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THE TAXATION OF PRIVILEGE

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THERE are certain settled principles of taxation upon which any scientific system must be erected and which should be made to stand out in bold relief.

The first is that "ground rent is a social product," a fact which is no new discovery. Professor J. B. Clark, of Columbia University, said more than a score of years ago: "As the creator, not of the substance of the earth, but of the value residing in it, the State has a producer's immediate right to use and dispose of its product."

The second is that a "tax upon the rental value of land cannot be added to the actual rent paid by the tenant or user." Professor Seligman long ago expressed the accepted economic opinion when he said: "The incidence of the ground tax is on the landlord. He has no means of shifting it; for, if the tax were to be suddenly abolished, he would, nevertheless, be able to extort the same rent, since the ground rent is fixed solely by the demand of the occupiers. . . . The point is so universally accepted as to require no further discussion."

The third is that "the selling value of land is an untaxed value." This was clearly set forth by Professor Bastable, of conservative Dublin University, when he said: "As land is sought for revenue, what lowers its revenue lowers its selling price, and therefore a land tax falls altogether on the possessor at the time of its imposition. Subsequent acquirers take the land subject to the burden, and pay a lower price in consequence."

Turning from these three scientific principles of taxation, let us look for a moment to see if they bear any relation to the distribution of wealth — the question of the unemployed, the problem of the slums. Space permits no more than a broad hint at the "modus operandi" of a tax system by which temporal salvation may be wrought equally for the high and for the lowly. Cure for the slums of poverty lies in less work and more pay. Cure for the slums of riches lies in more work and less pay.

It is in a general and vital way true that the wealth of the world, as created year by year, is distributed practically in two channels, the channel of privilege and the channel of wages.

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Material redemption can come only through the abolition of privilege by a wise system of taxation, thus eventually turning into the channel of wages the enormous stream that now flows to privilege. There is no other way known, or to be known, among men to right a wrong but to correct it. As President E. B. Andrews has put it, happily and mildly, "To turn the golden stream of economic rent partly or mostly into the State's treasury, where it would relieve the public of taxation in burdensome forms, seems to be extraordinarily desirable."

The private appropriation of ground rent, in the maintenance of which all taxes are absorbed, accompanied as it is by exemption from taxation, is a privilege greater by far than all others put together. Because their land tax is an old, and hence burdenless, tax, and because the tax on their buildings is shifted upon their tenants, most landlords who own and let both the land and the tenement houses and business blocks thereon avoid all share in the tax burden. From these considerations springs the suggestion for the gradual abolition of that particular privilege by the progressively increasing taxation of land. From such a source might be expected a betterment which would be equivalent to at least a fifty per cent increase of wages, which to the man who has to support a family of five on one to three dollars a day would be a very substantial help.

When individuals live by themselves, they have individual needs. When a lot of people live together, they have, besides individual needs, common needs, which have to be supplied by common effort or at common expense. One of the earliest and most urgent common needs to arise in a new settlement is that of a town pump. Three hundred years ago the water system of New York probably consisted of a town pump, installed and maintained at trifling expense. Upon completion, ten years hence, of the Ashokan system, projected and already begun, this new town pump will stand on the city's books at, say, three hundred million dollars. New Yorkers are to-day paying in the form of water rates taxes to the extent of twelve million dollars a year. No doubt the land of New York is easily worth to-day three hundred million dollars more than it would be without such a water system. Other public improvements and services, such as streets, sewers, police and fire protection, have developed on a similarly vast scale, and each in turn has contributed to the value of the land. Let it not escape our attention that it is the water supply, together with all other public services provided by the outlay of taxes, that, to a large extent, gives to the land of New York and every urban community its value. Hence it is upon the broad inanimate shoulders of the land that it is now proposed that the whole burden of taxation shall ultimately rest.

