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THE ECONOMICS OF LAND VALUE

THE ECONOMICS OF LAND VALUE

BY
HAROLD STOREY

T. FISHER UNWIN
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The Economics of Land Value

I

THE Taxation of Land Values is the accepted name of a policy that is partly economic and partly political. It is political because it aims at a more equitable adjustment of the burdens of public expenditure. It is economic in the sense that it claims to provide a treatment of the value of land that will promote an increased production of wealth, and at the same time tend to equalise its distribution.

THE TWO PROPOSALS

With a view to the achievement of these aims the policy contains two definite and practical proposals, and before we attempt to discuss the economic and industrial processes that are involved it will be convenient to define these proposals with as little argument as possible.

1. It is recommended that a national tax should be imposed by the Budget on the capital "unimproved" value of all land—that is to say, on the capital value of land regarded as so much earth-space, excluding whatever additional value may have been given to it by private industry and enterprise.

In order to say accurately what would be the yield of such a tax we should need to know the value of the land of the United Kingdom apart from buildings and other improvements. An official valuation of this kind is now being made, but is not yet complete. Meanwhile we cannot do more than form a rough estimate based upon the known annual values of land and buildings combined.

In New Zealand, where land has been valued apart from buildings and improvements, the unimproved land is officially calculated to cover 61 per cent. of the total value. In New York City the official valuation attributes 60 per cent. to land. For the sake of having some figures that will serve to illustrate theory and argument let us assume that in the United Kingdom the unimproved value of land will average 50 per cent. of the total value of real property. On this assumption an examination of the latest report of the Inland Revenue Commissioners reveals an annual land value of £182,000,000, or a capital value of £4500,000,000.¹

There is, however, a large amount of unused and under-used land which is not assessed for income-tax at its true selling value; and when this is added it will be seen that the unimproved land value of the United Kingdom can hardly be less than £5000,000,000 sterling. The exact figure is not vital to the argument, and in view of the coming official valuation is not worth controversy, but I propose to take this estimate as a sufficiently reasonable working assumption.

A tax of twopence in the pound on £5000,000,000 would yield an annual revenue of £41,600,000.

This would be a new tax paid by the owners of

¹ See Appendix A.

land or by those persons, whether ultimate owners or intermediaries, who receive the actual money-benefit of the land value. It would, however, be in some part a substitution for existing taxes, and certain deductions must be made from the total revenue.

(a) There is still in existence an old land-tax which was first imposed in its present form in the year 1692. It has been frequently readjusted, cut away, and compounded, and now brings little more than £700,000 a year to the Exchequer. Under a scheme for the taxation of land values this old tax would disappear.

(b) Owners of land now pay income-tax (under Schedule A) on its annual value combined with the value of the buildings that stand on it. When they pay a yearly tax on the capital value of their land they will not be required to pay also on its rental value. This involves a further remission of about £7,000,000.

(c) All occupiers of dwelling-houses that are assessed at not less than £20 a year pay what is called an Inhabited House Duty. On grounds that will appear later when we examine the theory of rent, it may be assumed that this tax is borne ultimately by the owner. Its remission will effect a saving to land-owners of £1,900,000 a year.

(d) The new tax of a halfpenny in the pound on undeveloped land, imposed by the Budget of 1909-10, would be replaced by the general tax on the value of all land. Owing to the unfinished state of the official valuation this tax has not yet yielded any appreciable revenue, and no deduction need be made here on its account.

These remissions of burdens already falling upon

land-owners amount to £9,600,000; and this sum is to be subtracted from the gross yield of the new tax. It thus appears that, taken by itself, the proposal of a national tax on land value means a new charge of about £32,000,000 a year upon owners of land. We shall presently see, however, that when the budget tax is combined with the second proposal this figure will undergo a further considerable reduction, in so far as it is regarded as a new burden.

2. The second recommendation is an alteration of the basis of assessment upon which local rates are levied.

The occupier of land or buildings at present pays rates on the annual value of the premises. This annual or rental value is composite. It consists partly in the value of the land as a piece of earth-space, taking into account its advantages of natural fertility or position. In addition the rental value includes the value of the buildings, in some cases the value of machinery, and in others the value of fences, drains, continuous cultivation, and any other permanent improvements that go to make up the premises.

The proposal is that the land should be valued separately, exclusive of all buildings and improvements, as already mentioned in the case of the budget tax; and that the local rates should be calculated on this basis. Further, instead of making this calculation from the rental value of the land, it is proposed to make it from the capital value—*i.e.* the selling value in the ordinary market—so that rates would be paid on the real value of all land irrespective of the use or disuse to which it was being put at any given time. Under this scheme

the rate will be collected from the owner in cases where the land is not let for hire; but wherever there is a tenant there is no reason why it should not be collected from him as at present.

Now, it is perhaps obvious, but it is none the less important to understand, that this is not in any sense a new tax. It is a new method of assessment for an old tax. The rates are collected now; and what we propose is to collect similar sums from almost the same people, but to collect them in a different manner. In the year 1908-9 the Local Authorities of the United Kingdom raised by rates the sum of £71,000,000. The basis of assessment was of course the composite rental value of occupied premises; and the average rate was for England and Wales 6s. 1d. in the pound. If the same revenue were still required by the Local Authorities after the taxation of land values it would be raised by a levy on the capital value of the land alone; and, taking that value to be £5000,000,000, a revenue of £71,000,000 would require an average rate of 3½ pence in the pound. Or, to speak of particular localities, if a certain town requires £50,000 a year for municipal purposes the Council would lay such a rate on the capital value of all the land in their area as would yield the sum of £50,000.

The people who now write cheques for the rate-collector would continue to do so. The amounts of some of these cheques, however, would be different from their present amounts. The ratepayer whose buildings and other improvements are of high value in proportion to the value of the land occupied would find his rates reduced. On the other hand, the ratepayer who occupies land that is of high value in proportion to the value of his

buildings and improvements might find his rates increased. Whether this last would be the case or not would depend on the quantity and the value of the *unused* land within the area at the time of the change. For it is to be remembered that when the assessment is made on capital value instead of annual value a considerable number of persons in every locality, who are now paying no rates because they are putting their land to no use, will become ratepayers for the first time. The number of ratepayers will be larger and the quantity of property upon which rates are being paid will be greater. Therefore, other things being equal, the "amount in the pound" laid by the Local Authority will not need to be so high as it would have been if the new ratepayers had not come in to share the burden.

II

DISPOSAL OF THE NEW REVENUE

To this bare description of the two proposals let me now add, with an equal avoidance of controversy, a brief statement of the objects to which it is proposed to devote the revenue derived from the budget tax. It will then be perceived that the two parts of this policy—the national tax and the new assessment for local rates—have an intimate bearing upon each other, and that the national tax will involve a smaller additional burden upon land-owners than at first appeared to be the case.

We have seen that a budget tax of twopence in the pound on land value will yield a new net revenue of about £32,000,000. It is usually proposed to

dispose of this new income in two ways—(a) by remitting part or the whole of the remaining taxes on food; and (b) by making larger grants from the Exchequer to the Local Authorities towards the maintenance of certain public services.

(a) The taxes now existing on tea, coffee, cocoa, sugar, dried fruits, etc., produce a revenue of about £13,400,000. If they were all abolished the general taxpayer (including of course the land-owner) would benefit by much more than this amount. A tax on imported goods practically always raises the price of the article to the consumer by more than the amount of the tax, and the remission of the food duties would be a great public boon. The relief would be felt by all, but would be particularly beneficial to the poorest classes.

(b) If the whole amount of the food taxes is taken out of the new revenue there remains a sum of about £18,600,000 for additional grants to the Local Authorities in relief of rates. It is now very generally agreed by all parties in politics and local government that such services as poor-relief, education, police, asylums, and main roads are largely national in their character. The fact that they are partly so has long been officially recognised, and considerable grants are now made from the National Exchequer to Local Authorities for these purposes. But it is argued and commonly acknowledged that the grants ought to be greatly increased, and through the taxation of land values a sum of something like £18,600,000 will become available for this object.

Now, such an increase of Exchequer grants would afford a substantial reduction of local rates, probably amounting to 25 per cent. To whom will this benefit belong? I shall argue later on that rates

are for the most part a deduction from rent.¹ For the moment, assuming that theory to be correct, let us confine our attention to its consequences in the present connection. If rates are a deduction from rent, the chief burden of rates falls on the owner of land, and it is therefore the land-owner who will derive the chief benefit from any reduction that is brought about by the additional grants. Indeed, it is part of the case for a budget tax on land value that since the land-owner obtains most of the relief afforded by Exchequer grants to Local Authorities, no further grants should be made unless the money is raised by a tax on the value of land.

Thus, looking for the time being only to the bare figures of the proposed national tax, we see that it is not all dead loss to the owners of land value. The tax will take from them about £41,600,000. But as much as £9,600,000 is in substitution for taxes which land-owners already pay. Further, if we assume that three-quarters of the burden of rates falls on the land-owner, it follows that he will derive three-quarters of the benefit of the new Exchequer grants. The total benefit from this source is here taken to be about £18,600,000, three-quarters of which is £13,950,000. If we add this to the £9,600,000 it appears that as much as £23,550,000 will go back to the land-owners, and that therefore the net cost of the budget tax to owners of land will be little more than £18,000,000.² In other words, this reform would require the owners of land which has an annual value of £200,000,000 to take upon themselves taxes to the amount of about £18,000,000 which are at present being paid by other people.

¹ See Sections XI. and XII.

² See Appendix B.

III

FINANCIAL EFFECT UPON THE NATION AS A WHOLE

BEFORE we leave this descriptive part of the subject I want to emphasise the fact that the taxation of land values *will not place any additional burden upon the whole body of the taxpayers collectively regarded*. There are some policies of which this cannot be said. For instance, when we gave Old Age Pensions we incurred additional expense. More money had to be found by the taxpayers, although in this case some of it will ultimately come back to them through the reduced cost of the poor-law. Again, when we resolve to enlarge the navy we are enlarging our expenses as a nation; we are adding to the taxpayers' burdens. On the other hand, the taxation of land values is not a proposal to add to the nation's burdens. No new expenditure is suggested.

At the present time the Imperial Parliament and the Local Authorities together take from the taxpayer about £200,000,000 for public services. Some of these services, such as the army and navy, are paid for entirely out of national taxes. Other services, such as the lighting and cleaning of streets, are paid for entirely out of local rates. And others again are sustained jointly by local rates and national taxes. The chief of these are education, poor relief, asylums, police, and main roads. Well, it is not proposed that anything should be added to this levy upon the nation of £200,000,000 a year.

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Two things are proposed. First, an alteration of the basis upon which to reckon and collect the whole of local revenue and part of the national revenue. It is desired that all local rates should be assessed upon the capital unimproved value of land, instead of upon the composite value of land and buildings; and that part of the national revenue should be obtained by a tax on the same form of value. Secondly, it is proposed that there should be a readjustment of burdens as between the Local Authorities and the National Exchequer. It is desired that part of the revenue derived from the national tax on land value should be devoted to the relief of Local Authorities in respect of charges that are national rather than local in character.

Thus the taxation of land values will add nothing to the burdens of the taxpayers as a whole. It is a readjustment of burdens. If a man is at the same time an owner of land, a manufacturer or shopkeeper, and a consumer of tea and sugar, the taxation of land values will cause him to be less restricted and hampered by taxes on his business¹ and his purchases, and will require him to surrender to the public a larger share of the value of his land. It is a proposal to raise part of the public revenue—which in any case has to be raised somehow—by taxing people according to the degree in which they derive benefit from the natural and unimproved value of land. Consequently a lighter burden will fall upon persons who derive little or none of this benefit, although they will continue to contribute to the public exchequer in other ways. And on the other hand those persons who chiefly profit by the value of land will find themselves bearing a somewhat increased proportion of public charges.

IV

THE MEANING OF "UNIMPROVED LAND VALUE"

IN any discussion of the policy which has now been briefly described on its arithmetical side it is of the first importance to secure a clear apprehension of the term "unimproved land value." There are many ways of defining and illustrating it. For instance, suppose that an acre of land in the City of London had been walled round five hundred years ago, and that nothing had been done to it and no one had even seen it from that day to the present time. It would to-day have an enormously high value. If it were offered by auction either for sale or hire, great sums of money would certainly be bid for it. In what does its value consist? Not in anything that has been done to it by the industry or expenditure of the owner or tenant. There has been no tenant; and the owner has done nothing. The value of this acre of land is clearly due to its situation—which is the same thing as to say that it is due to the surrounding growth of London as a great centre of trade and commerce. Broadly speaking, this is what we call the "unimproved" value of the land, its value as a plot of the earth's space in a particular situation.

But let us analyse this sort of value a little further. Why, in point of fact, could a large rent immediately be obtained for the use of this plot of bare land? (1) For one thing, because millions of people are congregated there and pass to and fro that way

thousands of times in the course of a year. This being the case it is known that if retail shops, for instance, were built on the land an enormous trade could be carried on. The land is a good "site" for business purposes; and this element in its value may be called its "site value" in the strictest sense of the term. (2) But secondly, there is the fact that all the surrounding land has been already appropriated. The supply of land in that district is extremely short. This circumstance forces up the "site value" to a maximum, and may be said to give the land a "monopoly value" which is overlaid upon its natural value as a site. Both these elements in the value of the "unimproved land" arise out of the fact that there is a large population concentrated by force of business and circumstance upon a small area of the earth's surface.

(3) It is usually said that there is also a third factor in the value of such a plot of land, namely, the expenditure of public money in making, draining, and paving the streets, in providing tramways and public parks, and in the general maintenance of convenient and attractive conditions.

In this connection it is not to be forgotten that the expenditure of rates cuts both ways. It may sometimes *reduce* the value of land, as in the case of a tramway system which carries the people more easily to the centre of a city and thereby depreciates much of the property along the route. On the other hand, the construction of a great thoroughfare will create a new and more valuable site for certain strips of land, thus directly increasing the land value. Bearing these divergent results in mind, it may nevertheless be said that municipal enterprise does contribute to land value in the obvious sense

that a well-kept and well-appointed town is more attractive than a slack and slovenly town.

The truth is that land value is affected by municipal enterprise in the same way as it is affected by private enterprise. The opening of a railway, a theatre, a factory, and a public park would immediately raise the general level of land value in any given town. It is not claimed that the value of every plot would rise. The theatre, for instance, would probably depreciate the value of dwelling-houses in the same street; but it would contribute to a rise of values in the town as a whole. The way in which both private and municipal enterprise advance the value of neighbouring land is *by attracting larger numbers of people*. It can be done in no other way. A man of colossal wealth might lay out a town with every imaginable civic convenience and luxury; but if there were few people the land would have little value. As a matter of fact, of course, the advantages arising from the expenditure of rates do attract population, and therefore do tend to create land value. Judicious municipal enterprise is to any town what the sea is to Scarborough and what the humid atmosphere is to Lancashire: it is a bait to population. Only in that way is it a contributory cause of land value.

Thus it is necessary to take account of the expenditure of rates, as it is of every other circumstance—natural or artificial—that promotes the concourse of people in a given area; but it is not to be regarded as in itself a prime cause of value. When we analyse the "unimproved value" of the walled-in London acre, we find that its immediate economic cause is *the presence of the population desiring the use of the land*, and that it contains two

distinguishable elements, namely, its "site value" for business purposes in a busy area, and its "monopoly value" arising from the shortage of land in the surrounding district.

THE SEPARATE ASSESSMENT OF UNIMPROVED LAND VALUE

Now, it is seldom difficult to separate "unimproved land value" from the total or composite value of properties. Consider the acre of land which lies next in position to our imaginary vacant plot in the City of London. The second acre is covered with shops, offices, tea-rooms, and hotels. These buildings, with their foundations, drains and other appointments, are only quantities of bricks and mortar, iron and wood, upon which a certain amount of labour has been expended. Their maximum value is what it would cost to replace them. The rent paid for the use of the buildings is not rent in the true economic sense of the word—as we shall see later on. It is really "interest," at the current market-rate of interest, upon the expenditure incurred in constructing them. Well, if you subtract this amount from the total rent paid by the tenants, the remainder is the "unimproved value" of the land.

