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THE PRINCIPLE OF LAND VALUE TAXATION.¹

THE purpose of this paper is to examine the basis of the policy of taxing land values, with a view to considering what should be the future course of development in that respect. Briefly, the main questions at issue are :

(1) Are land values to be taxed solely with a view to transferring some wealth from private persons to the State without affecting the production of wealth?

(2) Is there a better case for the taxation of land values for local than for national purposes?

The first question is answered in the negative, the second in the affirmative. The two questions, though apparently quite different, are, in fact, closely bound up together. The first part of the paper is devoted to an examination of the case for land value taxation for national purposes, as ordinarily put from the "unearned increment" point of view. This part of the paper is critical and destructive, because it is necessary to get rid of unsound or insufficient or unimportant arguments before we can "see the wood for the trees."

The second part attempts to be constructive, though in form it is partly critical of the position taken up by Professor Cannan in his paper read before the Congress of the Royal Economic Society in 1907.² That paper makes the discussion of land values turn more clearly than hitherto on the question whether the efficiency of production is involved. Though the answer given here is different from that of Professor Cannan, there is agreement as to what is the really important question.

¹ A paper read before the Economic Section of the British Association, 1910.

² *ECONOMIC JOURNAL*, March, 1907.

It is not necessary to dwell at length on the more obvious and now generally recognised points in connection with land value taxation. It will be assumed that a tax on land value cannot be shifted by the owner—or if land is leased and the tax levied from the occupier that it can be shifted back to the owner when the lease terminates. There are important qualifications of this doctrine to be taken into account in dealing with any actual scheme of land value taxation, especially of future increments, but this paper is concerned only with the more fundamental questions of principle. It is legitimate, therefore, to assume that the main distinctive feature of a tax on land values—namely, that as compared with taxes on property in general, it is borne by the owner and does not get thrown forward to the consumer, if that word may be used—is subject to no qualifications. This implies also that land values are automatic in the sense that they arise through causes not dependent on the energy and enterprise of the owner of any particular piece of land. Both the advantages claimed for this kind of taxation, and the objections to it in so far as they are based on equity, mainly involve the assumption that the hypotheses just mentioned are substantially true. The advantages claimed are that the tax is no discouragement to enterprise, and that it takes a part of income to which no individual has any right of the same nature as that which is usually conceded in reference to values which obviously owe their existence in a large degree, or entirely, to a person's work.

The main difficulty in the way of levying special taxation on land values without hardship and injustice arises out of the fact that land in this country has been bought and sold for hundreds of years, and those lands which have increased most in value are just those which have, on the whole, changed hands with the greatest frequency. The present owners cannot necessarily be regarded as being in possession of unearned wealth. Consequently, the very fact that the tax cannot, by hypothesis, be shifted on to the much larger body of "consumers" constitutes the ground of objection on the score of equity. This has been so far recognised in our own legislation that the most important tax has been imposed on future increment of value, not directly on present value.

The question whether the increment tax is more defensible on grounds of equity than a direct tax on existing land values, is one which can perhaps be answered in the affirmative, but it is too large a subject to be dealt with in this paper. It is necessary, however, to point out that there is no simple and obvious escape

from the equity difficulty by the mere device of taxing future increments of value. The price at which anyone buys land is very largely influenced by expectations as to its future. Very often the greater part of the present value is due to discounting the future. You cannot, therefore, tax the increment without depreciating the present value to the extent of the present value of the yield of the future tax. If a piece of land now vacant will be worth £1,000 in twenty years when it will be ripe for building on, and that is correctly foreseen, will not the present value be simply £1,000 discounted at compound interest, and the increase be a uniform 3 per cent. or 4 per cent. per annum, or whatever the rate of interest may be? Anyone who has paid that present value needs the increment, it may be said, to enable him to earn interest. To tax the increment simply knocks so much off the present value. In some German municipal increment taxes interest is allowed (but simple, not compound, interest), and only increment above the rate of interest, in the case of vacant land, is subject to tax.¹

But do we really get out of the difficulty even if we allow for interest? Do we get, in theory at least, a tax on "unearned increment" pure and simple? Is it not like a tax on winnings in a lottery, *imposed after the tickets have been bought*? Land is bought with the knowledge that its future value is problematic. The purchaser gives a price for the probability. If you announce that all the chances that turn out well will be taxed, is it not exactly the same thing as knocking something directly off the present value of all the chances?

