "liquidity preference," even though the "marginal efficiency of capital" were to come fairly close to zero, need not decrease the price level, or the effective demand for labor, or employment.

But equally satisfactory results would be obtainable, if monetary sense were used, without the necessity of producing gold at home at great cost in labor or of buying it in quantities abroad at high cost in terms of exports and, therefore, of work. Predicating, of course, determination to avoid any significant—and objectionable—price-level inflation, additional money could be paid out by goverment, sufficient to offset any liquidity preference which might otherwise bring the price level down and precipitate depression. Or the government could pay out checks on the Federal Reserve banks, which would be backed by a special issue of government paper money eligible—like gold certificates—as reserves for the Federal Reserve banks. Some of the purchases of goods and services by government could thus be paid for with this new money—or by checks on the Federal Reserve banks—instead of with money secured through government taxing us or borrowing from us.

In other words, instead of performing labor to produce gold or to produce extra goods with which to purchase gold from abroad, some of us would be performing important services for our own government. For the performing of these services we would receive additional circulating medium. The desire for liquidity would thus be satisfied, but without any diverting of labor into the production of gold or into production of goods to be shipped abroad in payment for gold. Or the new circulating medium might be paid out in redemption of a part of the national debt.

Obviously, if only a small increase of circulating medium were needed for the purpose, Federal Reserve action alone would suffice. But we are considering here the question whether even a great increase of demand for liquidity, due to (say) a considerable lowering of the "marginal efficiency of capital," must necessarily lead to business depression in a private enterprise system.

For the contention seems to be that,[9] even in the absence of any business or price level fluctuation from unwise monetary—including banking—policy, the returns on capital might possibly become so low, conceivably less than enough to cover depreciation, that many recipients of money would hold it indefinitely rather than invest in productive capital. If *no gain at all* could be realized from investment in buildings, machinery, steamships, etc., and especially *if there were an average loss,* one who wished to provide for the education of his children or for his own old age, would do as well or better just to lay his savings aside in the form of money (assuming, of course, no inflation) until such time as he might need them.

But such a condition, *with* wise control of the volume of circulating medium, would not tend to bring business depression. If so much money were hoarded as *really* to threaten significant reduction in the demand for goods and in the general level of prices, a wise monetary policy would provide for the issue of enough additional money (and/or bank credit) to maintain the price level. This would mean that the demand for goods in general at this level would *not* decline, for such decline would bring the price level down. A sufficiency of money to maintain the price level would, by that very fact, be a sufficiency of money to maintain the demand for goods in general. Hoarders laying aside money for future use could be permitted to do so freely, yet there need be no disrupting decrease in the demand for goods and labor. Obviously, though the uncomprehending may deny this, there will be some limit to the amount of money wanted for hoarding. For each hoarder would naturally *apportion* his available money (or money and bank deposits subject to check) between his current needs and his anticipated future needs and neither would nor could hoard all of it.

Capital is productive but its marginal productivity—what one final increment or unit of capital can add to output—decreases as the amount of capital in relation to labor and land increases. And thus it could

[9] See my *Basic Principles of Economics, op. cit.,* Vol. II, pp. 176–7.

conceivably happen, as just assumed, that a widespread and continuing spirit of thrift would so increase the amount of capital as to bring its marginal net productivity rate and, therefore, the rate of interest, close to the zero point or even below zero. However, as the marginal productivity of capital approached zero, an increasing number of persons would begin to show a preference for keeping their savings in the form of money—or of gold, platinum, silver, diamonds or other valuable and easily stored commodities not subject to appreciable physical depreciation. And so there is some reason to doubt that the average net marginal productivity of capital would ever go below zero or, even, quite to zero, no matter how widespread the spirit and habit of thrift might become.

But it may be said by some objector that we cannot trust our government thus to issue new money lest it issue this in excess.

The fact is, however, that to avoid the evils of periodic severe depressions and to maintain a reasonably stable level of prices, we must have, somewhere, effective control of the volume of circulating medium.[10] If we cannot hope to trust our government or to have, ever, a government that can be trusted to do this (and, therefore, a public opinion that will consistently allow such a policy), there may be considerable reason for despairing of the future of the system of free private enterprise.

It perhaps should be emphasized that the policy here suggested is certainly not one involving price regulation or socialistic regimentation. It does not involve government operation of any industry. In essence it is analogous to, if not practically identical with, the establishment of a standard pound, a standard quart, a standard yard. Since the dollar is a standard of value applicable to all goods and services that are subject to purchase and sale, the stability reasonably required is stability in terms of goods in general rather than in terms of any specific commodity, whether gold, platinum or silver.

Varying conditions affecting the production of specific goods may cause one commodity to rise in price at the same time that another falls. If we maintain free private enterprise and free markets, the dollar cannot be stable in terms of each and every specific article or service. But it can be kept stable, or approximately stable—*if there is the will to keep it so*—in terms of its average purchasing power, *i.e.*, in terms of the purchasing power of $100 or of $10,000 or of $100,000, over a typical composite of goods. And just as it is conducive to the smooth and efficient operation of a private-enterprise free-market system that the yard should be of calculable length rather than varying unpredictably between twenty inches

[10] *Ibid.*, Vol. II. p. 32.

and fifty inches, so likewise does it conduce to the smooth and efficient operation of private enterprise, that the dollar should be of calculable and stable value.

IV

IF NEVERTHELESS some readers are *shocked* at the idea of taking care of any liquidity preference that might conceivably tend toward depression, by increasing the money supply, they may be comforted by two considerations. The first is that returns from capital do not now seem to be so low as to indicate any probable threat from liquidity preference, as such, in the immediate future. And the second is that there is available a very simple policy *completely ignored by Keynes,* by which, even if otherwise the "marginal efficiency of capital" to the owners of it could drop to near zero in (say) a generation or so, we might enjoy at least a *reprieve* for several years beyond that, maybe for a second or third generation or longer!

Before identifying this policy, it will be advantageous for us to note that "the marginal efficiency of capital" for the entire community or for the nation as a whole, is, under existing conditions, decidedly greater than for an individual owner or all private owners. A capital instrument may yield—its productivity may be—8 per cent a year over the amount necessary to cover depreciation. But the owner—or the lender—cannot keep this for himself. The community, state and/or nation will require a large proportion of it in taxation.