Consider next a case of agricultural land. A farm of 260 acres was recently sold for £7500. This, therefore, is its market-value as a composite property. In order to ascertain the unimproved value of the land we must take from this total sum the value (so far as it is an unexhausted value) of everything that has been done to the farm by the labour and capital of both the owner and the tenant. To

egin with, the buildings are insured for £1500. This reduces the total to £6000. Further, the cost of replacing fences, gates, hedges, drains, and other similar improvements due to capital and labour is estimated at £500, which again reduces the total to £5500. But the land is not yet in an "unimproved" state. It owes something to the labour of continuous cultivation; and it would probably only be after about eight years' neglect that it would lapse into a condition in which it could be said to owe nothing to human industry and to have become a mere "site." In good farming it is a rough rule that as much should be spent yearly in labour as is paid in rent. The rent of this farm is £330. If we assume that £300 a year is spent in labour, eight years' cultivation means an expenditure of £2400, and our total is now brought down to £3100. Thus in the case of a farm which sold as a composite property for £7500, we find that the unimproved value of the land is about £3100, or a little less than £12 per acre. This is pure site value. It owes nothing to the expenditure of owner or tenant. It is a value that is due to the natural suitability of the land for agricultural purposes, having its present geographical position in relation to markets and population.

Another farm on the same estate, which was sold at the same time, shows by this method of calculation an "unimproved land value" of about £4 6s. per acre. What is the reason of this substantial difference in value? If you go into the district and speak to the local people about these two farms, you will learn the reason. You will be told, without any reference to theories of land value, that the first farm is far superior to the second in the natural

fertility of its soil. Thus in the daily practice of buying and selling and valuing there is no difficulty in arriving at the facts that are required for this system of taxation. In the two instances just described the land of one farm has a higher value than the land of the other, for the practical purposes of agricultural production, owing to something in the nature of the land itself, something that is independent of any effort or expenditure of man. The values thus compared are what we call "unimproved" values.

From what has been said it will perhaps be already understood that the unimproved value of a plot of land is not necessarily determined by the use that is being made of it at any particular time.

For instance, land on the outskirts of a growing town may have several alternative uses. As part of an ordinary mixed farm such land would probably not let for more than £1 per acre. For market-gardening it might let for £5 per acre. Whilst if twenty houses were built upon it, the owner could no doubt command £4 per plot—or £80 for the whole acre—as ground-rent. In determining which of these three values is to be put upon the land for purposes of taxation, the whole point turns upon the state of the market. It is not a matter for arbitrary doctrinaire supposition; it is a commercial and practical point which any competent local valuer could settle. If there is an effective demand for the land for building, that is to say, if £80 per acre ground-rent could be actually obtained for it, the land will be treated as having that value for taxation. The owner might elect to keep it under garden use for some time longer, in the hope of realising a still higher price. But this mental state of the owner

does not alter the real value of the land, and in the meantime he would be required to pay rates and taxes on its true market-value.

When we speak, therefore, of "unimproved land value," or more shortly of "land value," we mean the highest value that would practically and materially attach to the land in the open market if it were sold as bare land, apart from anything that has been done to it, or put on it, or put in it, by the expenditure of capital and labour. Put shortly, we mean the value of land as a section of the earth's space in a given situation. This value is created by the presence of a population desiring the use of land for various purposes. Two elements enter into it. First, the suitability or advantage of the land as a "site" for whatever purpose is most remunerative in the given place and circumstances: it may be as a site for a farm, or a villa, or a shop, or a factory. Secondly, the relative amount of available land in comparison with the demand for it. The proposed assessment of rates on the basis of land value, and the proposed budget tax on land value, have reference always to the value of land regarded from this point of view.

V

PROVISIONAL STATEMENT OF THE REASONS FOR THE PROPOSED CHANGES

IN later sections of this inquiry I shall be able to trace the economic processes that will be set in motion by the taxation of land values. This, how-

ever, will involve a somewhat detailed examination of the production and the distribution of wealth. And it seems worth while, before proceeding further, to make a short statement of the chief reasons that are advanced in support of the adoption of this policy.

1. First of all, it will be obvious that land value—as it has been here defined—is a value created by the general public.

Population and industry increase from century to century; but the quantity of land in the country remains the same. Regarding the land of the country as a whole, there is therefore a progressive increase in its value due to the growing number of the people who desire to use it and of the purposes for which it may be used. To take a striking but by no means exceptional instance, it is said that the original Ramsden bought certain parcels of land at the head of the Colne Valley a few generations ago for the sum of about £5000. Since then the town of Huddersfield has grown up on this land, and to the present Sir John Ramsden it is worth a yearly income of £180,000. The greater part of this enormous increase of value has taken place without the aid of the owners. It is "site value," created by the growth of population and the progress of trade. Value of this sort is at all events a proper source of public revenue, and may justly be required to give up large portions of its increment to the public exchequer.

2. Under the present system of rating and taxation there is a good deal of land that escapes its fair contribution to public expenses. When a large land-owner keeps great tracts of land out of use for the pleasure of owning a private park or for purposes

of sport, he does not pay either rates or taxes upon his property in proportion to its true value. And again, in every town and particularly on the fringe of every town there are plots of land that are held out of use from motives of speculation. The owners are waiting until further developments of industry and population have pushed up the market-value of the land to a still higher figure. Meanwhile it is probably let for grazing at a nominal rent ; and it is only upon this nominal rent that the rates are calculated. Or again, it may be put to no use at all ; in which case, having no annual or rental value, no rates are paid in respect of it.

All this means that the people who are using their land, who are getting the best out of it, promoting trade and giving employment, have so much the heavier burden of rates to bear. It is clear therefore that when all land is rated upon its capital value, irrespective of the use that is being made of it at the moment, owners of land will contribute to public expenditure in proportion to the real value of their possessions, and will share this burden more fairly with other ratepayers.

3. The present method of assessment for local rates upon the composite value of land and buildings discourages and hampers industry. If a manufacturer adds a shed to his mill or puts in a new set of improved machines ; if a shopkeeper puts a new and improved window to his shop ; or if a farmer pulls down his barns and builds new ones of a better kind : in each of these cases the assessment for rates is raised and larger sums have to be paid to the Local Authority. The *fear* of this increased burden holds business development back and is an appreciable check on trade. What is

here proposed is that rates should be assessed on the site value of the land occupied, without regard to the use made of it or the improvements effected upon it. When this is the case, much business enterprise will be liberated, and both the producer and the land-owner will contribute fairly to public expenses in proportion to the benefit derived from the publicly created value of the land.

In these three contentions it is claimed that the taxation of land value (*a*) will be a direct and positive relief to all who are engaged in industry, (*b*) will cause a just rearrangement of public burdens, compelling the owners of all land to pay their due share of rates, and (*c*) will produce a large national revenue from a proper source.

4. If nothing more could be said, the three foregoing considerations would justify the policy of the taxation of land values. But the main ground of advocacy remains to be stated. At this point I shall not do more than state it, leaving its detailed analysis and argument to a later stage.

What we claim both for the budget tax and the new system of rating is that their economic effect will be *to bring more land into the market with a view to its productive employment*. It will be at once evident that if this claim can be substantiated the taxation of land values is something more than a device for shuffling the incidence of public burdens. It becomes a dynamic of industrial development and social progress. Land is the basis of every form of production, and any artificial or unnecessary restriction of its available supply must act injuriously upon the whole population. At the present time there is such a restriction; and it will be argued that by taxing and rating land upon its real value,

and thereby providing a wholesome motive to land-owners for bringing their property into an "earning" condition, the restriction will be removed. Thus increased supplies of land will come into use, its monopoly value will break down, and there will follow a general stimulation of industry and employment.

VI

THE NEED TO EXAMINE THE ECONOMIC NATURE OF LAND VALUE

IT is now possible to press our inquiry more deeply into the heart of the subject. From what has been said in the last section it will be evident that this policy rests on the assumption that there is something which distinguishes land value from other forms of value. It is proposed to place special burdens upon it; and, what is more significant, it is implied that special and unusual effects will follow. Although land is one of the necessary factors of production and industry, it is presumed that a tax on its unimproved value will place no additional burden or restriction on industry, but on the contrary will unburden and stimulate it; and further, that a tax on land value, unlike taxes on commodities, will have the tendency to reduce its price. These are claims that call for thorough inquiry and justification. We need to know what is the essential economic nature of land value, whence it arises, and what precisely is its relation

to the value of other factors in the production of wealth.

It is therefore necessary to give some general consideration to the production and distribution of wealth.

VII

THE PRODUCTION OF WEALTH

THE production of wealth is achieved by the co-operation of three factors : labour, capital, and land.

1. Under the name of Labour it must be understood that we include every kind of human activity that is required to sustain the complex life of the community. For instance, in the matter of the production of wealth there is no economic difference between a coal-miner and a comic singer, or between a ploughman and an artist, or between a cotton-spinner and a civil servant. Each of these renders services that help to keep the world going and to meet the diverse demands of human society. It is a confusion of thought to suppose that only those are producers of wealth who do manual work or are engaged in what we call trade and commerce. The complexity of modern civilisation compels us to adopt the method of division of labour in an extreme degree, and it is indeed only by this means that wealth can be produced on an adequate scale. If the farmer and the coal-hewer were obliged to carry their own letters, educate their own children, and devise and provide their own amusements, they would produce smaller quantities of food and coal.

They are enabled to produce on a large scale by the fact that other people release them from many necessary occupations. Thus it is evident that postmen, schoolmasters, clerks, music-hall singers, newspaper humorists, members of Councils and Boards of Guardians, doctors, artists, domestic servants, and in fact all persons who render services which social habit has made necessary or desirable, are taking an essential and equal part in the production of wealth. They are all "labourers," and are worthy of their hire.

Further, the person usually described as an "employer" is a labourer or worker, no less than he is a capitalist. No business can be conducted without management, and if an employer directs his own business he is earning wages in exactly the same sense as the man at the forge or the loom. In view of what is to be said later it is important that the economic nature of the employer's income should be clearly seen at this point. The income of an employer is partly interest on capital and partly wages of management; and when the employer is doing well it is not his interest but his wages that must be considered to have expanded. To put the case as free as possible from complications, suppose that you have one man who is the sole proprietor and manager of a business. First you must allow for the total working costs of the concern, with the exception of his own remuneration: that is to say, the cost of all other labour, material, rent, rates, advertising, depreciation, insurance, and so on. Last of all you come to what we call the employer's net profit. But, economically regarded, this contains two separate items. The first item is interest on all the capital that is engaged in the

business, and this should be reckoned at the average rate of interest (say, four or five per cent.) that can be permanently obtained by investment in any sound undertaking. This is the employer's income as a capitalist. He could secure this amount without the trouble of being in business, by investing his capital in other concerns. And the point I desire to bring out is that whatever is left over constitutes the employer's own wages as manager and promoter of the business. It is not as an owner of capital that a man can take a large share out of the product of industry. The reward of pure capital is a small and fairly constant percentage. The variable item, which may sometimes be very large, is what the employer is able to claim as his own personal remuneration, and is of the nature of wages. I shall have something to say later upon the economic forces that frequently cause employers' wages to be disproportionately high in comparison with the wages of other grades of workers. But whether the employer's wages are generally speaking, too high or too low is not the point that arises here. My present object is to show that the income of an employer consists partly in remuneration for his share of the work, and that he is economically to be classed as a worker—no less than the iron-puddler, the clerk or the artist. Under the name of Labour, therefore, we shall include every kind of human effort or occupation for which the varied life of the community creates a demand.

2. Capital is accumulated wealth. That is to say, it is an accumulation of the products of somebody's previous labour. A small margin of it exists as cash and credit. But for the most part capital is materialised in the usual forms assumed by wealth.

It consists of houses, factories, machines, railroads, waterworks, engines, ships, and so on. These things do not in themselves differ from other forms of wealth. Food and clothes are wealth; but we do not refer to them in the strict sense as capital because they are directly and quickly consumed. Speaking broadly and practically, capital is accumulated wealth which endures long enough to be used as an aid to further production.

3. By land it should be clearly understood that we mean "unimproved" land—an area of the earth's crust. Just as it was necessary to distinguish between the labour of an employer and his capital, so we must be careful to avoid confusion between capital and land. An acre of bare common may be called land. But if you plough it, the ploughed acre—for so long as the effect of the ploughing lasts—has become "land and capital": it is land combined with the accumulated results of labour. Thus a large part of every farm is capital; and the produce of a farm—like the produce of a cotton-mill—is always due to three elements, namely, to land, to capital or accumulated labour, and to labour primarily and directly applied.

These, then, are the three factors of production. Wealth is produced by labour applied to land with the aid of capital. And the only other observation that I want to make in this connection is that *wealth is not produced in any other way*. The whole community lives on the wealth that is continuously produced by the co-operation of these three factors from year to year. There is no real reserve of wealth. The notion that rich people live out of a great fund of possessions is quite as antiquated as the notion that there is a fund out of which wages are paid. What the

rich man possesses is not a large store of goods that are already produced, but the power to command a large share of the goods that are being produced from day to day. It is obvious that no one can live on land. Land does not provide either food, clothing, or shelter until work has been applied to it. Again, the amount of material capital in the possession of the British people cannot be much more than five times the amount of goods consumed in each year; so that if we were to cease from work and live on capital we should come to the brink of starvation some time in the sixth year of the experiment. What happens is that the man who lives by "owning land" lends his land to some one who works upon it and produces goods; and the landowner receives each year a share of the current volume of goods produced in this way. If a man possesses capital—*i.e.* if he is the owner of houses, blocks of offices, machinery, parts of railway-engines, and so on—he lends these things to other people who carry on work by their aid, producing from year to year a quantity of goods in usable form; and the capitalist receives a share of this moving stream of new wealth.

I am not here discussing the merits of this arrangement. We shall see later that in any form of civilisation some portion of the wealth produced must inevitably be counted as the share due to land and capital. But if it is borne in mind that under the term "work" we include every kind of useful service rendered to society, it is important at this point to realise the economic truth that all wealth is the product of *work*. Every sovereign in the purse of an idle man or woman represents a sovereign's worth of work done somewhere and by somebody.

It is said that a certain citizen of this country receives £30 an hour from his ground-rents. I do not know whether his services to the community entitle him to this reward. But in any case it needs to be openly acknowledged that every hour some group of persons must do thirty sovereigns' worth of work in order to provide this income. There is no other source from which it can come. The wealth upon which the world lives is not a reservoir ; it is a fresh, running, continuous stream, produced by the unceasing application of labour and capital to land. The greater part of it is currently consumed in the sustenance of life. The remainder goes to replace worn-out capital and to augment it by further accumulations.

VIII

THE DISTRIBUTION OF WEALTH

THE continuous stream of wealth thus produced distributes itself in various proportions among the representatives of the three factors of production. So much of it goes to labour, in the form of wages or earnings ; so much goes to capital in the form of interest, and so much to land in the form of rent. What we seek, therefore, is an understanding of the economic method according to which it is determined how much of the spoils goes to each of the three claimants.

Now, the general law of the distribution of wealth may be stated as follows : *the remuneration that can be secured by any one of the three factors of production*

depends mostly on the relation between the demand for that factor and the supply of it. This being the case, it will be worth while to give some attention to the general economic working of Supply and Demand before we examine it in connection with land, labour, and capital.

The operation of demand and supply upon the value of ordinary commodities is not difficult to follow. The main process is, in fact, quite lucidly expressed in the words of the pig-dealer who is reported to have said, "When you have two pigs in the market and one buyer, pigs is cheap; but if you have two buyers and only one pig, pigs is dear." Upon the part of the subject with which it deals this is really the last word of economic science. The tendency of a growing demand for an article is to raise its price, and the tendency of a growing supply is to diminish its price. Within a narrow compass of time and space this is an invariable law.

