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# TAXATION BLUNDERS AND THEIR REMEDY

BY  
LEWIS JEROME JOHNSON

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## TAXATION BLUNDERS AND THEIR REMEDY

ONE fundamental blunder in our tax system is the assumption that the public must levy upon private earnings to pay its expenses.

This blunder springs from a failure to realize that the community has a natural revenue of its own—the annual rental value of the land apart from improvements. The value in question is simply the value of sites or locations due to nearness to centres of trade and population, to the presence of public improvements, to means of transportation and to various natural advantages. It does not include the value of any improvements in, on, or under the land. It does not include the portion of the value of a given piece of land due to the expenditure of capital or labor on that land. It does include the value of the franchises of public service corporations. It is relatively very low in the case of farm-land, and correspondingly high in cities.

This great fund, technically called land value, measures the benefit conferred by society upon the holders, as such, of titles to land. It might well be termed the community-made portion of the value of land. Morally and equitably, it is public property, and should be used to pay the public expenses, just as an individual's earnings should pay his individual expenses. Its annual yield has all the characteristics of an automatic public revenue—except that it will not *quite* collect itself into the public treasury. It does, however, flow into plain sight within easy reach; but our unnatural tax laws permit its absorption by the individuals who hold land titles—a social blunder akin to permitting the absorption of the slave's earnings by his "owner." All we

need to do to correct the present-day error is to increase our present levy upon land values. We would, at the same time, gradually reduce to extinction all other *revenue* taxes. Be it observed that this involves no abandonment of regulative or restrictive taxes, or of exemptions of land, as at present, in certain cases. Of course, it leaves our existing system of titles to land unchanged.

The adequacy of land values to meet all public expenses is sometimes questioned, but not by those who give due weight to the enormous land values in cities, towns and villages. Be that as it may, however, the industry which now supports *both* the government *and* the land-owners could obviously support the government alone, and with no *increase* of load over the present, to say the least!

Note carefully that it is not because land value is "unearned" by the land-owner that it should go to the public, but because it is created and earned *by the public*. This point is sometimes overlooked even by pretentious "experts," to the great darkening of their counsel.

### How to Undermine Graft.

The laws that protect the private absorption of land values once abolished, and this public fund once turned into the public treasury where it belongs, all excuse for seizure of private property under the guise of revenue collection would vanish, and it is safe to predict that the practice would also disappear. The abolition of these two legal systems of plunder—that of the land-owners from the State, and that of the State from the worker—would strip the skulking graft of the policeman or alderman, and the smuggler plunder of the tariff baron or franchise grabber of their most potent ally. "Easy money" for some, under the law, suggests and often even condones "easy money" all along the line, law or no law. Hence the chaotic state of public morals which makes it so difficult to get the upper hand of corruption in business and politics. Not till the public has learned to recog-

nize and respect its own property, and to respect that of individuals, can it hope for due respect on the part of individuals for public property and for one another's property.

### **Stopping the Leak Will Unburden Industry.**

Our present taxing methods are like transfusing blood into a man's arm while his own blood is streaming from a strangely unobserved gash in his side. But we have discovered the hitherto overlooked wound. We are getting ready to stanch it and perhaps to close it and let the patient thrive upon his own blood—to his advantage, not to mention those from whom the transfused blood is drawn. To the extent that we prevent the leakage of the natural public revenue into private pockets—by the increase of our present tax on land values—we do away with the need of transfusion, i. e., with the need of taxing buildings, factories, stores, machinery, merchandise, railway equipment, live stock, personal property, and improvements of all kinds. And this, doubtless, is destined to be the plan of action.

### **Progress of Land Value Taxation.**

The recognition of land values as a public fund, or at least as a specially appropriate source of public revenue, has in the last several years made a deep impression on legislation, not only in British Columbia and in New Zealand, Alberta, Saskatchewan, and Australia, but in Japan, Germany, and England. It is what gives the Lloyd George Budget its unprecedented social and economic significance. It has recently been urged in several English by-elections by Liberal candidates with such striking success that the taxation of land values can hardly fail to be adopted soon as a fixed and leading policy of the Liberal party. So unmistakable is this trend that even the Pall Mall Gazette (Unionist) of June 28, 1912, declares that the "Unionist party must set itself to think out and proclaim a drastic and practical and equitable policy of land reform" as a counter-move to the