If taxation takes 3 per cent of the 8 per cent, the owner can have but 5 per cent. Let us suppose that investment in capital were actually so much increased in two or three decades as to bring the average yield of capital to its individual owners down to only 1 per cent. This would mean that the capital was still really yielding 4 per cent but that taxation was taking three fourths of that. On the supposition that investment would go on only to the point of a 1 per cent return for the investor, we would say that at that point the influence of "liquidity preference" was sufficient to prevent any further investment. The total yield may be high enough to encourage investment, perhaps for many more years or even generations, but the yield after taxes is not. Or if investment would go on only to the 2½ per cent point for the investor,[11] the existence of the 3 per cent tax would make it stop at a total per cent yield of 5½ per cent.

If, however, the tax—or taxes—were repealed and the revenue lost were made up by a much higher tax on the annual rental value of land, the entire per cent yield from capital—whether 4 per cent or 5½ per cent or whatever—would thereafter go to the individual investor in capital.

[11] Keynes, *op. cit.*, pp. 218–9.

This decidedly larger per cent yield might well be a sufficient inducement to him to forget his desire for liquidity and continue to invest. And if so, it might still be a considerable time—whether a decade or two, or an entire generation, or far longer—before the per cent yield got to the point where increase of circulating medium was needed for the purpose of offsetting the tendency to prefer "liquidity" to investment. Maybe that point would never be reached at all!

So far as I am aware, however, *no* Keynesian has ever shown, in his writing, the *slightest* favorable interest in taking taxes off man-made capital instruments and levying, instead, heavier taxes on the value of land.

Even if, in the end, it were to turn out that we must still reckon with the threat of depression from liquidity preference, it would nevertheless be an advantage to have the large amount of capital that this tax reform would bring to the communities adopting it. As long, indeed, as the total "marginal efficiency of capital" (including the part now going to government at various levels) is above *zero, i.e.*, as long as an additional increment of capital will produce an excess over its cost of production, it is certainly an advantage to have it. Labor is better equipped with buildings, machinery, etc., and output per worker is larger. If, too, because of a higher land value tax, less land is held speculatively out of use, so that labor is *also* better supplied with good land, output per worker will be further increased. If, as Keynes seems to have believed,[12] at 2 or 2½ per cent above zero return additional investment is likely to be brought to a halt by liquidity preference, then it *has* to be true that tax relief for capital at that point or sooner, would be favorable to prosperity. And cogent theory as well as significant statistical data[13] indicate that to make up the revenue lost, largely or entirely by a heavier land value tax would give a further fillip to prosperity.

V

THOUGH KEYNES BETRAYS no interest in increased taxation of community-produced land values, he does contemplate with equanimity and seeming approval[14] "the euthanasia of the cumulative oppressive power of the capitalist to exploit the scarcity-value of capital." This would come about, he suggests, via a State policy aimed at increasing the volume of capital "until it ceases to be scarce, so that the functional investor will no longer receive a bonus."

At least Keynes does not assert that, if no return at all from capital is

[12] *Ibid.*
[13] *Basic Principles of Economics, op. cit.*, Vol. II, 129–36 (Ch. XI).
[14] Keynes, *op. cit.* p. 376.

allowed to the individual saver and investor, the community or nation will get, through private saving and investment, anything like as much new capital as in the past. He does not assert, even, that capital which is depreciated or obsolescent will be or would be replaced through such individual saving and investment. It would seem, then, that there could be appropriately applied to the Keynesian philosophy, the following criticism which, for years, I have been applying to Marxism.[15]

Isn't it fairly probable that a social philosophy which repudiates private enjoyment of any income from capital, *must* envisage having the State take over the function of constructing capital? And that it must envisage having the State determine how much is to be saved and compel the saving? At any rate, socialists certainly do not put their trust in any individual saving and capital construction but always contemplate control of saving and of capital construction, by the State.

This means, practically, that the State must own all capital and see that it is kept in repair. It means, also, obviously, that the State must direct the use of capital. As a result, the nation which accepts socialistic ideals inevitably accepts State control of industry. Even if such control were inevitable in theory, all of us know that it would certainly be insisted on. The State becomes the universal employer outside of the control of which no economic life is possible.

It is well for us to understand why a government based on a socialistic ideology must be dictatorial in its relations with its citizens. Surely, in regard to saving and the construction of capital, there can be no alternative; and socialists do not contemplate any alternative. Since individuals cannot be—and certainly are not—counted on to save adequately when they are not permitted to enjoy individually the fruits of saving, they must be compelled to save.

Such compulsory saving does not necessarily mean that citizens will be consciously aware of the compulsion. The government does not say to the individual: "You must save (say) twenty-five per cent of what you receive as wages." It merely sees to it that the citizen receives less money to spend. It publicizes a "five year plan," devoting, perhaps, a fifth or a third of the nation's annually available labor to the construction of capital.

Obviously, the labor that is devoted to the construction of capital for the use of future years cannot possibly be devoted to making shoes and

[15] The next six paragraphs are taken from my book, *Basic Principles of Economics, op. cit.*, Vol. I, pp. 317–318. The first edition, containing these paragraphs, was published in 1942. They are reprinted in the 2nd edition (1947) and the 3rd edition (1951).

shirts, to raising potatoes, cabbages and wheat, to picking apples and cherries and to baking bread. The more the labor of the people is devoted to constructing capital for the service of the future, the less labor can be devoted to the service of the present and the less the people can have to enjoy this year and next.

But in a socialistic State, the individual has no choice in the matter. Government decides for him and allows him, as wages, only what its central planning committee sees fit to allow. If this is not compulsion, what does the word mean? And are we perfectly certain that a nation can be organized for compulsion in this respect, with the government owning, operating, and increasing or decreasing at its pleasure, all productive capital, yet maintain in its individuals spontaneity, initiative, and a spirit of free inquiry and uninhibited criticism?

The clear logic of the matter, therefore, indicates not only that to relieve capital from taxation, so far as we can, by drawing heavily on the annual rental value of land, tends definitely to the strengthening of the free private enterprise system. The same logic indicates that to follow the opposite policy, *i.e.*, to abolish the tax on land and take by taxation practically all the yield of capital, must lead to the management of all or practically all industry by the State, with saving thereafter compulsory.[16]

The community or State which follows the first of these two divergent tax systems will have, because of it, less good land held out of use and more productive capital. Thereby its workers will be able to produce more and to earn more. Thus, although few of them, if any, are aware of the fact, a land value tax, *within the limits of what it can yield,* is more advantageous to workers than the most sharply graduated income tax. And *this is true even for those workers* whose exemptions are sufficient so that they *pay no income tax at all.*

Keynesism is, obviously, closely related to—though not absolutely identical with—the economic philosophy of the Communist-dominated States, in its explanation of business depression and, to a degree, in other ways. The view of Rodbertus, Mummery and Hobson, accepted by Lenin and his followers,[17] that business depression results from inequality—that the workers, exploited by their capitalist employers, do not receive enough to buy what they have produced[18]—appears in Keynes with liquidity

[16] "Academic Freedom and the Defense of Capitalism," *Am. J. Econ. Sociol.*, 15 (January, 1956), p. 179.