But when we consider these economic forces upon a larger scale and as operating over longer periods of time, we find that both the tendency of prices to rise and their tendency to fall have certain limits. When a desirable article is scarce, people will give high prices for it; but there is a limit beyond which no one will go: the limit of capacity to pay. Again, when a saleable article is plentiful in quantity, the producers must accept low prices for it in order to effect a sale; but they will not permanently continue to produce the article unless it can be sold at a price that covers the cost of producing it. What happens, therefore, is something of this kind. When the demand for an article increases, its price rises if no additional supply is available. The price will rise as high as the capacity of the purchaser to

pay; and if the article is a necessity of life the purchaser's capacity to pay will be expanded by restriction and sacrifice in other directions. On the other hand, if it is possible to increase the supply of the article, a high or increasing demand will bring further supplies into the market. The increased supply will at once moderate and diminish the price. And, through the competition of producers with each other, the quantity of the supply will continue to increase until the article is normally sold at the minimum price that covers its cost of production.

From this general statement let me take out two points for special notice. First, the motive force that creates a high market-value is demand. Whenever the demand for an article is intense and universal, you have a condition that makes for high value. Secondly, the only thing that can prevent a great demand from causing a high value is an equally great supply. If demand is permanently growing, the only thing that can check a rising value is a permanently growing supply. Thus, assuming the presence of a demand, we may say quite shortly that *values depend upon the possibility of an increasing supply.*

By way of illustration, take the case of a common human requirement such as clothing. The demand for clothing is universal. But, on the other hand, there is no practical limit to the quantity of clothing that can be supplied. Consequently the competition of producers to meet the demand for clothing causes it to be supplied at a minimum price. But consider the imaginary case of a physician who has discovered a simple and painless cure for all diseases, and who keeps the secret in his own

hands. The demand for this doctor's services will be universal, and the supply of them will be restricted and incapable of increase. Consequently the only limit to his charges will be the capacity of the people to pay. In every case he will obtain the maximum possible payment.

In the former case, where increased supplies were available, the competition was among producers to get customers. In the latter case, where no increase of supply was possible, the competition was among customers to obtain treatment. Thus, where increased supplies are available, value tends to a minimum—limited only by cost of production; and where increased supplies are not available, value tends to a maximum—limited only by capacity to pay.

IX

LAWS OF DEMAND AND SUPPLY APPLIED TO LABOUR AND CAPITAL

IF we now turn to labour, capital, and land, we shall see at once that the market-value of each of these factors—*i.e.* the remuneration which any one of them can obtain out of the common product—is determined by precisely the same laws of demand and supply.

The demand for any kind of labour calls forth a supply of it. If the demand is large or increasing and the supply is small, the wages of that kind of labour (which is the measure of its market-value) will be high. In response to high wages, the supply

of the labour will increase; and the increasing supply will tend to bring down the rate of wages to the minimum level which makes it permanently worth people's while to go into that kind of occupation.

These processes do not take place so quickly and easily when the subject of them is human labour as they do when the subject is some sort of material goods; but they take place none the less, and their effects are no less certain. The usual procedure is somewhat as follows: About twenty-five or thirty years ago it was a common rumour in middle-class homes that very good positions and salaries were to be obtained by electrical engineers. This was evidence of a pressing demand for that kind of labour in a growing industry. Consequently middle-class parents and their sons began to look coldly upon other occupations, and large numbers of boys were trained at considerable expense to be electrical engineers. In the course of twenty years the demand has been adequately overtaken. The earnings of electrical engineers of average ability and luck are not now greater than earnings in other occupations of the same class: they have in fact settled down to a general minimum remuneration which just suffices to sustain the necessary supply. This is what happens always. Whether we are speaking of the labour of navvies and porters, or of the managing and directing labour of an employer, or of the labour of doctors and lawyers, we may say with equal truth that its remuneration is determined by the relation between the demand for it and the number of people who are able and willing to undertake it.

The remuneration of capital—that is to say, the

rate of interest—is determined by the same process. It is not desirable to divert attention from the main theme of this discussion by attempting to describe the complicated processes of the money market. All that it is necessary to observe is the broad and obvious fact that interest tends to be high when the demand for capital is great, which usually means when trade is good. There is, however, an automatic check upon the rise of interest; for the good trade and growing production that stimulate the demand for capital are at the same time increasing the supply of it by creating fresh accumulations for investment. Thus the demand can never exceed the supply for a long period. Moreover the supply of capital is far more fluid and adaptable than the supply of labour. Having a common denominator in pounds sterling, it can be in Lancashire or Glasgow as easily as in London, and can pass from one trade to another without appreciable delay. Thus capital responds with extreme facility to the call of a genuine demand, and its remuneration in any place or in any normal trade is determined with remarkable precision by the relation between the demand for it and the general available supply.

It appears therefore that in regard to their market-value labour and capital follow the same law as such commodities as clothing and food. The supply of labour and capital, like the supply of clothing, can be increased in quantity; and there is therefore in each case competition to find customers, to get used, to become part of the supply that meets the demand. It is this competition of labour with labour, and of capital with capital, that keeps down the rate of remuneration. If one man will not work for a certain wage, another will; if

one man will not hire out his capital for a certain interest, another will. There is no fixed limit to the supply. Therefore the remuneration or market-value of labour and capital tends to a minimum.

THE MINIMUM REMUNERATION OF CAPITAL AND LABOUR

The minimum to which the remuneration tends bears a close analogy to what we call, in the case of primary commodities, "cost of production." The supply of capital will flow into any sound and remunerative channel, and will thereby tend to diminish the rate of interest obtainable for its use. But this process of diminution will not go farther than the point at which the interest is just high enough to secure an adequate supply of capital for the purpose in question.

The minimum for labour is of exactly the same nature, but the case is more important. The supply of any particular kind of labour will only continue to be forthcoming when the remuneration is high enough to attract workers into that occupation. In other words, the minimum remuneration of labour of any given kind is the amount that will sustain life according to the accepted standard among people of the class concerned. Thus the lower limit of wages for the least specialised and largest class of labourers is *the smallest sum upon which they will be content to live.*

It is true that an enlarged demand for labour would raise its minimum remuneration if this could take place without any alteration in the supply. But in regard both to capital and labour, demand and supply under present conditions move auto-

matically together. Every increase of population creates an increased demand for all the factors of production. There are more mouths to feed, more bodies to clothe and shelter, more minds to educate and amuse: all of which means an enlargement of business. But every increase of population at the same time and in the same act provides an increased supply of both capital and labour. If there are new appetites, there are also new butchers and bakers; if there are fresh people to quarrel over the wall of the garden, there are also fresh lawyers to profit by their disputes. Thus the supply of labour and capital keeps pace with the growing demand for them, and so tends to keep down the share of wealth which they can claim to the minimum amount upon which they are content to live.

X

LAWS OF DEMAND AND SUPPLY APPLIED TO LAND

Now, it must be by this time perfectly clear that there is one striking difference between land and the other factors of production.

The market-value of land is determined by demand and supply in precisely the same way as the market-value of capital and labour, or clothing and food. The demand for land is universal; and it is the demand that gives it a market-value, exactly as it is demand that creates the market-value of labour. It is also true of land, as it is of labour and capital, that a growing demand for it will necessarily endow it with a high and increasing market-value unless there is also a growing supply.

But here the similarity ends. For there is this fundamental distinction between land and all other marketable things, that *the supply of it is for all time fixed by nature and cannot be increased*. I am speaking for the moment of the land of the country as a whole, and without regard to the particular stage that may have been reached in the absorption of the supply. What we have to keep in mind at this stage of the argument is the broad truism that the boundaries of the United Kingdom are fixed. There are just so many acres, and no more; and whether we have yet turned many or few of them to use, their number is known, their confines are in sight, and there is no device either of science or commerce that can expand their dimensions.

The application of economic law to this stubborn fact is obvious. Since there is no possibility of an increased supply there is no effective competition among owners of land to obtain customers. What we have here is a repetition of the case of our imaginary physician, where the competition was among the patients to obtain a share of a limited supply of treatment. It is not the owners of land who compete with each other to meet the demand; it is the users who compete for a share of the supply. Thus the only limit to the charge that can be exacted for the use of land is the capacity of the users to pay for it. All other commodities—machines, clothing, food, houses, even capital and labour—are supplied at a minimum charge, for the reason that if the charge were above the minimum further available supplies would be forthcoming in competition. On the other hand, land is supplied at a maximum charge because competition cannot produce any further supply. Every increase of

population and every development of industry creates an increased demand for land; but whilst the growing population at the same time provides an augmented supply of capital and labour, it brings no increased supply of land. Thus these three factors of production struggle together for their three several shares of the product of industry. But they struggle unequally. All alike are subject to the laws of demand and supply; but in the case of one of them, supply is not competitive. Labour and capital each keeps its own remuneration to a minimum by internal competition. But land is stationary in supply in face of a ceaselessly growing demand. It is therefore able to extract from industry a maximum remuneration, namely the whole amount of the surplus product which labour and capital, under stress of competition, can be constrained to give up.

This is the central fact to be apprehended in all consideration of the distribution of wealth. Nothing can conceal or diminish its economic significance; Nothing can alter it. It may be possible to argue that the taxation of land values will not meet the case; but it would be idle to contend that there is no case to be met. Moreover it is clear that no policy of reform will meet the case unless it touches this central economic difficulty. Many minor reforms are no doubt worth attention. The present tradition and practice in regard to land-tenure, the antiquated nature of the game laws, the liberty of landlords to perpetuate slum property: these are questions that deserve and perhaps admit of separate treatment. But any attempt to deal with these and similar evils that are related to the land will produce only the most trivial and superficial

consequences if we leave untouched the inherent economic advantage that belongs to land in the distribution of wealth. It is not contended here that every individual owner of land is piling up riches. There are no doubt many owners who make little or nothing out of their possession. But when we consider the land of the country as a whole and the economic processes of industry in their normal course, no subterfuge can hide the fact that an increasing proportion of the wealth produced by the co-operation of land, capital, and labour is continuously rolling over into land value.

XI

THE THEORY OF RENT

FROM this point of view it is an easy matter to analyse the nature of rent. It will be understood that the word rent is only used here to denote the payment made for the use of unimproved land. Whatever is paid for the use of buildings and other improvements is economically of the nature of interest. Rent is therefore the concrete financial expression of land value; and we have just seen that, owing to the impossibility of increasing the supply of land, this always tends to be a maximum amount. It is upon this vital and conspicuous fact that we shall need to keep our attention, and I shall presently return to it.

But meanwhile it is perhaps desirable to relate the theory of rent expounded here with the traditional theory of the political economists. It has usually been said that rent does not begin until cultivation takes place upon lands of varying

qualities. My own view is that wherever you have land in the control and ownership of private individuals, some amount of rent will be charged for the use of it. If we imagine a primitive state of society with a small population, where the supply of equally good and suitable land is greatly in excess of the demand, owners will not be able to charge more than a small nominal sum. If any owner proposed to ask much rent for his land, cultivators and users would apply to some other owner. The excess of supply would keep down the price. It would not, however, annihilate the price, for the simple human reason that no one gets the use of some other person's property for nothing. In such circumstances a small uniform charge would be made, and being uniform it would enter into the cost of the goods produced on the land. It is convenient to speak of this charge as "proprietary rent."

The primitive conditions described above would in most cases be of short duration. The growth of population in any prosperous country quickly necessitates recourse to land of varying qualities and advantages in order to meet the enlarged demand for food, clothing, shelter and other commodities. As soon as this happens "differential rent"—often called economic rent—arises. The market-value of any given kind and quality of goods must be high enough to cover the cost of producing them on the least suitable land to which producers have been driven by the increased demand. But the cost of producing these same goods is smaller on the more suitable lands; and the amount by which the market-value exceeds this cost is a differential rent which goes automatically to the

land-owner. In practice this means that the most fertile farms pay the highest rent per acre, and that a shop in a good position pays a higher rent than a similar shop in a poor position. Differential rent is the measure of the difference in "site value" between one plot of land and another. This part of rent does not enter into the cost of producing goods. It is an excess of value arising in *favourable* situations owing to the high cost of producing goods in *unfavourable* situations.

But now, we have reached in this country a still further stage. So large a quantity of the available land has been brought into use that we have come into sight, so to speak, of the last supplies. With the continued development of population and industry the demand for land still increases, but the supply is practically stationary. The inevitable consequence is the appearance of what may be called "monopoly rent." Broadly speaking this is a uniform tendency of all rents to be pushed up to the highest figure that industry will bear. In so far as rent is due to this pressure of monopoly it enters into the cost of the production of goods. This part of the charge for land is not a differential excess arising from the superior advantages of a site. It is an added stratum of rent overlaid more or less uniformly upon all site values, due to the pressure of demand upon an exhausted supply; and the producer, driven always by competition, pays the added charge for the land partly by pressing up the price of his goods and partly by holding down the remuneration of capital and labour to the lowest possible figure.¹

We come back therefore to the central economic

¹ See Appendix C.

theory to which we were led by our analysis of the distribution of wealth. Labour and capital, each competing for its own employment, keep their joint remuneration down to a minimum; but land, of which there is no further available supply, tends to obtain a maximum remuneration or a maximum rent.

For instance, let us suppose that the market-value of some product (*i.e.* the amount of wealth contained in it) can be represented by a simple index figure, such as 50. Out of this value the three factors of production must be remunerated, sharing it between them. Suppose that labour can be satisfied with 30, and capital with 15. What remains is 5, and this is rent of land. But now, let the value of the product rise permanently to 80, and allow sufficient time for existing contracts to run out and for the factors of production to adjust themselves to the new situation. Such a rise in the value of products would take place, for instance, if we were cut off from our foreign supplies of corn. In this case the cost of living would increase. Allowing for that, suppose that it now takes 35 to satisfy labour and 20 to satisfy capital. These two factors therefore take the value of 55 out of a total value of 80. The remainder is rent of land, which has risen from 5 to 25. The point is that once labour and capital have received the minimum that will suffice to keep them afloat, there is no limit to the amount that land can appropriate—except the limit of the wealth produced. It takes all the rest, however much that may be.

It is along this line of suggestion that rent has come to be called a "surplus." When we say that rent is a surplus we do not mean that it is a superfluous part of the product, which nobody else wants,

and which the land-owner therefore conveniently lifts out of the way. We mean that it is every remaining part of the product which labour and capital can be constrained to give up. Rent is a maximum charge upon the production of wealth. The amount of it depends upon *what people have left* when they have met the other necessary costs of life at the accepted standard. The land-owner gets all the surplus. If the surplus grows with the development and improvement of industry, he gets the new surplus also—unless some means can be found to force up the level of the accepted standard at which people are content to live.

It must not be supposed that this theory is in any degree weakened by the fact that there are instances in which the rent actually charged is below the maximum. Such instances are easy to produce. For one thing, the maximum rent in any given case is a movable figure, liable to rise or fall with the changing value of sites; and the altered rent does not always exactly coincide with the changed value in point of time. Again there are frequently special circumstances connected with the tenure of farms which are let for considerable periods at an indulgent rent owing to an old-standing connection between the families of the tenant and the owner. What I maintain is not that rent in any given case at any given moment is actually found to be a maximum, but the much more important assertion that always and in every case rent *tends* to be a maximum. It may be said to pursue the maximum. In particular instances it may be checked for a generation; but at last a day comes when old family traditions disappear, and rent leaps forward to the prevailing maximum rate. It may sometimes lag

behind in a whole industry, as farm rents have done in England for the past twenty years; but sooner or later the pursuit of the maximum picks up and gathers pace, and at the conclusion of existing contracts there is a rise. This is found to be true both in theory and in practical experience. We have seen that land is a monopoly: that is to say, the supply of it is not open to the unfettered influence of competition. Consequently the only limit to its price is the capacity of the purchaser or user to pay for it. And it is only another way of stating the same fact when we say that the general tendency of rent is to be a maximum charge, absorbing all the wealth that remains after labour and capital have taken what is necessary to keep them in effective existence.

