

THE SINGLE TAX REVIEW

A Record of the Progress of Single Tax and Tax Reform
Throughout the World.

THE PRESENT PROGRAMME AND STATUS OF THE SINGLE TAX REFORM.

(Continued)

(For the Review.)

By SCHUYLER ARNOLD

This article, which will be printed serially in the REVIEW, is perhaps the most important contribution to the history of the movement so far made. It should have a wide circulation, for it will be invaluable for reference in the future. Its publication in book form on its completion, with other matter comprising a Single Tax Year Book, is in contemplation.—Editor SINGLE TAX REVIEW.

LOCAL OPTION IN TAXATION.

The proposal of local option is a proposal to grant the local governing bodies more or less freedom in the determination of the methods of local taxation. Sometimes this local option proposal takes the form of giving the local unit complete freedom as to choice of method, but there are comparatively few who advocate freedom to this extent. Complete freedom might be granted the localities while the States would raise all their taxes by apportionment among the local governments upon the basis of local expenditures. This would cause the State tax to fall upon the same basis as the local taxes, and this, strictly speaking, is not local option. It is usually proposed to reserve certain taxes for the exclusive use of the States and to confine the choice of the local governments to some plan of segregating the sources of revenue.

The local option movement first took form in the State of New York some twenty-five years ago, when Hon. Thomas G. Shearman of that State presented a local option bill to the legislature in 1891. This bill was the first such proposal ever presented to any State legislature, and is the model on which many ensuing local option proposals have been patterned. It was defeated in 1891 and reintroduced nearly every year since that time, but with the same result. The bill said in part; Sec. 2: "The board of supervisors in each county may, in their discretion, direct that all direct taxes in such county (other than those which such county may require collected for State

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purposes, and other city taxes concerning which an express direction may have been given under authority of Section 3 of this Act) shall be levied exclusively upon the assessed value of personal property alone, or upon improvements thereon, or upon the assessed value of land alone exclusive of improvements and the personal property, or upon the assessed value of land, improvements and personal property taken together. Sec. 3: The common Council in each incorporated city may, in their discretion, direct that all direct taxes in such city exclusively for city purposes shall be levied upon the assessed value of personal property alone or upon the assessed value of real estate alone, including land and all improvements thereon, or upon the assessed value of land alone, exclusive of improvements and personal property, or upon the assessed value of land improvements and personal property taken together."*

This bill shows but one form of local option, but it is the common conception of the term "local option." It will be noticed that this does not grant a real freedom but only freedom to *exempt* under certain restrictions, making it a "negative" proposition. This rejects a good many of the objections made against total freedom of taxation.

The proposals fall into two groups; those that aim to exempt personal property and those that aim to exempt improvements on land.

The reasons for permitting local option are, in general: (1) to assist in equalizing the tax burden as distributed under the existing system; (2) to allow the locality to cope with its own social and economic problems, and (3) to make an opportunity for the easier introduction of tax reformation.

The equal distribution of our present system is claimed to be more apparent than real because our tax assessors do not strictly enforce our general tax laws, thereby exercising an unsanctioned local option power and creating injustices of burden by this extra-legal method. According to them, a strictly enforced uniform system is bound to work an injustice, and to get around this the local assessors neglect to enforce the law strictly and bring about an unsanctioned local option. A good illustration of this is seen in the Wisconsin 1910 assessment of moneys and credits, and non-checking deposits.

The most convincing point they make is that the diversity of conditions necessitates a diversity of taxation laws. The same tax can not be adapted to all localities, and this point they try to show by contrasting urban and congested city districts with rural districts. The property of these different communities will have a different status and the taxation of the same kind of property in the two communities will have a very different influence. For instance, the congested county of New York as compared with the sparsely settled county of St. Lawrence is a striking illustration that one might use. The Boroughs of Manhattan and Bronx in New York county have a population of 93.7% tenants, while the population of St. Lawrence county is made up of just as large a percentage of land owners, the land in the latter case con-

*Local Option, by Leonard Tuttle in *Municipal Affairs*, September, 1898.

stituting almost the entire wealth of the community and the value almost wholly a "fertility value," while in New York the value is more than 50% land value, and this is "site value" not "fertility value." These two land values certainly bear a different relation to the community. There are also forms of wealth, according to assessment rolls, in the one community that do not even exist in the other, as illustrated by the New York State Bank Stock tax, which in 1910 brought in nothing from the two counties of Schuyler and Hamilton, while Greater New York contributed \$2,263,259.57.

