

Taxing Consumers To Relieve Real Estate

DESPITE the extent to which commodity taxation is discredited among professional economists, such taxation still has considerable support among conservative people of large means. These people perhaps rather easily persuade themselves that they are paying too much of the taxes. And they vaguely feel that taxes on goods would be less burdensome to them. Even some of the smaller owners of so-called real property may be persuaded by the slogan "tax relief for real estate" to support such commodity and amusement taxation. They perhaps believe, what is the fact, that such taxation puts a considerable part of the burden of supporting the government on persons who *own no property at all*. Partly because it may thus have the support even of the smaller property owners and partly because it is paid by consumers more or less unconsciously in the price of goods bought, such a tax may be difficult to abolish when once a community is accustomed to it.

In this brief article it is not desirable to discuss at length the theory of the shifting of taxation. But that taxes on specific goods or services, such as soft drinks or amusements, fall mainly on consumers is easily demonstrable. Where the margin of return is narrow, manufacturers and sellers cannot pay any considerable tax on output or sales and remain in business. Consumers *must* pay the tax or go without the goods. The higher price tends to discourage purchase of the taxed goods and *some of the dealers may be unable to remain in business*, but this will *not save consumers from paying a higher price*.

When such taxes are proposed it is usually that real estate may be, to that extent, relieved of the burden of paying for necessary governmental service. Now real estate is really two kinds of property, land and land improvements, and the taxation of real estate is really two kinds of taxation—though most people don't seem to know it. Indeed, in some places, such as Pittsburgh, where they have the so-called Pittsburgh graded tax system, there are not only separate assessments for land and improvements, but different rates of tax, the rate being lower on the improvements than on the land or site values.

In the remainder of this brief article I shall compare taxes on consumers, such as taxes on tobacco, soft drinks and entertainments, with taxes on the site value of land. I shall not attempt to compare them with taxes on improvements. The last are, indeed, a penalty on thrift and enterprise, even if they do not bear so directly and immediately on the very poor as do commodity and amusement taxes.

But consider the case of an individual who owns a valuable site in the heart of a great city. He did not bring the land into existence. Geologic forces formed it ages before his infant eye saw the light. He did not make the land valuable as an ideal location for industry. Mil-

lions of his fellows did that by building roads and railroads, by deciding to live and work at various places in the surrounding area, by establishing industries at such points that the owner of this particular piece of land finds its situation ideal for a bank or a department store. His income from it may approximate a half-million or a million dollars a year though he add nothing whatever to the output of industry. He reaps where others have sown. He compels men to pay him, not for what he does or has done, but in order that they may have the privilege of producing goods, of conducting industry, on a site which community development has rendered advantageous. Production can be carried on most effectively on well located sites. But those who own those sites have the legal power to keep them vacant. They have the legal power to forbid production on them except as the owners are given a large income. The owners are paid, therefore, not for contributing to production but for *allowing* others to engage in it, and not for advantages they have given but for advantages due to geologic forces and community development.

Persons whose incomes are thus derived may well, from a narrowly selfish viewpoint, urge that public revenues be secured by taxes on commodities or on sales. They may well try to convince the rest of the public that it is fair to tax at equal rates incomes from all sources, and that it is unreasonable discrimination to tax the value of land more heavily than wages. There may be professional economists who have sufficient power of analysis to see the real basis for distinguishing among various kinds of income. But no one who has once thoroughly grasped the distinction between income from labor and income from ownership of valuable land, and who is primarily interested in the welfare of the people generally rather than of a narrow class, can possibly fail to see that a commodity or sales tax is far from being the ideal.

If it were finally settled that consumers were not to be taxed through levies on various goods and amusements, and that all taxes must fall on the owners of *property*, there might be more hope of a reform which would put the tax burden more largely on land values. For, after all, it is the owners of property who seem to be, in the main, the influential class. And it might be possible to make them see the advantages of taxing land or site values, as in Pittsburgh, more heavily than improvement values. But give them the idea that it is politically possible to put a considerable part of the tax burden on labor incomes, through commodity and sales and amusement taxes resting on even the poorest workers—give real estate owners this idea and their interest in "tax reform" is likely to be confined to advocacy of these substitutes for the property tax. "Tax relief for real estate" becomes their slogan, with no distinction between improvement value and site values.