[17] Robert L. Heilbroner says the view was "embroidered into the royal cloak of Marxist doctrine" by Lenin. See *The Worldly Philosophers*, New York, Simon and Schuster, 1953, pp. 186–91.

[18] See, for an analysis and criticism of this theory, my *Basic Principles of Economics*, *op. cit.*, Vol. I, pp. 124–30; and for an analysis and further criticism of various "modern" modifications or overtones of it, see Vol. II, pp. 155–82, including footnotes.

preference overtones. What the low-income groups lack the means to buy, the higher-income groups *could* buy—and here we include "investing" in buying—and sometimes, for a decade or more, do buy. But when capital becomes plentiful and its "marginal efficiency" becomes relatively low, their buying (especially in the form of *investing*) is, in the Keynesian view, so greatly reduced by liquidity preference, as to bring about vast unemployment of the workers and even loss for themselves.

Like the Communist-Socialist leaders who have followed the Marxist-Leninist philosophy, Keynesians feel that the evil is fundamental to a free private enterprise system. Like these, they think of it as inherent in the general nature of the system and not to be explained by anything so "superficial" as monetary instability. Like these, they seem to believe that periodic breakdowns are "inevitable" unless and until there is substantially increased collectivism. And like these, they appear to have no interest in distinguishing between private income from capital brought into existence through individual saving and investment, and, on the other hand, income from being in a strategic position to charge others for *permission* to work on, to live on, and to draw subsoil deposits from, those parts of the earth which have become desirable because of geological forces and community development. Or, if they do have any such interest at all, they seem to be—at any rate Keynes seemed to be—*more* critical of private enjoyment of income from capital than of private enjoyment of the rent of land!

Could it be that the interest and support—often the enthusiastic support—of "the Keynesian revolution" in economics is to be explained (1) by its having avoided any admission that land-value taxation is in any way desirable, and (2) by its having coincided with a substantial, and worldwide, trend towards collectivism?

– 14 –

The Keynes-Hansen 'Demand for Labor' Notion

A Prosperity-Depression Theory by Which Labor Loses in Boom and in Slump

ROBERT L. HEILBRONER relates that when Professor Alvin H. Hansen of Harvard University (who "behind his back . . . was called 'the American Keynes' ") went "to Washington to testify in the monopoly investigations . . . he turned the committee into a hushed private seminar," and the chairman told him the discussion was "getting so interesting" that "we are violating our rules on all sides."[1] This was because, as Heilbroner expressed it, a "great current which had carried the capitalist ship along in the past was petering out, and henceforth progress would have to be made without the aid of a constant, favoring, urgent stimulus." As to what the stimulus was: "No one would have been more surprised than Parson Malthus," for "it was population growth."

Here is the way Hansen himself expresses the matter in *Business Cycles and National Income:*[2]

> In the Great Depression of the Thirties there occurred for the first time in American history a drastic decline in the absolute rate of population growth. Every previous depression had been buoyed up by the capital requirements associated with an ever larger increment of population. The decade of the Nineteen Thirties enjoyed no such stimulus.
>
> In the decade of the Nineteen Forties, however, there was a strong resurgence of population growth, and this in part accounts for the high level of capital requirements in the years following the Second World War. The accumulated backlog of capital needs which confronted the economy after 1945 was in some measure greater by reason of the large growth in population in the decade of the Forties. By the same token the decade of the Thirties suffered from a dearth of investment opportunities, partly by reason of the drastic decline in the rate of growth.

And a few sentences further on, Hansen says:

> After the economy has become adjusted to a rate of growth of around 16 or 17 million per decade, a decline in the rate of growth to less than 9 million could not fail to chill the outlook for investment. On the other hand, as we have just noted, the remarkable and unexpected spurt of population in the decade of the Forties has raised expectations with respect to profitable investment outlets.

In these passages, the idea that increase of population increases the *demand for labor* is implied rather than directly stated. It is implied in the

[1] In *The Worldly Philosophers*, New York, Simon and Schuster, 1953, pp. 289–90.
[2] New York, W. W. Norton, 1951, p. 75.

assertion that increased population conduces to business activity as contrasted with depression. And it is implied in the assertion that even a reduced *rate of increase* of population tends towards depression, as compared or contrasted with a "spurt of population."

But in his earlier book, *Fiscal Policy and Business Cycles,* Dr. Hansen is much more forthright, expressing himself as follows:[3]

> It has been argued that cessation of population growth should be favorable to employment, since the supply of new workers in the labor market would be reduced. But it is easy to show that population growth, if it occurs in a period of territorial expansion, raises the demand for labor more than it raises supply. Thus, the volume of expensive investment associated with the net addition of one worker involves capital outlays on a house, amounting to, say, $4,000, and outlays on plant and equipment amounting to an additional $4,000. Eight thousand dollars of investment represents a far greater effect on the demand for labor than the effect on supply of one additional man-year of labor.

Before commenting on the main idea in the above pronouncement, we might ask what important difference it makes, if any, in Hansen's conclusion, whether or not population growth "occurs in a period of territorial expansion." The argument as it is stated in the succeeding sentences seems to be completely independent of the qualification, and such that it should stand or fall, if it has any meaning, regardless of "territorial expansion."

As a preliminary to discussion of the contention about the "demand for labor," it will perhaps help to make the discussion more realistic in relation to contemporary wage rates, if we reckon the capital outlays on the house as $8,000 and on plant and equipment as $8,000. For the price level is today approximately double what it was when Hansen's book was published. Then the last sentence would read: "Sixteen thousand dollars of investment represents a far greater effect on the demand for labor than the effect on supply of one additional man-year of labor."

I

The "Demand for Labor" Notion

THE PHRASEOLOGY seems to indicate—for perhaps we should reckon wages for "one man-year of labor" as about $4,000 to $5,000—that the addition to "supply" of one man-year of labor makes an addition to "demand" of three or four times that—of three "man-years" or four "man-years" of labor.