TAXES ON RENT ARE BORNE BY THE OWNER

Now, it is because rent is a maximum charge, and only when it is a maximum charge, that a tax on rent or land value is borne by the owner of the land. This is only to say that when the land-owner has put up the rent as far as he can, he cannot put it up any farther; and that if the State demands part of the rent in taxation, the land-owner must pay the tax, being unable to extract more from the user of the land than he already receives. In the case where rent is not a maximum—that is to say, where the tenant (favoured by special personal considerations or by accidental circumstances) is paying a smaller rent than other similar tenants are paying, a tax on land value may for a time be partly shifted from the owner to the tenant. In other words, the tax would probably cause the owner to raise the rent to the maximum. And there is nothing in this

fact to disturb the general theory of these economic relations. By the amount of rent which the owner forbears to collect, he is allowing the tenant to share in the land value; and it is therefore to be expected that the tenant will pay part of the tax. But it is not to be forgotten that some day the indulgent rent will be screwed up even if we do not tax land value. If at the time of imposing such a tax the process has fallen into arrear, the tax will certainly expedite it. But the tax is only an accidental pretext; it is not the abiding economic cause. Sooner or later rent becomes a maximum, with or without the tax. Thus, in the long run and broadly speaking—which in such matters is the only proper and possible way of speaking—a tax on rent is borne by the owner.

Nothing could be simpler or more obvious than this doctrine. Rightly interpreted it is a truism. Yet many people are haunted by the fear that in some remote and occult fashion the owner will be able to shift a tax on land value from his own shoulders to those of the producer. This fear probably arises from a failure to draw the true analogy between a tax on land value and a tax on ordinary commodities.

For instance, we are all familiar with the perfectly true assertion that a tax on boots or sewing-machines would be added to the price by the producers or sellers, and would therefore be paid by the consumers. But why would this be the case, and in what way would it be done? The reason is plain to any one who will think through the process. The supply of such goods as boots and machines has already been increased in quantity, through competition, as far as the marginal point of meeting the demand for them, and they are there-

fore sold at the minimum price that covers their cost of production. A tax raises the cost of production, and it becomes unprofitable for those who are working on the margin—*i.e.* in the least advantageous circumstances—to continue to supply the article. This part of the supply falls off, and the diminished supply sends up the price. Thus the tax is paid by the consumers.

Now, if there was an unlimited supply of land and the fact of geographical fixity could be overcome so that we could have blocks of land brought to any place for any purpose, the supply of land—like the supply of boots—would already have been increased in quantity as far as the marginal point of meeting the demand. In that case the process just described would take place here, and a tax on the value of land would be shifted to the user. But we know that these are not the conditions. The supply of land cannot be increased in quantity; no more of it can be produced by way of competition; and consequently it finds users at a maximum charge. Thus a tax on its unimproved value will be borne by the owners, for the direct and simple reason that they are already charging for it the full amount that the users can pay under the existing conditions.

The only thing that can raise rents above the maximum of any given time and place is a decrease in the supply of land or an increase in the demand for it. When growing population and developing industry increase the demand for land, and therefore relatively diminish the supply, rents do in point of fact rise. If the effect of a tax should be to restrict the available supply of land, it would without doubt be shifted to the user. It is only in this

way—by restriction of supply—that a tax on other commodities is shifted to the consumer. But a tax on rent or land value cannot restrict the supply of land. It will rather have the opposite effect, for when there is a tax to pay there is an additional inducement to owners to keep their land in use.

What should be clearly apprehended in this matter of the tax is that there is only one economic law at work, and that it operates in exactly the same way whether the tax is imposed on land value or on food or clothing or machines. It is precisely because there is only one law that we get different results when it acts upon different conditions, just as the stone falls and the balloon rises in obedience to the same law of gravity. Where two persons are concerned in an economic transaction, a tax on the subject of the transaction cannot fall on that one who is acting under the severest stress of competition and is therefore already obtaining the minimum advantage. Food, clothing, and machines are supplied at a minimum charge; the producer receives the minimum advantage out of the transaction. Thus a tax on these articles cannot be borne by the producer, and must needs be paid by the consumer who has been reaping the maximum advantage. On the other hand, land is supplied at a maximum charge. It is the owner who obtains the maximum advantage. In this case, therefore, the tax cannot fall on the user of the land, who is receiving the minimum advantage out of the transaction. It will fall on the owner, who has already gained all that can be won in the bargain. Indeed, it may be said that the owner of the land has already taken the tax from the user in the maximum rent. The owner holds the tax in his possession now; but it has not

yet been collected. When the State begins to collect the tax, the land-owner cannot charge it to the user a second time. He has already charged both this and everything else that can be appropriated. The squeezing of the user is accomplished. What still remains undone is the transference of the tax from the pocket of the land-owner to the public exchequer.

XII

THE INCIDENCE OF RATES

IT is a corollary of the preceding argument that the chief burden of rates falls on the owner of land, because rates are for the most part a tax on rent. If this affirmation were to be put in its crudest form, and one were to say, "It is the landlord who pays the rates," possibly it would not carry immediate conviction to the mind of a person who had not thought of it before. Yet perhaps it might be expected to do so. For it is a common practice, in regard to small dwelling-houses for the landlord to pay the rates not only in economic fact but in outward and visible procedure. The whole point is that if there were no rates, the landlord would be able to exact a larger sum in rent.

Suppose that you have two houses exactly alike in every respect. One of them may let for six shillings a week and the other for seven-and-sixpence; but the difference is only apparent, for in the former case the tenant pays the rates, and in the latter the landlord. The fact is that in respect of both houses alike the total charge for occupancy is seven-and-sixpence a week; but the tenant who is

expected to hand over one-and-sixpence to the Local Authority pays only the remaining six shillings to the landlord. What would happen in these cases if all rates were abolished? Clearly the rent would then be seven-and-sixpence for each house. This is the sum that people are prepared to pay in order to occupy such premises. Previously one of the tenants had been let off to the extent of eighteenpence a week on the condition that he paid the eighteenpence to the rate-collector, and as this need not now be done, the landlord will be able to demand the whole amount in rent.

Well, what is true of properties for which the rates are compounded in the rent is equally true of all others. A man is prepared to pay a certain sum in connection with his occupation of premises, and the number of persons to whom he pays it is not a matter of much consequence. If you pay £30 in rent to the landlord, £9 12s. in rates to the Local Authority, and a few shillings to the Imperial Exchequer in House Duty, it means that you are prepared to pay about £40 a year for the liberty to occupy your house. The existence of the rates prevents you from paying as much in rent as you could pay if there were no rates. In a district where the rates are lower, you could afford to look for a house at a higher rent; and in a district where the rates are higher, you would set out with complaints and imprecations to look for a house at a smaller rent. Thus rates are to be regarded, for purposes of economic analysis, as a part of rent intercepted by the Local Authority.

I have previously said that although the chief burden of rates falls on land-owners it does not fall on them exclusively. The reason for this

qualification is that every tenant is not paying a maximum rent in every period of his tenancy. When rent is pressed closely towards the economic maximum it is clear that fluctuations of rates affect the owner rather than the tenant: a falling rate gives opportunity for further encroachments of rent, the benefit thus passing to the owner; and a substantially increased rate necessitates a reduction of rent, the owner thus bearing the cost. The reader must not expect that instances of this latter process will usually be discoverable by a merely casual observation. In point of fact an increased rate almost always means an improved municipal service and a growing population. The pressure of population upon the available space of land would naturally cause rents to rise, but it frequently happens that landlords are prevented for a certain time from taking advantage of this augmented demand by the fact of the increased rate. Thus the owner bears the cost of the added rate in the sense that it spoils him of the opportunity to increase his rents. What the natural process of economic forces would otherwise have converted into rent has been captured by the Local Authority in rates. But now, in the cases where for some personal or accidental reason rent is not pressed to a maximum, it is the tenant who will be affected by alterations of the rates. An increased rate cannot force down an already indulgent rent, and a reduced rate will not immediately or necessarily inflate a rent that is for other reasons allowed to hang lower than the prevailing level.

In addition to all this it is well to take note of the fact that the incidence of rates is largely a question of time. Rates that will ultimately rest

on the owner of the land are frequently a matter of vital importance to the tenant for a short period. There is the obvious case of property that is leased for a number of years at a fixed rent. During the period of the lease it is the tenant who benefits or suffers by variations in the rates. And again, even apart from lengthy contracts, it is not every day or every year that rent can be adjusted to changing circumstances. Either a rise or a fall of land value, altering the economic position and worth of certain sites, may take place several years before rent follows it. In the same way a rise or a fall of rates may precede the corresponding movement of rent by an indeterminate period. The Agricultural Rating Act, for instance, came into force sixteen years ago, but the land-owners have not yet quite completed the process of absorbing its benefits. This Act released farmers from half the rates that were formerly paid in respect of agricultural land. The natural economic consequence was an advance of farm rents. Indeed, this was not the natural consequence only; it was the inevitable consequence; but there is no rule that makes it possible to predict the length of time which such a process will occupy. Some allowance must be made for the simple human circumstance that it takes time to alter established arrangements. There is also the fact that the Rating Act came at a moment when the general tendency of agricultural rents was downward. It may safely be said that these moderating influences have now been exhausted; the Rating Act has been reinforced by the rise in the price of products; and for some years agricultural rents have inclined upward at every opportunity. It is certain that the whole

benefit of such a reduction of rates as agriculturists obtained under this Act must sooner or later be taken by the land-owners in rent ; but the element of time should not be overlooked, and there has been in this case an intervening period during which the benefit has lingered with the tenant-farmer.

From the foregoing outline of the main considerations that are relevant to this part of the subject it will be evident that the incidence of rates, although certain enough in the long run, does not admit of clumsy dogmatism in any selected case at a particular moment. Economic adjustments do not take place with the mechanical precision and punctuality of clockwork. They are more analogous to the complex and deliberate processes of nature, liable at times to be set back and delayed or to assume unfamiliar disguises, subject to infinite variations, responding to innumerable influences. But economic forces, like the forces of nature, invariably assert themselves sooner or later and in one manner or another, and proceed at last to their predicted and necessary consequences. Considering the country as a whole, it may reasonably be assumed that there will always be a percentage of properties in regard to which the burden of rates is shared to some extent by both landlord and tenant. It is also clear that changes in the rates are felt by tenants in the first instance, and are thrown back upon the owner only in the course of a period of time that may greatly vary according to circumstances. But having made these allowances, it may be affirmed generally and broadly that when rent is an economic maximum—which all rents tend to be sooner or later—the rates are a tax on rent and are therefore borne by the owner of the land.

XIII

LET us now return to the two proposals that constitute the policy of the taxation of land values. In Section V. I made a provisional statement of the effects which this method of taxation may be expected to produce, and in regard to some of those effects no further discussion is necessary. For instance, the two claims that this policy will produce a large public revenue without inflicting hardship or injustice, and will tend to equalise the burden of rates, are important but at the same time simple and obvious. The matter that demands more detailed examination is the effect that will be produced on industry and on the distribution of wealth; and we are now in a position to pursue the inquiry in this direction. I do not think that the final and permanent consequences of rating and taxing land value will be quite the same as the earlier consequences. In common with many other economic processes it is therefore most convenient to discuss the effects of this policy separately as a *Short Period Result* and a *Long Period Result*.

BROAD RESULTS OF THE POLICY IN THE SHORT PERIOD

Without at present attempting to guess what will be the probable duration of the Short Period let us trace the first effects of the two proposals—namely, the assessment of rates on the capital unimproved value of land, and a budget tax on the same value at the rate of about twopence in the pound. Speaking broadly, the combined effect of these two fiscal changes will be *an alteration in the "supply" of land*.

Now, it has been said repeatedly that the supply of land is fixed by nature, and cannot be increased. We have seen that this fact is the crucial influence in the distribution of wealth. It places land in a position of economic superiority over both labour and capital, and enables the owners of land to absorb an unlimited quantity of the wealth that is produced over and above the minimum remuneration of capital and labour. In speaking of land in this way I have so far referred broadly to the total amount of land that exists in the country. But we have now to take account of the fact that the supply of available land is not limited by nature alone. The inevitable geographical boundaries are still further restricted by the artificial and deliberate withdrawal of considerable areas from full productive employment. This is due to several influences.

It is partly a result of the human desire for certain forms of enjoyment. One of the things that contribute to a man's happiness is the circumstance that the outer wall of his park is five miles long. It gives him an established and expansive feeling, and promotes a spirit of obligingness in his less fortunate neighbours. It is also a pleasurable experience to hunt the fox, and to rear, preserve, and shoot game. All these spacious amenities of a leisurely life tend to encourage a light and extensive cultivation of the land rather than a full and intensive cultivation. Another important consideration is the fact that many large land-owners are already so wealthy that the possibility of increasing their incomes by a few hundreds a year does not greatly move them. At all events it weighs very lightly against the certainty of additional worry and incon-

venience. One of the practical consequences of this attitude is the discouragement of small agricultural holdings. It is true that in remote places large farms are almost the only possible method of cultivation; but in areas that come within reach of railways and towns far more wealth can be produced by the subdivision of farms into holdings that are small enough to admit of intensive cultivation. Large farms are, however, generally speaking much less trouble to the owner; and when the owner is in any case very wealthy there is little inducement to rearrange his estate with a view to greater productiveness. Again, coming within sight of urban districts we find that the trouble is not indifference to wealth, but an over-keen desire to obtain it in large quantities, and to do so without the fret and fume of personal toil. The growth of towns—that is to say, the growth of population and industry—creates a steadily increasing demand for land, and therefore usually a rising value in land. Here you get land speculation. Idle land or land kept under slight and nominal use is at present no cost to the owner. He pays in rates and taxes either very little or nothing at all. Thus you have large numbers of owners who frankly postpone—sometimes for a year or two and at other times for much longer—the day when their land comes into use. They hold it back either in speculation for a higher price when the pressure of demand has intensified, or in order to fortify and enhance the market-value of those neighbouring plots that are already let. Under the influence of these various motives land is withheld from the market in quantities that amount in the aggregate to a considerable area. The country is not only small

naturally, but is artificially made smaller than it need be. The short supply of land is unnecessarily shrunken, and all the effects of land-monopoly are aggravated. Well, the first effect of rating and taxing land values will be the correction of this artificial shortage. When the owner of unused land finds that there are rates to pay on its actual value in any case, and that in any case there is the budget tax to pay, it will quickly occur to him that his land should be producing an adequate income, and that an immediate realisation on its present value will probably pay him better than to wait for a further problematical rise in the future. Thus the supply of land of all kinds will be increased and will become available to all kinds of users. In fact the situation in this period will be exactly the same as it would be if the absolute area of the country could be enlarged.

Now, in view of the analysis of economic processes in previous pages it will be at once evident that an increase in the supply of land must have important consequences on the distribution of wealth. The market-value of land will betray a general tendency to fall. In a different degree the same thing will happen to land as happened to corn thirty years ago. It was not until some years had passed after the removal of the corn duties that the American corn-producing industry and our own transport organisation succeeded in adapting themselves to the opened British ports. But in the eighties these difficulties had been overcome; the supply of corn was enormously and almost suddenly increased, and its price in this country fell from fifty shillings to about twenty-six shillings a quarter. Of course no such sweeping change as this can take place in the

price of land. The supply of corn became practically unlimited, so that its price fell to the minimum figure that covered its cost of production on the extended area of cultivation. Unfortunately the supply of land can never be unlimited. The outer boundaries of nature and geography will still remain, and the total demand—certainly the total prospective demand—will still exceed the supply. At the same time the augmented supply of land will have, in its degree, the same kind of consequence as an augmented supply always has in the case of other commodities. A new "maximum" will emerge, some points lower than the old one. I do not say that all rents will immediately be reduced. That would imply a much larger increase of supply than we can anticipate. But such increase as does take place will produce its natural economic effect on the market, and will influence all transactions in land. Where, for other reasons, rents were inclined to rise, the rise will be checked. Where rents were in any case tending to fall, they will fall farther and more quickly. Where owners were standing out for higher offers, they will come to terms at an easier stage. Allowing for all exceptions and moderating factors, the general tendency of the market-value of land will be to fall.

From this it follows that all industries that are cramped and handicapped by the monopoly-price of land, or by the difficulty of getting land on any terms, will receive a perceptible stimulus.

In agriculture, for instance, the difficulty is by no means always the price of land but its positive scarcity. Whenever there is a good farm to let, there are six or eight applicants for it. Yet you have private parks of a thousand acres that serve

none but an ornamental and psychological purpose. When the owner of such a park is required to pay both rates and the budget tax on its real market-value for the privilege of keeping it out of use, he will perhaps be disposed to make shift with half of it as ballast for his family pride, and carve the other half into two useful farms of 250 acres each. The rents of these farms will provide the owner with money out of which to pay the new tax, and probably leave enough over for his contribution to the Land Union. From the point of view of the public there will be the substantial satisfaction that more land has come into productive employment.

