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TRACTS FROM THE ELEVENTH DINNER-DISCUSSION OF THE ECONOMIC CLUB  
OF BOSTON, APRIL 27, 1905.

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# THE TAXATION OF GROUND RENT.

**Resolved:** That it would be sound public policy to  
make the future increase in Ground Rent a subject of  
Special Taxation.

LETTER FROM

HON. CHARLES FRANCIS ADAMS.

PREFACE BY

C. B. FILLEBROWN, Pres. Mass. Single Tax League.

ADDRESS BY

PROF. E. R. A. SELIGMAN,  
Columbia University.

CLOSING REMARKS BY

HON. JOSIAH QUINCY.

BY PERMISSION OF THE CLUB.

BOSTON

PUBLISHED BY MASSACHUSETTS SINGLE TAX LEAGUE.

1905

8909

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At the request of members of the Economic Club a slip was placed at each plate explaining

### What is Meant by the Single Tax.

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- 1 — It means the abolition of all taxation except that upon the assessed valuation of land.
- 2 — It means the gradual transfer to land of all those taxes now raised from buildings and other improvements, personal property, etc.
- 3 — It means that Boston would raise its whole tax in the same way that nearly one-half of it is now raised, viz.: by a tax upon the value of its land.
- 4 — It means to provide for common needs out of ground rent, a common product, instead of out of wages, an individual product.
- 5 — It means that out of its ground rent of forty million or more Boston would collect its whole tax of eighteen million, four hundred thousand, instead of only eight million, eight hundred thousand as now.
- 6 — It means that for its present needs Boston would take in taxation, five-tenths, instead of two-tenths of its ground rent (the annual value of land for use), and exempt everything else.
- 7 — It means the taxation of unearned incomes, instead of hard-earned incomes.
- 8 — It means a tax that is non-repressive, because it can never be a burden upon industry or commerce, nor can it ever operate to reduce the wages of labor nor increase prices to the consumer.

# The Taxation of Ground Rent.

## Letter from Charles Francis Adams.

Ex-Mayor Quincy who, on account of the absence in Europe of Mr. William H. Lincoln, president of the Club, occupied the chair, opened the after-dinner discussion by reading the following extracts from a letter of Hon. Charles Francis Adams.

"I regret extremely to say it will not be in my power to attend the meeting this evening.

"So far as the tax system of Massachusetts, and the desirability of reform, are concerned, my views are tolerably well known. I do not think I could contribute anything new to the discussion."

"The present system I regard as in every respect bad. It places the burden of taxation where it weighs most heavily,—upon the industrial and productive portions of the community; and, further, it imposes a severe penalty on conscientiousness and honesty, and offers a premium on fraud, prevarication and concealment. It is unscientific, unjust, and oppressive,—demoralizing to the community and unsatisfactory to the state and municipality. \* \* \* Under these circumstances, the only method of simplification I can suggest is the division of taxable property between realty and personalty, as at present. The means necessary for all municipal purposes, town and city, should be drawn exclusively from the tax on the realty; whether realty alone, or real estate and improvements thereon, is matter for consideration. My own judgment would be that it should be left as a ground rent payable to the community, wholly irrespective of improvements."

I remain, etc.,

(Signed) CHARLES FRANCIS ADAMS.

## Remarks of C. B. Fillebrown.

C. B. FILLEBROWN, president of the Massachusetts Single Tax League, having been called upon to preface the address of Prof. Seligman, said:

I am personally grateful for the opportunity accorded me in this preface of expressing acknowledgment to the Economic Club of Boston for its kindness in giving the topic of the evening a place on its program.

I appreciate the further privilege of saying a word to justify the presentation of a somewhat academic phase of a subject that many people believe to be vital to that public welfare, which it is your aim to conserve.

The fact that, in the State of Massachusetts, agricultural rent can hardly exceed ten per cent. of the total rent of the State, indicates that the Taxation of Ground Rent is today the problem not so much of the AMERICAN FARMING TOWN as of the AMERICAN CITY. For this reason, it appears important to concentrate the attention of students of taxation upon the City as the most

promising and vulnerable point at which to begin a correction of whatever may be wrong in municipal revenue, as well as municipal expenditure.