But then we may reasonably ask, I think, why Hansen should set one

[3] New York, W. W. Norton, 1941, p. 41, footnote.

man-*year* of labor in added "supply" of labor, over against $16,000 of investment as added "demand" for labor. Why not assume, instead, one man-*decade* of labor, one man-*month* of labor, one man-*day* of labor, one man-*hour* of labor or one man-*minute* of labor? We can but wish that Professor Hansen had explained for us just *why* $16,000 (or $8,000 in terms of 1941 prices) of "investment" should be associated with, compared with or in some sense equated with one man-*year* of labor. Is it because one man-*decade* of labor (for example) might look like an excess of *supply* of labor over demand instead of vice versa?

Economists have many times insisted that demand is not merely desire but depends on purchasing power.[4] Why does not Hansen tell us precisely how "one additional man-year of labor" provides the purchasing power for a demand amounting to $16,000 (or $8,000 in 1941 prices)?

There is, too, no sign of understanding, in the quoted passage, of how capital comes into existence through saving. Those who wish to invest in the construction of capital must save, *i. e.,* deny themselves consumable or "present" goods. What they might have spent for such present goods can then be spent for capital or for the construction of capital. There is here no increase in demand for goods in general but merely an increase for capital balanced by a decrease in demand for consumable goods. Of course, an increase in the volume of circulating medium may increase the demand—at current prices—for goods in general and may thus bring about a rise in the price level.

It may, indeed, be easy to *say,* but certainly is *not* "easy to show," that "population growth . . . raises the demand for labor more than it raises supply."

We might add that demand for labor is commonly supposed, by economists, to have some relation to the productivity of labor. (An employer will seldom knowingly agree to pay a worker *more* than he believes the worker will add to what is produced.) Hansen seems to write, here, as if demand for labor depended on the housing and machinery "needs" of the laborers!

There is a wealth of evidence to show that most human beings have enough unsatisfied wants so that, if for any reason they do not need or want goods of a particular kind, such as houses, they will buy other goods —more and better clothing, motor boats, electric refrigerators, musical instruments, books and newspapers, more and better furniture, etc. Or

[4] This and the next four paragraphs are taken, with only slight changes, from my *Basic Principles of Economics,* 3rd ed., Columbia, Mo. (Lucas Brothers), 1955, Vol. II, p. 179, beginning with footnote and following with text.

they will enlarge and beautify the houses they have. Or they will spend more in educating their children. Or they will invest more in the purchase of productive capital.

Those who do *not* have any desire to spend money, if there are any such, will presumably not work to earn money, and the quantity of goods produced to sell will therefore be lessened. If the population becomes smaller, the volume of goods produced will presumably be smaller. In any case, the assumption that if and because men do not want more or larger houses, therefore they will probably spend less in any appreciable degree—*i.e.,* that they will have an appreciably greater tendency to *hoard* their money—and therefore bring a substantial decrease of demand for goods in general, *is utterly gratuitous.* And in the absence of such an *assumption,* the entire argument has no significant relevancy.

If Hansen is to make a case for the view that a declining rate of growth in population generates unemployment because of some consequential disinclination to invest, he must show that that *disinclination* to invest is not balanced by a corresponding *inclination* to spend. In other words, he must show that there is an appreciably greater tendency to *hoard.* Without such an assumption of increased "liquidity preference" and, therefore, increased hoarding, the argument that depression and unemployment must ensue loses all its plausibility.

Furthermore, in the light of the facts antecedent to and leading into the Great Depression of the Nineteen Thirties, the assumption that the *initiatory* force was hoarding, is unjustified. There was Federal Reserve credit restriction, beginning as early as the spring of 1928. And this restriction was accentuated in 1929 despite a level of wholesale prices already lower in the early part of 1929, prior to the stock market crash, than in 1928.[5] There was a great decrease, in the early Nineteen Thirties, of the volume of circulating medium. The data assembled by Dr. Clark Warburton[6]

[5] *Basic Principles of Economics, op. cit.,* Vol. II, pp. 160–3, especially 163.

[6] In "Monetary Velocity and Monetary Policy," *Review of Economics and Statistics,* 30 (November, 1948), especially p. 309. See also his "Bank Reserves and Business Fluctuations," *Journal of the American Statistical Association,* 3 (December, 1948). Even if one is not convinced by Warburton's data here cited, that declining velocity of circulating medium is "sequential" to "failure of the money supply," Hansen's view that a decreasing rate of population growth generates unemployment remains equally implausible. Thus, some may contend that, with many borrowers, an increased interest rate charged by banks could bring about a cautious slowing down of their expenditures for goods and labor even before it reduced their borrowing. Having intended to borrow a certain amount in October, such a potential borrower might, recognizing the "tightness" of credit, slow down his expenditures in September in anticipation of borrowing less in October, than he would borrow had the bank rate remained low. But on this assumption, too, it is *bank policy,* and *not* a declining rate of population growth, that has decreased the demand for goods and for labor.

seem to indicate that changes in the velocity of circulation "are typically sequential in time to deviations in the quantity of money from its normal upward trend and are in the same direction." Entry into the depression, says Warburton, "was led by failure of the money supply; after the shortage of money had made itself felt . . . declining use of money was a powerful intensification factor deepening the depression." Why, then, should we assume that "liquidity preference"—or "hoarding," or declining velocity of money—itself stemming, supposedly, in large degree from a declining rate of growth of population, was a *significant* initiatory cause, or even in *any* degree *an* initiatory cause, of the depression and of unemployment?

Let us temporarily ignore, however, all these flaws in Hansen's reasoning and in his assertions, and accept provisionally, more or less on faith, his view that increasing population "raises the demand for labor more than it raises supply."

But to say that *increased* population thus *increases* demand for labor more than it increases supply, is to imply that *decrease* of population *decreases* "the demand for labor" *more* than it decreases supply. And, as we have seen, Professor Hansen seems to look with a jaundiced eye *even* on *increase* of population, whenever the increase is at a substantially *decreasing rate.* Thus, if population does not *increase,* and at a sufficiently rapid rate, so that there is a relatively great desire—or "need?"—for new housing, industrial plant and equipment, the resultant lack of stimulus to such investment may (in Hansen's view) so decrease demand for labor as to bring about *serious unemployment.*

On the other hand, if population increases so fast as to make possible (again, in Hansen's view) relatively full employment, this is just *because of* the scarcity relative to population, of housing, plant and equipment. Thus these employed workers are nevertheless not so well provided, per worker, with either capital or land. The productivity of their labor thus tends to be lower and their wages must, therefore, be relatively low. In other words, *labor can't win* in either case. Labor must be, in the one case, to a large extent jobless; and it must, in the other case, be relatively unproductive and accept relatively low wages!