Further, every branch of trade and commerce will benefit by the reduced cost of goods that will follow the reduced cost of land. There can be no doubt that "monopoly-rent," as distinguished from "differential-rent," enters into the general costs of production, raising the expense of both manufacture and general living. The extension of the area and the number of suitable sites for business purposes will minimise monopoly-rent, and to that extent will stimulate trade. Again, by the combined effect of two forces, the land-values taxes will tend to disperse slums. For one thing, it will cease to be profitable to waste the expensive sites at the centre of large towns on dilapidated rookeries. The owners will find themselves driven to obtain the full value from their land by turning it to sounder and more productive uses. And secondly, there will be an increase in the total supply of houses, including healthier buildings at smaller charges on the outskirts of towns, through the more prompt development of the outlying land. Once more, every business will be beneficially affected by the readjustment of rates.

In so far as the burden of rates does partly and from time to time fall on tenants, there will be a general easing of burdens to business people through the material reduction of rates that will follow from the larger Exchequer grants. And, what is much more important, the complete removal of rates from buildings, machinery, and other improvements will at once set free a large amount of commercial enterprise.

Now, let us take this argument one stage further. What has been represented so far is that the rating and taxing of all land on its selling value will bring increased supplies of land into the market; that the increased supply will cause a general fall of land prices; and that cheaper and more plentiful land, combined with the auxiliary advantages of the new system of rating, will have a liberating and invigorating effect upon trade and commerce. What all this obviously points to is a larger general production of wealth. Employment of every kind will be more plentiful. There will be a greater volume of business throughout the whole industrial system.

But now, some one may say, "After all, is this worth while? If it is true that in any case the competition of labour with labour and of capital with capital keeps the remuneration of these two factors down to the minimum, what advantage is it to produce more wealth? Will it not run over all the time into the pockets of the land-owners?" This is a very pertinent inquiry, and the answer although quite simple is extremely important. No doubt land-owners will receive a share of the increased prosperity that will come to all classes during the first period of land-values taxation, but

in proportion to the whole product it will be a smaller share than they obtain at the present time.

The very circumstances that cause the new prosperity will prevent land value from absorbing the whole of it, or even the greater part of it. The point to be appreciated is that the taxation of land values will give rise to two complementary results at the same time. It will increase both the *supply* of land and the *demand* for capital and labour. An increased supply of land, in relation to the existing demand for it, will bring down the remuneration that can be claimed for land. On the other hand, an increased demand for labour and capital—which is a direct consequence of the augmented supply of land—will tend to enlarge the share of the product that capital and labour can claim. Thus a smaller and not a larger proportion of the wealth produced will fall to the share of land-owners. This is, indeed, the central economic fact in the new situation. It is the chief title of the taxation of land values to approval and adoption that, with greater certainty than any other suggested remedy of industrial evils, *it will have the tendency to correct the unfortunate natural advantage that belongs to land in the distribution of wealth.* The policy could no doubt be justified apart from this. It is justified in the simple fact that it charges a greater amount of public expenditure upon land value, which is a form of wealth created in a special sense by public activity. This is a sound principle of taxation. And as the nature of land value prevents the beneficiaries of it from shifting the tax to other persons, many people will feel that the scheme is beyond criticism even when regarded only as a means of

raising revenue. But when it is possible to add that this method of raising revenue will at the same time increase the total volume of the wealth produced by industry and tend to distribute it more equitably among the three factors of production, the policy is lifted to a higher plane of recommendation. During what I have called the Short Period this readjustment of the forces of supply and demand to the advantage of labour and capital will undoubtedly take place.

XIV

SHORT PERIOD RESULTS UPON PARTICULAR INTERESTS

STILL confining ourselves to the Short Period, it is worth while to examine briefly the probable effects of land-values taxation upon certain typical interests and classes of persons. In speaking first of agriculture I am chiefly influenced by the fact that many people, whilst admitting that this policy is needed and would be advantageous in towns, prophesy that its application to rural districts would be difficult and even disastrous. My own opinion is that this prophecy finds little support in the facts.

AGRICULTURE

Consider the case of an ordinary farmer. In what sort of changed circumstances will he find himself? In order to estimate the position in a practical way we need to know the unimproved land value of the property in question. There will therefore be some

economy of arithmetic if we take the farm of 260 acres (mentioned in Section IV.) which sold for £7500. It was calculated that the unimproved value of the land of this farm is about £3100. The only point of direct finance at which the tenant-farmer will be affected by the rating and taxing of land value is in the payment of rates. Now, the average rate for the whole of England, laid as at present on annual value, is 6s. 1d. in the pound; and a rate laid on capital unimproved value would need to be 3·4 pence in the pound in order to realise the same revenue. But the average rate in rural areas is much lower, and in the district to which I refer it is 4s. 6d. in the pound. A corresponding rate laid on capital value would be about 2½d. in the pound. If we assume, therefore, that this is the amount to be calculated on an assessment of £3100, the farmer's new rates will be £32 5s. 10d. At the present time he is paying £33 15s. in rates and 5s. 10d. in house-duty, making a total payment to public authorities for his occupancy of the premises of £34 0s. 10d. Thus the farmer's rates are in any case reduced by £1 15s. There are, however, two circumstances that will reduce them still further. First, the people in this rating area who have not been using their land, and have therefore not been paying rates, will now be rated for the first time, and by thus sharing the burden will to some extent reduce the levy. Secondly, the new Exchequer grants to Local Authorities will diminish the sum to be raised locally by an amount that cannot be less than fifteen and may be as much as twenty-five per cent. On the other hand, something must be allowed for the anticipated fall of land values,

which in course of time will necessitate a general downward revision of assessments. Taking all these facts into account we may surmise, for the sake of illustration, that the rates of this farm will be further reduced by about twenty per cent, *i.e.* by £6 9s. 2d. From the following table it will be seen that the new rates amount to £25 16s. 8d.

FARM A

AREA : 260 acres.	RENT : £316.
Total Value	£7500
Value of Buildings	£1500
„ „ Fencing	500
„ „ Eight years' Labour	2400
	4400
Unimproved Land Value	£3100
<i>Present Rates</i> (at 4s. 6d. and 2s. 3d.)	£33 15 0
House Duty	5 10
	£34 0 10
<i>New Rates :</i>	
On Land Value at 2½d.	£32 5 10
Less by 20 per cent. (on account of Ex- chequer Grants and increased number of ratepayers)	6 9 2
	£25 16 8

Let us say that the farmer's rates under the new arrangement will be £26, which is £8 per year less than he is paying at the present time. The ultimate destiny of this sum of £8 may be left for consideration a little later. Meanwhile there is this further fact to be borne in mind, that in the new system the farmer will not be discouraged from effecting

improvements by the fear of increased rates, for whilst the "unimproved site value" of the farm remains the same, there will be no change in his assessment.

Consider next the position of the owner of the same farm, and let it be supposed that his total income is a little above £700 a year, drawn entirely from property. Under the proposed new arrangement his income from the farm will be divided for purposes of taxation into two parts. He will pay the new tax of twopence in the pound on the capital unimproved value of the farm, *i.e.* on £3100, which amounts to £25 16s. 8*d.* He will also pay income-tax at 1s. 2*d.* in the pound on the annual value of the remainder, that is to say, on such portion of the value as is estimated to be due to the expenditure of labour and capital. At present he pays income-tax at this rate on the total annual value, less the abatement of one-eighth. The value of the farm due to capital and labour is three-fifths of the whole. The total rent is £316, and three-fifths of this is roughly £190. He will therefore pay income-tax on £190, which amounts to £11 1s. 8*d.* Thus the two payments under the new system make a total annual tax on this property of £36 18s. 4*d.* For the sake of simplicity we will suppose that there is no old land-tax or other deduction to be made from the new payment, which in the case of the farm in question happens to be true. How does this compare with the owner's present burdens? His income-tax on the whole property now amounts to £16 2s., so that the proposed change will increase the owner's taxes by £20 16s. 4*d.*, per year. These particulars will be clearly seen from the following table.

FARM A

Unimproved Land Value . . .	£3100	($\frac{2}{5}$ ths of the whole)
Value due to Labour and Capital . . .	4400	($\frac{3}{5}$ ths „ „)
<i>Total Value</i> . . .	<u>£7500</u>	

Total Rent: £316. Three-fifths of the Rent: £190.

Owner's Future Payments:

Land-Values Tax on £3100 at	
2d. in £.	£25 16 8
Income Tax on £190 at 1s. 2d.	
in £	11 1 8
	<u>£36 18 4</u>

Owner's Present Payment:

Income Tax at 1s. 2d. in £ on £276 (£316	
less one eighth)	16 2 0
New Cost to Owner	<u>£20 16 4</u>

But now, there still remains the question of the adjustment of rates between the farmer and the owner. In rent and rates together the farmer at present pays £316 plus £34, *i.e.* £350. After the new arrangement he will pay £316 plus £26, *i.e.* £342—or a reduction of £8 per year. But he will not then be less able to pay £350 than he is now, and the owner will certainly annex some part of the sum of £8 that is being saved by the reduction of rates. The only way in which the owner can do this is by taking the first opportunity to raise the rent. Even if he is able to raise it by the full amount of £8, it will be no new disadvantage to the farmer, who will only be paying what he paid before. The exact amount of this margin that the owner will be able to appropriate depends chiefly on the quantity of new farming land that is coming

into the market as the result of the tax. The existence of the saving on rates will promote a rise of rent to absorb it, but at the same time the increased supply of land will act as a general discouragement of rising rents; and what happens will be a resultant of this composition of forces.

Thus, in a typical agricultural illustration, the new taxes so far leave matters as follows: (1) The farmer's payments in rent and rates are certainly not increased; probably they are slightly diminished; and he is for ever liberated from the risk of heavier rates as a consequence of the improvement and development of his business; and (2) the owner of the farm is paying something between £13 and £20 a year additional taxation out of an income of £316 that comes to him without labour.

It will be observed that in this illustration I have traced the financial effects of land-values taxation on the User and the Owner of land that is already put to its best use and is normally productive. I have done so because it is usually supposed that this is the sort of case in which the policy is most difficult to apply. Looking to the agricultural interest more broadly, we must not forget the influence of the increasing supply of land. The sons of farmers will more easily be established on farms of their own; small-holders will obtain suitable land more readily and cheaply; farm labourers will find it less difficult to supplement their earnings by the cultivation of small plots. All this means that the agricultural industry will become more attractive, and that young men will be less inclined to leave it for town employment. There will be not only improved openings for individual advancement but also a generally in-

creased demand for the products of agriculture, arising from the greater prosperity and purchasing-power that will be diffused through all classes.

COMMERCE

The outstanding consequence of land-values taxation on trades and commerce of all kinds is that land will come into industrial and productive use *at an earlier stage of the demand for it*, and therefore at a stage when the rent or price which the Users are prepared to pay has not been so far forced up by scarcity and monopoly. Rent will still be the maximum surplus which the Users of land can be induced to surrender; but it will not be economically possible to induce them to surrender so much. In other words, the Owners of land will not be in a position to squeeze so large a proportion of the product out of the rest of the population. And this for the twofold reason that has been already mentioned: first, because there is a larger choice of "sites" offered and available for every productive purpose; and secondly, because the increased demand for Labour and Capital enables these two factors of production to claim a larger proportionate remuneration.

Perhaps one illustration of this economic process will suffice. Let it be supposed that a contractor or "promoter," perceiving a demand, proposes to build houses on the outskirts of a town. In a very large number of cases the present course of procedure may be thus described. The promoter calculates the total outlay of labour and capital in preparing the land and erecting the buildings. Then, taking into account what the tenants will have to pay in local Rates, he forms an estimate of

the amount of Rent which could be obtained for such houses from tenants who will be paying these Rates. The Rent must yield to the promoter a reasonable "interest" (at the current rate of interest) on his outlay in the transaction, and must leave a surplus margin for the payment of ground-rent; and it is the amount of this surplus that determines how much he can offer in ground-rent to the owner of the land.

Now, if there is little choice of land in the market, *i.e.* if owners are holding back, and charges are high, the promoter may find that his marginal surplus for ground-rent is too small. It can only be made larger in two ways: by demanding from tenants a higher total Rent, or by reducing the costs connected with Labour and Capital. Possibly at the moment neither of these courses is practicable, and therefore the project falls through. In course of time, however, the need for houses increases. The scarcity of the "supply" forces up the amount that the public will extract from itself for the payment of rent. This is what the speculative owner of land is waiting for. At the same time lack of employment is probably forcing down the minimum remuneration which Labour and Capital will accept. And so a day comes when, upon a fresh calculation, the promoter finds that his marginal surplus has been stretched large enough to enable him to pay the monopoly-price that is asked for the land.

But now look at the same situation on the assumption that the rating and taxing of land value is an established fact. The generally increased demand for Labour and Capital of every kind is tending to raise their remuneration in all markets,

so that when the promoter makes his new calculation he must allow something more than previously for the cost of erecting the buildings. On the other hand, the considerable general activity in the building trade (due to the increased availability of land) promises an enlarged supply of houses, and consequently tends to reduce the amount of Rent that people are prepared to pay for occupying them. It appears, therefore, that the promoter's marginal surplus will now be smaller than it was in the former calculation. Yet it will be large enough to cover the necessary ground-rent. A new factor has crept into the situation. There is now among owners of land *some degree of competition* to find an early development of their properties, and the market is therefore supplied with a choice of suitable sites at charges that are conceived with a view to attracting business. It is in this way that land-values taxation will break up the artificial scarcity of land. The new advantage which has just been described in connection with the building trade will arise, with obvious modifications of form, in all trades. Industry will obtain both new openings for development and a larger share of the product.

LABOUR

The case of Labour is very simple—so far as it need be treated at this point. An expanding production implies an increased demand for labour of all grades and kinds.

At the present time such expansion as we get in periods of good trade is neither great enough in degree nor of sufficient duration to give the workers a satisfactory opportunity. The demand that will

follow the new taxation will be more intense and sustained. It will not alter the nature of idle or inefficient persons, but it may be expected to absorb the multitude of willing and capable people who hover on the outskirts of employment, bidding against each other for the opportunity to earn a living. And this is the chief thing to be desired in the interests of workers. What is necessary is a greater total call of the market for what Labour has to offer and supply, namely the capacity to produce goods and render services. The taxation of land values will create this call. It will therefore reduce the amount of unemployment and raise wages.

Further, there is little doubt that the poorest classes will reap a genuine benefit from the removal of the food taxes. I do not think that land-values taxation will raise the general cost of producing goods. The increased remuneration of labour will come out of the share of the product that previously went to the land-owner, and the general costs of production will be materially diminished by the fall of monopoly-rents. The removal of the food taxes will therefore constitute an actual net reduction in the cost of the necessities of life. Now, to cheapen living without dealing with land-monopoly is not in itself by any means a certain advantage to the workers. In some circumstances it would only give more space for the encroachment of rent. But to reduce the cost of the necessities of life at the same time as you cause an increase both in the supply of land and the demand for labour is to make a real improvement in the financial and economic position of the working classes. This should lead to a permanent elevation in the standard

of living, which—as I shall show in a later section—is the most valuable service that can be rendered to labour.

XV

LET us now look further ahead and consider the economic position of land and the effects of land-values taxation as they will appear in the long run. Two facts—or rather the two converse sides of one fact—should be borne in mind. (1) All the economic and industrial benefits that have been described above take their origin solely in *the increased supply of land*. It is the increased supply that reduces the market-value of land; it is the diminished market-value of land that stimulates industry and promotes a larger production of wealth; and it is the coincidence of an increased supply of land with an increased demand for labour and capital that corrects the mechanism of the distribution of wealth, diverting a larger proportionate share of the common product to capital and labour. (2) Looking at the same facts from another point of view, it is to be clearly realised that the economic difficulty in the distribution of wealth is a limited supply of land—whether caused naturally or artificially, whether necessary or unnecessary. When a shortage of land is artificially created by withholding it from use for speculative reasons there is an obvious case for interference and correction; but it is *not the artificial and speculative nature of the shortage* that is the cause of the trouble.