Do we not then arrive at this conclusion, that the increment value tax is no different, as regards the question of incidence and of equity, from a simple tax on existing land values, and that it has this peculiar feature which differentiates it from all other taxes in force excepting the old land tax, that the *true incidence of the whole burden, present and future, is on a limited number of existing owners of land*?

¹ When the rise has been particularly rapid and sudden, it may fairly be contended that the present holders are to a large extent in possession of unearned and unforeseen gains. It is noticeable in German discussions of the subject that this is commonly assumed to be the case, and the increment value tax has been usually levied not merely on the increment accruing from the date of the passing of the law, but from the date of the last sale, which may have been many years previous. This attitude can be easily understood when we read in Dr. Boldt's monograph "*Die Wertzuwachssteuer*" that the author, who in his capacity of member of an Income Tax Assessment Commission was able to obtain a good deal of information about profits from dealing in land, never in the course of twenty-five years came across any case of loss; and landowners, who claimed that losses and gains must be set against one another, were unable to tell him of any cases of loss in that period.

It is difficult to escape the conclusion that J. S. Mill and others have failed to appreciate the difficulty of taxing future increments in such a way that the real incidence would not be on present owners of land. Mill, though he acknowledges that the present value of land includes the prospect of future increase, seems to imply that the future increase can be taxed without any loss to present owners. He makes no reference to any allowance for interest, but he suggests that the land-owner should have the option of selling his land to the State at the value which it had antecedent to the imposition of the tax. He does not show why we should expect, in the event of the land-owner's accepting the offer at once, that the State should find any advantage in the bargain. And it is further evident that he did not quite realise the difficulty of the matter, as he goes on to say—

“The State will receive the entire rent of the lands voluntarily sold to it by their possessors, together with a tax on the future increase of rent on those properties whose owners have sufficient confidence in the justice and moderation of the State to prefer retaining them. These owners should be allowed, at any future period, to alter their minds, and give up their lands for the price first offered; or more if they can show that they have made substantial improvements at their own cost.”¹

There is here no recognition of the fact that to offer, after twenty years, the original price of a piece of vacant land which the owner bought at a price which discounted the increase, is not offering him the full value.

The present Chancellor of the Exchequer also appeared to be under the impression, in the earlier stages of the discussion of the Finance Bill in 1909, that he was not taking anything from the present value of land. That was made particularly clear on the third day of the Committee stage of the Finance Bill of 1909 (June 23rd) in his reply to Mr. Jas. Hope, who gave the figures relating to the calculation of the present value of a property which was expected to take twenty years to develop.² The critics of the scheme had better ground than its advocates realised, and there is still need for further examination of the fundamental principles.

Escape from the equity difficulty is sometimes sought by appealing to the general uncertainty as to what precisely are the accepted principles of equity in taxation, and as to the real incidence of taxes. All taxes, it is said, are open to attack as

¹ *Dissertations and Discussions*, Vol. iv., p. 245.

² *Hansard*.

more or less arbitrary in their incidence, so that on this ground they could all be condemned, which would be absurd. But it is surely going too far to say, with Professor Pigou, "In matters of taxation, therefore, injustice, since it exists everywhere, cannot be appealed to anywhere."¹ We cannot escape the difficulties by merely shutting our eyes to them. The principles of equity in taxation may be more or less controversial, but differences of opinion are not so great as to justify the abandonment of all principles. Nor is the incidence of our great taxes so obscure that we can regard it as a matter of indifference how the money is obtained.

It would be admitted by everyone that to put a special tax on all persons whose names began with the letter A would be unjust. It would not be a satisfactory reply to objections to say that all taxes are more or less unjust and therefore this tax is no worse than the others. Even if it be true that it is a mere chance, but a perfectly even chance, that any given person is paying more or less than he ought to pay, if a new tax is imposed which certainly strikes A and does not strike B, there is a *prima facie* case that it is introducing inequality. A is just as likely as B to be already paying as much as he ought to pay. Why should he be singled out to pay a new tax, peculiar in the fact that of it alone we can say that its incidence is determinate?

