

CHAPTER II.

The Moral Sanctions For Heavier Taxation of Land Values

Fortunately the appeal to morality, that is to our sense of justice, is the most successful and fundamental appeal. No economic theory whose morality, as well as economic advantages, cannot be established is worthy of consideration, nor will it gain general acceptance in any community. The cry of, "confiscation of property rights" is raised by the opponents of taxing land values, and the fundamental question whether government is really robbing people, whether rich or poor, of anything that is morally theirs must be met by the advocates of the taxation of land values. Legal robbery by the government, whether through a tariff imposed by the Federal government, or any tax imposed by a city or state, is so serious a wrong that no economic, fiscal or social benefits to be derived by such a tax would justify, or excuse it.

Moral sanction essential to the acceptance of any economic theory or fiscal policy.

What is the moral sanction for the taxation of land values, whether it be achieved by a land increment tax, abolishing all taxation of buildings and improvements, reducing the assessment or the rate of taxation on all such buildings and improvements to one-half or one-quarter the rate of taxation on land, exempting buildings of a certain high standard of excellence from taxation for a period of years or permanently, or by any other method of taxation making land values pay a larger proportion of the cost of government than at present? No argument on this subject is new, but a world-wide interest in the subject evidenced by recent legislation justifies careful consideration thereof. We have fortunately reached the stage in consideration of public policies where we can and do consider subjects upon their merits, and so in the consideration of this question, we need not concern ourselves with the question of whether this is "single tax," "Henry Georgeism" or any other system, but merely whether it is a moral proposal.

Taxation of land values must be considered on its merits apart from prejudices.

It is generally, almost universally conceded that land values in cities are due largely to the demand for use of land by the population for various purposes, industrial, commercial, residence, etc., and to the improvements made by the city. This is admitted by real estate dealers and operators as frankly as by those who advocate

Land values are due primarily to demand for use and improvements made by the city.

any method of taxing land values. The real estate dealers base their claim that land values will increase upon the admitted fact of increase in population, but assume the right of the owner, not only to the increase in value of land, but to at least the same net return upon such value of land as is regarded fair upon other investments. Many go even further and claim the right of the owner of land to make all the profit "that the traffic will bear." Both classes of real estate owners—and at least inferentially the majority of most communities who permit them to have all that they claim,—admit therefore the right of a limited class in the community to secure something from the rest of the community without giving any return therefor. The excuse for this procedure, by which in essence all the landless members of the community work without compensation for the landowning members of the community is that the owner of land takes all the risks of investment. This claim is interesting but not true under present conditions. The owner of land does not so often take risks as make risks. The very slight risk which the owner of land in a city may incur is chiefly not inherent, but due first to his own speculative instinct and desire for speculative gains, and second to the failure of the city to determine what the development of the city shall be. Almost every American city is at the mercy of real estate operators and developers, who go a long distance from the center of the city to secure land still assessed at acreage or at least very cheap, which they break up into lots and try to sell at high lot prices. The cost of carrying such lots and the investment in streets, sewers, sidewalks, etc., is something of a risk which the owners voluntarily assume in the hope and well founded expectation of a large increase in land values. This is an incidental risk, however, to real estate development and dealing, which with the growth of the city is not, as has been stated an inherent risk. The vast sums of money spent on advertising and cajoling people to buy land at a greater distance from the centers of cities and in private developments are of course similarly wastes.

Landowners make but do not take any large risks in land ownership.

In no other kind of business (except that protected by some equally unjust privilege whether it be tariff, patent, or other legislative favor) are the profits so sure as dealing in land, for the reason so obvious to land developers in advertising their land, and so vigorously denied by them when taxation of land values is suggested, that the amount of available land in every city is limited and the demand for land is certain.

Profits are not so sure in most businesses as in land ownership and development.

It must be admitted that most moral arguments, as well as arguments from a fiscal, economic and social point of view which can be

advanced for the taxation of land values can also be advanced for the single tax, that it is only a question of expediency and not one of essential difference.

To recognize the fundamental injustice of an existing condition or system does not imply that it is either just or expedient to upset the entire condition or system immediately, nor by drastic measures. It is often claimed by the opponents of the single tax that this system of taxation would abolish private property in land. Single taxers to-day do not attack private property in land, but merely the "untaxed ownership of our day and generation."