It is claimed by the advocates of local option that the proposed freedom is good for the communities and that it awakens an interest in local affairs and creates a greater sense of responsibility. This necessitates drawing a definite line between the purely local interests and State interests, but where this line shall be drawn is a question they have failed to answer. They also claim that local governments are better fitted to deal with local taxation because they have a knowledge of the local conditions which the State government does not have. Although this might appear rather attractive on the face of it, it is certainly untrue. There are no local conditions that cannot be understood by those outside the locality, and certainly expert agents hired by the State are better able to understand how to deal with the local problems than the untrained of each locality. It is also a fact that public opinion varies in different communities, and laws, to be respected, need the backing of public opinion. This is just as true of taxation laws, they claim, as of any other laws.

The method is directly opposed to the trend of progress in taxation, which is toward centralization, rather than toward decentralization. Prof. T. S. Adams says of this method of fiscal decentralization that it "militates against the reform of the local assessment work." The tendency of the progress in taxation administration is to have this work done by experts and done uniformly.

Most every social or economic problem is more or less controlled by the status of real estate or land, and the local option advocates claim that this system would permit the locality to foster or repress any interest that it desired for the good of the locality, but what these interests are that the community might desire to foster or repress they have not stated. It does not seem to me that it would be good policy to have our cities encouraging and discouraging any interests that the majority might decide. The minority have rights that must be respected and should be protected by the State; and our legislatures should not permit temporary majorities in any district of the State to try reckless experiments with the business of members of the minority. It is truly said, "that the power to tax is the power to destroy," and the locality should not be given the power to destroy the property of the minority or non-residents. Governor E. F. Noel, of Mississippi, in a discussion of local option says: "We should retain to the State the power retained by it, which is the power to protect every citizen in every part of the State

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from extortion and wrong from individuals or combinations of individuals, whether operating through a precinct or a county or any other district."*

The idea that one community cannot injure another is fallacious. The people of the locality surely are not the only ones concerned because no locality lives entirely within itself, owing to the modern transportation and communication facilities that we have. Non-residents have property interests as direct as residents, therefore the State and not the county, is the ultimate body concerned. Then, too, the power to exempt, as stated in the law, may easily mean more than simply exemption. As Dr. T. S. Adams says, "The programme of reform apparently permits greater liberty to everybody concerned, and as consistent Democrats they properly refuse to be frightened by the fact that liberty may degenerate into license.†

In a system that allows each unit to exempt personal property and improvements if it sees fit, some fear that a demoralizing contest between the units will result. It certainly does not seem wholly advisable to allow localities to compete for capital by allowing exemptions. New Hampshire has allowed the towns to exempt new industries to a certain limit, and of this scheme the New Hampshire report says, "The law now serves as a cudgel rather than a bait." Where the locality exempts the improvements it is claimed that it would be a discrimination in favor of local enterprises and to a certain extent, I think this would be true, at least providing none of the other localities took advantage of the local option privilege. At any rate, any diverse methods of taxation would need to be limited with exceeding care to prevent double taxation, as the opportunities for double taxation would be manifold.