Then take the comparison sometimes made with such taxes as that on tea. That article is selected for taxation because it is consumed by nearly everybody, and, in conjunction with taxes on coffee, cocoa, and alcoholic drinks, it does practically cover the whole population, and it certainly does not fall with excessive weight on any one person, since no one has any need for very much more tea than the average. Considerations of this kind amongst others are taken into account in deciding whether the article is or is not a suitable one for including in the scheme of indirect taxation. It is impossible to accept the theory that all idea of equity is abandoned as hopeless. When the Chancellor of the Exchequer has to raise additional revenue, the main question so far as equity is concerned that he takes into account is the distribution of the burden on rich and poor respectively. It is generally accepted that the mass of the people should feel part, at least, of the burden; and so indirect taxes like those on tea, beer, and tobacco, are imposed because it is practically certain that, taken as a whole, their incidence will be well distributed over the whole population. These indirect taxes

¹ Pigou, *The Policy of Land Taxation*, p. 12.

certainly involve more or less loss of consumers' surplus—a loss which is something in addition to the measurable contribution handed in to the Exchequer. But there is a considerable difference between this disadvantage of indirect taxation and the injustice involved in discrimination against particular persons. A tax on owners of land values, it may be argued with a good deal of reason, is arbitrary in the same degree, or even in a greater degree, than a tax on persons whose names begin with a particular letter of the alphabet, in that the incidence of the whole future yield appears to be on the owners at the time of the introduction of the tax.

Another argument of a general nature is to the effect that all social improvements involve infliction of loss on somebody. The removal of an import tax, for instance, equally with the imposition of such a tax, necessarily inflicts undeserved losses, and the world would stand still if the infliction of loss were regarded as a fatal objection to any change in the fiscal system. This general principle is not impugned, and appeal to it is made subsequently in this paper. But just here it is necessary to observe that it does not afford so easy an escape from the equity question in connection with taxation of land values, as is very commonly taken for granted.

Let us consider the case of the removal of an import tax on corn in relation to the interests of land-owners. They would be likely, as one knows, to resist the removal on the ground, amongst others, of probable loss to themselves; but everyone feels, whether he thinks it politic to say so or not, that the State has a perfect right to remove an import tax on corn if it is believed to be acting injuriously, and that land-owners and farmers have a claim to consideration only to the extent that the change should be made without too much abruptness. No one really denies this at heart. It may be said that the governing consideration here is the fact that land-owners have presumably been given a special favour to which they had no claims on equitable grounds, and that the State may withdraw such a favour; but that it is a different thing when it is a question of inflicting loss not by mere withdrawal of a special favour. That is rather a nice point, which need not detain us since there is a more important consideration to be noticed.

The real reason why everybody, including land-owners themselves, and other people whose interests may be affected, admit the right of the State to adopt laws or to repeal laws, such as those which impose import taxes, when it is con-

sidered that national interests require such action, without over much regard to the losses which may be inflicted on certain owners of property, is that the national gain is believed to be greater than the loss which will be suffered by some persons. The losses are merely incidental. *It is not a mere question of transferring so much wealth from certain individuals to the State, or to certain other individuals. The primary purpose is the removal of conditions which hinder the most effective use of the national productive powers.* If some land-owners are likely to be injured by the removal of an import duty, or if others are likely to be injured by the imposition of one, it is not supposed that the advantage to the State is exactly measured by the injury inflicted on those who suffer loss. It is believed that the total production of wealth will be greater, and that, consequently, even those who appear likely at first to suffer loss may ultimately gain. The gain to the State of the removal of conditions which hinder the most effective use of the national energies is of a continuous and cumulative kind, having ultimate reactions in all sorts of ways which cannot be clearly foreseen, so that no set of people can be regarded as necessarily losing anything in the long run.

In connection with land value taxation of all kinds, therefore, the important question is whether it is to be regarded as a tax pure and simple, or whether any ulterior beneficial effect upon production is to be looked for. The contention of this paper is that beneficial effects upon production would follow if town and urban districts were able to apply a large part of the economic rent of land in their area to local improvements.

