sailing. It will direct attention to the fact that their is such a thing as the community value of land. It will educate the people to the fact that congestion, city slums and unsanitary buildings and homes, are the results of land gambling, and when these facts once become clear, the agitation will never cease until more and more of the landowners' graft is absorbed by the people: until ground rent becomes the common property of all, and until every natural opportunity can beused but for one purpose, and that to supply the people with the necessaries of life, without waiting for the permission of any private individual, and without having to pay as toll the greater part of what labor has produced.

(Finis)

TAXATION OF PUBLIC SERVICE FRANCHISES — A VITAL PART OF SINGLE TAX.

(For the Review)

By JAMES W. BUCKLIN

In the Nov—Dec. number of The Review, vol. 16, page 341, under the title of "Taxing Public Utility Corporations," George White urges that such corporations should either not be taxed, or if "some kind of tax" is levied on them it should be "a tax upon gross receipts." He also says "any taxation of public utility companies must be considered as finally payable by patrons." I am informed that other prominent Single Taxers are in accord with his views.

So far as Single Tax authority goes, our national platform adopted in Chicago in 1893, Henry George's works, Thomas G. Shearman's "Natural Taxation," and most if not all other Single Tax authorities are in direct conflict with Mr. White's proposition. Let us however examine the subject itself and see if his position is tenable; but before considering other public utility taxes let us briefly consider the taxation of gross receipts.

Gross receipts of public service corporations come from both the wealth (tangible property), and from the land and franchises of the company, and even Mr. White admits that a tax on the tangible property is unjust. A tax on gross receipts is more unjust and indefensible than even the general property tax, because it would exempt all unused land and franchises from all tax. In fact there is no ethical basis whatever for a tax on gross receipts. Is there any ethical basis for any tax on public service corporations, and if so what is it?

The property of public service corporations consists of land, franchises and "tangible property." What is a public service franchise? It is a special right or privilege to use land as a highway. It is a landed right, and the income therefrom is rent, arising, increasing, decreasing and disappearing,

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just like other land values, in accordance with the number and character of the people tributory to it. Clearly franchise value is not a value created by either labor or capital. Mr. White, in accord with other Single Taxers, declares in favor of exempting the tangible property of utility corporations from taxation, and even says "as regards the franchises of these corporations, a different line of thought is necessary." He even admits that franchise values arise "because of the special rights the utility corporations have to occupy, to some extent, the public highway." Franchise values are then simply land values, a capitalization of the unearned increment of public service utilities.

Now land value or rent is not a factor, normally, in the cost of products. The cost of an article springs naturally from wages and interest, although its price is largely affected by monopoly. A merchant paying $5,000.00 per month rent, sells his goods for no more than does the small merchant paying but $10.00 per month. Wheat from a farm worth $200.00 per acre, sells in the same market for precisely the same as does wheat from land worth but $20.00. So too the cost of electricity, gas, water, street car tickets, freight and passenger rates normally depend on the cost of production, not on the value of the franchise or land of the utility company. Municipal utility charges are not dependent upon the size of the city, although in some cities the franchise is worth millions of dollars, and in other cities but little or nothing. In fact one can generally ride much further for five cents in street cars with a franchise worth millions, than where it has only a nominal value.

If land and franchise values are not factors in the cost of operation, more clearly still taxation of such privileges is not such a factor. Where such values go into the public treasury instead of going into private pockets, the cost of operation is not thereby increased. It is a fundamental economic proposition that land value taxes are not added to rent and cannot be shifted to the consumer. The tax on utility franchises, like the tax on other land values, cannot be shifted, but reduces the value of the franchise so taxed and rests finally on the franchise owner. Mr. White is therefore clearly wrong when he says that franchise taxation "must be considered a cost of operation," also when he says that such taxation is payable by the patrons. The taxation of public service franchises then does not, of itself, increase the cost of operation, or the power of public service corporations to levy a larger tribute on the patron, but tends to lessen such cost and power.

What has obscured this plain fundamental principle even to some Single Taxers, is the fact that in some States utility rates are not fixed but are flexible, and can be increased or diminished by utility commissions. Such commissions, misled by the public service corporation or by a lack of correct economic ideas, sometimes attempt to add the taxes levied upon both the franchise and the tangible property to the cost of operation, as a basis for rates. The tangible property tax is correctly added, but not the franchise tax. If the rates were

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based solely on the cost of operation, repairs, depreciation and interest on the tangible property, there would be no franchise value, and could be no tax thereon to add to the rates. It is solely because rates are not so based, and just to the extent (capitalized) that rates are above such base, that franchise values appear. Under the full Single Tax, neither the capitalized value of land or franchises would exist. Taxes on the franchise not being a part of the cost of operation, the effect of adding such taxes to such cost as a basis for rates, is simply to add the capitalized value of such taxes to the value of the franchise. Such added taxes are grossly unjust and a double hardship on the patrons when both such capitalized value and the taxes thereon are used to enhance such rates. Any capitalized value of such franchise is proof conclusive either that rates are unjustly high or that the tax on the franchise is too low. No franchise tax should therefore ever be added in as a basis for fixing rates, for the rates are already too high or there would be no franchise value to tax.

So much as to the question of right, but a question of method still remains. There are three possible ways in which franchise value may go to the public, its rightful owner. 1—Public Ownership; 2—Taxation of the Franchise; 3—Reduced Rates or Charges. The first method is the favorite Single Tax plan. The third was adopted in Cleveland when street railway fares were reduced to three cents. Tom Johnson however, secured this reduced rate as a step to public ownership. Under public ownership, rates are generally reduced on the theory that rates should just equal the cost of operation. Many Single Taxers even go to the extent of urging that all public service rates and charges should be abolished, and the public service operated free like an elevator in a sky-scraper. But if neither the first nor the third methods above mentioned are in operation, a franchise value will arise which should be taxed as heavily as possible, even to the extent of taking the entire water out of all stocks and bonds of such corporation.

