CHAPTER XVIII

THE REVENUES OF THE CITY

It is this growing fund, this unearned increment, which exists by virtue of the city and could not exist without it, that offers a ready-made source of revenue for municipal purposes. It seems destined by nature as a means of compensation for the costs of municipal life. The crowding of mankind in the city has created many burdens unknown in an earlier or rural form of society. Police, fire, and health protection; the necessity for water, sewers, streets, transportation, light, and heat; the opportunity for recreation, for nature, for touch with Mother Earth; all these form the cost we pay for the new city civilization. The city exacts it as a price of life itself. Every expenditure by the city benefits the land and the land almost alone. Houses cannot increase in value beyond their cost of construction; nor do machinery, tools, or merchandise. As a matter of fact, they depreciate. And while taxation increases their security, it cannot increase their value beyond the cost of replacement. Under our present method of raising revenue, we charge a large portion of the cost of city life to labor, for taxes upon houses, industry, and food are inevitably borne by labor. We do this and overlook close at hand a common treasure, a publicly created fund which rises in value with every dollar expended by the city. All men created this fund, and all should enjoy it. The rule of municipal life should be "to the individual what he has created, to the city what it has created."

This principle is recognized when the city leases a site which it owns for business purposes. Provision is made for future reappraisals, so that the increase in value will be retained for public uses.[1]

[1] An example is furnished by the city of San Francisco, which is the owner of a considerable block of land. The city has prudently refrained from selling. To an article by Mr. Joseph Leggett of that city I am indebted for the following statement of the results of the city's policy.

"The city owns a lot 275 feet on Market Street by a depth of 100 feet on Fifth Street. An act of the Legislature approved March 30, 1874, authorized the Board of Supervisors to lease this lot for twenty years to the highest bidders. The Board made eleven subdivisions of the lot and leased them to different persons at different rates per front foot. The average rate per front foot per month for the last five years of the twenty-year term was $11.60, or $139.20 per front foot for one year. It is a little over two miles from the junction of Market and Valencia streets to the foot of the latter street, and Fifth Street is equidistant from those two points. Rents will decrease towards Valencia Street and increase towards the ferry, so that the rents of these lots would be very nearly an average for the whole length of Market Street from Valencia to East. The whole number of running feet on both sides of Market Street from Valencia to East is 23,054. Deducting from this total 2800 linear feet for street openings, there remain 20,254 feet of frontage on the street

The franchises in the public highways differ in no essential respect from these city sites. They are leasehold interests. In the eyes of the law they are easements appurtenant to the land. The right to make use of the streets for private purposes is in all respects like the right to make use of a building site. In the one instance, the investment made is in building structures; in the other in rails, poles, ties, pipes, wires, and the like. The cars which may run upon the rails are like the elevator in the building. Were our councils only free from corruption in the letting of these franchises, were we in a position to secure competition

available for business purposes. This frontage at $139.20 per foot per year would yield $2,819,356.80. There are at the time of this writing, October, 1896, 152 miles of accepted streets. A considerable portion of the frontage of these accepted streets is nearly as valuable for business purposes as the frontage on Market Street.

"In addition to the rent the lessees had to pay taxes on the improvements made by them and which reverted to the city. The improvements were assessed at $38,900. When the leases expired in 1895, the lessee of the 50 feet adjoining the Parrott Building conveyed his building to the city, without compensation. The city thereupon made a new lease of those 50 feet, with the improvements on them, for two years at an annual rent of $172.80 per front foot. At this rate the two sides of Markct Street between East and Valencia would yield an annual rent of $3,449,891.20.

"The Board of Education has leased certain property to the San Francisco Real Estate Improvement Company at a monthly rent of $4000 for the full term of ten years. In addition to the rent the lessees are bound to make permanent improvements of the value of $50,000 during the term, all of which are to revert to the Board."

From this it appears how easily all the revenue for city purposes could be collected from the land alone, without even touching more than the annual speculative value.

as we are in the land, we should exact the same terms in the one instance as we do in the other. It is this identity of building sites and street sites that justifies the franchise tax. For rights of way upon the streets are but site values. Their value is created, as are those of the corner lot, by the growth of society. It is the favored situation that gives value to the one just as it does to the other.