Liberal tendency toward the taxation of land values. In the United States the proposal to exempt all personal property, buildings and improvements, with a corresponding increase upon land values including franchises, has begun to make itself felt in actual politics. Last fall it was the object of significant, if for the moment unsuccessful, State-wide campaigns in Missouri and Oregon. California in the same election cast an encouraging vote for a measure for municipal home rule in taxation urged with similar intent, a measure since referred to the people again by an overwhelming vote of the legislature. The city of Everett, Washington, the fourth city of the State in size, by a two-to-one vote carrying every ward and precinct in the city, adopted a measure of this kind, under the label, "Single-Tax Amendment," after carrying it by a slight margin at the previous election, only to lose it by a court decision on a technicality. To be sure, office-holders, office-seekers, political parties, and pretentious "experts" looking only to what they think are immediate possibilities have, in this country, hardly taken note of these things as yet. What they have done has been, on the whole, to belittle or oppose.

But the public is finding small satisfaction in following their past advice, and is learning to look for leadership to others less hampered and more far-sighted. The people are hence slowly but surely coming to see the momentous economic truth that land values properly belong to the public, and to show their new knowledge in their votes.

### **"Ability-to-Pay" Doctrine and its Evils.**

A second blunder akin to that of failing to recognize in land values a public fund, and one almost as bad, is the assumption that a tax is justifiable if only it is in proportion to ability to pay.

The current "ability-to-pay" doctrine fails because it makes no distinction between ability to pay due to having *served* the public and ability

to pay due to having *plundered* the public. It undertaxes, and thus fosters privilege. It taxes, and thus represses industry. It makes of taxation a mere system of enforced charity, when it should be the honest, dignified collection of the public's own natural revenue. To the extent that this plausible system succeeds in taxing ability to pay due to useful industry, it is a system of crude spoliation, or, if you prefer, enforced charity—none the less demoralizing because legal. It produces the confusion of mind which leads to the advocacy of income and inheritance taxes as well as taxes upon personal property and buildings, and thus tends completely to undermine the security of private property, something it would today seem wiser to buttress than to weaken.

But the ability-to-pay doctrine has, of course, some truth behind it. Obviously no tax system could successfully fly in the face of this doctrine. The dismal failure of the present system is due partly to the fact that in actual working it falls and is bound to fall with great disproportionateness upon the poor, and thus *flies squarely in the face of the very principle which in theory is used to justify it*. Let us examine further into the land-value tax from this point of view. Would it not prove to be the long-sought tax—one proportioned to the shoulders that must carry it?

A tax on the value of land after deducting the value of all improvements is primarily and sufficiently justified as a tax in proportion to benefits conferred by society. It is merely a payment in proportion to obligation to pay. Land-owners now get these payments, and, so far as not collected in taxes on land values, keep them. A tax on this fund, with the discontinuance of all other revenue taxes, would therefore put taxation on the correct basis of *obligation* to pay for value received instead of on the sole basis of *ability* to pay. *It would also, however, conform to all in the ability-to-pay principle which is socially or ethically justifiable*; for the holding of land or franchises carries with it, as a matter of course, ability to pay in proportion as it carries

obligation to pay, precisely as holding a ground lease carries with it the ability as well as obligation to pay a proper ground rent. And the enormous private fortunes at which income and inheritance taxes are aimed, with some show of wisdom, consist in the main of power to absorb land values, and would thus inevitably be reached by the new tax as far as they ought to be reached by any tax.

### **Why the Land-Value Tax is Needed.**

Thus the land-value tax meets the dictate of kind feeling that a tax should be in proportion to ability to pay, as well as the inexorable dictate of morality that it be in proportion to obligation to pay.

Some other merits in the system may be briefly suggested as follows:

Public collection of land values, through taxation, would build up a clear and sound conception of the distinction between public and private property. It would give us a tax that none could dodge or shift—a tax that could be assessed and collected with a minimum of expense, without inquisitorial methods, and with at least a reasonable approach to fairness and accuracy. We should have a tax having all the desirable features of income and inheritance taxes without their evil features. We should have a tax that would not penalize industry, thrift, or any other socially desirable activity and that would discourage, instead of fostering, the great social wrong of holding *valuable* land out of use or inadequately used.