Another argument brought up in favor of local option is that it would permit experimentation in the counties and cities and so demonstrate the qualities of such exemptions as the localities have chosen to make, and thus be an object lesson for the State. This argument is not for local option for its own sake but only as it may be used to get reforms for the whole State, at which time local option would not be local option. The Single Tax advocates are most all advocates of local option, and in fact it is to a large extent the outgrowth of the Single Tax campaign and has but few advocates except Single Taxers. But they think of it only as a question of tactics, because as soon as the State adopts the Single Tax principle, the Single Taxers will have no more use for "home rule." They would recommend a uniform method of Single Tax and this is directly contrary to the diversity theory which they use in arguing for the establishment of a local option rule. Thus they consider it only as the "shortest road to Single Tax." The fact that under a local option law the tax might be levied so high as almost to confiscate property does not make the Single Tax germane to this question. The social reform

*State and Local Taxation, page 293.

†Separation of Sources of State and Local Revenues as a Programme of Taxation, by T. S. Adams in State and Local Taxation, page 218.

of Single Tax could be accomplished in other ways. If the people of the State want a Single Tax they can have it at any time, regardless of local option amendments.

THE EXEMPTION OF IMPROVEMENTS.

After local option privilege has been granted, the Single Taxer next proposes to his county or city to provide for the exemption of the tax rate on improvements. This is not the "complete" Single Tax programme, but it might be called the "practical" Single Tax, because the same arguments apply for the one as for the other, it being only a matter of expediency. The proposal usually takes the form of the tax rate on improvements being gradually reduced over a period of ten to twenty years until all the tax is removed. The plan is based on the Single Tax principle that to tax improvements is to penalize them and hinder production.

The housing conditions in our American cities is a circumstance which prompts a consideration of this proposition. After extensive research, the New York City Commission on congestion of population has come to the conclusion that New York City has the worst housing conditions in the world, and our other large cities do not rank much better. There have been numerous attempts made to overcome many of these conditions by enacting building restrictions and requirements, but these only tend to hinder the construction of buildings and make the problem more distressing than ever. It is the opinion of many, including numerous foreign and local housing experts as well as *all* Single Taxers, that the solution of the problem rests on its relation to the land question. The complaint is that landlords charge excessive rents for unsatisfactory buildings. This, of course, affects the manufacturer as well as the tenement dweller, but the home-seeker has not the opportunity, as has the manufacturer, of recovering his rent by adding it to the cost of production. This is "burning the candle at both ends," for the ultimate consumer (and it is claimed that our tax system is responsible because it penalizes the improvement of land). As long as this is the case we cannot hope for any radical betterment of housing conditions, even with extended building regulations. In order to obtain cheaper rent and the good consequences that go with it, the Government should promote the building industry by placing a premium on good buildings, and this is what the exemption of improvements from taxation is supposed to do.

In this country we have the proposal for a partial exemption, usually of 50%, and for a gradual reduction until a complete exemption is obtained. As the same arguments apply to both proposals, I will deal only with the latter.

If taxing buildings at the same rate as land brings about any injustice of incidence, it must be kept in mind that the expenditures for "collective municipal social activities" are still in their beginnings and are certain to increase and magnify the evil. In dealing with these wrongs, the status of the different classes and the effects upon them must be considered. The 1900 Federal

Census Report shows that the percentage of tenant families of our twenty-six largest cities varies from 57 9-10% to 93 7-10%, so that any tax scheme that tends to increase rent without a corresponding increase in wages or production, means an additional burden on a large majority of the city's population, and a large percentage of this class cannot bear it without aggravating an already distressing condition. In New York City it is estimated that \$500 to \$700 is the usual income of unskilled labor, and that "with an income of from \$700 to \$800 a family can barely support itself, provided that it is subjected to no extraordinary expenditures by reason of sickness, death or other untoward circumstances."* If this be true, the family of the unskilled worker is already existing under a "deficit" and many more are doing but little better. Surely, no city is justified in extracting any of its revenue from such people as these, because it only drives them further into poverty and inefficiency, and forces many to become objects of charity. This is a drain on the public purse which is again filled, partly by contributions from families so poverty stricken that they in turn have to accept public charity. Thus the city tends to continually create paupers and force into abject poverty those who are but a trifle better off. This is one of the many evils to be laid at the door of a system that taxes buildings.