As Mr. C. B. Fillebrown, in his book "The A B C of Taxation," remarks :

"It may be confidently asserted that when Henry George said, 'Private property in land is unjust,' he meant—as the whole principle and spirit of his teaching shows—that private property in land values is wrong.

"It is sometimes said that if landowners can rightfully claim ownership they are entitled to all the ground rent; that the common right to land and the common right to ground rent go together. How can this be true, when even under the land tenure of to-day, which is that of ownership, no one claims that the landowners, as for example, those of the city of Boston, are entitled to all the ground rent, but only to that part which is not taken in taxation. Their own claim falls short of 'all' by the \$10,000,000 now yielded up in taxation. In case the demands of taxation should be twice as great, would they be any more than now entitled to 'all'? It is not easy to see how ownership can carry with it as a necessary consequence the private appropriation of ground rent, because while there has never been a denial, there has always been a recognition, of the sovereign power and right to tax the land.

"Private ownership of land is no injustice to anybody to-day, nor has it been at any time. The untaxed private ownership of land value as it exists to-day 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."

Even more important than the fact that land values in a city are created partly by the growth of the population is the fact that they are also due to the expenditures by the city for public improvements, such as sewers, schools, streets, sidewalks, transit, parks, etc. The provision of these essentials to the development of any community

Heavy taxation of land values must come slowly, but does not destroy private ownership.

Present conception of private ownership of land admits the right to tax land values.

Not private ownership but untaxed private ownership of land is unjust.

City improvements which increase land values are paid for by taxes on those

who do not participate in these values.

is met by taxes upon the users of land and buildings and paid for by them. The owners of property expect and demand a net return upon the cost of property, over and above all the taxes which they ostensibly pay. They generally get this, and to the extent this is so they shift the taxes, *i. e.*, the cost of city government, upon the users of land (in exceptional cases) and always of buildings, that is the tenants. Admittedly the tax on land cannot be shifted upon the tenants unless there is very great demand for its use. This is sometimes the case, however, in the center of a large city, especially when the tax-rate upon land is low. As Prof. E. R. A. Seligman states in his "Incidence of Taxation," "While the real estate tax falls upon the owner in case of stationary or declining population, a considerable proportion of the tax is shifted on the tenant in the normal case of prosperous town or city districts under the present administration of our property tax. When we reflect that in the city of New York over three-quarters of the population live in tenement houses, we are thus forced to the conclusion that a large burden of our American local taxation is to-day borne by those least able to pay."

Prof. E. R. A. Seligman admits that much of city taxes is borne by those least able to pay.

Assuming, however, that only the part of the tax which falls on buildings or improvements of any kind is shifted on to the tenants, even so this tax alone amounts to from \$10 to \$30 a year or more, which every family in a city has to pay for the use of a building toward the expenses of city government. This is a burden upon the poorer classes of a community which even if it could be justified from an economic point of view would not be justifiable morally.

The result of taxing land values and buildings at the same rate proves it immoral.

In seeking too, the moral sanction for the taxation of land values, we should inquire what has been the result of failure to tax land values adequately, or in other words exempting them from fair taxation, by loading upon buildings and industry more of the necessary cost of government. Among the causes of congestion of population, the New York City Commission on Congestion of Population refer to the present method of taxing land and buildings.

New York City Commission on Congestion find equal tax rate on land and buildings discourages the construction

"In New York City until very recently the owner of land improved with buildings has been penalized, while the man who holds the land out of use so that he may secure the speculative increase of land values has been helped by the taxation policy of the city, since unimproved land has been assessed at a relatively low value, while the rate on land and buildings has been the same. The system of taxation has discouraged the construction of tenements, of factories and all other buildings until the growth of the city's projected improvement has given to land the capitalized congestion value, to which reference has been made, and has enabled the owners of land to reap fortunes from

values created largely by the increase of population. This policy is putting a premium upon congestion and is in appreciable measure responsible for the holding of land out of use for a much longer period than it would be so withheld if a large share of the increase of land values by the community were recovered by them for community needs."

Almost everyone—except a very few landowners—agrees that the conditions of room overcrowding and congestion per acre in New York City are indeed, as Governor Hughes described them, "intolerable," and his characterization of such conditions is applicable to other cities of the country as well.

Mr. Allan Robinson, President of the Allied Real Estate Interests of New York, a member of the City Congestion Commission, in a recent address gave his estimate of the owners of land who will not improve it in vigorous language.