Moreover, the supply of transportation, gas, water, and electric lighting is a monopoly even more complete than the land. To these, as to the landlord, the growth of population yields an annual dividend, a dividend that is constant and resistless and that all other classes must pay. These services are exempt from competition, while their supply is necessary to all who live within the community. Their value consists in a privilege in the streets actually if not legally exclusive, and limited in terms or perpetual in its duration. These industries are capitalized at many times the cost of their construction and pay dividends on this capitalization. While the wealth that is the result of human labor, energy, and thrift is taxed, this wealth which has cost nothing save a grant, ofttimes fraudulent in its origin, is usually assessed at but a portion of its physical value. The franchise escapes, although it has a recognized value which is dealt in daily on the stock exchange and differs in no essential from the value of the land itself.[1]

It may be suggested that interests have become established, rights are vested, and the *status quo* should not be disturbed. The abandonment of all other forms of taxation and the shifting of the burden on to the land may be challenged as confiscation. If this be true, it violates our constitutional and social guarantees as well as the moral sense of the community. But aside from other considerations, the increase in land values is so constant as almost immediately to offset any increase which might be made in the tax burden. As has been said by an opponent of the land tax, "The beauty of a tax upon land values is that in a few years' time nobody pays it." And were we to adopt the suggestion of John Stuart Mill, that justice to society as well as to the landlord would permit the city to assume the future increment in land values, all, or almost all of the present city revenues could be collected from the annual increase in land without touching its present value.

It appears that in Boston the increase in the assessed value of land has been $245,000,000 in fif-

[1] For a full discussion of the franchise tax as applied to all public service corporations, see articles by the author in *The American Law Review*, vol. xxxiii., No. 5; also paper in Report of Thirteenth Annual Meeting of the American Economic Association; as well as Publications American Academy of Political and Social Science, No. 258.

teen years, or $16,000,000 per year. This, with the present land tax, exceeds the budget of the city. In the city of Philadelphia the annual increment in the value of the land from 1885 to 1900 amounted to $19,500,000, or three-fourths of the total annual expenditure of the city. From a Congressional investigation it appears that in the city of Washington the minimum increase in land values was ten per cent. per annum, or upwards of $10,000,000 per year. The total expenditures of the capital city for maintenance and operation were but little over $5,000,000 in 1900, and for all purposes but $8,000,000, or twenty per cent. less than the annual speculative gain of the land alone. A similar showing appears from the report of the city of San Francisco heretofore referred to.

In New York the increase in land values from 1904 to 1905 was $140,000,000, or twenty million dollars more than the value of all the offices, hotels, apartment houses, and other structures erected during the year. While labor and capital added $120,000,000 to the city's wealth, the growth of population created $140,000,000. This fund, this unearned increment, which passed into the pockets of a rapidly diminishing number of landlords, exceeded by $30,000,000 the total expenditures of the city for all purposes. So that had the total revenues of the city been collected from the increase of the land alone, there would still have remained to those who have done nothing towards its creation a dividend equal to the present interest payments on the debt of America, or a sum of almost ten dollars per head for every man, woman, and child within the community.

The most conservative could take no exception to the assumption by the city of these future speculative gains. No man has a vested right to them any more than he has a right to indemnity from the city for depreciation.

But quite aside from this, society knows no vested interests when its own welfare is at stake. The government does not hesitate at an increase of the tax upon distilled liquors to ten times the cost of the article. It has practically taken over the conduct of the business itself. It has destroyed state banks of issue by a tax of ten per cent. upon their notes. It has altered tariff rates from fifty to one hundred per cent., to the injury, if not the bankruptcy, of thousands of innocent people. Without a suggestion of impairing vested interests, or destroying property, our cities pass local option legislation ruinous to those who have invested their all in the saloon. Moreover, indirect taxes are levied by nation and state whose incidence is acknowledged by all to be most unjust to the poor and defenceless, and to be in effect but exaggerated poll-taxes.

The advisability, even the conventional justice of such a tax upon land values alone, is demonstrated by still other considerations. It is demanded in fairness to investment, to capital itself. This may be shown by an example, the analogy of which is apparent.

Two men, A and B, are seeking investment. A decides to place his money in land in a growing city. B, on the other hand, invests his funds in houses and business blocks. He erects his structures on the land of A under leases subject to revaluation every ten years. Such leases are in vogue in all of our principal cities, and are universal in England. The city decides to pave and sewer the streets. The cost of this improvement is assessed back on the abutting owners, A and B, in proportion to their investment. The effect is immediate on the land. It is enhanced in value. As to the buildings, their value cannot be increased beyond the cost of reproduction. Water, gas, and electric transportation follow. The benefit goes to the land. It cannot enhance the value of the buildings, for their value is determined by their cost. As time passes, B is called upon to make repairs upon his buildings. A can neither add to nor subtract from the value of his land. He may even go abroad. Fire cannot destroy his investment, nor can robbers molest it. His property is safe. B, on the other hand, must devote his time and attention to his business; to the collection of rents, the maintenance of repairs, and the supervision of his interests. He must insure his property from fire. From all these burdens, A is exempt. At the end of ten years, the period of revaluation of the land under the lease comes round. During the interim, A has expended nothing except for taxes. B has also paid these, and in addition has suffered a depreciation in the value of his investment of from twenty-five to fifty per cent. In addition, he has paid for insurance and repairs and given his time and attention to his business. He is poorer by one-quarter or one-half, so far as investment goes, than when he began. In the meantime, the city has grown. Business has prospered. Property is in demand. A reappraisal of the ground rent is made. The value of the land is determined by that of other sites similarly situated. All of the taxes which B has paid, as well as those which A has paid, have increased the value of the land. B's energy, thrift, and enterprise in building up the city all flow into A's pocket. In ten years' time the value of A's investment has doubled, and the ground rent which he receives for it has increased proportionately. During this time he has been free to do as he pleased. Free from worry, care, or risk, the enterprise and public spirit of B have drifted to his purse.