It is not intended to imply that there are no good reasons to be found in favour of taxation of increment values for national purposes as distinct from local. Such reasons do exist in some degree. But far the strongest case for land value taxation is to be found when the revenue derived is to be expended for the benefit of the localities from which it is drawn.

It is advisable, before explaining fully the grounds on which this contention is based, to remove a possible misapprehension as to the nature of the beneficial effects on production which are anticipated. It is a common argument that existing local rates are a burden on industry, and that a sufficient case for expecting beneficial effects on production is found in the consideration that taxation of land values would permit of some reduction of existing rates. That, however, is an argument which would apply equally well, for what it was worth, if the proceeds of a land value tax were

applied to the reduction of an indirect national tax. It may be true that most of our national taxes are less open to objection than the existing local rates, but that is, so to speak, an accidental circumstance. The argument for local application of land value taxes put forward in the following pages is quite independent of any circumstances of that kind.

It is also quite independent of the fact that there is a complicated system of grants-in-aid from the national exchequer towards various services locally administered. To apply the revenue from land value taxes to local purposes by including them in the grants and apportioning them to the localities on the principles which govern grants-in-aid, would not be local application of these revenues in the sense intended in this article, because the revenues assigned to any locality would not be proportioned to the yield of the tax in that locality. That method of local application, though it may possibly be convenient at the moment, is in direct variance with what are claimed to be, in this article, the fundamental reasons which afford justification for taxation of land values. So long as the whole thing is small, perhaps it does not much matter what is done with the revenue. But if we consider future developments in the next fifty or hundred years, it is a matter of importance that sound principles should be followed.

To many persons it has seemed quite obvious that land values, if taxed at all, should be taxed for local purposes. But it is not really so obvious when the matter is investigated in the light of the economic theory of rent. In fact, the general trend of economic opinion is rather the other way. The most illuminating discussion of the question at issue, the paper read by Professor Cannan before the Congress of the Royal Economic Society in 1907 (*ECONOMIC JOURNAL*, March 1907), puts strongly the case against local application of land value taxes. The question has been much confused by misconception about the incidence of existing rates, but the following quotation from Professor Cannan's paper will bring out the main points at issue :—

“The followers of Ricardo were apt to talk as if rent could not be wiped out. You might, they thought, transfer it from one person to another, or to the State, but not abolish it. Recently it has been observed that this is not quite true. Arrangements are conceivable which would have the effect of destroying rent by causing over-cultivation of the lands which, if not over-cultivated, yield a rent. It is clear that the rent of any land,

however productive, could be wiped out by the simple process of enacting that whatever rent there was should be given to all who worked on it, and then admitting all workers who offered themselves. Competition would attract just such a number of workers as would reduce the advantage of working on that land, rather than any other land, to nil; in technical language, returns would be diminished till the surplus or rent disappeared. Now if, instead of the land being thrown open to all workers who choose to come, it is let to a number of farmers in the ordinary way, but arrangements are made by virtue of which each farmer will be able to charge the aggregate rent of all the farms with the cost of some particular farming operations—say ploughing or harvesting—the net rent eventually reaching the owner will be diminished, since each farmer, being able to get this work done for nothing, will use more of it than is consistent with the best possible working of the land. It is just that sort of arrangement which the exemption of buildings from rating would establish in regard to what we may call urban cultivation. Over-cultivation, in its urban form of over-building, is encouraged by the provision of free services paid for by taxation of sites only, and so the surplus in the form of site values is diminished.”

The advocates of site value taxation have laid themselves open to this criticism by trying to make too much of some imperfection of the existing rating system and speaking as if the one thing to be aimed at was to find a substitute for existing rates. That would be, as Dr. Cannan says, like subsidising some particular farming operations out of rents, and would lead to wasteful use of these particular operations. But let us return to the earlier part of the quotation in which is pictured a farming community sharing the aggregate rent amongst the workers, and admitting all who care to come. That, it is said, would lead to over-cultivation. Similarly, if the aggregate rent of town lands were shared by the townspeople, the conclusion is that there would be a wasteful aggregation of people in large towns where the cost of housing and other services is excessive. In Dr. Cannan’s words, “What is taken from site values is simply slopped away in increased cost.”