In farming communities the question of raising all taxes from land is complicated by the fact that these communities are now grievously burdened by the maintenance of their own roads and schools, their ability being in inverse proportion to the length of their roads as compared with those of towns and cities. Furthermore, a transfer of the problem from country to city will happily eliminate from consideration a whole catalogue of questions, which are the perplexity of the political economist, the despair of the ordinary mind. These academic questions are, for example, "the inherent capabilities of the soil," "the original and indestructible powers of land," "the margin of cultivation," "the doses of capital," "the law of diminishing returns," and the heretical query, "does fertility give rise to rent?" This economy of treatment grows out of the fact that in the city the agricultural land values are relatively so inconsiderable that they may be practically disregarded.

Agitation in Massachusetts, looking to the increased taxation of ground rent, has been criticised as academic, and the call has been for some practical measure upon which to frame an issue. Such a measure has been formulated, has received the academic approval of leading professors of Political Economy in Albion, Dartmouth, Oberlin, and Williams Colleges, Boston, Brown, Clark, Columbia, Harvard, Wesleyan, Wisconsin, and Johns Hopkins Universities, and is now offered for your discussion and promotion, in its relation to Boston economics and politics, in the following form:

**\* Resolved: That it would be sound public policy to make the future increase in ground rent a subject of special taxation.**

By your further indulgence, I beg to call attention to one factor of the present situation, which is distinctly favorable to such a graduated departure from the beaten track. This factor is the present exemption of the assessed value of land from taxation by reason of

#### **The Capitalization of a Land Tax.**

This condition, recognized by the leading economists, results from the fact that land taxes of long standing, as are those of Boston, have become to a large extent capitalized through change of ownership, and, either by this capitalization of the tax, or by the increase in the value of land, or both, such taxes have largely ceased to be a burden upon the land owner. This fact is clearly stated by Prof. H. R. Seager, a colleague of Prof. Seligman at Columbia University, who, in his "Introduction to Economics" says:

"Having distinguished real estate into land and improvements on land for purposes of taxation, it would be highly desirable for municipal governments to gradually reduce the tax on improvements by increasing the tax on land. \* \* \* Any change in the proportion of the gross return from land that is taken by the government through taxation is immediately capitalized and deducted from the selling value of the land. \* \* \* The same circumstances that cause new taxes on land to be specially burdensome cause old taxes to become in time practically burdenless. Each new owner of the land buys it with the clear understanding that the tax must be paid. The price he gives for the land makes full allowance for this deduction, being based on the net rather than

\* Of the 87 responses upon this resolution, 77 professors voted yes, and 10 voted no.

the gross return which the land is capable of affording. \* \* \* It follows that no tax is collected with so little friction as a land tax which has been invariable in amount over a long term of years, and which comes out of the rent fund, and imposes no burden on landowners who have acquired their holdings after the tax was imposed."

As an indication of what a peaceful revolution may be wrought through the operation of this beneficent principle of capitalization, a single illustration is offered: Assuming an interest rate of five per cent.; if the ground rent of a lot of land is \$1,000 a year, and, if it were subject to no tax, its market value would be \$20,000. Being, however, a Boston lot, it is subject to a tax of approximately \$250. The net rent being thus reduced by 25 per cent., the price of the land has been reduced by 25 per cent., and a purchaser would buy it today at \$15,000, the capitalized value of the net rent, *free of tax*.

If Boston should deem it wise some time, be it in the course of half a century or a century, to do away with this invidious discrimination in taxation between land and other things for the thousands of millennial years to follow, by abolishing all taxes, and paying all expenses out of its ground rent, it would be necessary to take from the present net rent of \$750, \$250 more of each thousand gross ground rent, or \$500 in all. This increase, if made in a period of twenty-five years, would require an annual increase of fifty cents per thousand on the gross value, or \$10 (one per cent. yearly of the gross ground rent); or, if taken in a period of fifty years, then at one-half that rate, or \$5 (one-half of one per cent. yearly of the gross ground rent). At the end of either period the original gross rent of \$1,000, or the present net rent of \$750, having been reduced to \$500, a new purchaser would buy the same lot at \$10,000, the capitalized value of the then net rent, still *free of tax*.

Any one purchasing any lot of Boston land yielding a ground rent of \$1,000 a year, at any time during this period of twenty-five or fifty years, would buy it at a reduction from today's market value (\$15,000), proportioned to the increase of tax upon it beyond the present tax of \$250. In other words, he would pay always the capitalized value of the net rent, an amount always *free of tax*.