"I hold no brief for the man who owns land he will not improve. Worse than the miser who hoards his gold and thus keeps it from circulation, more culpable than the capitalist who spends his wealth for his own pleasure is the landowner who, for distant profit, withholds from use land that the exigencies of the community require. The corroding cares, ill health, stunted growth, and inequality of opportunity which haunt the habitations of the poor in our cities may well be laid at his door, and I shall make no effort to relieve him of responsibility which his ownership has entailed upon him and which he has been unwilling to assume. Ownership of land carries with it corresponding burdens. The welfare of the race may be jeopardized through the selfish policy of landowners. The voters of the future are the children of to-day. Take from them what they now need for normal growth and development and when they reach man's estate they will take from you or your children all that land which you are now withholding from them."

The morality of taxing land values somewhat is, however, not questioned even by those who oppose the proposal to tax them sufficiently to take the burden off industry whether it be the industry of the man who constructs buildings or who manufactures or who toils with his hands. Mr. Allan Robinson, quoted above, remarks, "Land is an 'easy mark' to use a slang expression. It is the packhorse that carries most of our burdens; and because it has shown a disposition to take the major part it is now proposed to load it with all of them." This expresses the case for the taxation of land values properly because the "packhorse" is purchased and fed by those who propose to put upon it the burdens which it alone can best bear without any injustice. Land is different in its nature from any other object of taxation, since its value is due to the work and expenditure of others. The fundamental morality of the taxation

of buildings and encourages land speculation.

Intolerable congestion and room overcrowding in American cities.

President of Allied Real Estate Interests of New York says the man who for distant profit withholds from use land needed is worse than the miser.

Land is not an easy, but a just mark for taxation.

No one is entitled to values he has not created, nor to reap benefits of others' toil.

of land values is the fact that no one is entitled to benefit by the exertion and efforts of others, as the owners of land do, without giving a *quid pro quo* that is returning something adequate for value received. The reason that the owner of land is not entitled to the same net return upon his investment in land as upon his investment in buildings, manufacturing plant, stock of goods, etc., is that land values are a social product, while the others are not in the same sense because land in a city has a unique value since the supply is limited and it cannot be increased, and one can manufacture or open a store in almost any city of the country while a man must live within a certain distance of his work. The very presence of a factory and store creates land values.

Is it right to diminish anticipated returns from investment in land?

"While it may be proper, however," the opponents of taxing land values claim, "to tax cheap land at a higher rate of taxation, or land in a new community, a person who has invested money in land whether improved or not expecting a certain net return upon his investment is entitled to such net return, and any legislation which would reduce this anticipated return is contrary to the Fourteenth Amendment in upsetting the basis upon which the contract was made, and deprives the owner of his property without compensation or due process of law and is to this extent unmoral, not to say immoral."

It is fallacious to expect government to guarantee any unearned profits.

The fallacy underlying this argument is that government should guarantee or undertake to guarantee any fixed return, or to refrain from any legislation or action which might impair or alter conditions existing at the time of purchase of land. The same argument can be advanced against any tariff reduction, because a manufacturer of a highly protected article has invested money in his plant, which with the continuance of this tariff would yield large returns, but which might either yield a small return or entail a loss if the tariff were abolished. So too, an unnecessary improvement is often promised by an administration to a certain section of a city, and the owners of land discount its achievement and sell their land in this section at a large advance. This, however, does not constitute any valid reason why the city should make such a gift to the owners of land in any section of a city. "Whatsoever a man soweth, that shall he also reap" enunciates sound economic doctrine, frequently overlooked by get-rich-quick land schemers, whose promoters neglect the converse of this statement that no man is entitled to reap where he has not sown, nor to secure the values which others have created.

Naturally, however, a heavier taxation of land values permits the lower taxation of buildings, machinery and all property which represents industry. The owner of a factory which is an adequate or suitable improvement, will be required to pay less taxes with the proper taxation of land values, and this will properly encourage the construction of such buildings.

Heavier taxation of land values is like virtue, its own reward in permitting lower taxes on building.