If there were no further explanation of urban rent than the simple Ricardian theory as applied to agricultural land, this conclusion would follow. But the all-important fact has been lost sight of, that high site values in a town are not due to the inherent properties of the soil, but are, in the main, caused by the fact that many people have come to live in the town. That

makes all the difference. To return to the agricultural parallel, it is always tacitly understood in explaining the theory of rent that the cost of production and the amount of produce obtained for a given expenditure by any one farmer is independent of what is happening on other farms. But suppose your various farms A, B, C, D, &c., are so situated that the cultivation of B, C, D, &c., renders easier the cultivation of A, and the cultivation of A, C, D, &c., helps the cultivation of B, and so on. It does not matter exactly in what way—it might be by some effect on climate or rainfall, but more likely by permitting greater economy in the division of labour, more specialisation, mutual rendering of services, lowering of cost of transport, &c. If that is the case, individual ownership and individual appropriation of rent would not lead to the most economical production, but would lead to under-cultivation. Each person considers, in deciding to what degree of intensiveness to cultivate, the marginal return which he can appropriate for himself, as against the marginal cost to himself. He does not take account of the incidental advantage—small in depth, so to speak, but wide in area—which further cultivation of his land confers upon his neighbours. Such a situation involving the failure of self-interest to produce the best results, is evidently indicated by Mr. Pember Reeves in his book on *State Experiments in Australia and New Zealand*, where, speaking of an unfortunate deadlock in the settlement of people on the land in New Zealand, he remarks, “Prices (of land) could not rise until a good proportion of the land was cut up and settled. The owners could not afford to cut it up until prices rose.”¹ When land value arises in this kind of way, as is the case in cities in England even more than in agricultural districts in New Zealand, the pooling of rents would be advantageous to production. Marshall has pointed out that where the law of increasing returns operates, it may be theoretically advantageous to give a bounty. Individual self-interest would not lead to the most advantageous volume of production. It is this principle, in a somewhat more generalised form, that can be applied. The provision of utilities may take place under conditions which, I have suggested, might be termed co-operative and anti-co-operative. They are not very attractive terms, but I use them in the absence of any other words, in order to avoid frequent circumlocution. By co-operative conditions I mean either (1) that increase of output by any producer tends towards a reduction of costs for other producers, covering the case of Marshall’s “external economies,”

¹ Vol. i. p. 270.

and distinguishing from the law of increasing returns as applying to a single producer; or else (2) conditions such that the satisfaction of one person's demand adds to the enjoyment of other persons, as, for instance, when a man builds a beautiful house for his own pleasure he incidentally affords satisfaction to all passers-by. By anti-co-operative conditions I mean the opposite of co-operative. Either every producer gets in the way of all the others, as I have suggested is the case with speculative dealing, or else each person in satisfying his own desires incidentally diminishes other people's satisfaction—as, for instance, by lighting a fire for my own comfort I do something towards spoiling the atmosphere for everybody else, or by building an ugly house I give annoyance to all my neighbours.¹

The possibility of these conditions of production and consumption, and the failure, in either case, of individual self-interest to lead to maximum satisfaction, has been recognised by theoretical writers for a number of years—to some extent by Marshall and more fully by Mr. Henry Cunynghame and Professors Edgeworth, Pigou, and Chapman. I only differ from them in regarding the recognition of these conditions as of urgent practical importance, especially in relation to urban land values. Progress depends largely on a more critical examination of the working of self-interest in relation to the interests of society with a view to action in cases where they do not harmonise.

It would be an interesting, but difficult, undertaking to endeavour to discover all the various ways in which aggregation of population brings into existence either co-operative conditions or their opposite, and the more completely this can be studied the better. But it is not at all necessary, and this is a point which needs particularly to be emphasised, that we should be able to do this, excepting in regard to pronounced and obvious cases. The advantages of aggregation may consist simply in opportunities for greater division of labour all round, affecting almost every method of satisfying wants. Without going into difficult and detailed inquiries, we can conclude, from the mere fact that land values grow with growing population, that on the whole co-operative conditions exist in a marked degree.

