

# STATE AND LOCAL TAXATION

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## THE SINGLE TAX

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For the practical views which it is my privilege to present to this distinguished Conference I beg to assume responsibility individually, rather than as representing any organized body, who thereby might be compromised. To express my conviction in ecclesiastical form I begin with the "Credo."

1. I believe in the Single Tax defined by Henry George in "Progress and Poverty" as "The abolition of all taxes save those on land values," to be accomplished, as he said at Saratoga, "by the slow process of educating men to demand it"; to which he added, "In thinking of details it should be remembered that we cannot get to the Single Tax at one leap, but only by gradual steps, which will bring experience to the settlement of details."

2. I believe that the amount of the Single Tax should be limited to the needs of the State for an effective and economical administration of government. "It is a question of applying land values to common use, as far as they will go, or as much of them as may be needed, as the case may prove to be."

3. I believe in the classification formulated by the New York Ford Franchise Act, of a public franchise as "land," and a public franchise value as "land value," together with the plainly consequent converse truth, viz., that the site value of land is a private franchise value, because land depends for its value upon exactly those same concrete and tangible things which give value to a public franchise.

4. I believe with Henry George that "in truth the right to the use of land is not a joint or common right, but an equal right: the joint or common right is to rent, in the economic sense of the term. Therefore it is not necessary for the State to take land; it is only necessary for it to take rent." Accordingly,

I believe that a man who owns land owns the site, and every right and privilege, fee, title, etc., pertaining to the land, from zenith to earth's center, exclusive and absolute, as against any other individual, but nevertheless subject always to the right of eminent domain, and to the claims of the community to its share in the value of those rights and privileges, through the sovereign power of taxation.

The argument in the case may be put briefly as follows:

The three economic legs necessary and sufficient whereupon the Single Tax stool may firmly stand are found in three generic peculiarities quite exceptional in their nature, which distinguish land from houses or other man-made products. The failure to recognize this distinction is, we believe, sufficient to account for the crookedness of present systems of taxation. Such a recognition must lie at the very foundation of any just system of the future.

These three attributes, firmly grounded in orthodox economics, are, in economic language, as follows:

- A. The site value of land is a social product.
- B. A land tax cannot be "shifted."
- C. The selling value of land is an untaxed value.

These three fundamentals are worthy of brief separate consideration.

A. First in order is the fact that land value is a social product, i.e. it is created principally by the community through its activities, industries and expenditures. The value of land is based primarily upon economic rent, defined as "what land is worth for use," what it would command in the open market.

Strictly speaking this "worth for use" usually attaches not to the land itself, not to the earth's surface, not to the inherent capabilities of the soil, not to light and air or other bounties of nature resident in the land, but to scores of things exterior to the land and through it made available for use, so that, as applied to urban land, the following would be a more accurate definition:

Ground rent is the annual value of the exclusive use and control of a given area of land involving the enjoyment of those "rights and privileges thereto pertaining" which are stipulated in every title deed, and which, enumerated specifically, are as

follows: right and ease of access to water, health inspection, sewerage, fire protection, police, schools, libraries, museums, parks, playgrounds, steam and electric railway service, gas and electric lighting, telegraph and telephone service, subways, ferries, churches, public schools, private schools, colleges, universities, public buildings — utilities which depend for their efficiency and economy on the character of the government; which collectively constitute the economic and social advantages of the land; and which are due to the presence and activity of population, and are inseparable therefrom, including the benefit of proximity to and command of facilities for commerce and communication with the world — an artificial value created primarily through public expenditure of taxes. In practice, the term "land" is erroneously made to include destructible elements which require constant replenishment; but these form no part of this economic advantage of situation or site value.

Consequently ground rent may be said to result from at least three distinct causes, all of which are connected with aggregated social, as distinguished from individual, activity: (1) Public Expenditure. (2) Quasi-Public Expenditure. (3) Private Expenditure. Thus their very nature and origin would seem to point to land values as peculiarly fitted to bear justly the burden of taxation.

