Content and Surface Value

VARIOUS and conflicting have been the comments of correspondents on Cecil St. John's article in May-June REVIEW in which the author breaks a lance with the Ricardians on the doctrine of rent, and thus raises the question of the inapplicability of current notions of the Single Tax in its relation to oil and mineral lands.

Of course, Mr. St. John is a Georgian and a land restorationist. He believes that all men have an inherent and equal right to land, both to its surface and content value. There is therefore no quarrel between him and the orthodox followers of Henry George. But he is bringing us face to face with a difficulty long recognized by earnest students of the question, which needs to be discussed to be finally and satisfactorily resolved.

Only one subscriber has questioned the wisdom of its publication as raising a question that may be disposed of when we come to it—*i.e.*, when the Single Tax is adopted. The wisdom of this opinion will be generally questioned. There is nothing to be lost and everything to be gained by familiarizing inquiring students as well as our co-believers in those phases of the question which from the taxation point of view seem to present difficulties. If out of such discussion should emerge a working formula a great gain has been made. We have seen too many Single Taxers "stumped" by inquiries respecting the Single Tax in its application to mineral resources to doubt the value of a consideration of the question as presented by Mr. St. John.

Some of our correspondents seem to have missed more than one of the points raised by our contributor. This, it seems to us, is true of Mr. E. J. Shriver, whose letter appears under the head of Correspondence. Mr. St. John suggests the "repeal "of the Ricardian law, meaning rather, as we take it, the need of a re-statement of that law in other terms. But Mr. Shriver errs in a concluding paragraph of his letter. The "content" value of mines is a consideration in the assessment methods pursued in many of our mineral-bearing States.

An anonymous communication from Pittsburgh—why have we not the author's name?—says: I am anxious to see how the economic sharps react to St. John's article." He adds:

"When individual production becomes tax free wages will perhaps absorb all the royalties that now go to the coal land owners. We are so prone to forget the fact that free men on free land leaves no room for royalties. I believe that the only thing the State needs do about mining is to enforce such rules that may be necessary to prevent waste and to prevent loss to life and property on the surface.

It is a question whether it is worth while making laws over the division of the 'royalty' involved in what is left of virgin timber. Again, free men, enjoying untaxed production will absorb a lot of it in wages. As to man-planted forests the natural treatment would seem to be to consider them as a growing crop and tax the site only.

Oil is now being produced and sold at cost so far as the public is concerned. Royalties and large profits to those who strike oil are balanced by the losses occasioned by dry holes. This industry of extracting the oil from the earth is a gamble. It might be possible and desirable to collect the royalties from the winners and reimburse the losers, but it would not affect the price of oil save as it might be necessary to tax oil production to pay for the book-keeping involved."

Mr. Jules Laforest, of Thibadaux, Louisiana, presents this view:

"If the State took the annual value of all natural opportunities, whether upon or below the surface of the earth, the economic condition of all would be nearly equal; all would be free. The annual money value of any natural opportunity depends upon the profit it brings to its owner; but no opportunity would possess any value if labor could not be utilized to exploit it. The value of the opportunity to its owner depends on the difference in the amount produced by it, and the cost of exploiting it, so that every diminution in the wages paid to labor, increases the value of the opportunity. If it cost the owner of a mine five dollars to produce a ton of coal on the market, and other conditions were equal, the mine would possess a greater money value than if the cost of producing a ton of coal were ten dollars. The value of a natural opportunity represents what someone produced and did not receive. The mine being private property, its owner can work it to half or less than half its capacity, thus cheapening labor by the competition of the men thrown out of work, and increasing the cost of living by restricting competition among mine owners.

If the entire annual value of the mine were taken by the State, the mine would possess value to labor only; the same would be true concerning all natural opportunities, so that these, the natural opportunities, would drift into the possession of users."