Another decade passes. Depreciation in the buildings continues. By the end of fifty years the buildings have fallen to decay. They must be rebuilt. They have become an encumbrance to the ground. It is generally estimated that the life of a house, building, or manufacturing plant does not exceed forty years. During this time, the city has not only punished B, his industry, thrift, and public spirit, by taxation, but the wear and tear of time have slowly taken his investment from him, while A, indifferent alike to the city and to B, has seen his capital doubled, trebled, possibly quadrupled in value.

Justice to B, justice even to A, combine in demanding that the land should bear the burden of this gain. For the investment of A has increased in value. That of B has vanished. And yet B has been enterprising, while A has not. He has aided in the upbuilding of the city, while A has enjoyed the benefits of his energy.

It may be said that men do not invest their money in this way; that land and improvements are usually held by the same person. When this is true, any objection to the taxation of site values alone disposes of itself, for the increase in the landlord's burden is diminished *pro tanto* on him as a house-owner. It simply shifts the assessment from the land and the improvement to the land alone. In addition, as the house-owner, he will be relieved to some extent because of the increase in rates on unimproved land, as well as from the fact that under existing conditions the assessor usually undervalues land which is unimproved or improved by buildings of little value.

But as a matter of fact, the separation of ownership between the land and the improvements is fast becoming common. The tendency in all advancing cities is towards the "ground-rent" system. To-day many if not most of the large office buildings, hotels, and apartment houses are erected upon leased estates upon either a fixed or a revaluation plan.

The pressure within our cities for living space enforces an intensive use of the land. Owners need only sit idly by and await the inevitable demand of some one who is willing to build subject to such terms as the landlord may affix. All London, all Glasgow, in fact, almost all England, as well as a large part of New York, are built upon leasehold tenements. The ground-renting system is universal in Baltimore and is becoming more and more common in all the larger cities. Instances may be multiplied of men who have built up business sections of a city through their industry, who erected office buildings upon leased land which was subject to reappraisal. Under a revaluation of the leasehold, the ground rent was so increased that the entire benefit of that enterprise was appropriated by the owner of the land. The landlord did nothing, while the investment in the buildings depreciated. Years ago, in Chicago, one of the large skyscrapers was built upon such a lease. The building was erected from the sale of stock and bonds. As time went on, the land increased in value. The ground rent was correspondingly increased. Ultimately, the value of the land advanced to such an extent that the building did not earn enough to meet the charges for the rent and operating expenses.

Thus it is that every advance in society, every increase in population, every improvement in transportation, or protection, benefits the land-owner and the land-owner alone. And every other form of wealth suffers. It depreciates, decays, becomes antiquated. Machinery and tools must be scrapped. They are written off the books. Every ten years, one-half the active capital of the producing world is worn out, the other half is depreciated in value. During these years it had to be repaired, insured from loss, and protected. Land alone and franchises are exempt from all these burdens. No wear or tear takes place, no insurance is to be paid. And a shifting of the burden of taxation from industry, from buildings, from homes would but partially equalize this loss. It would offset insurance and compensate for depreciation. To this extent it would encourage industry and tax speculation; it would relieve public spirit and enterprise and place the burden upon him who does nothing but idly permit society to work for him.

It is because of these facts, because land values are due to the growth of society, that the city should look to them for its revenue. And while such a fund is a common one produced by all, but now appropriated by the private owner, it is a providential coincidence that at the same time it cannot be evaded. It must be paid to some one. For pure economic rent, uninfluenced by the speculative withholding of land from use, is of itself not a burden to industry, because it is a payment for value received. Its assumption by taxation merely shifts the income from the individual landlord to society, which has created it. As said by Mr. Thomas G. Shearman, "Here is a tax, just, equal, full, fair, paid for full value received, returning full value for the payment, meeting all the requirements of that ideal tax, which professors and practical men alike have declared to be an impossibility. It is not merely a tax which justice *allows;* it is one which justice *demands.* It is not merely one which *ought* to be collected; it is one which infallibly will be and *is* collected. It is not merely one which the State *ought* to see collected; it is one which, in the long run, the State *cannot prevent* from being collected. The