But, attendant upon and keeping pace, as it were, with this

growth of the town pump, another wonderful phenomenon has been noted. The original natural land value of New York, which may have been fairly registered in its purchase price of \$24, has now swollen to no less than four billions. There appears to be, furthermore, an intimate relation between the two not unlike that of cause and effect. This great value is the measure of the economic and social advantage accruing to the land of New York on account of the presence and activity of four million people and their facilities for commerce with the world. If Adrian Block had in 1614 opened a department store at the Battery, and conveyed his customers by stage from Albany and by boat from Hoboken and Brownsville, his business expenses would have eaten him up. The advantage that John Wanamaker enjoys over Adrian Block is that half the State of New York is set down at his store doors in the morning and taken away at night free of expense to John Wanamaker — an advantage the value of which is included and paid for in the ground rent which John Wanamaker pays for the use of the site on which his store stands.

The workers of New York, who are the users of this four billion dollars' worth of land, pay for its use in the form of ground rent to its owners, besides what they pay for the use of buildings, probably not less than two hundred and fifty millions a year. Of this gross amount, only sixty millions, or less than twenty-five per cent, is now returned to the municipality through the medium of taxation, while one hundred and ninety millions (not far from \$240 per family) finds its way into private pockets as a "privileged" income.

By the simple "last will and testament" of the owner of Randall Farm, the rental value of sixteen acres of New York City — bounded by Astor Place, Broadway, Washington Place, University Place, Waverly Place, Fifth Avenue, Tenth Street, and Fourth Avenue (now amounting to \$1,250,000 a year) — is "forever" diverted to a surfeited Sailors' Snug Harbor. This endowment was made, not in the exercise of any asserted natural right, but in the exercise of a privilege granted by law in derogation of the rights of four million people of New York, successors to Robert Richard Randall, who do the work, and to whom belong the business and commerce, of the New York of to-day. Is it unnatural to ask, Should not the living have at least equal rights with the dead? The disabilities of laborers in this land which boasts of equal opportunities for all men seem to be already great enough without laying taxes upon them in order that 100,000 landowners may enjoy this public income — \$250,000,000 — together with practical immunity from taxation thereon. Out of this gigantic Ashokan reservoir of rent, fed by the people's taxes, the Single-Taxer would draw, not a part — sixty million — as now, but one hundred and fifty million, the whole of New York's public expenses.

The advantage of privilege over wages finds acute illustration in this glorious country of ours, teeming as it is with millionaires. To illustrate: If a second Methuselah had lived and begun Anno Domini 1309 to work for wages at five dollars a day, he could have earned in the six hundred years until now but a scanty million of dollars.

Had Adam begun life similarly, and held out till the present time, he could have earned in his six thousand years of work less than ten million dollars.

The actual inequality of conditions calls for a yet more adequate illustration. The average annual savings of three-fourths of the laborers of the United States have been estimated as low as \$15 per capita. If we suppose it to be three times this amount, or, say, \$50, then a five per cent income on a single million would be equivalent to the savings of 1,000 laborers. A similar income on a Carnegie's four hundred millions would be equivalent to the savings of 400,000 laborers, and a five per cent income on a Rockefeller's thousand millions would be equivalent to the savings of 1,000,000 laborers. What wonder that there should be persistent want and privation somewhere? What better remedy can there be than immediately to check, and gradually to remove, so far as practicable, the prime cause, viz., privilege, the opportunity of one man to profit at another man's expense?

It is not difficult to find one among the many ways in which such a reformation might be wrought. It would not be wide of the mark to say that, as, for instance, in Boston, an average of twenty per cent of gross ground rent is now taken in taxation. In order to raise present city revenues all from the land it would be necessary to take in taxation only thirty per cent more of the ground rent than is now taken, or fifty per cent in all; and the following, as one among many possible simple recipes, has been suggested for compassing this transformation from wrong to right. The change needs not to come about all at once, but, touching as it does the very vitals of society, it can and should at once begin to come. It could be worked out comfortably in the period of one generation, few land-owners meantime suspecting the change, much less being wronged by it. This is the recipe:

Take in taxation an additional one per cent of gross ground rent each year for thirty years. This would amount at the end of that period to thirty per cent, which, added to the twenty per cent already taken, would make fifty per cent, or one-half, which is about the average proportion that the present city taxes bear to total ground rent.