B. Second in order is the fundamental fact that a tax upon ground rent cannot be shifted upon the tenant in increased rent. The argument in the case may run thus: Ground rent, "what land is worth for use," is determined, not by taxation, but by demand. Ground rent is the gross income, what the user pays for the use of land; a tax is a charge upon this income, similar in its nature to the incumbrance of mortgage interest. It is a matter of everyday knowledge that even though land be mortgaged nearly to its full value, no owner would think to rid himself of the mortgage interest that he has to pay through raising his tenant's rent by a corresponding amount. Mortgage interest is a lien upon land held by an individual; similarly, a tax may be conceived most clearly as a lien upon land held by the State. Both affect the relations between owner and mortgagor, and between owner and State respectively; neither has any bearing upon the relations between owner and tenant. "Tax" is simply the name of that

part of the gross ground rent which is taken by the State in taxation, the other part going to the owner; the ratio these two parts bear to one another has no effect upon the gross rent figure, which is always the sum of these two parts, viz., the net rent plus the tax. The greater the tax the smaller the net rent to the owner, and *vice versa*. Ground rent is, as a rule, "all the traffic will bear"; that is, the owner gets all he can for use of his land, whether the tax be light or heavy. Putting more tax upon land will not make it worth any more for use. If the market value of a lot of land for use is \$300 a year, a tax of \$100 will not make it worth \$400 a year.

These two propositions (*A*) that land value is a social product, and (*B*) that a tax upon land cannot be shifted by the owner upon his tenant in increased rent, are well settled in the professional mind.

*C*. Third and last is the fact, a necessary corollary of the second, that the selling value of land is an untaxed value, a proposition which has received the specific approval of upwards of fifty leading American teachers of political economy, and has been seriously questioned by but two or three of the three hundred to whom it has been submitted.

Every purchaser of a piece of property knows, without argument, that he is governed as to the price he will pay, not by the gross income, but by the net income that will remain to him after all charges and incumbrances by way of mortgage or tax have been discharged.

To illustrate: assuming a piece of land worth \$300 a year for use to be free of all charges and incumbrances, and assuming the current rate of interest to be five per cent per annum, a purchaser would buy the lot for \$6000, because interest upon that sum would amount to the stipulated \$300 a year. But, assume that, on the contrary, it is found to be subject to a mortgage of \$2000, upon which the annual interest charge is \$100, then he will buy the land, not at \$6000, but at \$4000, the value of the equity remaining after mortgage interest has been paid.

But, assume further that this lot of land, besides being subject to a mortgage of \$2000, is subject also to an established tax of \$100, which charge the purchaser must also assume. He

will then purchase the land not at \$4000, but at \$2000. The tax charge of \$100 and the mortgage interest charge of \$100 each reduces the selling price of land by the same amount, \$2000. The mortgage and the tax together therefore reduce it by \$4000; and the purchaser will buy the land at \$2000, the value of the equity which remains after both mortgage interest and tax have been paid. This \$2000 is the capitalization of the annual value of the lot after all charges have been met. The gross value is the taxed value. The net value is an untaxed value.

It follows from the above too brief analysis that under the present system, *the selling value of land is an untaxed value*, and landowners who invest to-day are entirely exempt from taxation.

As this exemption of the present owner holds true to-day, so it will be true in future of each new purchaser subsequently to the imposition of any new tax. It is in the very nature of things that the burden of a land tax cannot be made to survive a change of ownership.

But when we turn to the case of the taxation of houses we find that no parallel appears. Whereas a tax upon the lot could not, in the nature of things, increase its annual rental or cost for use, a similar tax upon the house is added directly to the annual cost to the user. If a house costing \$6000 to build is subject to a tax of \$100, this amount must be paid annually in addition to an interest charge of \$300. Increasing or decreasing taxation upon the lot has no influence upon its annual cost to the user; while increasing or decreasing the tax upon the house increases or decreases in exact proportion the annual cost to the user. The moral of this illustration is that a tenant gets for use annually \$300 worth of land for \$300, and a house costing \$300 for \$400. In other words, a house tax of \$100 takes in taxation \$100 a year of the user's income. A land tax of \$100 takes in taxation no part of the income of the present owner, provided that he purchased the land after the tax was imposed.