Our old friend, N. A. Vyne, of Camp Verde, Arizona, makes the following contribution to the subject after saying that "Mr. St. John is entitled to credit for opening the discussion." Arizona is a mining State, and Mr. Vyne is familiar with the problem that presents itself to assessing bodies.

"It seems to me that Mr. Cecil St. John's objection to time rentals of mining lands fails to take into consideration that we are interested in the price and purchase of mine products as much as we are in the time rental collection of mining lands under the Single Tax. Mining companies may sometimes get the better under this tax system—they do that now, but it can always be corrected at the next time rental period. Whether the rental collected is a fair amount or not, the companies will probably rush production in order to reduce the overhead of rentals per ton as much as possible short of making their products a drug on the market.

Any attempt on the part of the companies to monopolize mine products by monopolizing the land will result in the payment of time rentals on a great deal more land than they can possibly use and greatly increase their overhead, for this rental will pile up on them with every year during which the land lies idle. They will be in the position of the man who lets his horse eat his head off in the stable. Mining companies will therefore limit their holdings to match their capital, machinery and equipment. This will also guarantee proper production and prices and make interlocking directorates a useless device to control prices and production.

The owner of a granary filled with wheat would probably get the proper rental for his granary plus the fair price of wheat if he offered the use of the granary with privilege to take the wheat also. Bidders would certainly make a close estimate of both the wheat and the rental value to cover both wheat and use of granary for whatever time they would need. It is as broad as it is long, although that is the customary method. The illustration hardly carries out Mr. St. John's point. Furthermore, the amount of wheat in a granary is definitely known while often the amount and value of ore in the ground is a wild guess.

Some mineral, like coal, may be estimated, and companies bidding for possession will make a careful survey of prices, demand, transportation, labor supply, time required to exploit the field, machinery and all other factors. They will try to cut it fine enough to exploit the field during the time limit whatever the period may be.

Where the amount and value of the ore bed cannot be known, the bidding companies will take a gambler's chance, as they do now when obtaining possession from claim owners. They are taking long chances now under the handicap of present burdensome taxation.

It seems that time rentals is the essence of the whole problem and that the solution falls dead without it.

Time rentals on identified natural forest trees will make sawmill owners cut it fine in the same manner; and so, too, in oil fields.

In the case of water power sites under time rentals, no company will file on them until ready to rush development so as to distribute power and light within the shortest period of time. Laggard development or attempt to monopolize 'white coal' will cause an accumulation of periodical time rentals that is certain to cancel trust prices and the profit of exploiting power and light users. The plea that power companies should be allowed a rent free period is too dangerous to concede. Farmers and other land owners must live through this preparation period until the land produces.

To sell the ore of land outright will leave monopoly in full control. That is done now so far as the sale of the land is concerned. Mining companies deal with a very liberal government. They estimate the amount of ore and value more closely than the government ever can. Even where the sale price is right, the companies will always gain the entire unearned increment that comes with new mining machinery and equipment, increase in transportation, better labor supply and all other improvements in mining facilities and the government would be estopped in case of sale of ore or land in correcting this unearned profit caused by an advancing civilization within reach of the mining sites. A tonnage tax on production is, of course, the greatest blunder of all—a penalty on production and no expense while lying idle. Nothing plays more into the hand of a mining trust than such a method.

We cannot afford to mollycoddle mining, oil and timber companies by fostering them and guaranteeing them against failure from their own folly and business mismanagement. Sometimes they may over-bid when competition is sharp, like the farmer who pays too much for his land. The United States is not a kindergarten."

Mr. K. P. Alexander, of Little Rock, Arkansas, is enthusiastic over Mr. St. John's treatment of the subject and writes as follows:

"The article by Cecil L. St. John in the May-June issue of the Review, I think, is one of the most fundamentally important articles on taxation that has appeared since the days of Henry George. I feel Mr. St. John's clearing up of the uncertainty which has existed in the minds of probably every Single Taxer relating to just how land content as well as land-surface values should be taxed, deserves the highest commendation.