As regards the opposite conditions, it is perhaps more necessary they should be specifically recognised in order that they may be deliberately counteracted. And, as a matter of fact, the most important cases of anti-co-operative conditions have been

¹ This instance is merely given as an illustration of the principle. It is not suggested that in every case the matter is sufficiently urgent to justify public regulation.

recognised for a long time. It is recognised that to leave each household to dispose of its own refuse does not conduce to the maximum advantage of society, and other cases of less urgency are now being dealt with by legislation, such as the Town-Planning Act.

This brings me to the consideration of the objection that to appropriate rent for local purposes would add more to the attractiveness of large towns than of small towns, and of all towns than of rural districts, and cause an undesirable congestion of population. The answer is that the rent of large towns should not be used to add to their attractiveness simply by lowering burdensome rates without any attempt being made to remedy the evils of congestion. Let us imagine that there is only one kind of cumulative advantage from aggregations of population—very pronounced cheapening of retail distribution of food—and one kind of cumulative disadvantage—smoke, also very pronounced. Everyone, let us say, uses very bituminous coal. Each person's fires do something to poison the air, but no one would gain anything worth considering by checking the smoke from his own fire. You could leave these two forces to fight against each other. Some limit would be reached in the size of a town, at which further growth would be stopped by the smoke nuisance. If it were proposed to tax site values in order to render the town more attractive, without, however, doing anything to check the further increase of smoke in the air, there might be valid objections. But if at the same time steps were taken to discourage the use of bituminous coal, to offer a bounty, perhaps, to encourage the use of non-bituminous kinds, a more advantageous equilibrium position would ultimately be found than that which resulted when cheapness of food and unpleasantness of smoke were merely left to balance one another.¹

The kind of uses which should be made of the revenue obtained may be best imagined if we picture a country in which every town is owned by a company which receives the ground rents and is forced by the competition of other town-owning com-

¹ An important recognisable instance of anti-co-operative conditions is found in the case of space for recreation. One reason, at any rate, though not the only one, why the supply of adequate room for children to play in cannot be left entirely to the self-interest of the parents, is that every person in consulting his own interests (assuming that he includes his family) does something unwittingly to diminish the enjoyment of others when he comes to live in a town. He causes houses and roads to take the place of fields and lanes, and makes it a longer journey for everyone to get into the country for a change. This cannot be prevented if the advantages of urban conditions are to be obtained, but the serious disadvantage to children's health can be mitigated by the provision of open spaces. Such a use of income derived from site value was recommended by Marshall.

panies to give away all, or nearly all, of the revenue beyond what will pay ordinary dividends, in some form of benefit to the inhabitants. Obviously, there would be no ear-marking of site value rent for any specific services. One may compare, also, the case of a theatre, in which some seats necessarily are worth more than others. The differential values of the seats do not give rise to economic rent. They are all pooled, and the theatre as a whole has to compete against other theatres. Some, no doubt, are more profitable than others to their proprietors, and in the country where all towns were owned by competing companies, no doubt some would yield a certain amount of surplus above normal profits, owing to peculiar advantages of local situation. But the greater part of the advantages arising from mere aggregation would be such as could be duplicated almost anywhere, and competition would force the proprietors to give away all such advantages to the inhabitants. The greater part of site value would thus be given back, in some form or other, but, of course, it would not be given in the form of low rents in the centre of the town. Differential advantages would still lead to differential charges, just as in the case of seats at a theatre or cabins on a steamer.¹

This line of argument in favour of taxing site values has been recognised to a certain extent by economists, but it has not been accorded much weight. Marshall's plea for the "fresh-air rate" already referred to is in line with it; so is the principle of betterment. Professor Edgeworth, in the *ECONOMIC JOURNAL* for 1900, refers to the more popular way of putting the argument, *i.e.*, that since land values are caused by the activity of the community, the community should have them, but does not seem to attach much weight to it.²

Other economists for the most part ignore the essential difference between simple Ricardian rent and urban land value, and see nothing in the taxation of site values but a mere transference

¹ From the nature of the case some seats are nearer the stage than others, and some cabins are better situated than others, but whatever producers' surplus there may be in connection with theatres or steamers has no close connection with the magnitude of the differential advantages of particular seats or cabins.