And so, if a state needs more money for the proper functioning of its government, for the building of hospitals and prisons, for the improving of the public schools and for

increasing the efficiency of the state university, the idealists who see the need for all these things are sometimes frightened away from an attempt to secure them by increasing or, perhaps, even maintaining, existing tax rates on land values; and they readily consent to—perhaps actually urge—increased taxes on consumption and on amusements, as the easiest and quickest way of attaining their ends.

For it is assumed that the masses will pay their commodity and sales and amusement taxes more or less unconsciously, in the prices of goods and services they buy. Few take the trouble to analyze incomes, to distinguish between types of property, and to reach well-grounded conclusions regarding the differing ultimate effects of different kinds of taxes.

We need not conclude that it is better for a state to get along without revenue and, therefore, to sacrifice all support for its public institutions and, in the extremest case, to forego all formal government whatever, rather than that the state should derive its revenues from an unideal or, indeed, a relatively vicious, system of taxation. But it would seem entirely fair to raise the question, in the light of the analysis which has been herein presented, whether taxation of commodities, of sales and of amusements is a justifiable substitute for taxes on land and site values.

It seems that our sympathy goes out to the owner of city business property whose land is rising in value as the city grows; so we plan to relieve him of taxes on this land and to tax, instead, the amusements enjoyed by the children of the laboring man who owns no business and the cooling summer soft drinks enjoyed by children whose parents cannot afford to take them to the seaside or to the mountains. We are immensely sorry for the farm owner who feels that farm products are selling at too low a price; so we devise schemes to relieve him by taxing the few luxuries of the tenant farmer who has no farm of his own but pays rent for the use of one to its owner. We commiserate the condition of the city home owner and of the owner of vacant lots which are rising in value from community development, through no effort of his, while he retards this development by holding the land out of use for a still higher price; hence we seek ways of relieving such real estate owners, and turn our attention to possible taxes on goods purchased by the poor who own no vacant lots and no homes but pay rent to others in order that they and their children may have a place to live.

We notice the constant demand that there be "tax relief for real estate." We see that owners of real estate are politically powerful. We suspect that their desire to avoid taxation will effectually block our plans for increased revenues for better prisons, hospitals and schools. And we are of the opinion that the poor are likely to be more amenable.

While these various proposals are being agitated, the value of city land moves steadily upward. Also, from city to city, we are constructing concrete highways paid for

from taxes on gasoline, and so raising the value of the land lying alongside of and close to these highways, while the land of the farmer remote from these new roads remains cheap. Yet he, too, though his land, apart from the improvements on it, may be worth next to nothing, so that if only land values and not improvements were taxed his burden would be nothing, shares, often, the prevailing prejudices of the owners of more valuable land. And so, as he drives his old Ford car over the poor roads near his own farm, with taxed gasoline which is helping to concrete the highways elsewhere, raise the land values of others by far more than the gasoline taxes they pay, and create an aristocracy of well-to-do landed properties, into the ranks of which he, like the laboring man of the city, has small chance to enter, he is as likely as not to echo their sentiment in favor of "tax relief for real estate!"

PROF. HARRY GUNNISON BROWN, in *Drug Review*.

Death of T. P. Lyon

ANOTHER of our strong, reliable and devoted disciples of Henry George has passed away at Fairhope, T. P. Lyon, and was laid away in the Fairhope Cemetery, late in January of this year, at the age of 73.

At the grave Albert E. Schalkenbach spoke as follows:

"We are assembled here to pay a last tribute and lay at rest the body of one who has lived and labored with us in the field of human endeavor.

"We that knew him realized his nobility of character, his gentle and kindly nature, we also knew he was ever interested in the problems that would lead to making this a better world to live in.

"That for more than forty years he labored and gave the best he had for the benefit of mankind. A firm believer in the philosophy that man is a land animal with inherent rights to seek bodily needs and happiness without being beholden to his fellowman through payment of tribute for the privilege of sustaining life.

"It was his deep sense of justice that brought him here to labor among us in our efforts to establish the rights of mankind and demonstrate to the world at large the economic value thereof, and *that* sense of justice that led him to accept the Georgan philosophy as a religion.

"Believing that Finite man could not grasp the Infinite, that the inexorable laws of the universe precluded such understanding, that Heaven was a mental state and not a place, he saw his duty lay *not* in worshipping an Infinite beyond his understanding, as proven by the existence of more than a thousand religions, but rather in the service of his fellow creatures that thereby eventually a generation shall follow that will in truth inherit the earth with its consequent happiness.

"We that knew him and his understanding will always remember our loss and the world is better that he has lived."

E. B. Gaston closed the services with an appropriate eulogy.