The beauty of this illustration is that while land stands for everything except the products of labor, a house is here made to stand as the representative of any and all products

of individual labor, and the illustration thus becomes all inclusive.

The practical exemption of the selling value of land is vital in its bearing upon any proposition for obtaining an increased revenue from that source, while substituting the gradual exemption of other property.

In the light of the foregoing argument it is interesting to consider what the city of Boston might have done.

The following estimate indicates the gigantic proportions of the factor, ground rent, and its sufficiency to meet all reasonable costs of government, economically administered, not only without impoverishing the landowner, but without subjecting him at any time to a tax more burdensome or more continuous than that borne by every man that has lived in a house since a house tax was invented.

The gross ground rent of the land of the city of Boston is by careful estimate not less than . . .	\$50,000,000
Of this amount there is already taken in taxation . . .	10,000,000
Leaving to the landowners of to-day a net ground rent of . . . . .	<hr/> \$40,000,000

The fact that this sum amounts to \$68 per capita, or \$340 per family, will help the mind to grasp its magnitude as a factor in the distribution of wealth.

State and local taxes upon improvements, buildings, personal property and polls amount to something over another . . . . .	<hr/> 10,000,000
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If this additional amount were taken from rent there would still remain to the landowners a balance of . . . . .	\$30,000,000
\$51 per capita, or \$255 per family	

Coming to the consideration of means by which more revenue may be gradually raised from the land and the burden of taxation made more proportionate and reasonable, choice may be had from a variety of methods. The one most frequently suggested is that of appropriating by taxation part or all of the future increase in land values. If Boston should decide

to start to-day and take in taxation her future unearned increment above the present value of \$635,000,000, the case would be exactly the same as that of some new community where no value has accrued, a situation in which the ideal justice of the single tax is so frequently conceded.

If Boston had decided ten years ago upon the large annual increase of one dollar per thousand each year for ten years in the rate of taxation upon its land, coupled with similar reduction in rate upon buildings and personal property, that city would be raising to-day from its land \$10 per thousand more than it does now, or,

Land \$635,000,000, at \$10, an increase of more than . . . . .	\$6,000,000
The increase in land value in the same ten years was \$188,000,000, 5 per cent of which is over . . . . .	9,000,000

And Boston would be taking in increased taxation to-day only two thirds of its land increment for the same ten years.

Under this supposition the \$447,000,000 valuation of ten years ago would still remain untouched by taxation, as is now the case with substantially the whole \$635,000,000 valuation of 1906.

The foregoing Boston figures are submitted simply for purposes of illustration, not in any way as support of a specific recommendation.

If the preceding argument is valid, it establishes the fact of gross inequality in the incidence of taxation as between land values and improvement values. If it is admittedly wrong that present land values should be untaxed, how can such fiscal wrong best be righted? Begin at once a transfer of taxes from improvements to land, so gradual that two old injustices will cease for every new one that is begun, until this untaxed value is made to bear at least its proportionate burden at the same rate with other things.

In conclusion I wish to emphasize this basic fact: that the burden of a land tax cannot be made to survive a change of



ownership has in turn this corollary of its own, viz., — that a new tax burden if imposed to-day would in one generation, by sale or by inheritance, cease to be a burden. If all taxes are finally collected from the landowner he will then be the only man taxed. If another generation serves to let his successor out from under the burden who will remain under it? Ground rent, economic rent, being an equivalent for value received, is not a burden, and if all taxes are ultimately taken from rent, it follows that in the course of two or three generations taxation may cease entirely from being a burden upon any one.

If professional economists and taxation experts will at once, to use a nautical phrase, quit their dead reckoning and steer their craft by the single tax pole star, time and tide will do the rest.