Could it perhaps be that Hansen would deny this and contend that with his putative high "demand" for labor, workers would have higher wages at the very time they were ill provided with capital; might he contend, that is, that wages have no special relation to the productivity of labor!

Although Hansen's treatment of this matter differs superficially from that of Keynes, particularly in Hansen's argument about "demand for labor" in relation to "supply of labor," there seems to be substantial similarity in their conclusions.

For Keynes contends[7] that accumulation of wealth can be, and has been, so large as to bring the "marginal efficiency of capital" down more rapidly than the "reward required for parting with liquidity" can be brought down. And he contends that, "in conditions mainly of *laissez faire,*" this "can interfere . . . with a reasonable level of employment." Indeed, he seems clearly to attribute depression and unemployment in Great Britain and the United States during the post World War I period, largely, if not entirely, to this. Thus, Keynes too is saying that when capital equipment is plentiful so that labor, being well supplied with capital, has high productivity and might reasonably expect, therefore, to earn high wages, it is likely to be in substantial degree unemployed. And this is supposed to be the consequence of a "liquidity preference" which inhibits investing for the low returns realizable when capital is so plentiful.

In Keynes' approach, returns on capital are so low as to discourage investment, because there has come to be so *large* an accumulation of *capital* —presumably *in proportion to the number of workers.* In Hansen's approach, returns on capital are so low as to "chill the outlook for investment," because the *population*—and, therefore, the number of workers—has increased *so little;* in other words, the amount of capital in *proportion to the number of workers,* is *great.* With *both Keynes and Hansen,* the *large* amount of *capital per worker,* tends to bring about decreased investment and decreased employment.

On the other hand, in the Keynesian theory as well as in Hansen's, labor has a better chance for employment when capital is relatively scarce, *i.e.,* when workers are *less well provided* with plant and equipment and when, therefore, *the productivity of labor is relatively low.* Keynes does not, indeed, comment meaninglessly on "man-years of labor." But he certainly takes the position that when "the marginal efficiency of capital" is high—which is when capital is relatively scarce—"liquidity preference" is less likely to manifest itself in an excess of hoarding; and there is less likely to be unemployment. When capital is scarce, would-be wage earners can have jobs. *But when* capital *is* scarce, workers must be less well equipped with capital and their productivity (in the terminology of economics, "marginal productivity") must be, other things equal, lower. Hence their real wages must be relatively low. In short, with plentiful capital and high productivity of labor, jobs must be scarce; while with scarcity of

[7] *The General Theory of Employment, Interest and Money,* New York, Harcourt, 1936, p. 219 and, for "definition of the rate of interest," p. 167.

capital and low productivity of labor, though there may be jobs, real wages must be low. In the Keynesian philosophy—as in Hansen's philosophy—*labor loses either way.*

II

Tax Incentives for Saving and Investment

BUT THERE IS A WAY of dealing with the alleged independent and initiatory cause of depression envisaged by Keynes and Hansen—assuming it to *be* such a cause—which neither of these economists has apparently thought of. It is a method which would, at the very worst, give us a reprieve from the evil fate they warn us of. And even if we suppose that it could not, of itself, assure us of perpetual freedom from business depression and unemployment, it would provide enough gain to our economy to be very much worth while.

Both Hansen and Keynes emphasize as an important causative factor in the initiating of depression, a general unwillingness to invest. Keynes refers specifically to the inhibitory effect of liquidity preference when large investments in capital have brought the "marginal efficiency of capital" to a low percentage, *e.g.,* 2 or 2½ per cent. Hansen, as we have seen, regards large increase of population as a stimulus to investment, and decrease or unusually slow increase of population as retarding investment. Hansen must be assumed, therefore, to have a low "marginal efficiency of capital" in mind, in the latter case, as the proximate cause of the lack of new investment, a lack which, in his thinking, brings business depression.

But the returns which motivate investors are the returns they anticipate will come to *them.* It is not the per cent "marginal efficiency of capital" in adding to output which concerns them, but the per cent which comes to them personally. In other words, they invest for what is *left* after the yield of capital has been tapped by the community or state for the public exchequer. When Hansen says that *population* has *not increased enough* to make additional *capital* seem worth constructing and when Keynes says that *capital has increased* so *much* that its "marginal efficiency" is too low to overcome "liquidity preference," they *must both* have in mind a sequential small yield to investors. *And this percentage of yield would be much larger if captal were not taxed.*

If, therefore, we were to untax capital and draw sufficient additional revenue to make up the loss, by heavier taxes on the geologically-produced and community-produced value of land, this would *certainly* provide a greater reward to those who save and invest in capital. If it is really true —as both Keynes and Hansen contend—that the lack of an adequate gain on investment leads to business depression and unemployment, and if by such a change in tax policy we can decidedly increase that gain, *what are the overriding arguments against our doing so?*

On the theory that it could, just conceivably, come about in some later decade or generation or century, that the return on capital to investors—even though untaxed—would be so low as to greatly increase liquidity preference and thereby initiate depression, such depression would still not be inevitable. An appropriate monetary policy could both satisfy—satiate, if necessary—liquidity preference, and provide enough additional purchasing medium to maintain the demand for goods and labor.

The change in tax policy here suggested would yield definite and substantial benefits, even though not needed at all to give us a reprieve from any depression generated in the way or ways Hansen and Keynes describe. The heavier tax on community-produced land values would lessen the waste of holding good land out of use for speculation, as it has lessened such waste in parts of Australia where such a tax system is employed. Labor would be better supplied with land, the productivity of labor would be greater and real wages would be higher. With lower land rent, the cost of housing to tenants would be lower.

Both cogent theory and available statistical data from Australia indicate that the larger percentage of gain to investors in new capital would bring about more capital construction in the communities, states and nations where this tax policy was followed. Thus, labor in them would be better provided with capital as well as better provided with land. For this reason too, then, the productivity of labor would be greater and wages would be higher.

Why should not followers of Hansen and Keynes join in urging this reform? On the basis of *their explanations* of how business depressions are or may be brought about, such a tax policy would be a definite help in preventing them—or, at worst, delaying them. On the basis of *their own hypotheses,* it would offer threatened humanity at least a reprieve and perhaps a long—even an indefinitely long!—reprieve. *Why* do they ignore it? Do some of them fear, perhaps, that to express approval of a land-value-tax policy might make them professionally déclassé? Or has it really never occurred to any of them that the possibility of land-value taxation has any bearing whatever on the adequacy or the correctness of the Keynes-Hansen analysis?