I have prepared the attached article entitled "The Duality of Land Values" for the SINGLE TAX REVIEW with the hope that it may further clarify the mooted question, but credit for the idea, the details of which I have endeavored to work out, is due Mr. St. John.

THE DUALITY OF LAND VALUES

"Land has two distinctively different kinds of value, both of which, but in different ways, rightfully belong exclusively to society. Each kind of value, being fundamentally different in its creation, demands essentially different modes of distribution, namely:

(1st) The surface or site value of land, which value is invariably solely people-produced, everywhere rises and falls with, and directly proportionate to, the density and the intelligently directed industrial activity of populations. The value of exclusive possession, which value communities give to surface or site rights, can be measured only by the rental value for the period of time that given surface or site privileges are exclusively held.

(2nd) The unworked natural resource value of the contents lying above or beneath the surface of land, which essentially are the heritage of all mankind, can be measured only by the current market sale price of such natural resources as may be severed from the land. The proportion of such values belonging to the State, would be the initial selling price, minus the cost of, and a reasonable per cent. of profit on, all severing, preparing and marketing costs. Wholly unlike surface values, content values can bear no relation to the element of time.

(3rd) For public revenue purposes, taxation levied on the value for use of land surface or site rights, must necessarily be based exclusively upon the time element, or their annual rental value.

(4th) For public revenue purposes, taxation levied on the loss to the State and the gain to the individual consequent to the severing of land contents that are solely natural resources, such as gas, oil, minerals, and (with perhaps some modification) spontaneously grown forest trees, rightfully must with as great certainty necessarily be based upon their current market sale price less a reasonable per cent. of profit on the severing, preparing and initial marketing costs.

(5th) In order that industry and business in the lines affected may be actively stimulated instead of further depressed by the effects of illogical and inequitable taxation, such per cent. of time and severance taxation as may be assessed, especially against land-surface and land-content values, should be levied against and paid by land owners rather than land users."

Mr. John Harrington, of Madison, Wisconsin, an old and valued friend of the REVIEW, writes as follows:

"I am unable to find, after careful reading, that the article in the May-June number of the REVIEW, by Mr. Cecil L. St. John, excites me as an important new discovery, nor that it renders necessary any change in theory, in policy, nor in purpose on the part of Single Taxers.

As a matter of fact, land has three modes of use or qualities, instead of two, namely, space, power or capacity, and contents. A city lot is chiefly valuable for space, a place to hold a building. Farm lands are valuable for their productive powers or capacity as a laboratory of growth. Mineral and forest lands are valuable for their contents. These qualities overlap in some degree.

Whether the area is much or little, whether location more or less convenient, whether the power of variable an abundant growth is high or low, are matters that go to th question of relative values. While it is true that fores and mineral deposits, or land containing them, cannot should not be administered by the public in the same manne as a city lot, a farm or a water power, yet is not this fac rather a detail? They are not treated identically no either for purposes of taxation nor business. For taxatio they are treated quite differently in different States; an special study is being given by experts to the best metho of taxation with a view to conservation. In private own ership a royalty on product is exacted, or the contents a sold separately from the superficial area. Under the Sing Tax we should still have these problems, to be solved b government ownership, a system of royalties to the publ treasuries, sale of contents, or other method.

I agree with the Editor that the "Single Tax" is not fortunate name for our system. It is not strictly a ta and it is not necessarily single. It is the taking of groun rent periodically for public purposes where that metho will apply; and where it will not apply, as in the case of gravel pit, public ownership, sale by the yard, or oth system will be adopted.

The Ricardian law of rent appears to have been form lated in relation to agricultural land. The author seem not to have considered it in relation to urban land nor relation to forests, mines and quarries. Nevertheless, appears to be a sound and valid law where it applies; an perhaps the exceptions are more apparent than real an with proper explanations may be brought within that la I doubt if they require any radical reconstruction of th administrative part of our philosophy that need disturb at the present stage of our progress."