### **Effect on Farmers.**

Owners of improved real estate, including farms, would usually be more than reimbursed for the increase of the tax on their land by the exemption of their buildings and of other improvements on or in the land, and of personal property not to mention their individual share in the increasing prosperity. For example, a recent, and doubtless trustworthy compilation from the official tax-books of Clackamas county,

Oregon, shows that the 5,407 farmers of that county, exclusive of tenant farmers and those who hold *no* improved land—that is, the working owners of bona-fide farms—would pay 23.91 per cent. less in taxes on their property if only land values were taxed, the total tax levy remaining as at present.

To turn to an older community, Massachusetts, we find from recent valuation (1907, the latest at hand) that in the 284 small towns of the State (excluding the 70 cities and large towns) only about 20 per cent. of the whole *real estate* valuation is community-made, and hence taxable as land value as defined in this article. That is to say, in that State, under a system of purely land-value taxation, nearly or quite 80 per cent. of the value of all rural real estate besides all the personal property would be exempt from taxation. It is believed, upon careful analysis, that such a system of taxation, with a proper distribution of State expenses among the municipalities, would halve the taxes of Massachusetts farmers. Obviously, a system of taxing only the community-made values in the land would spell relief for the working farmer in any part of the country. He is the man who gets the minimum benefit from society, and is now taxed out of all proportion to the little benefit he gets—with a tax penalty lying in wait for every improvement he ventures to make. No wonder his children move to the city.

The farmer's case has here been given particular consideration, because he has been known to confound land value with land, and to assume that, because he has large holdings in land, he would be ruined by the new system. Misled by this error, he naturally opposes the proposal to lay all taxes upon land values. Other well-meaning folk are apt to think he is right, and some not so well meaning have selfishly encouraged him in his mistake. For his own good and that of the rest of us, his not unnatural error needs careful pointing out, and the cause needs the farmer's votes as badly as he needs the cause. His advantage, in common



with other workers, is, of course, clear when it is realized how very little land value he is now enjoying and how little of his property would be taxable under the new system. Note carefully that it is bona-fide working, producing farmers, those who farm farms rather than farm farmers, of whom we are now speaking. As to "farmers" who are primarily land-speculators—that is another story.

### **Effect on Workers Other Than Farmers.**

As for workers other than farmers, their advantage in the change is even more readily seen. Owning little or no land, valuable or otherwise, there is no room for the peculiar confusion that besets the farmer. If a renter of real estate, as is usually the case, he would, of course, pay the tax on the land that he occupies. He would pay it as he does now, through his rent payments, payments that are now as large as the landlord can exact, and that hence could not be increased by the new tax. The new tax would simply compel the landlord to give up to the tax collector a larger share than now of the public fund, land value; while the abolition of the tax on the house, together with an increased supply of houses, would force down the workers' rent bill. If the worker owns land, its location value in proportion to his other property is usually small. Then the removal of taxes on his necessities of life—food and clothing, as well as shelter—is clearly all to his good.

Moreover, all workers, farmers and city workers alike, must gain from the increased demand for labor and consequent increase of wages through valuable land coming into use. And the lion's share of the advantage could no longer go to those whose contribution (?) to the communal advance consists merely in owning the land that other people use.

### **Who Would Be Hit.**

The only persons whose incomes would be diminished, even temporarily, by putting all revenue taxes on land values would be the few

whose income is derived predominantly from the unnatural right of living off the public fund, or who persist in injuring society by preventing the full economic use of valuable land.

### Period of Change Not to be Dreaded.

Like convalescence, the result is all to the good, and will be so regarded when understood—except perhaps by those who have come to prefer the life of an economic invalid and prefer to be waited on and supported by others. And it may safely be predicted that the good-natured, forgiving and forgetting public will never let even such undergo sufferings comparable to those now endured by the underpaid but frantically industrious poor.

### Recapitulation.

Land values are a social product. They are rightfully public property, because they are created and maintained by the public. They should be collected by the public and used to pay the public expenses. To accomplish this they should be made the sole source of revenue taxes. Two of the many advantages would be a rational tax system and a rising respect for true property rights, public and private. The latter alone might repay us for making the change.

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