A building tax must, in almost every instance, be paid by the tenant as part of his rent, because such a tax is, of course, one of the annual maintenance costs of the building, the same as the water and light charges. That is, it is one of the landlord's costs of production and if he could not add it to his rent charge it would subtract that amount from his net profit and tend to make his return on the investment below the current rate of interest. It would then be unprofitable for him to construct buildings for renting. This would lower the supply, but the demand remaining the same, the competition of the tenants to obtain a place to live, would force the rent up to a point that would cover the tax charge plus interest. As pointed out above, this extra rent charge due to taxes comes to many as the "last straw" to the maintaining of their position, and they are forced another step down towards poverty and the poorhouse. As Mr. B. C. Marsh has very aptly stated, "Shall this additional burden be extorted from the families now on the verge of starvation, from those hovering on the verge of dependence or existing far below the standard of national efficiency, are questions of compelling social import. That these classes will pay much of the cost of a larger and proper municipal programme under the present system of taxing land and improvements at the same rate is conceded, but social justice cannot concede that long usage transforms injustice into justice but rather demands that the wealth of land values the poor help to create shall be adequately taxed, since such taxation is the only method by which the owners can now be made to share equitably with the producers." †

*Taxation of Land Values in American Cities, by B. C. Marsh. Page 28.

†Taxation of Land Values in American Cities, by B. C. Marsh. Page 82.

Home ownership is also discouraged by this means as well as in a more direct manner. A man with a certain amount to invest for a home, on figuring whether or not he can afford to build, must capitalize the anticipated tax charge at the current rate of interest and subtract it from the amount he has at his command. This would often be enough to discourage his building. As before mentioned, the manufacturer has also this building tax to contend with and it must necessarily result in either a lowering of wages or an increase of the price of his product.

This whole question of discouraging buildings is summed up very clearly by Mr. Benjamin C. Marsh in his recent book on *Taxation of Land Values in American Cities*. He writes: "A further economic result of taxing buildings at the same rate as land has been referred to in the findings of the New York City Commission on Congestion of Population—that owners of vacant land are thereby encouraged to hold land out of use to secure the increase in values and to discourage the construction of buildings, since the owner is penalized in heavier taxes for constructing new buildings or replacing old and unsanitary buildings with new and healthy ones. Under the present general system of taxing land and buildings at the same rate, the owner of ground rents feels entitled to and attempts to secure 5 to 6% net return on investment in the land and buildings alike. This tends to keep up rents, since it is to the advantage of lightly taxed lands to postpone adequate improvements for as long a time as possible so as to get scarcity value rents, and to secure the maximum share of increase in ground rent. This applies, of course, to land which should be improved for business, manufacturing and commercial as well as for tenement purposes. The inevitable result is high rents, and a tendency to over-crowd all buildings and not to provide proper standards of sunlight, space and ventilation."* This is because the full value of any improvement is added to the assessed value of the building, and only a small increment is added to the rental value, because the space occupied is not increased. This increment does not usually equal the extra interest and taxes to be earned. If it did, building of proper improvements would be voluntary and this would result in a tendency to a decrease in the city's budget, as is most noticeable in a case of fire-proofing buildings. It is claimed by the *American Year Book for 1907* that fully four-fifths of the fire loss in the United States, or about one million dollars per day, could be prevented by proper standards of fire construction.†

If the taxing of land and buildings at the same rate is the cause of these evils, then, claim the supporters of a higher land value tax, the taxing of land at a heavier rate than buildings will tend to relieve these evils, and their doctrine, as stated by Mr. C. B. Fillebrown,‡ rests upon the following three legs:

**Taxation of Land Values in American Cities*, by B. C. Marsh. Page 29.

†*Taxation of Land Values in American Cities* by B. C. Marsh. Page 45.

‡*A B C of Taxation*, by C. B. Fillebrown. Page 67.

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- 1—The site value of land is a social product.
- 2—A land tax cannot be shifted.
- 3—The selling value of land is an untaxed value.