State can change the particular landlord; it cannot abolish rent." [1]

The land values in any of our leading cities are increasing faster than the expenditures of the community for ordinary purposes. The ground rents of New York maintain a few families in idleness with revenues of regal proportions, while the three and a half million people residing therein bear an annual burden of $185,000,000. In England this fact is slowly being recognized. It has become an insistent issue in party politics. There as here " The rights of property," as was said by Joseph Chamberlain, M. P., " have been so much extended that the rights of the community have almost altogether disappeared and it is hardly too much to say that the property and the comforts and the liberties of a great proportion of the population have been laid at the feet of a small number of proprietors, who ' neither toil nor spin.' "

At one time it was objected that the taxation of land values alone was impossible. And yet nothing is better known than the value of city land. It can be ascertained to a nicety in any banker's or broker's office. But such objections are no longer heard. For not only does New York separate the assessments of land and buildings, but the returns are published and open to the inspection and criticism of all. The land in Massachu-

[1] *Natural Taxation*, p. 118.

setts has been separately appraised for years, as it has in San Francisco, Cleveland, Detroit, and many other cities. Moreover, the taxation of land values alone has long since passed the speculative stage. It has already become effective in practice. In New Zealand, that experiment station of reform legislation, nearly sixty communities have adopted it. The same system is in operation in parts of Australia, and the Report of the Revenue Commission of Colorado states that the Premier of New Zealand says " it has proved a success and should be made compulsory."

In the resumption by the city of this social treasure, in the annual taking over of the speculative increase of to-day, means are afforded for the carrying out of a programme of city improvement otherwise impossible, were the city dependent upon the taxation of industry and the wage-earner. But here is a fund which renews itself like the fabled Antæus. It can never be exhausted, and automatically grows and diminishes with the needs of the city. For the value of the city's land is an unvarying barometer of the city's life. It registers its pulse-beats and responds to every added want. Through it the vicarious sacrifice exacted from those who come to the city may be returned to them in communal services; in education, health, protection, and happiness. Through it schools, kindergartens, libraries, art galleries, and museums may be supplied to the city for the education and recreation of the people. By its assumption, the parks, city clubhouses, and public music may be offered to the boy and girl, the working man and working woman, within a short distance of every man's door. It would destroy the slum, and the model tenement, adapted to the comfort and cleanliness of the dweller, would take its place, while rents, the heaviest burden involved in city life, would diminish by the abandonment of the tax upon buildings and improvements. Vacant lots adorned with billboards would then give way to industry and commodious homes.

From such a fund the common needs of the city could be gratified without the taxation of industry or labor. Street cars could be run at cost or without cost to the inhabitants, just as are the elevators in the buildings, the bridges within the city, or the sewers under the highways. Water, gas, fuel, and electricity could be supplied in the same way, while the present burdens of taxation would be shifted from the backs of those who have built up the city on to a fund which is social or common in its origin.

The tax upon land cannot be shifted to the tenant. It remains where it falls. For whatever is taken in taxation but diminishes the value of land. It cannot increase the rental at all. In this it differs from other rates, for all other taxes, with the possible exception of those on incomes and inheritance, are ultimately shifted on to the consumer.

Such a programme is as simple in its realization as it is beautiful in its adjustment and just in its claims. A legislative enactment permitting each city to adopt its own revenue measures would open it to adoption. Its application to the existing machinery of taxation would be equally simple. It would only require an ordinance exempting buildings and improvements, personal property and the like from assessment. Then the tax would immediately be deposited on the land alone. Tax evasions would then cease. Perjury in the return of personal property would no longer be universal, and the obligation on the tax-assessors would be reduced to the ascertainment of the bare value of the land, a calculation which can be made with precision from the recorded sales, the opinions of the neighborhood, and the evidence of experts.

That such a treasure exists ample for all purposes and adequate for the needs of the city is apparent. That it is the source of many idle millions and the chief burden upon the city dweller is equally true. The annual value of the lands underlying New York, Philadelphia, and Boston is from two to two and one-half times the present annual expenditure of those cities.

With such a reform inaugurated, the city industrial could then become the city beautiful, the city helpful, the city fraternal in the truest sense of the word. Then the city will take from each according to the benefits he has received and not according to his enterprise. Then life will be relieved of its most relentless punishments and the cost, the price, the vicarious suffering will be made good from out the common treasure of the city. Then opportunity will be enlarged and the plane of competition elevated; then higher education will become a possibility to all, while the poverty which is now the result of industrial causes will no longer impel mankind away from the good. For the city will not only stimulate industry by stimulating opportunity, it will relieve those who fail from the most cruel results of their failure.