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Academic Freedom and the Defense of Capitalism

IN THE ACADEMIC ECONOMISTS' WORLD—as with many others among the professoriate—there is widespread objection to and resentment of, interferences with teaching. Anti-communist oaths as a condition of employment are resented. Many doubtless feel that the current antipathy to communism will lead to—and has already led to—"witch hunts" and the dismissal of teachers who are not communists but are regarded as merely too "liberal."

But why do teachers of economics *almost never* use such freedom as they do have—and they have a great deal—to explain to their students the demonstrable advantages of a kind of tax that is more favorable to free private enterprise than is any other form of tax whatsoever? Why do they seemingly prefer to support taxation that goes unnecessarily far in the direction of certain Marxist tenets that, in their extreme form, are utterly irreconcilable with free private enterprise? Are they actually more afraid of being rated as too consistently anti-Marxist and anti-socialist than of being suspected of a leaning towards socialism?

Yet if these teachers have a clear understanding of fundamental economic relationships—which, unfortunately, many of them do not have—they should not too greatly fear persecutors, either inside or outside of academic walls, whose advocated policies must tend to weaken capitalism. Why not put these persecutors—if and when there are any—publicly and dramatically "on the spot," as being manifestly aiders and abettors of the Marxists?

I

THERE ARE TWO TENETS of Marxism which are utterly irreconcilable with free private enterprise. The first is that private income from capital is "surplus value" and is "exploitation of the proletariat by the bourgeoisie." The second is that the ideal distribution of the product of industry is "from each according to his capacity, to each according to his need."

What are the implications of the first of these tenets? Capital—as distinguished from land—can come into existence in a free enterprise system, only as there is private saving and investment. Capital which depreciates or which becomes obsolete can be replaced only as there is private saving (which may be, of course, the saving of privately owned corporations).

But communists, since they insist, with Marx, that the enjoyment of

income from capital by the owner of it, is "exploitation of the proletariat," cannot tolerate such enjoyment. They cannot, therefore, confidently rely on private saving and investment to provide the capital without which industry is unable to function effectively, and they certainly do not rely on such saving or contemplate relying on it. By their very philosophy of exploitation they must—and they certainly do—rely only or almost only on the State to see to it that capital is accumulated and that capital which wears out or which is obsolescent is replaced.

Thus the doctrine that private income from capital is unjust leads inevitably to State ownership of capital, compulsory saving via a five-year plan or a four-year plan, State construction of capital, State repair of capital, State—and, therefore, compulsory—provision for replacement of capital. The State becomes the manager of industry and the universal or almost universal employer. No place is left for individual initiative or spontaneity. Economic life in general is regimented. All the influence of communist ideology tends towards regimentation, centralization and dictatorship.

Those who would use the tax machinery to accomplish the purpose of preventing—or mostly preventing—private enjoyment of the income from the capital that private saving has made possible and that adds immeasurably to the annual output of industry, are going in the same general direction. If they should attain this end or, even, come close to it, how much individual saving and investment in capital construction would we have? Might it not soon be widely contended that "private saving is inadequate for the requirements of industry," that "the profit motive doesn't function as its defenders say it does," that "the system of capitalism has failed," and that "government must undertake what private initiative and thrift are failing to accomplish"?

For a long time now, some of us have been urging the abolition or, at worst, the substantial reduction of taxes on capital, and the heavier taxation of the geologically-produced and community-produced rental value of land. There is no form of taxation more consistent with the principles on which private enterprise is defended or which can be more truly referred to as strengthening the incentives of capitalism. Yet those who most loudly proclaim their opposition to communism, both conservatives and "liberals," persistently oppose it, despite mounting evidence of its beneficial effects. Or, at best, they studiously ignore it. Do they definitely prefer continuing heavy taxes on capital and its income rather than have any increase in the taxation of land values? Or do they hope to relieve capital by increasing the burdens of the comparatively poor?

II

THE SECOND MARXIST TENET is the doctrine that the State should take "from each according to his capacity" and give "to each according to his need." This tenet, too, ignores completely the significance, for incentive, of letting reward have some relation to contribution.[1]

But those professed defenders of income from efficiency and thrift who are unwilling to suggest any substitute for taxes that heavily penalize incentive, except increased burdens on the comparatively poor, are adopting a strategy that is certain to appear, in the minds of many of those they seek to persuade, the reverse of disinterested. On the other hand, there is an alternative strategy which would be obviously disinterested, sincere and logically defensible. It is to point out that, within the limits of the revenue either could be made to yield, a tax appropriating practically all of the annual rental value of land would be more advantageous, even to the worker without property, than the most drastically graduated tax on incomes in general; and that this would be true even if such worker were completely exempt from the income tax.

For the land-value tax has two advantages—even for the propertyless worker—over the income tax. The first is that it makes unprofitable the speculative holding of good land out of use, and thus enables the worker to be better supplied with land and thereby to produce more and, therefore, be worth more.

The second advantage is that the land-value tax leaves to those who save, the full natural reward of this saving, in the added productiveness of industry made possible by the additional capital. They truly own their capital instead of having it, as now, largely owned, in practical effect, by the taxing government which takes a large part of the annual income it yields. Therefore, capital would—and some highly significant but as yet little publicized Australian data show that it does—flow into and increase in such a community or state or nation, and its workers would be better provided with capital as well as better provided with land. Thus, again, the workers would be able to produce more and could command higher wages.

The Australian studies[2] to which allusion has just been made, compare the increase of crops on farms, the degree of improvement of land, the increase of machinery in factories, the construction of dwellings in proportion to marriages, the construction of dwellings and of buildings in general in proportion to available acreage in cities, the amount of land held out of use, the sale value of land in proportion to population, incomes from work, immigration into and emigration out of various areas, in those parts of Australia where land values are taxed rather than other property and in those parts where the tax system is like our own. If most American teachers of economics have never run across or even heard of these studies, this is probably because they have such an inhibition against betraying any support for or interest in a land-value tax policy that they have never bothered to look. Yet here is a way to work for the strengthening of the incentives of the private enterprise system and so to work for its perpetuation.