In his speech on the People's Budget, Mr. Lloyd-George quotes a conservative member's statement about the increases of land values, and rentals and states his justification of taxing the urban landlord as follows:

"In the parish of Plumstead land used to be let for agricultural purposes for £3 an acre. The income of an estate of 250 acres in 1845 was £750 per annum, and the capital value at twenty years' purchase was £15,000. The Arsenal came to Woolwich; with the Arsenal the necessity for 5,000 houses. And then came the harvest for the landlord. The land, the capital value of which had been £15,000, now brought an income of £4,250 per annum. The ground landlord has received £1,000,000 in ground rents already, and after twenty years hence the Woolwich estates, with all the houses upon them, will revert to the landowner's family, bringing another million, meaning altogether a swap of £15,000 for a sum of £2,000,000.

Mr. Lloyd-George instances increases in land values in England.

"There are many cases of a similar character which will readily occur to the memory of every hon. member who is at all acquainted with the subject. Take well-known properties in Lancashire and Cheshire in regard to which evidence was given.

"And yet, although the landlord, without any exertion of his own, is now in these cases in receipt of an income which is ten or even a hundred-fold of what he was in the habit of receiving when these properties were purely agricultural in their character, and although he is in addition to that released from the heavy financial obligations which are attached to the ownership of this land as agricultural property, he does not contribute a penny out of his income towards the local expenditure of the community which has thus made his wealth, in the words of John Stuart Mill, 'whilst he was slumbering.' Is it too much, is it unfair, is it inequitable, that Parliament should demand a special contribution from these fortunate owners towards the defence of the country and the social needs of the unfortunate in the community, whose efforts have so materially contributed to the opulence which they are enjoying?"

Mr. Lloyd-George shows how the "slumbering landlord" described by Mill gets land values.

Mr. Fillebrown gives some typical instances of increases in assessed land values in Boston. The assessed land value of one and eight-tenths acres on Winter street, Boston, between Tremont and Washington streets was in 1898, \$5,142,600. In 1907, it was \$8,272,000 or an increase in nine years of \$3,129,400, or 57 per cent. The assessed valuation of this property of \$275 per square foot was, he states, the highest in Boston:

Instances of increases in land values in Boston.

"The assessed valuation of Washington Street, from Adams Square to Eliot Street, 3,495 feet, or two-thirds of a mile in length, with an area of 745,003 square feet, 17 1/10 acres, comprising 179 estates, was in 1907:

Land	\$61,135,900	\$77.00 per square foot
Buildings	10,793,200	13.50 per square foot

"This is an increase in valuation, over the year 1898, of land, \$20,438,400, or 50 per cent; of buildings, \$1,955,100, or 20 per cent. In 1899 the valuation of the buildings was 21 1/2 per cent that of the land; in 1907, only 17 1/2 per cent."

The following cases of increases in land values in Chicago show typical increments in crowded sections of that city:

Instances of increases in land values in Chicago.

	Assessed Land Values.		Increase from 1903 to 1907.	
	1903.	1907.	Amount.	Per Cent.
Marshall Field, Retail Department Store	\$4,715,200	\$6,006,025	\$1,290,825	27.37
Siegel, Cooper & Co. Department Store	2,040,000	3,145,660	1,105,660	54.21
Congress Hotel	1,297,800	2,313,780	1,015,987	78.28
Republic Office Building....	1,155,600	1,799,000	643,400	55.67
Stratford Hotel (c).....	642,575	1,656,500	1,013,925	157.78
(c) Sale 1899, \$640,000.				

Some increases in land values in Pittsburgh.

The property at No. 311 Fourth Avenue, Pittsburgh, was sold in 1884 for \$30,000, and was worth in 1908 \$400,000 an increase in about a quarter of a century of 1,333 per cent.

Similarly the site of the Schmidt Hamilton Building in Pittsburgh was worth per front foot in 1884 \$3,500, in 1908 \$15,000—an increase of 429 per cent.

Increases in land values and profits in land in New York.

The following statements have appeared recently in New York papers:

"A Lot on the east side of Tenth Avenue, between 206th and 207th streets sold in 1904 for \$1,100, and last year (1910) the same property brought \$12,600."

"Six years ago the lots sold for \$1,600 each. The present selling price is \$9,000 apiece. This is an increase of nearly 600 per cent since 1905."

"In active markets I have made for myself and my friends 500 per cent per year."

"Our profits for four years were fully 250 per cent per annum."

Large increases in land values common in American cities.

Similar percentages of increase in value of land and profits therefrom can be duplicated in nearly every American city, and while allowance should be made for inflation of land values, and "land booms," the salient fact remains that the natural increase of

population creates increased land values, and that in addition to these increases the land could if properly utilized or improved have yielded a good net return.