Whenever the supply of land is incapable of increase and has been overtaken by the necessities of a growing population—whether the cause is

artificial or natural—there will be a perverted distribution of wealth; the remuneration of labour and capital will tend to a minimum and the remuneration of land to a maximum. We have seen that the particular degree of the scarcity of land that prevails at the present time is due to speculative and other motives that cause it to be unnecessarily withheld from full productive use, and it has been shown that the system of rating and taxing land value will at once begin to correct this artificial shortage by forcing increased supplies of land into the market.

EXHAUSTION OF THE SHORT PERIOD

We may now carry our minds forward and suppose that the new taxes operate through a course of years so as to gradually bring all the land of the country approximately to its most productive employment. In the United Kingdom, where the total area does not amount to more than an acre and three-quarters per head of the population, the process of absorbing unused and partly used land will be completed within a measurable period.

The full productive value of some land will be realised in agriculture, and of some other land in railway-tracks and coal-pits, and of still other land in sites for dwelling-houses, or factories, or theatres, or public open spaces. It is of course not suggested that this will be a rigid and stationary condition of things. No particular area will necessarily remain always in the same use. For instance, there may be a gradual encroachment of industrial uses upon land formerly employed in agriculture. This is the inevitable drift of British commerce, quite independently of the taxation of land value. It is a

process to which there is, however, an economic limit. The shrinkage of the agricultural area involves a more voluminous importation of food and raw material in exchange for the products of manufacture. But in course of time a point will be reached when land will yield as high a value for the agricultural purposes that are still discharged at home as it could yield for any other purpose. The process of industrial absorption will then cease. In the first instance this policy of taxation will undoubtedly enlarge the agricultural area; but at some future time the same policy may facilitate its restriction. Under the taxation of land values there will be no fixity of use through all time for any area of land. As industry develops, as trades move, as districts change in character, as new social necessities arise, the stimulus of the tax will cause land to pass easily to its highest economic use in the given place and time.

And the fact to which I desire here to direct special attention is that sooner or later this process will completely absorb the new supply of land. Possibly there will always be some people who are rich enough to keep for purposes of private enjoyment more land than will provide a garden of reasonable size; but the number of these will be small and negligible. We shall reach a stage when the quantity of land still withheld from use is too small to affect the market, and it is broadly true that the area of the United Kingdom has shuffled itself automatically into various types of employment in such proportions as to produce the largest volume of wealth. No one can say exactly how long it will be before we arrive at this stage. It may be two generations; it may be three. The

period will be approached gradually; and its economic effects will be felt gradually, emerging piecemeal with the slow advance of the tightening conditions; but sooner or later this point will be reached. For the convenience of argument it is referred to as the end of the Short Period.

XVI

WHAT, then, will be the position when we have passed beyond this point and have entered on what may be called the Long Period?

BROAD RESULTS OF THE POLICY IN THE LONG PERIOD

Three things may be noted at once. (1) There will be a large and increasing public revenue, drawn from the proper source, namely from publicly created land value. (2) Local rates will be fairly apportioned among the owners of land, according to the actual selling value of the land that each man holds. (3) Business developments and improvements will continue to be free from the restricting influence of rates.

Whatever else may happen, these three substantial benefits of rating and taxing land value will remain.

But how shall we stand in regard to the large industrial and economic effects of this policy that have been seen to be so fruitful in the Short Period? The conspicuous fact—from which everything else follows—is that in the Long Period *no further supplies of land will be available*. For the combined purposes of society the supply of land will have reached its absolute limit, and the supply for any selected purpose will only be capable of increase by

the method of withdrawing it from other uses. At the same time population and industry will continue to grow, and there will therefore be an increasing demand for land for every kind of industrial and social purpose. An increasing demand for land, faced by a stationary supply, involves the re-establishment of the land-monopoly which had been broken down during the Short Period. Land prices and rents—which had only been reduced by the augmented supply of land—will now begin to recover. The improved prosperity of the country will help them to recover. The development of industrial organisation, the progress of invention, and the increased capacity and efficiency of all classes of workers during the Short Period will cause an increase of wealth more than in proportion to the growth of population.

It follows, therefore, that from this time onward a gathering and swelling surplus of the wealth produced will pass over into land value. In the matter of the distribution of wealth the Long Period will bring us again to the economic position in which we stand at the present time. It will, however, bring us to this point with the advantage of certain new and important factors—to which I shall presently refer—that will have accumulated on the side of labour in the meantime.

XVII

LONG PERIOD RESULTS UNDER VARIOUS DEGREES OF THE BUDGET TAX

THE statement of the permanent results of land-values taxation given above is a very brief and broad statement. In order to amplify and establish

it we must inquire whether this will be the course of events whatever may be the degree of the budget tax. It will be borne in mind that the new method of rating will not deduct anything from land value. The present rates are a charge on land value, and the new rates will be a substitution for the present charge. In point of fact, the new rate will be a smaller charge than the old one, so that strictly speaking the change in the method of laying rates will add something to the value of the land. It is not necessary to complicate this part of the argument by taking into account either this or other savings that will be made by land-owners. All that we need to keep in mind at this point is that when the budget tax is laid on the unimproved value of land, the land value will be intact and whole; it will be twenty shillings in the pound of whatever sum could be obtained for it in the open market. The budget tax will be a charge on this untouched value; and obviously it may be either a small tax or a large tax. Four courses are open.

1. You may be satisfied to leave the budget tax at the amount that proves to be large enough to bring all land into efficient use in its due time and order.

What I have suggested, for purposes of concrete illustration, is twopence in the pound on capital value. Possibly this would be operative. Let us take the simple case of a composite property worth £5000, half of which is unimproved land value and the other half the value of buildings and improvements. It yields a total annual rent of £200, so that the owner's income from pure land value is £100 a year. A tax of twopence in the pound on £2500 amounts to £20 16s. 8d. Each year, therefore, the owner's income from land value will bear this tax,

and will be reduced to the net sum of £79 3s. 4d. For the sake of simplicity, let us suppose that the value of this site remains about the same throughout the Short Period. At the end of that time we surmise a general rise of land values, due to the fact that the supply of land has again become stationary whilst the demand for it continues to increase. For the use of the plot of land in question there are now so many "bidders" that the owner is able to obtain a total rent—including land and buildings—of, say, £220. This rise is not due to the buildings, but to competition for the site. It is therefore the land value that has risen from £100 to £120 per year, or from a capital value of £2500 to a capital value of £3000. The owner will now pay twopence in the pound on £3000, that is to say he will pay £25 in tax; and his income from the land value will be £120 minus £25, or a net income of £95. Thus the *increase* of land value in this case is divided between the owner and the State, the owner taking £15 16s. 8d. and the State £4 3s. 4d.

Now, the point to be apprehended here is that if the budget-tax remains at twopence in the pound or thereabout, the land-owner will continue to benefit by every increase of land value. He will give up to the State about twenty per cent. of the increase, retaining eighty per cent. for himself. In this case, therefore, it is quite clear that after we have passed through the Short Period, and the pressure of population begins again to emphasise the shortage of land, we shall return to the condition of monopoly-rents; the tendency of labour and capital to depress their own remuneration will gather renewed force, and all surplus wealth will be converted into land value.

2. The second possible course only differs from the first in regard to future increments of value. The tax may remain unchanged on the value that belongs to the land at the time when the tax is imposed, but the State may claim the whole (or almost the whole) of any increase in value that takes place afterwards.

For instance, in the case just described the owner pays a tax of £20 16s. 8d. out of an income from land value of £100, reducing his income to £79 3s. 4d. This is what would happen also under the second plan. But if the land value rises, as we supposed, by £20 a year through the growth of population and industry, the owner will not now divide this additional sum between the State and his own pocket, keeping eighty per cent. of it for himself. In this case the State will take *the whole of the increase*, and the owner's income will remain what it was before the increase took place. Thus the economic situation will not be changed. It is not the ultimate destiny of the rent that concerns the users or producers who pay it. When the tenant paid £100 for occupation of the site, it was only £79 3s. 4d. that remained in the hands of the owner; and if the tenant is now driven by competition¹ to offer an additional £20, he will not be deterred by the fact that the owner will be obliged to hand the whole of it over to the State.

3. The third course is a gradual increase of the budget tax itself, until the whole (or almost the whole) of the unimproved land value has been appropriated by the State. It is important that the true nature of this process should be understood, and we shall do well to retain the simple figures of the first illustration. A rent of £200 is drawn from

a composite property, one half being rent of buildings and improvements, the other half being rent of the site. Out of the £100 rent of the site the owner pays the budget tax, which in the first instance is twopence in the pound on capital value, and costs him £20 16s. 8*d.* a year. But now we are to suppose that there is a gradual increase in the amount of the tax. After a few years it rises to fourpence in the pound, and a few years later to fivepence, and then to sixpence, and so on until it reaches ninepence-halfpenny in the pound on capital value. This is equivalent to 19s. 9*d.* in the pound on annual value. The owner draws £100 a year in rent of "unimproved land," but the tax amounts to £98 15s. Let it be supposed that this stage has been reached at the beginning of the Long Period. The assumption is that land value will now begin to rise, owing to the increasing pressure of population on a stationary supply of land. But if this rise takes place it will make very little difference to the owner, for almost the whole of the annual land value is absorbed by the tax. What remains to the owner in this case, therefore, is the other item of £100 a year which he obtains in rent for the use of the buildings and improvements; and this is in reality "interest" on the capital and labour that has been expended in constructing and maintaining them.

Now, I am not at this stage discussing the merits of these various degrees in which the tax may be applied. Thus far we have three methods before us: the small constant tax; the small tax remaining unchanged on present values, with the whole of future increments claimed for the State; and a gradually increasing tax that will ultimately absorb

all the unimproved value of the land. I am not at present concerned to suggest which of these three would be the wisest plan. What I want to bring into the acutest possible emphasis is the fact that *in all three cases alike*—that is to say, in the third case, where the tax absorbs the whole of the land value, no less than in the two other cases—*there will be a continuous and progressive rise of land values after the Short Period is passed.* The fact that the entire land value is being diverted into the public exchequer will not make any material difference to the economic and industrial situation. This will be readily acknowledged if it is remembered that in a country with a growing population nothing can diminish land value except an increased supply of land. The tax itself does not reduce the real market-value of the land. It reduces the nominal selling-price, so that the seller receives a smaller amount than he would have received otherwise; but the buyer pays no less. After the imposition of the tax, the net income from a certain plot of land is reduced, say, from £100 to £80. Consequently the buyer will pay to the seller about 25 times £80 instead of 25 times £100. But the buyer will pay the difference to the State in the tax of £20 per year. The real value of the land is not changed by the fact that the purchase-money is divided between the seller and the State. The tax itself, then, does not diminish land value. It does not either diminish or increase rents. The tax can only reduce the price and the rent of land when it operates so as to increase the relative supply of land by bringing into the market those areas that were previously withheld from use. But when we come to the Long Period the tax will no longer have this effect,

because no more land will be available. Thus in the Long Period, even though the tax may absorb the whole of the land value, the prices and rents of land will rise.

It may be said that when the tax absorbs the land value, leaving to the owner only a commercial "interest" on his buildings and improvements, the owner will have nothing to gain by a rise of rent, and therefore no motive for increasing it. Well, in the first place, it is not quite the case that the owner will have nothing to gain. As long as land remains nominally in private ownership there will always have to be a small margin between the tax and the land value, so as to obviate the possibility of injustice in particular cases. Probably a small percentage of the value will be allowed free of taxation. And in the region of this margin there will be room for small profits and pickings that will not be despised by the alert and thrifty land-owner. But further, in the economic conditions that we are contemplating, the point is not so much that the owner will arbitrarily increase his rents, as that the competition of would-be users of the land will drive them into offering higher rents. The operative factors are the fixed limit in the quantity of land, and the accumulating demand of a growing population. Under the combined influence of these stubborn forces it will be found that, whether the tax absorbs much or little of the land value, the prices and rents of land will rise when we come to the Long Period.

4. Consider now the fourth alternative, namely, the nationalisation of the land. This differs very little from the third case except in name. If we take all the land value in the tax, we are nationalis-

ing rents; and if that stage had been reached land-owners would probably need little inducement to transfer to the State whatever dignity or profit remained in ownership, leaving it to the State to collect its own tax direct from the users of the land.

It may be said at once that if it is counted on general grounds desirable to nationalise land, this is beyond dispute the best way to do it, being easier and cheaper than any other method. Moreover, there is little to urge against it on the score of equity—at all events, not more than can be urged against any system of taxation—provided that the process is spread over a sufficient length of time. It can hardly be denied that “unimproved land value” is a form of wealth that is created in a special sense by public, and not by private, industry. The only objection to taking the whole of it for public uses is that we did not take it early enough. Custom and law have sanctioned private profit from land value, and it is still being constantly acquired under the existing legal conditions. This is a very strong objection, indeed a final and conclusive obstacle, to a sudden or even a rapid appropriation of it by the State. But the slowly graduated tax meets this objection. In the first instance such a tax as we have discussed takes an appropriate and unassuming place among other taxes on unearned incomes, and is not large enough to be a hardship on any individual. And in view of the peculiar nature of land value—a value constantly created and renewed by the presence and industry of the general public—no complaint would lie against the State on the point of equity if a graduated tax, slowly accumulating through several generations, should finally divert the whole of it

to public purposes. I say therefore that if it is proposed to nationalise the land, the proper way to accomplish it is by the taxation of land values. Whether it is worth while, I very much doubt. For what I want to keep in view is the vital fact that *it will not alter the economic outlook*. If all the land belonged to the nation, the quantity of it would be no greater, and the demand for it would be no less. The officials of the State would necessarily let the land out for use to those who were prepared to pay most for the privilege—otherwise there would need to be some system for the selection of tenants, with all the unendurable evils of favouritism, patronage, and illicit commissions. Thus the competition for land and competitive rents would be unchanged. Whether we nationalise the land or not, whether we do it suddenly or slowly, and by whatever means we do it, we shall not make any difference to the ultimate economic position of labour and capital. The important point in regard to land is not the nature of its ownership, but the limitation of its quantity. We have therefore to face the fact that in any case the competition of producers will in the long run place labour and capital at an economic disadvantage and drive all surplus wealth into land value.

XVIII

SUMMARY OF THE ECONOMIC SITUATION

BEFORE proceeding to draw the two or three practical conclusions that arise out of the argument of these pages it will be worth while at this point to say something by way of guarding against

certain possible misunderstandings, and briefly to summarise the economic situation.

The foregoing inquiry has brought us to the theory that nothing can extirpate those economic laws—and in reality they are laws of human nature—which in the long run precipitate all wealth into rent-of-land except that amount which labour and capital insist upon retaining for the upkeep of a minimum standard of existence. But now, it is important to realise that this overbearing fact of the law of rent involves no ethical obligation.

It is not of the nature of a sacred ordinance or even a primal necessity to which one might passively submit in meekness and awe. In analysing and expounding the law it has been necessary to use certain phrases that may possibly contain misleading suggestions. For instance, we say that differential-rent does not enter into the cost of production or price of goods that are produced on the land. And this is true. Where you have the same commodity produced on lands of different qualities, or on sites of different advantages, the price is determined by the cost of production on the worst land in use; and differential-rent is the surplus which such a price affords over the cost of producing the article on the superior lands. Thus it is not differential-rent that makes the price. At the same time, the rent comes out of the price. It does not slip into the pocket of the land-owner by a painless conjuring-trick. It is paid in the price by the consumer of the goods; and, to that extent, absorbs part of the total wealth produced. Again, we say that rates are a tax on rent, which is true, and is moreover a useful economic expression. But it needs to be realised that both the rates and the

rent are produced by the tenant. There is a sense in which we might say that everything is a "tax on rent." If the people were content to create no less wealth, but to live on half the produce at present consumed, the balance would certainly go in rent. So that we might propound the doctrine that "the land-owner pays for everything," in the sense that if other charges were not to be met he would claim the whole produce in rent.