Both the theory of the land-value tax and the data from Australia point in the same direction as regards effects on housing, on ease of transition from tenancy to ownership, on amount of investment in capital, on incomes from labor. Both the theory and the data indicate that such taxation, within the limits of what it would yield, would be better even for propertyless workers of moderate and small incomes, than the most drastically progressive taxation of incomes in general, even if these workers were completely exempt from the latter. Then why, unless they are either *indoctrinated against* land-value taxation or are *afraid* to discuss it adequately, should teachers of economics persistently refuse—or just neglect?—to present carefully and fully to their students the demonstrable advantages of and the impressive arguments for such taxation? Can they possibly think that hard work, efficiency and thrift so deserve being penalized that we should tax them *in preference to* using a kind of taxation that is better even for average and below average unpropertied workers? Do they feel that it is *safer* academically and less *communistic* thus to go part way *with Marx* than to emphasize land-value taxation which is of the very essence of a truly self-consistent system of free private enterprise? Is it *fear* that influences them? Or indoctrination? Or preference for conformity with what is taught in the academically "best circles?" Or just lack of understanding?

III

RECENTLY THE AMERICAN PUBLIC followed the story of a controlled experiment in medicine. In various states half of the school children received the polio vaccine developed by Dr. Jonas E. Salk and the other half received an inert control substance. The efficiency of the vaccine was established by statistical analysis of the results.

The reports from Australia described above tell us the results of what

[1] This does *not* necessarily mean that the motive of gain is entirely selfish. One may prefer more to less because he loves wife or children or because he wants to contribute to charity or to a great cause.

[2] These have been summarized in my article, now a pamphlet, on *The Challenge of Australian Tax Policy*, obtainable from the Robert Schalkenbach Foundation, 50 East 69th Street, New York 21, N. Y.

is essentially a controlled experiment in taxation, even though it may not have been entered into for the purpose of experiment. There has been widespread interest in the controlled experiment in vaccination against polio. Few—indeed, almost none—are interested in or even aware of the controlled experiment in taxation. People want to know—up-to-date doctors feel they must know—the results of the vaccination against polio. For polio can kill. And when it doesn't kill it may paralyze for life. People want their children to live and to have strong, healthy bodies.

The economic system we call free private enterprise or "capitalism" can be killed, too, as in some countries it has been. Or it may live, yet be paralyzed and weak. Those who want it to live and to be strong might do better than just prate wishfully of "capitalist incentive" and of "incentive taxation." They might at least examine the evidence as exhibited in this illuminating experiment.

There is little question but that the results of the polio vaccine experiment will be brought to the attention of every student in our medical colleges. How long must it be before college and university students of economics will be made cognizant of this comparable experiment in a matter most significant for the health—and possibly for the survival—of our economic system?

Time was when medicine was in a position similar to that in which economics is today. It was in 1847 that a young Hungarian obstetrician, Dr. Ignaz Philipp Semmelweiss, became aware of the cause of puerperal (or childbed) fever which doctors were themselves carrying on their infected hands—usually after dissecting cadavers—to the mothers whose babies they delivered.[3] He learned how this could be prevented easily and inexpensively. Evidence that the methods of prevention he prescribed (especially adequate washing of the hands of doctors with antiseptic) were successful, became overwhelming. Yet he was dismissed from the job where, by requiring these methods, he had been at the same time saving the lives of hundreds of women and building up a compelling demonstration of the effectiveness of his methods. Rumors were spread that he had been supporting himself by performing abortions. He was refused the privilege of seeing the official records of the Division he had managed. Doctors, denying the truth of his conclusions, declared that puerperal fever was due to a miasma, that the disease had thirty causes including wounded modesty, fear, location on the banks of a river and a feeling of guilt; that the cause was constipation and the proper cure was to give purges; that puerperal fever was caused by the stretching of the uterus which inflamed the peri-

[3] The reader is referred here to Morton Thompson's historical novel, *The Cry and the Covenant*, Garden City, N. Y. (Doubleday and Co.), 1949.

toneum; that it was caused by insufficient contraction of the uterus, overcrowding, and miasma; that it was caused by bad ventilation; that it was caused by blood changes due to cosmic-telluric influences, etc., etc.

Apparently the situation was little or no better in the late 1870's. De Kruif tells us[4] about a physician holding forth with "long Greek and elegant Latin words," on the cause of puerperal fever—about which he showed no understanding despite the pioneer work of Semmelweiss. The lecturer was interrupted from the back of the room by Pasteur, who told him he was wrong, that it was "you doctors" who carried the microbes of childbed fever to their patients. When the lecturer intimated Pasteur would never find this microbe, the latter replied that he had found it, and proceeded to sketch its appearance.

By 1890, as the younger men replaced the dying older doctors, the views of Semmelweiss began to spread. Yet to the best of my knowledge and belief, it was of puerperal fever that my mother died in 1891, more than forty-three years from the time Semmelweiss had clearly pointed the way to the sure method of its prevention.

Why should teachers of economics smugly assume that their own profession in the 1950's is completely exempt from such blindness, such obstinate determination to resist the truth, such fallacious attempts at "refutation," such insistence on teaching lethal falsehood, as afflicted the medical profession from the late 1840's into the 1890's? How can it be reasonably contended in the light of the facts alluded to in this paper, that their thinking and their teaching are at the same time completely objective and completely unaffected by fear of being looked at askance by colleagues as not belonging to the "best circles" academically, by fear of losing their institutional jobs or merely of not being promoted, by indoctrination or by prejudice?

To one who reads with understanding the gripping story of Semmelweiss, as told by Morton Thompson in *The Cry and the Covenant*, the parallelism between the treatment meted out by distinguished physicians to the conclusions of Semmelweiss and that meted out by distinguished economists to the case for land value taxation, seems indeed a striking one. But how can awareness of this be aroused among university and college teachers if the professional periodicals that most of them read *will not offend* any specialized group among them by calling attention to the facts and if the professors do not often—if ever—read the periodicals that will?

IV

A WELL-KNOWN ECONOMICS TEACHER who had collaborated in the writing

[4] In *Microbe Hunters*, New York, Harcourt, Brace and Co., 1926, pp. 145–6.

of a book in which increased taxation of land values was favored, told me in private conversation that he had, because of this, taken considerable "razzing" from colleagues. Another economics teacher confided to me that when, during his graduate school days, he had made his interest in land-value taxation known to one of his teachers, the latter suggested to him that, as a young economist, he should be careful about committing himself thus to a view not generally held in the profession. A third economist, after some experience in teaching economics and in collaborative writing, remarked to me that "economists seem to have closed minds on the subject." And a fourth economics teacher told of making reference, in a graduate course at one of our most distinguished universities, to Henry George as an economist, whereupon his professor replied: "Well, if we call Henry George an economist."