The argument for the first proposition rests upon the theory that the value of land is based upon the economic rent, which is defined as "what land is worth for use," or what it would command in the open market. The economic rent is defined by Mr. Fillebrown as, "The annual value of the exclusive use and control of a given area of land involving the enjoyment of those rights and privileges thereto pertaining which are stipulated in every title deed,—and which are due to the pressure and activity of the population and are inseparable therefrom, including the benefit of proximity to and command of facilities for commerce and communication with the world—an artificial value created primarily through public expenditure of taxes."* This gives a heavier taxation of land a moral as well as an economic sanction. Certainly no one should be entitled to values he has not created and thus "reap the benefit of others' toil," but this is just what the land owners have been doing by participating in the increased land values due to the city's improvement paid for by all.

The increasing of the land tax does not aim to destroy land *ownership*, but simply to collect from the untaxed private ownership and thus obtain social equity by "just and economically sound taxation," which Mr. Marsh says, "is one of democracy's surest methods of restoring and securing social justice."† The justice of this is expressed by Mr. Fillebrown when he says, "Private ownership of land is no injustice to anybody today, nor has it been at any time. The untaxed private ownership of land value as it exists today is unjust. This does not mean that the ownership is unjust, but that not to tax it is unjust. An absolute ownership in land, such as Henry George recognizes in the products of labor, would be unjust, but, says Mr. Edward Atkinson, no such "absolute ownership of land is recognized in the law books." Its tenure is always subject to taxation, and to the superior right of eminent domain. Feudal tenure would seem to have been a rude recognition of the principle that the beneficiaries of a government should pay the expenses of government."‡

One of the economic merits of a tax on land values is that it cannot be shifted onto the tenant because ground rent is primarily determined by demand. The rent is already "all that the traffic will bear," and a tax will not make the land worth any more to the user.

This does not make such a heavy burden on landlords as it at first seems, because the tax rests on the ground rent, leaving the selling value untaxed. The market value of land is determined by capitalizing the net income, which is the gross income less taxes. Thus all taxes, existing and anticipated, are

*A B C of Taxation, by C. B. Fillebrown. Page 82.

†Taxation of Land Values in American Cities, by B. C. Marsh. Page 24.

‡Taxation of Land Values in American Cities, by B. C. Marsh. Page 17.

capitalized and subtracted from the purchase price, and it is only an increase in tax that any one land owner bears. As a consequence, the selling price would be reduced by the heavier taxes and the anticipation of an increased rate, instead of being swollen by the capitalization of the estimated future increase in earning power to be paid for by the tenants. This is what gives land its speculative value and keeps much desirable land out of use. By taking away some of these enormous profits, land ownership will become less valuable as a speculative investment, holding land out of use will tend to be unprofitable and much of the present vacant land will be offered for use. Coincident with this is the fact that an "adequate taxation of land values will release large sums of money for other purposes, such as constructing buildings, tending to reduce interest rates." Thus building and industry will be encouraged by this means as well as by their exemption from taxation, and lower rents and higher wages is the promised outcome.

There are many other claims made for the proposition that might be presented if space permitted, but most of them rest upon points given above. It is often urged as a panacea for all social ills, which of course it is not. The actual working out of the scheme will be dealt with in the chapter on the Single Tax in Canada.

(To be Continued).

EMASCULATED SINGLE TAX OR COMMON PROPERTY IN LAND, WHICH?

(For the Review).

BY ANTONIO BASTIDA

It seems to us that the following is an admirable expression of a point of view, in which, though there are statements from which we would dissent, we find much to commend. But at all events, it is certain to be read with interest, and expressions of opinion from readers of the REVIEW are invited.—Editor SINGLE TAX REVIEW.

In the Sunday schools last week, throughout the Christian world, was told the story of the angels who appeared to the shepherds in the fields of Bethlehem proclaiming the advent of Christ, with the glad tidings of "peace on earth and good will to man."

Why is it then that today almost all of the powerful Christian nations of the world are engaged in bloody strife? That pious, but rival, Emperors, Kings and peoples are daily praying to God to bless their armies and help them to slaughter those children of God who live on the other side of their political boundaries?