But this is a description which begins at the wrong end of the facts. The land-owner, as such, produces nothing. All wealth is produced by labour, working with the aid of capital. It is not the landlord who keeps the labourer, but the labourer who keeps the landlord. In economic fact it is not the labourer who must look hopefully to the squire for wages, deducted from the squire's wealth, with which to support his family. On the contrary, it is the squire who must look wistfully and trustfully to the labourer to produce not only enough wealth for the maintenance of the squire's mansion and park and retinue, but enough also to enable the squire to return to him a small portion in weekly wages. It is only in the sense of not being economically able to capture a larger portion of the product, that the land-owner can be said to pay out of his rents for the labourer's maintenance. And it is only thus that the landlord pays the rates. If there were no rates the shortage of land would enable the owner to annex so much more in addition to the present rent. But both the rates and the rent come out of the product of the tenant's work. There is nowhere else from which they can come.

Thus, whilst we use these forms of expression, it is to be kept quite clearly in our minds that the

economic advantage of land does not represent either a divine right or a superior moral claim. It is rather to be regarded as a natural but unfortunate circumstance with which society must grapple in the best way that it can devise. What we have to deal with is the competitive instinct of human nature which drives men sooner or later to pay everything that they can afford, even to the last reluctant farthing, in order to secure the opportunity to produce wealth. That opportunity consists of so much earth-space—so much land. If land were unlimited in quantity there would be no serious problem. But since it is limited in quantity, and is a necessary factor of production, we have to set ourselves to contrive means for minimising the economic difficulty that arises. The difficulty is of such a nature that it will probably never be entirely overcome. It is one of the consequences of the increasing age of the world, and particularly infects crowded countries and advanced civilisations.

This argument has, however, demonstrated the fact that the case is partly met by the taxation of land values. For one thing, since so much value in any case overflows into land, this method of taxation places the chief burden of public expenditure where it ought to lie, and goes a long way towards distributing it upon an equitable method. Further, by breaking up all artificial and unnecessary restrictions upon the earth's space, it affords a temporary relief from the shortage of land, a relief that will probably persist for several generations; and during this period a great opportunity will occur to the two other factors of production for the assertion and the permanent establishment of extended claims upon the total amount of wealth that is produced.

In course of time, however, this last effect of the taxation of land values will exhaust itself, and we shall pass once more into the economic zone of competitive rents, and experience again the tendency of labour and capital to push into land value all the wealth that is produced in excess of what is necessary to maintain the accepted standard of existence.

XIX

IMPORTANCE OF RAISING THE MINIMUM STANDARD

IF there is any truth in this theory of the economic relation that subsists between land and industry it is obviously impossible to exaggerate the importance of raising the level of the general standard of living. The taxation of land value is not represented here as a substitute for other reforms but as a preparation for them. Without it, very little can be done at this stage of civilisation to improve the condition of the people. At the same time I want to say as plainly and emphatically as possible that the beneficial effects of taxing land value will be of short duration unless they are frankly accepted as an opportunity to strengthen the economic position of labour in other ways. The economic system may be said to be like two tanks of water, the first of which has an outlet in its side through which the water may run into the second tank. Even a child would discover that the water in the first tank can never rise above the level of the outlet. However great may be the quantity of water poured into it, all the surplus overflows into the second tank. Now, the first tank contains the wealth that is retained by labour and capital; the height of the

outlet measures the standard of living; and the water that overflows into the second tank is rent. The only way to keep more water in the first tank is to raise the height of the outlet. It is equally true that the only way to increase permanently the amount of wealth retained in the hands of labour is *to raise the standard of living*. Whatever is produced above that level overflows sooner or later into rent.

Fortunately the minimum standard of existence is capable of movement under a variety of influences. It is determined partly by physical necessity, and partly by the accepted habits and notions that are the slow accumulation of custom. Every sustained advance of general prosperity affords an opportunity to lift the minimum standard. It accustoms the workers themselves and the world at large to a more generous conception of what is necessary and tolerable. We have already seen that an opportunity of this kind will occur during the first period of the taxation of land values. Whilst industry is experiencing an unusual increase both in the supply of land and the demand for labour, all classes of workers will obtain a new economic advantage; and if the period continues for two or three generations it should give time for a new and higher level of comfort and enjoyment to become recognised as the irreducible minimum.

But it is not enough to leave this vital matter entirely to the natural drift of economic influences. To do so would be like declining to plough and manure a field, on the ground that seeds spring up in the ordinary course of nature. Experience proves that it is usually possible to give nature a lift. And, provided that the mechanism of industry has been

adjusted and set free by the taxation of land value, it is both possible and advantageous to force economic processes by combination and legislation. For instance, every inch of improved conditions or wages secured through the pressure of Trade Unions is a rise of the minimum standard. Such advances cannot be effected unless the economic conditions make them possible ; but they would probably never occur at all, and certainly not in their due time, if there were no extra-economic influences to insist upon them. Again, no section of the industrial world need be afraid of legislation that fixes minimum wages, provided that it is sufficiently general in its application. An Act of Parliament is one among many legitimate instruments for extending the claim that labour makes upon the common product, and if the wages of all workers were increased by twenty per cent. the cost would ultimately fall on rent. It will be understood that I am speaking of what would happen during the Short Period, when there are still additional supplies of land to be brought into the market. If a general rise of wages took place by Act of Parliament when land values were not taxed, it is to be feared that much of it would filter down again into rent. But under the policy that is advocated here the benefit of a universal advance of wages would remain with the workers long enough to take root and become immovable.

It is not a valid objection to this type of legislation that it is arbitrary, that it is pressure from the outside, that it is a dangerous interference with economic laws. This sort of language is "early Victorian," and was born in a school of economics that had no knowledge of twentieth-century conditions. The industrial situation of the present time cannot

adequately be dealt with except by external and legislative interference. We have to approach economic laws as we approach the laws of nature; that is to say, whilst taking care to understand them and never to pretend that they are different from what they are, we have to anticipate them, harness them, exploit them, and convert their forces to the convenience of the general public. And among other things, every influence—whether of Parliament or Trade Union—should frankly be brought to the task of forcing up the minimum standard of life.

It is chiefly on grounds of this sort that the National Insurance Act is to be regarded as a permanent contribution to social progress. The Insurance Act does not reduce the cost of living. On the contrary, the payment of the premiums is a new cost to the insured persons. The value of this kind of legislation lies in the fact that it will raise the general standard of health and domestic practice, and will thus cause the working classes to be so much the more reluctant in future years to muddle on in penurious discomfort and confusion. This is the proper work of legislation. We do not want to make life cheaper so much as to make it fuller. This is not to say that we want *goods* dear; when goods are dear, life is far from being full. But we do not want to learn how to live on a meagre allowance of bare necessities. The desirable thing is that working people should not be satisfied with so little. Everything that enlarges a man's wants and elevates his notion of what is decent and endurable, everything that leads him to hate dismal houses and poor food and long working hours is an influence towards a more equitable distribution of wealth. In other words, the higher the minimum standard at which

life is commonly thought of as bearable, the smaller will be the quantity of surplus wealth that overflows into rent.

XX

LET us now return to the question of the amount of the budget tax. In a previous section I described the three different degrees in which it is possible to apply the tax, and argued that the economic and industrial consequences would be practically the same in all the three cases. It seems to me, therefore, that the exact amount of the tax is not a matter for urgent discussion. All supporters of this policy agree that the tax should be small in the first instance. A small tax will produce the desirable economic changes and gradually bring into use all the available land. Thus, if only on the ground that we cannot judge for the future, it is reasonable to leave the later development of the tax—or its non-development, as the case may be—to be determined on the merits of the case when the time comes to consider it.

THE QUESTION OF THE SINGLE-TAX

It is, however, worth while to discuss in this connection what is called the "Single-Tax." One does not become a single-taxer merely by advocating that the whole of the land value should be appropriated by taxation. The single-taxer also contends that when all the land value is taken by the State no other taxes will be necessary, and further that no others will be desirable, since the land-values tax will take from every citizen either directly or indirectly a fair contribution to public revenue.

Now, there are here two questions : the question of the *sufficiency* of the single-tax, and the question of its *equity*. The sufficiency of the tax to meet all national charges is a minor consideration which only acquires interest if the general fairness of the method is accepted. I do not propose to discuss it, because I shall show that in any case the device of raising the whole national revenue by a tax on land value would involve a grave departure from public equity. This matter is greatly simplified if we clear our minds of two things. (1) We need not consider whether the single-tax is fair to land-owners. The position of the land-owner is a previous question, which must have been settled at an earlier stage. It was argued above (Section XVII. 4) that if the process is spread over several generations there is no injustice to owners in the complete public absorption of the unimproved value of land ; and it is open to the State to adopt this policy without any intention of abandoning other forms of taxation. It is important that these two questions should be entirely separated. If at any time the tax is raised to the full height of the land value, that decision should be taken on the merits of the case, and not regarded merely as a preparation for the single-tax. It is only when a separate and independent policy in regard to the land has led to this point that the question of a single-tax can come into view as a possible further development. But when this point has been reached, the private ownership of land value is already eliminated, rents are nationalised, and the whole population is living on the remaining product of capital and labour. The point for discussion here, therefore, is not the proper treatment of land-owners, but whether the payment of all

land-rents to the State is the only contribution that should be demanded from any citizen towards public expenditure. (2) Again, it is not argued by the single-taxer that every man necessarily makes a fair contribution to the State in the rent which he pays directly, and as rent, for the small space of land that he personally occupies as a householder or shop-keeper or farmer. This is only part of the call that rent makes upon him. There is an element of rent in everything that a man purchases and consumes. The industry of the community produces a certain mass of wealth or goods; the final price at which the goods are purchased includes the rent of all the lands that have been occupied in producing them and bringing them to market; and therefore under this system of taxation some fraction of every unit in the mass of material wealth would pass into the national exchequer in the form of land value. Thus in every purchase that a man made, no less than in the specific rent for his own occupation of land, he would be paying his tax to the State. The theory of the single-tax is that in this way a man gives back to the State what he owes to public service and opportunity. He is taxed, it is said, in proportion to the benefit that he receives from the community, and is allowed to retain what he has produced by his own labour.

Now, this well-meaning theory is correct in its first contention. It is certain that a tax on land value will draw some contribution from everybody. But the theory breaks down manifestly and fatally in neglecting to make a complete analysis of the economics of wages, as I shall presently prove. Meanwhile it is open to a more elementary criticism which is in itself sufficiently serious. If the appro-

priation of land value by the State is to be the only method of taxation, *rich people will bear a much smaller proportionate burden of public charges than poor people*. I do not complain against the poor man's payment of his share of the country's rents to the State. It is economically inevitable that he should pay this to somebody—either to the State or to private land-owners. What I complain about is the rich man's escape from any other payment.

In the last analysis this is a tax on the consumption of goods. It is not a new tax ; we are all paying it now to private individuals ; and, as I said, it is in any case an unavoidable charge. But it has one of the characteristics (though no more than this one) that belong to taxes that are laid on goods directly—namely, it falls most heavily on the poor. It is true that the more a man spends, the more tax he pays ; and that rich people, who consume a large amount of goods, pay a correspondingly large amount of tax. But this theory takes no account of the primary fact of the economics of life that the burden of a tax on the consumption of goods diminishes as the amount of the goods consumed increases. For instance, the tax on tobacco is real enough to the working man to limit his consumption of the article, but it does not in any degree affect the life and habit of the rich man. A direct tax on corn would undoubtedly reduce the consumption of bread by the poor, but the wealthy would be entirely unaffected by it. These taxes differ on many fundamental points from a tax on land value ; moreover they are avoidable, and the land-values charge is not ; but they afford a legitimate and accurate illustration on the single point of *the distribution of the burden*. It is easy to

express the land-values tax in figures that are sufficiently reasonable for the purposes of argument. Suppose that one-tenth of the purchase-price of all goods represents rent, and is therefore the percentage of expenditure that goes to the State in taxation. The clerk who spends £100 a year is taxed £10, and the merchant who spends £1000 a year is taxed £100. From the point of view of equalising the burden this proceeding is obviously an outrage, for the burden or sacrifice depends less on what is taken away than on what is left behind. The clerk obtains £90 worth of the product untaxed, whereas £900 worth of the untaxed product remains with the merchant. What is really wrong here is the fallacy of the flat percentage. If I am in my thirtieth year and you shorten my life by ten per cent. of my age, I may live for fifty more years; but if I am eighty and you perform the same operation, you put me in the grave at one stroke. This argument admits of a brief mathematical expression, but in plain language the point is that a flat percentage produces very unequal effects when applied to quantities that are widely unequal to begin with; and that the sacrifice imposed by a flat percentage is disproportionately great to those who are *nearest to the margin of deprivation*, and may be hardly felt at all by those who are farthest away from it. In the matter of income-tax this is universally admitted. A tax of (say) sixpence in the pound laid on all incomes would bear far more heavily on the man with £1 a week than on the man with £5000 a year. A system of taxation which is entirely confined to the national appropriation of rents is open to precisely the same objection, and cannot be regarded as an equitable distribution of public

burdens. It might be a satisfactory system if the wealth of the community was equally distributed. But this is not the case; and as things are at the present time, if such a tax takes no more than is necessary from the poor, it takes very much less than is just from the rich.

XXI

IN answer to this criticism the defender of the principle of the single-tax will usually say that the State ought not to tax a man according to his earnings. It is argued that such differences of wealth as do not arise from the private appropriation of land value are the result of differences in the capacity and industry of individuals, and that it is an unsound principle to tax those most heavily who have been most industrious; and productive. This brings me to the second and more fundamental objection to a single-tax. The fallacy here springs, as I said, from *an incomplete analysis of the economic nature of earnings or wages*. It is assumed that when every element of land value has been deducted from a man's income, the remainder is a fair measure of what the man has produced by his labour; and it is consequently urged that he should be allowed to retain these fruits of his own enterprise and energy untaxed. The short answer is that those who rely on this assumption have entirely overlooked an important area of the subject. In point of fact, over and above everything that is due to land value, a considerable number of men receive large portions of the common product in excess of what they have produced, and multitudes of men receive less than they produce.

VARIOUS FORMS OF QUASI-RENT

The share of wealth that remains for labour and capital is not distributed, and never can be distributed, among those who produce it upon terms that are even roughly equitable. Although there is nothing else that exactly corresponds with the rent of land—because nothing except land is absolutely limited in supply—there are nevertheless other forms of remuneration that include an element of *quasi-rent*. By quasi-rent I mean *a surplus remuneration which is not due to the intrinsic value of the service rendered, but to the advantage—like the advantage of land—of a restricted supply of the service.*

This proposition will quickly recommend itself to those who have followed the economic argument of the earlier sections. The point to be borne in mind is that the laws of supply and demand which determine the quantity of wealth that will pass into land value operate also and at the same time in the distribution of the remaining product among the representatives of labour and capital. The remuneration of any class of workers depends on the demand for that kind of work, in relation to the supply of it—that is to say, in relation to the number of persons who are able and willing to do it. In a large number of occupations the supply of workers is capable of practically unlimited increase within a comparatively short period. The remuneration of this sort of labour therefore tends to a minimum. But there are other services for which the supply of workers is somewhat restricted by nature, and is never at any given time capable of easy or rapid increase. These cases bear a slight and imperfect but quite genuine resemblance to the case of land.

The remuneration is high, encroaching unduly on the common product, and some part of it is to be regarded as quasi-rent due to a restricted supply.

Without professing to do more than indicate typical examples, it may be said that two chief classes of labour come under this definition.

(1) There is a quasi-rent derived from what may be called profitable personal peculiarities. Obvious instances of this class are specialist doctors, barristers at the top of their profession, music-hall comedians, and so on.