Toward the end of my teaching at the University of Missouri, a student coming there from a small college and enrolling in my course in "Public Revenues," remarked to me that a former economics teacher had asked him: "What do you want to take that for?" The teacher referred to the land-value tax idea as "mediaeval" and said, in regard to my course: "Well, don't pay too much attention to it."

During my years of teaching at the University of Missouri, we had many students who had done their first two years of college work elsewhere. Almost without exception they had been taught nothing, or next to nothing, about this really fundamental reform for the strengthening of the free private enterprise system. Will there continue to be practically no chance to learn anything about it in some ninety-nine per cent of our colleges, where, of all places, its study would seem to be most appropriate and desirable?

The clear logic of the matter—and the data cited herein from Australia are consistent with it—indicates not only that to relieve capital from taxation, so far as we can, by drawing heavily on the annual rental value of land, tends definitely to the strengthening of the free private enterprise system. The same logic indicates that to follow the opposite policy, *i.e.*, to abolish the tax on land and take by taxation practically all the yield of capital, must lead to the management of all or practically all industry by the State, with saving thereafter compulsory.

Do we honestly believe the private enterprise system to be preferable to socialism, and do we want to keep it for ourselves and successfully "sell" it to countries now susceptible to socialist propaganda? If we do, what can be more important in our teaching of economics than that our students should come to understand why the second of these two divergent

tax systems is so threateningly different in its to-be-expected consequences from the first? Yet this is precisely *the* aspect of economic theory and policy about which, in probably more than ninety-nine per cent of our universities and colleges, they learn *nothing at all!*

A letter received a few years ago from a college teacher of economics commented on this situation as follows: "The thing that is both curious and amazing to me is that I could have attained a Ph.D. degree, 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." And a very able and distinguished economist of my acquaintance, definitely friendly to land-value taxation, who has done most useful work in another field of economics, explained to me some years ago that he does not express this sympathy publicly lest, with the prevailing antagonism among economists, his studies in this other field might have relatively little influence.

But what periodical, professional or other, purporting to be interested in academic freedom, has ever publicized or will now publicize such facts as those presented in this paper?

V

IN AN ARTICLE[5] prepared before the communists had driven the Nationalists from China, I wrote, in part, as follows:

> Students have come from far countries to study at American universities and especially at the larger institutions, such as Columbia University. In these institutions students from the Chinese Republic, whose founder, Dr. Sun-Yat-Sen, was greatly impressed by Henry George's contribution to economics and wished to make some application of George's principles to Chinese taxation policy, have been indoctrinated with a contrary philosophy and have returned to China to teach this contrary philosophy in Chinese colleges and universities.
>
> If *communism—or socialism*—and the incident regimentation *should win,* in the United States, in Western Europe, in China and elsewhere, *over the present caricature of free enterprise,* those professorial economists whose economic philosophy has contributed to make our economic system such a caricature cannot be held free of all responsibility for the system's ultimate collapse. For capitalism is indeed under heavy attack in a large part of the world. And the college graduates our economics professors have taught are but poorly armed against the bombardments of communist and socialist ideology, when they can oppose the optimistically idealized programs of the "planners" with nothing better than this caricature of what capitalism could be at its possible best. *Why have they not*

[5] *The Challenge of Australian Tax Policy, op. cit.*, p. 25.

been shown the intriguing blueprint of a free private enterprise system clearly worth fighting for?

Were the great majority of the teachers of economics in the universities and colleges of the United States *convinced communists* desirous of *following the "party line,"* were the leaders of the party *in Moscow* seeking *to corrupt* capitalism into as poor a system as it could be made, in order that it might operate so badly as to *provoke revolution,* and had the communist leaders, for that very reason, given to all these teachers of economics definite instructions either to *keep students from ever thinking about the land-value taxation program at all* or to *cast discredit on it,* the situation as regards education of university and college students on land rent and its taxation could hardly be worse than it actually is.

And in the same article[6] I said: "There is tragedy in the fact that among those who have been led into communistic activities and even into betraying the interests of their own government to those of an alien power, are some *who followed communism because of their own social idealism and who might have been saved from this personal tragedy had the influence of our economics professoriate not been in the direction of discrediting and hushing up all serious advocacy of the public appropriation of the annual rental value of land.*"

This is a matter in which, when it is adequately explained, students of economics appear to be especially interested. No devices or special techniques of teaching can possibly compensate, I think, for leaving out of the work of economics the most dramatic, exciting and vital topics on which it can shed light. And if there was ever a time when it was or is particularly important for us to consider without being inhibited, how we can make our system of private enterprise what it could be and ought to be, it is now, when it is in conflict with an entirely different system based on an entirely different ideology.

Again at the end of this article, therefore, I inquire, as I inquired at the beginning: Why do teachers of economics *almost never* use such freedom as they do have—and it's a great deal—to explain to their students the demonstrable advantages of a kind of tax that is more favorable to free private enterprise than is any other form of tax whatsoever? Are they too hopelessly indoctrinated against it? Or are they fearful that, if they thus go in the *opposite* direction from Marx in the matter of the two Maxist tenets here discussed, they will be rated as "leftist" or "radical"?

Yet had they been interested enough in the land-value tax movement to pay much attention to its progress, they would have heard not only of the data from Australia but also of the 1951 legislation in Pennsylvania. This legislation gives to each of its forty-seven third-class cities, local option to discriminate in taxation between land and buildings and to tax the former at a higher rate and the latter less, to whatever degree of difference (within the limit set by the tax limitation law) its council may desire. They might have heard that the bill passed the Senate fifty to nothing and the House by a hundred and eighty to one and that it was signed by that well-known Republican leader, Governor John S. Fine. Are they so *fearful* of being rated as "leftists" with Governor Fine and the others, that they must instead support by preference, taxation tending to weaken the incentives of capitalism and going at least part way in the communist and Marxist direction as regards tenets that, carried sufficiently far, are utterly irreconcilable with an acceptable functioning of capitalism? *Is an unpublicized professorial fear the Achilles heel of capitalism's answer to communism?*

[6] *Ibid.,* p. 23.

If the men in the Kremlin could know what some of our indoctrinated —or is it fearful?— intellectuals are about and could sense its possible ultimate significance for us and for them, might not the gravity of their counsels be relieved recurrently by waves of sardonic laughter?