In long years of hard fighting, I have generally found that the chief obstacle to public ownership of public service utilities, is the franchise value. The people feel that to buy back this unearned value, is harsh and unjust. The courts hold that the city must pay to its owner the value of the franchise whenever the city takes over the plant, and the amount recovered generally largely exceeds the franchise value, thus bonding the city to an extent which destroys a large part or all of the advantages of public ownership. A heavy franchise tax therefore tends strongly to both reduce rates and to encourage public ownership.

Any attempt to adopt any measure of Single Tax without a tax on public service franchises is seriously objectionable for many reasons.

(1.) A franchise tax is popular and tends to secure votes for Single Tax. According to the 13th Annual Report of the Inter-State Commerce Commission, the net operating revenues of a portion of the railways of the U. S. in the year

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1916, exceeded their total operating expenses and all railway taxes, by more than a thousand million dollars. At twenty years purchase this would make the value of the railway property mentioned, over twenty thousand million dollars. The "World Almanac" gives the value invested in road and equipment at about seventeen thousand million dollars in 1914, and the par value of outstanding railway capital at over twenty thousand million dollars, so that the present railway value can be conservatively estimated at twenty thousand million dollars. "World Almanac" gives the value of telephone property at about one thousand million dollars. The enormous value of all the telegraph, telephone, electric light and power lines, of municipal and inter-urban street railways, wharfs, gas, water, subways and other municipal utility values, probably equal or exceed the value of the railways. This is much more than 20% of the total value of all property in the U. S. Shearman says that more than three-fourths of the whole market value of these stocks and bonds "consist of pure land values." Although accurate data is lacking, probably more than 20% of all land values in America are franchise values. How ridiculous then for the Single Taxer to go to the farmer or home owner and urge the Single Tax on him and his land, while the scores of thousands of millions of property value belonging to these great grinding corporations are to go scott free from ALL tax.

(2.) The strongest basis of Single Tax is its inherent justice. To ununjustly exempt any class of property from taxation, is a discrimination which cannot be logically defended. The exemption of franchise value from taxation, destroys the ethical basis of the absolute fairness of the Single Tax. In New Zealand and Australia, the exemption of certain land values from the land value tax, has proven a most serious handicap in those countries to the further extension of the tax.

(3.) The exemption of public service franchises from taxation would leave the Single Tax movement open to the charge that its leaders had sold out to the corporations either for cash, or for the purpose of buying off corporate opposition.

(4.) Single Tax success, in whole or in part, with public service franchises untaxed, would not lessen the evils of farming out the public service, nor make the fight against such evils any less strenuous. Nor does such unfair exemption lessen the opposition of the privileged classes to the Single Tax, as was demonstrated in the recent California election. In the great conflict now on against intrenched privilege, any surrender of our principles is fatal. There must be no false doctrine.

COMMENT BY GEORGE WHITE

Mr. Bucklin is "all at sea"—has not fully thought out his subject. Gross receipts are the only source of income to public utility companies. These

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must provide all "rent" if rent is charged for the use of public highways. Patrons of the service, and they only, furnish the gross receipts. If rates are to be based solely on the figured cost of labor, materials, depreciation and interest on wealth used by the companies, such rates will provide for no taxes of any kind, and taxes cannot be paid or collected. If rates are to be based on the mentioned costs plus a payment for the use of public highways, such rates will provide for some kind of a tax for such highway use, but patrons of the service must pay the tax in the rates so increased.

Mr. Bucklin, to the contrary notwithstanding, rate regulating commissions very properly allow all taxes to be considered as "costs" of operation, both taxes on tangible property and taxes in the nature of payments for the special use made of public highways. To require such payments for such special highway use is to call, simply, for ground rent, and ground rent, in any business, is properly to be considered as a cost of operation.

Mr. Bucklin's dissertation on cost and price has no bearing on the question before "the house," which is, whether or not ground rent shall be charged for the special use of the public highways, and if it is charged who is to be considered as finally paying it? If a municipality, by Single Tax, takes substantially all land rent from a private landowner, the land owner's tenant will pay all the tax. (In this sense, that he will pay the full rent—will furnish all the tax and properly so, as the user and occupier of the land). If a municipality, by a tax on utility companies, takes rent for the use of highways, the real tenants —the actual users and occupiers—the patrons of the service—must pay the tax. No one else can pay it. Except from the fares or rates they pay, there is no other resource from which tax payments can be made.

I did not "urge" the special form of tax on gross receipts, but I see no ethical objection to it. Where franchises are adequately used a tax on gross receipts will take from each patron, in proportion to his use of service, a contribution for a special use of the public highways. If in any case a franchise is not fully used, some remedy could easily be found.

As to conflict between what I have written and the views of Henry George, Thomas G. Shearman and others—there is none. All sound Single Taxers know that ground rent, whether for land privately or publicly owned, must be paid by the user.

As to the unpopularity of exempting utility companies from all taxation, or boldly acknowledging that any taxation of them must be paid by patrons—as to these ideas embracing "false doctrine"—nothing need here be said. Truth and the facts are more important than popularity. No doctrine is false that is sound in principle and adequately supported by logic.

Mr. Bucklin should once more read my original contribution in Nov—Dec. Review.—G. W.

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