The distinguished surgeon or barrister makes a fortune because nature's supply of such men is small. On the other hand, the scavenger earns only a few shillings a week because the supply of such men is large. To say that the doctor "deserves" his larger income is to go outside the subject, in addition to raising an extremely disputable philosophical point. At all events it is not because he deserves it that he gets it. It is an old-fashioned illusion to suppose that such men as medical specialists and leading counsel are highly paid because of their skill and usefulness. They are highly paid—that is to say, paid more lavishly than clerks and mechanics—because of their *scarcity*. If the human race produced men of this same skill by the million, they would be no less useful to society; indeed they would be more useful, being more accessible; but their incomes would be smaller. There are many occasions when the service of a man who goes down a hole in the street and creeps through several miles of city drains is not less important or vital to society than the service of a medical specialist. The remuneration is smaller only because there is a large supply of men who

can do it ; and if one man will not do it at the price, competition produces another man who will. This is entirely a question of demand and supply. Many professional and other earnings greatly exceed any sum that could be regarded as necessary in view of the cost of producing the service. They do so because the supply of this sort of service is restricted by nature. In these cases, therefore, a considerable part of the income is not " earned " ; it is not due to the man's own " energy and enterprise " ; it is a quasi-rent, arising out of a natural scarcity that is closely analogous to the scarcity of land.

(2) Another class of earnings in which a quasi-rent often appears is broadly defined as the earnings of employers. It is unfortunate that such a large amount of economic and political eloquence has been wasted in attacks on the remuneration of capital. It is not capital, as such, that takes a disproportionate share of the product. Capital is fluid and easily adapted, and its competition with itself is keen. A thousand pounds of pure capital cannot earn more than forty or fifty pounds a year, except in special cases for brief periods or by the acceptance of extraordinary risks. The really vulnerable point in this connection has thus far been missed by social reformers and controversialists. What needs to be realised is that the economic advantage belongs to *the union of commercial ability with command over capital.*

This union of two quite separate economic factors constitutes the typical employer. There is a very large number of men whose abilities are not less than those of the most successful commercial magnates but who have no command of capital. On the other hand, there are multitudes of people

AIDS TO AN IMPROVED DISTRIBUTION

These considerations point clearly to the desirability of *a tax on net incomes*, from whatever source they are derived. There is no other way in which the large appropriations of quasi-rent can be brought under contribution. Small incomes should be entirely free from this tax, on the ground that their share is fully paid in the land-values tax to which every one will contribute. The levy should also be very slight on moderate incomes, but it should move with a steeply graduated percentage as incomes rise to large amounts.

The revenue derived from this source, added to the growing revenue from land values, will make it possible to organise municipal and national life on an improved scale of health, efficiency, and enjoyment, and this in its turn will tend to elevate the general standard of living, and therefore to increase the average share of wealth which the normal worker can claim out of the common product. Provided that the revenue from an income-tax is expended in this way on social objects, it cannot be regarded as a mere impost. It is in its degree an aid to the improved distribution of wealth. To take money from the rich and give it to the poor is a proceeding that does not in any case call for elaborate defence on moral grounds. No one is ever really rich by his own merits. At the best, a man's riches may be said to be his luck; but it is not economically possible that they can be the sole result of his own abilities and industry. A great fortune in the hands of one man has necessarily been created for the most part by the industry of other persons. It is therefore not out of tenderness for the rich that

caution should be exercised in this method of taxation. The people who need to be carefully and respectfully considered are the poor. And the point to be insisted upon is that the proceeds of taxation should be spent in ways that give the poor an opening into a more expansive and expensive life. For instance, there is nothing productive and social in money spent on workhouses, or on spasmodic relief-works, or on miscellaneous soup-kitchens and Christmas feasts that promote an attitude of open-mouthed gratitude, and only confirm that vicious habit of dependence and deference which the rich of all ages have diligently sought to foster in the minds of poor people. On the other hand, the super-tax that provides a State pension for the aged, and thereby permanently relieves the domestic situation in working-class families, is a real gain. A still greater gain is the money taken from employers and from the general taxpayer for insurance against sickness and unemployment. These are socially productive measures because they lift the minimum standard at which life is tolerated. When the revenue from the tax on land value begins to grow and is found large enough to meet many of the ordinary national charges, it will be possible to organise an increasing number of social improvements out of the revenue from the income-tax, which will then contribute directly towards a better distribution of the product of industry.

It need hardly be said that no system either of economics or politics can ever even roughly equalise the distribution of wealth. These recommendations will, however, minimise the worst inequalities. And there is one other practicable line of action,

tending in the same direction, which arises naturally in connection with the theories that have been discussed in these pages.

It is possible by legislation *to moderate the morbid and unnatural forms of competition that act injuriously at the bottom of the industrial system.* Normal competition can never be eliminated: it would indeed be a disaster to eliminate it even if it were possible. Yet it has to be remembered that, in the nature of the case, even normal competition bears hardly on the average man. The remuneration of the majority of workers is cut down by their own competition with each other; and beneath this economic experience there is the fundamental fact that most people are ordinary people, whose capacities for work are very much alike in kind and degree. It is true that some extraordinary persons earn an extraordinarily small amount of money; but this is because—like poets, philosophers, and humorists—there is only a small and eclectic demand for the article that they are prepared to supply. I am speaking of the usual market for professional, commercial, and manual services, and here the crucial economic fact is that the majority of mankind are alike. It is a biological fact. For the same remote creative reason that one daisy is very much like another daisy, and one dog like another dog, and one joke like another joke, so also most men are like most other men. The economic consequence is that by sheer force of numbers their competition with each other in the same markets depresses the remuneration that any of them is able to claim. This is a state of things that can never be altered. But the economic difficulty is aggravated by a sort of competition that ought to be cut away. The

wages of the average worker are held back in almost all markets by *the competition of inefficient persons*, and even of mentally defective persons. These can undertake certain kinds of work, not so well as the capable, but passably well; and they are driven by threatened starvation into offering their service for an insufficient wage. There is in some quarters a curious suspicion of proposals for the segregation and proper public care of the inefficient; but it is well for all average wage-earners to realise the economic truth that they have everything to gain by a reasonable and courageous treatment of this problem.

No one will suppose that these various readjustments of land value and wealth are expected to meet all social difficulties. They will not even exclude the possibility of poverty. The world is what it is; and it was not the political economists who made it. Many of the evils that appear in the economic system have their roots deep in human nature, and we can hardly hope to do more than moderate them. But the policy that has been here analysed and advocated will at all events work strongly in the direction of an ampler reward for the industrious and more equal opportunities for all that desire them

APPENDICES

APPENDIX A

UNIMPROVED LAND VALUE

THE estimate given in Section I., 1, is founded upon the following figures.

INCOMES FROM REAL PROPERTY, UPON WHICH INCOME-TAX
WAS PAID IN 1910-11.

Pure Land Value :

Manors, Tithes, Fishing and Sporting Rights (Sch. A)	£1,294,998
Other Fishing and Sporting Rights (Sch. D)	216,940
Market Tolls, etc.	840,425

Combined Land and Buildings :

Agricultural Lands (Sch. A)	£52,294,614
Houses (Sch. A)	222,233,301
United Kingdom Railways } (Sch. D)	43,438,601
Mines, Gas-works, Iron-works, Water-works, Quarries, Docks, Canals, Salt-springs, etc. (Sch. D)	42,304,575
	<u>£360,271,091</u>

Assume that 50 per cent. of this combined value is the value of the Land	180,135,545
Annual Land Value	<u>£182,487,908</u>

At 25 Years' Purchase—Capital Value £4,562,197,700

To the above estimate must be added the value of much unused and under-used land which is not assessed for income-tax at its true selling value. Thus the total capital unimproved value of all the land of the country may be estimated to be about £5,000,000,000.

APPENDIX B

STATEMENT SHOWING THE ACTUAL COST OF THE
BUDGET TAX TO LAND-OWNERS

ESTIMATED Capital Value of Un-
improved Land : £5,000,000,000

Total Revenue from a Tax of
2d. in the £ on this value £41,600,000

Various Reliefs to Land-owners :

Old Land-Tax . . .	£700,000	
Income-Tax on Land . . .	7,000,000	
House Duty	1,900,000	
Undeveloped Land Duty	—	
		————— 9,600,000

Increased Grants in Re-
lief of Rates . . . 18,600,000

Less by one-quarter (be-
ing tenant's share of
relief) 4,650,000

————— 13,950,000

————— 23,550,000

Net Cost of the Tax to Land-owners . £18,050,000

Relief of Rates to Tenants . . . £4,650,000

Remission of Food Taxes . . . 13,400,000

————— £18,050,000

APPENDIX C

THE THEORY OF RENT

THE relation of the three kinds of rent (mentioned in Section XI.) to the cost of producing goods may be clearly demonstrated by the use of simple diagrams.

In Figure 1 (as also in 2 and 3) we measure the quantity of land in productive use along the line OX. For instance, if

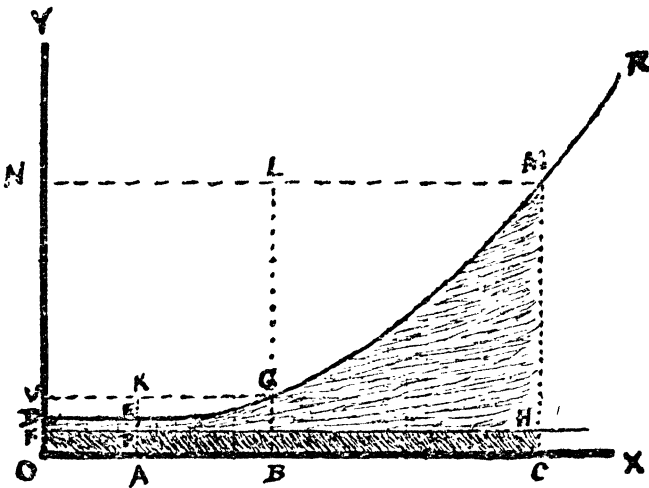


FIG. 1.

OA represented 5,000,000 acres, OB would represent about 12,000,000 acres, and OC about 26,000,000 acres. Along the line OY we measure the cost of producing goods, or the price at which goods are normally sold to the consumer. Thus if OD represented £1,000,000 as the cost of producing a certain volume of goods, ON would represent the cost of producing the same volume of goods as about £7,000,000.

What follows may be taken to apply equally either to the production of one class of goods on a particular kind of land, or to the production of all goods on the whole of the land.

In a primitive state of society, with a small population, we may suppose that the demand for goods can be met without using more land than OA, and that there is still other land of the best kinds remaining unused. In this case land-owners will charge the users of the land a small nominal sum, which we call *Proprietary-Rent*. This is the first cost to be borne in producing goods, and it is measured perpendicularly by OF and AP. In addition there is the cost due to the expenditure of labour and capital, which is measured by FD and PE. Thus, what the consumer pays for the goods is represented by the rectangle ODEA, which is composed of two smaller rectangles, the light shading being the reward of labour and capital, and the dark shading being *Proprietary-Rent*.

Now suppose that the population has increased so that the demand for goods cannot be met without bringing into use some land that is inferior to the best land, either in fertility or position. Let the quantity of land now in use be OB. The land at B is more costly to work than the land at A or at O. But the price of the goods must be high enough to cover the cost of producing them on the least suitable land which it is necessary to use. The increased demand for goods can only be met at this higher price. On land at B the greater expenditure of labour and capital raises the total cost of production to BG. This therefore will be the price paid by the consumers—wherever the goods are produced. For instance, goods produced on the superior land at A will realise the price AK, which is equal to BG. But on this land the true cost of production is only AE. EK is a surplus, due to the superiority of the sites at A; and this surplus, which we call *Differential-Rent*, passes to the land-owner.

In order to demonstrate the same economic truth in a still more marked manner, suppose that the growth of population compels producers to have recourse to the quantity of land represented in Figure 1 by OC. In other words, the demand

for goods is now so great that it can only be met by the employment of many kinds and degrees of inferior sites. The price of goods will now be CM ; and the whole price paid by consumers for all the goods is represented by the rectangle $ONMC$. This is made up of three parts. The dark shaded rectangle $OFHC$ is Proprietary-Rent; the light shaded space bounded by the lines DF , FH , HM and the curve DM is the remuneration of labour and capital; and the unshaded space

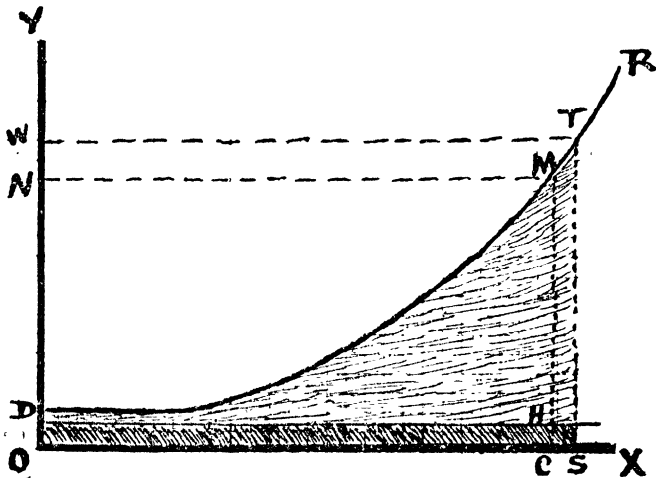


FIG. 2.

above the curve, bounded by the lines DN , NM , is Differential-Rent. The two shaded areas enter directly into the price; they cause the price to be what it is; whereas the unshaded area has no part in making the price; it is a surplus which appears on superior lands owing to the high cost of production on inferior lands. At the same time it is clear that the unshaded area, although it does not cause the price, is paid in the price by the consumers, being part of the whole rectangle $ONMC$.

The appearance of Monopoly-Rent may now be easily perceived by reference to Figures 2 and 3.

When there has been another substantial advance in population, and therefore in the demand for goods and general accommodation, still more land will be brought into use if further supplies are available. The quantity of land will now be (Fig. 2) OS; the price of goods produced at S will be ST; and the whole payment of the consumers will be OWTS.

But now suppose that OC represents the absolute limit of available land. The growth of population has increased the

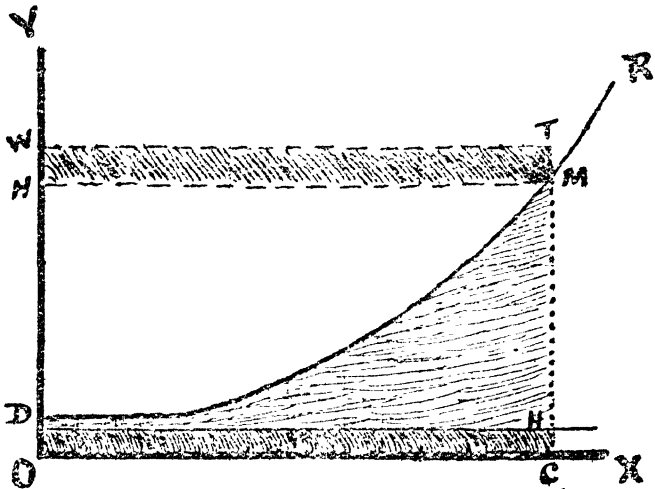


FIG. 3.

demand for land, but the supply is exhausted. What will happen? The pressure of the demand upon a restricted supply will enable land-owners to exact higher rents. The same effect will be produced as if the additional inferior land CS had been brought into use and the cost of production had risen to ST. Speaking in the terms of the diagram, the line ST is now overlaid upon the line CM.

This gives us Figure 3. The demand of an enlarged population is such as to have brought other inferior land into use if it had existed, and thus to have raised the price of the goods

to CT. As no more land exists, the same pressure of demand will (through an increased Rent) raise the cost of production at C from CM to CT, and will raise it at all other points by the length of the line MT. Thus the whole price paid by the consumers is now OWTC. The dark shaded rectangle NWTM is Monopoly-Rent, due to an increased demand for a limited supply of land; and, being a more or less uniform addition to Rents, affecting all lands alike, it enters directly into the price of the goods.

It should be observed that Monopoly-Rent appears as soon as the demand for land overtakes the available supply. It exists in a marked degree in the United Kingdom at the present time owing to the artificial restriction of the supply of land. When the entire actual supply has been exhausted, Monopoly-Rent will become still more conspicuous—unless there is some check to the growth of population. Moreover, Monopoly-Rent (in common with all other charges) is felt in anticipation of an exhausted supply of land long before the actual limit of the supply has been reached. It is probably the case that population in England has already passed the point at which Monopoly-Rent can be eliminated. The Taxation of Land Values will beneficially lighten and reduce it for a period, but in an old and crowded country nothing can abolish it.

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