The sole aim of the single tax is to effect a more equitable distribution of the products of labor.

For a rough illustration of the cumulative disparity in wealth resulting from the practical exemption of assessed land values, please note how today's Boston land will stand fifty years hence,—a long lifetime for present buildings,—as compared with today's Boston buildings, figured on a four per cent. savings bank basis, using round numbers.

Boston land, without reckoning any increase in fifty years, will be as now .....	\$600,000,000
If, as is here contended, Boston land owners are practically exempt from taxation, then they will profit by savings to the extent of their taxes, which, compounded annually at 4 per cent., will amount in fifty years to .....	1,400,000,000
Balance to credit of land will be in 1955 ...	\$2,000,000,000

Brought forward .....	\$2,000,000,000
While Boston buildings, now valued at \$400,000,000 will be worthless in fifty years, and the loss on them will be .....	\$400,000,000
Taxes on buildings instead of being a saving will be a loss to the extent of taxes on the average amount, one-half (\$200,000,000) which, compounded annually at 4 per cent., will amount in fifty years to .....	450,000,000
To the debit of same buildings as total loss in 1955 and no balance on hand .....	850,000,000
Consequent advantage of Boston's land over Boston's present buildings fifty years hence	\$2,850,000,000

This is the only inequality in the distribution of wealth of which it is thought worth while to complain. With inconsiderable exceptions, such as stocks, bonds, and other forms of securities, most of which, however, elude taxation, the capitalization of the tax occurs only in the case of land values, and this immunity from taxation is, in so far, the exclusive privilege of land owners, and this capitalization of the land tax explains, it is thought, how in another twenty-five, fifty or one hundred years all taxes may be abolished through the process of capitalization without injustice to land owners, and taxation as a burden be a thing unknown.

Few people deny that for a new community to start with the single tax would be a good thing, because only the *future increase* in the value of land would then be taken in taxation, and no injustice would be done to any land owner, inasmuch as he would not be deprived of any value already accrued to his land. In exactly the same sense, why should it not be advantageous to the community, and no injustice to the land owner, if the City of Boston should decide that beginning in 1904 with a land valuation of \$608,000,000, it should proceed "TO MAKE THE FUTURE INCREASE IN GROUND RENT A SUBJECT OF SPECIAL TAXATION."

### Summary of Prof. Seligman's\* Address.

Prof. Seligman explains that while he recognizes the stimulus given to economic thought by Mr. George and his followers, he has never been able to assent to their views, because he cannot but believe that property in land rests upon practically the same basis as other property.

He goes on to explain that despite this it is true that for some purposes land may be put into a separate category from other things, because economic progress may have different effects upon land from what it has upon other productive agents; effects different in degree, however, rather than different in kind.

\*"Prof. Seligman of Columbia is recognized as the foremost authority on taxation among American economists." [Editorial *Boston Transcript*.] He is also ex-president of the American Economic Association, and a member of the Civic Federation.

Prof. Seligman approaches the problem, therefore, as a student of public finance, and finds that one of the next steps in practical tax reform is in the direction of heavier taxation, at least of urban land.

Existing American methods of taxation are notoriously bad, and between the theory and the practice of our tax laws a wide gulf is fixed. Whereas all property is supposed to be taxed equally, the fact is that the taxation of personal property has become a farce, and in this and other ways we have come to a practical breakdown of the general property tax.

The reason for this breakdown Prof. Seligman finds in the fact that we have been trying to tax individuals as individuals upon all of their property, whereas under modern conditions property has been split up into so many forms, and ownership of any form of property so widely divided and subdivided, that it is impossible to proceed any longer on the basis of taxing individuals as individuals, and necessary to deal with property as we find it.

Some change is clearly necessary, and this change must be in the direction of abolishing or decreasing greatly the personal property tax. This, of course, raises the question, what shall be put in its place, and it is with one of the possible substitutes that we are dealing tonight. Among such substitutes there will probably be found in the future a heavier taxation of local franchises, as in some of the American cities, and a taxation of rental values of business franchises as in some of the Canadian cities. But what interests us here tonight is an additional tax on land values. Of course we now tax land values under our present property tax, and in some States we distinguish between the assessment of buildings and the assessment of land. But it is now proposed to introduce a new sort of land taxation, namely, a tax upon the future increase of land values.