² "That labour has a right to what it produces is hardly relevant here, since the increase of ground rent was not the motive for the sake of which cities were formed and improved. It is a bye-product, like acorns on oaks which were planted solely for the sake of timber. Does justice demand that we should plant the acorn in the place where it has grown, if the parent forest is already too dense?"—Edgeworth, *ECONOMIC JOURNAL*, Vol. 10, p. 498. But if the acorns are an important and valuable crop, there will be less planting of oaks than is useful if those who plant are not able to appropriate the acorns. And we ought to assume that the production of acorns is dependent on the aggregation of the trees to a large extent in order to make the parallel good.

of wealth from certain persons to the State.¹ Or else, like Professor Cannan, they argue that the effect on production would be bad.

Professor Pigou, in his pamphlet on *The Policy of Land Taxation*, quotes Professor Cannan mainly with approval, but is not averse to applying revenue derived from taxation of site values to the relief of such burdensome local rates as the poor rate, and he argues that as this would absorb more than the proceeds of the land taxes which he advocates, there is therefore no field for the application of Professor Cannan's argument. But the application of that argument, and similarly of the converse of it presented in this paper, depends, not on the amount of the revenue raised or the particular local use to which it is put, but upon the principle on which it is distributed. Are the high site values to benefit the places in which they occur?

It may be contended that in the case of large towns, especially metropolitan cities like London, the growth of site value is not to be attributed entirely to the local aggregation of population, and that, consequently, the argument for local application of economic rent does not apply. It can hardly be doubted, however, that to a large extent site value in London is dependent on local aggregation. Still more is this the case with provincial towns. But there is a further reply to this objection to the local application of revenues from land value. Suppose further growth of site value in London to result entirely from increasing demand by the outside world for the services of London bankers. The increased site value should then go towards improving the quality or lowering the cost of banking services. That is how the rest of the world should gain, provided that the advantages of London over other places arise, as is substantially the case, from the mere fact that much banking is concentrated in London, and not from purely natural physical conditions.²

¹ That is the conclusion to be deduced from what might be called the economics of flat-land, in which the interaction of supply and demand is pictured as the intersection of two curves on a plane surface. But when rent is the result of conditions of the kind under consideration, we have to think in three or more dimensions.

² Perhaps this point can be made clearer by taking an imaginary parallel case of simple physical production such as the forests producing timber and acorns mentioned by Professor Edgeworth (see footnote, p. 13). Only some modification is necessary in order to illustrate the point under consideration. Let the centre of the forest be best adapted, not owing to the nature of the soil, but merely because it is the centre of the forest, for producing chestnuts, and the value of the chestnuts (or the quantity, if we prefer) be supposed dependent not only on the increase of oaks in the forest in question, but on the growth of demand elsewhere. It still remains true that the site value of the centre should be used to meet the general expenses of the forest, only part of it should be allocated specifically to the

My conclusion, therefore, is that there is a strong theoretical case for the local appropriation of urban site value, on the ground that when those whose activities produce a value are able to appropriate that value, production is more efficient. It is not a mere question of transferring a certain amount of wealth, unaltered in magnitude, from some people to others, and recognition of that fact makes all the difference in our attitude towards the equity of taxing land values. There is an expectation, well founded, that the public will gain more than the land-owners lose, and there is no actual certainty that the latter will lose at all in the long run as the result of a moderate and gradually introduced scheme such as that recommended by the minority of the Royal Commission on Local Taxation.¹ Regard for the interests of tenants of property situated on valuable lands must prevent any violent change of the rating system, and it is not even ideally desirable, if one were starting, for instance, with a clean sheet, that buildings should be entirely exempted from local rates. But recognition of the fact that the best development of urban life would be obtained if each town (including the surrounding suburbs) were able to devote most of the rent of land to improving the attractions of the town, is the point of crucial importance in determining our attitude towards reform of local taxation. In this direction, rather than in that of National Finance, can a decisive case be made out for Taxation of Land Values.

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improvement of production and cheapening of price of chestnuts as distinct from oaks or acorns.

¹ Or the local application and gradual increase of the increment tax, since that principle has been adopted. It is not the purpose of the paper to discuss the best methods of carrying out land value taxation in practice.