The *bona fide* land values of New York City for example, exclusive of expenditures by the owners or assessments by the city increase about \$800 a year for every person who has been added to the population. The mere fact that New York City like many American cities has relied upon immigration to increase its population and hence its land values does not mean that restriction on immigration would mean a cessation of the increase in land values. A lower death rate and a higher birth rate are just as potent means of increasing population, and hence land values, as immigration, and one can claim without being regarded as a sentimentalist that it is a much more humane method. Each day's labor of New York City's population including the Sunday of rest for the next week's work increases the city's land values by about \$300,000.

Certainly on no moral grounds can the right of creators of land values to participate in the values they create be denied. Hitherto they have been denied fair participation, because selfish interests have controlled legislation, and the people have not been able to enact their own convictions and wishes into law.

Mr. Allan Robinson has frankly admitted that if the proposal to make the rate of taxation on all buildings and personal property in New York City, one-half the rate of taxation on all land were submitted by referendum to the people of the city, it would be adopted at once. The sober conservative judgment of the American people is opposed to the continuation of special privilege, however granted. This judgment believes that men, women and children are entitled to the values which they produce, and that no one is entitled to anything wrested—even with legal sanction at present,—from them.

The progressive rate of taxation on inheritances for state purposes adopted by many states and the progressive income tax now under consideration for securing revenue for the Federal government are based upon the same fundamental principles of justice which underlie the demand for the taxation of land values for the relief of industry, and the termination of other special privileges. Neither the taxation of incomes derived from mines in which immigrants have lost their lives from accidents and low wages, the taking by an inheritance tax of the entire wealth derived from unsanitary tenements and underpaid workers, nor levying upon land the cost of government to protect the lives and to educate the people who

General increases of land values in New York.

There is no moral basis for objecting to heavier taxation of land values.

The sober, conservative judgment of the American people is opposed to special privilege such as undertaxed ownership of land.

Taxation is one of democracy's surest methods of restoring and securing social justice.

The Federation of Churches in New York City endorses halving the tax-rate on buildings.

give to land its value will, however, restore to life or health those who have died or lost their health through government's failure to establish and enforce safe and healthy conditions of living in the past. Nevertheless, in American cities just and economically sound taxation still is one of democracy's surest methods of restoring and securing social justice. Because the heavy taxation of land values is the soundest and most just method of taxation it is the most moral method of taxation for municipal purposes.

The Federation of Churches and Christian Organizations in New York City in advocating the halving of the tax-rate on buildings states:

"In the minds of many this bill is an application of the 'Gospel according to George.' This is only partially true, inasmuch as Henry George advocated the abolition of all taxes except taxes on land, and this bill does not do that. The Federation regards the bill as the most important piece of social legislation introduced at Albany in the last twenty-five years, not even excepting the race-track gambling measures.

"It is a bill in the interest of the proper housing of the people of New York. The Federation has proved by its publications that New York, in 1940, will have less than 10,000,000 people. That is to say, the people of New York a generation from now could be housed on its area at an average of less than 60 people per acre, whereas Manhattan Island has 166 people per acre, with districts running as high as 731 per acre, and individual blocks as high as 1,674 per acre, while Brooklyn has wards running over 300 per acre, and 31.9 per cent of the Bronx's population is housed at an average density above the average density of Manhattan. From July, 1902, to December 31, 1908, 62 per cent of the dwellings erected in the Bronx were five stories or over.

"'Tenement House Reform' as a rallying cry for housing movements in New York should give place to 'Tenement House Prevention,' and speculative landowners, who are opposing this bill, which penalizes the non-use of land, by placing a larger measure of the carrying charges of the city budget upon it, and rewards the building of homes for the people by exempting them, in 1912, 10 per cent of their value, and adding 10 per cent exemption per annum till, in 1907, 50 per cent exemption is granted, should be routed by the combined force of the churches and laboring people of New York. If the tenement many stories high is to house the people of New York of the future, every church will, in time, be compelled to become an 'institutional church.' The churches should be willing to assume this form of social service if they are compelled to, but it would be better if they should become 'restitutional churches,' and so compel the use of the livable area of New York as to restore the single, the two-family and three-family dwelling as the normal type of housing. Rapid transit should not be allowed to enrich a few land speculators, but should be so developed as to distribute the population of New York throughout its whole livable area."