In favor of this change, two reasons may be advanced: In the first place, land can be readily found and assessed, and cannot evade taxation; moreover, a tax upon it will not decrease its quantity; and in the second place, the income from land is essentially a chance income. People fail as well as succeed in land speculation. Yet, when all this is said, in a progressive community land values tend to increase, and it is practicable to ascertain these increases and to tax them.

But, it may be asked, why tax the land rather than the building upon it? The reason is that a tax on the building, under ordinary conditions, is added to the rent paid by the tenant, while a tax on the land cannot be shifted, and falls upon the owner. Furthermore, it falls upon present rather than future owners of land, since the future purchaser will deduct from the price that he pays the capitalized value of the present tax. This last fact brings it about that in time, and with a continued change of holdings, a land tax ceases to a large extent to be felt.

The final question concerns the advisability of effecting such a change by local option rather than by general law. Prof. Seligman confesses that he has only gradually come to the conclusion that local option is inevitable. He sees many reasons why it would be desirable, if possible, to construct a general system of taxation, rather than to proceed by patchwork; but the difficulty of constructing a law that shall be applicable to city and country interests alike is so great that it seems impossible to devise a measure that shall satisfy these divergent interests. So far as possible each local community, therefore, should be permitted to experiment for itself. If farming districts desire to tax personal property, let them do so, and if business communities prefer another method of taxation they should be permitted to follow their preference.

In doing this we should not be undertaking anything very revolutionary. In various European cities, especially in Germany, a general movement has begun within recent years toward taxing building sites over and above the ordinary tax on real estate, and the experiments seem to be working well. Yet it should be understood that such new taxes should be introduced gradually; although not burdensome to future purchasers, they may be distinctly burdensome to present owners. If the tax is applied to future increase of value, rather than existing value, it means a loss of prospective gain rather than a decrease in the existing value of property. If properly guarded, the tax would be in nowise inconsistent with the principles of private property, would be in touch with the modern structure of our economic life, and would tend to rid us of the long standing evils that attend the attempt to tax personal property.

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### Remarks of Hon. Josiah Quincy.

I cannot see how we can adopt the suggested change without in some measure depreciating the value of land to the present owners. But it does not seem to me that the fact that the proposed tax will operate in that manner is really any argument against its justice or its expediency. I do not think that the fact that a tax is to fall somewhere where it did not fall before, or that property is necessarily to depreciate in value, is an argument against changes in our system of taxation. The subjects of taxation have been changing and fluctuating ever since taxation has been imposed. In our own experience in this country we have seen various classes of national and state taxes at various times. If a man holds personal property—say a stock of goods in a factory—which is exempt from taxation, and if the law is changed so that such goods become taxable, the value of those goods may be in a measure decreased. I don't see how it is possible to impose any new taxes without doing some injustice from this standpoint to the present owner of the property which is made subject to the new tax; and it seems to me that this argument would therefore prove altogether too much if we were to accept it as a conclusive objection to changes in taxation. All civilized communities are changing, radically changing, not only the subjects of taxation, but also the rates of taxation, according to the necessities of public expenditure. It is as much confiscation in a measure to double the rate of taxation, which sometimes occurs for various reasons, as it is to change the subjects of taxation; and it seems to me that the sound legal doctrine, and the sound moral doctrine, as well, is that all property is held by the citizen subject to such taxes as the general good of the community, of the state, and of the nation, requires to be imposed. Taxation is really a question of general expediency, of economic advantage, and not a question primarily of whether this individual or this class of individuals is to be injured by the imposition of some new tax which has not heretofore existed. Therefore it seems to me that, while as a matter of fact, the adoption of a system of taxing the increment of ground rent from today on, as proposed in the terms of the resolution, would necessarily somewhat diminish the existing value of land in the hands of the present owners, yet that fact is not an argument against the imposition of such a system of taxation, if upon general economic grounds, or upon grounds of public policy, it would be advisable.



## EDITORIAL COMMENTS.

## AN INTERESTING TAX DISCUSSION.

The taxation problem was discussed last night in an interesting manner at the dinner of the Economic Club of Boston. The wisdom of making the future increase in ground rent a subject of special taxation was the theme before the speakers. The leading remarks were made by Professor Seligman of Columbia University, one of the profoundest students of taxation in this country, his statements being prefaced by a short address by Mr. C. B. Fillebrown, president of the Massachusetts Single Tax League, who has done so much to familiarize the people of Boston with the single tax theory.

Professor Seligman frankly admits that he is not a single taxer. He recognizes, however, the inadequacy of the old general tax theory, so far as the conditions of our complex city life are concerned. In his own words, theory and law have lagged behind the facts.

This everybody will agree to. It remains now to effect a readjustment—certainly a most difficult problem. As a means to this end, Professor Seligman is prepared to admit that, with proper restrictions, the future increase in land values can safely be made the subject of taxation over and above the ordinary tax on real estate. This, he thinks, would be in nowise inconsistent with the principles of private property.

The subject is a large one, and must necessarily be handled with great care. Though the single taxers have not won general approval for their views, they have performed a service by kindling the interest of the public in a subject of the very first importance to every member of the community.—*Boston Post, Apr. 28, 1905.*

## TAXATION OF GROUND RENT.

The proposition that it would be sound public policy to make the future increase in ground rent a subject of special taxation, which was discussed last evening by the Economic Club, seems to have the approval of a large majority of the experts in economics and finance. In a vote taken on this proposition at the instance of President Fillebrown of the Massachusetts Single Tax League, seventy-seven professors of economics declared themselves in its favor, and only seven in opposition. Conspicuous among those who indorse the plan is Professor Seligman of Columbia, the chief speaker at last evening's dinner, who is recognized as the foremost authority on taxation among American economists.

There is a wide difference between the proposition under consideration and the single tax programme, as originally formulated by Henry George. The latter advocated appropriation by the State of the entire ground rent. The modified proposition calls for special taxation of the future increase of ground rent. This means simply that as additional revenues are needed by government, especially by municipalities, they shall be obtained by increasing the tax on land values, rather than the taxes on buildings and business. There is much to be said in favor of this suggestion, and there is no very weighty objection that can be urged against it.

The advantages of the proposed form of taxation are obvious. In the first place, a tax on land values cannot be evaded; it is impossible to conceal or remove land. Again, such a tax cannot be shifted. It is an established prin-

principle of economic science that a tax on buildings or improvements is shifted from owner to occupier, whereas a tax on ground rent cannot be shouldered off in this way. Furthermore, a tax on land alone becomes imperceptible, after it has been in operation for some time. The capitalized value of the tax is deducted from the selling price of the land. Future purchasers obtain their land at prices reduced in proportion to the amount of the tax, and in time the tax ceases to be felt by anyone. Finally, the relief of personal property from the burden of increasing taxation, which the proposed change would bring, would greatly stimulate business. Unquestionably the adoption of this plan by any city would powerfully promote its industrial growth by encouraging business enterprises of every kind.

In the future development of taxation municipalities will doubtless find it expedient to obtain their revenues largely from land and franchise taxes. The growth of the cities results in steady enhancement of land values, entirely irrespective of the efforts and deserts of individual land owners. This increase furnishes a quasi-public fund which may fittingly be drawn upon to meet the growing expenses of municipal administration. This is the saving remnant of the single tax doctrine.—*Transcript, Apr. 28, 1905.*

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#### THE SINGLE TAX IN EVIDENCE.

Charles B. Fillebrown of Boston, whose devotion to the single tax plan of Henry George is so steadily in evidence, performs a public service in concentrating interest on the crying need for reform in our methods of taxation. In this all the speakers at the Economic Club's symposium in Boston Thursday evening could agree, if on little else, when it came to the problem of a way out. Probably all would concur in the desirability of allowing so much local option in taxation as would permit of a trial or trials in Massachusetts of the single tax program. Perhaps the most interesting and valuable single contribution to the evening's discussion was embodied in the letter of Charles Francis Adams, whose premise summed up the present system "as in every respect bad," and then declared:—

"It places the burden of taxation where it weighs most heavily,—upon the industrial and productive portions of the community; and, further, it imposes a severe penalty on conscientiousness and honesty, and offers a premium on fraud, prevarication and concealment. It is unscientific, unjust and oppressive,—demoralizing to the community, and unsatisfactory to the state and municipality. . . . Under these circumstances the only method of simplification I can suggest is the division of taxable property between realty and personalty, as at present. The means necessary for all municipal purposes, town and city, should be drawn exclusively from the tax on the realty; whether realty alone, or real estate and improvements thereon, is matter for consideration. My own judgment would be that it should be left as a ground rent, payable to the community, wholly irrespective of improvements.—*Sunday Springfield Republican, Apr. 30, 1905.*