

### CHAPTER III.

## Results of Taxing Buildings at the Same Rate as Land

John Stuart Mill's dictum, "That is the best kind of government which makes it as hard as possible for a man to do wrong, and as easy as possible for him to do right," may be applied to systems of taxation and read, "That is the best system of taxation which encourages enterprise and effort, and discourages sloth, which stimulates the construction of healthy dwellings and the demolition of unsanitary ones, and which not only compels payment of taxes in proportion to ability to pay, but as well in proportion to services rendered."

The incidence of taxation is quite as important as the rate of taxation, and is worthy of the careful consideration of those interested in the administration of cities. The social activities of American cities are as yet in their inception. In nearly every large American city the expenditures for educational purposes, the extermination of tuberculosis, inspection of milk and other food, medical treatment of school children whose parents are too poor to provide such treatment for them, parks and playgrounds, etc., are constantly increasing, as we as a nation are conceiving and carrying out the duty and economy of collective municipal action.

In 1908, the one hundred and fifty-eight cities in the country having a population of 30,000 or over, out of total payments for general expenses and special service expenses amounting to \$402,633,976, expended over one-fourth, \$102,723,553 for protection of life and property, and \$40,055,559, or about one-tenth, for health conservation and sanitation; \$28,006,783 for charities, hospitals and corrections, and \$119,004,725, nearly one-third, for education. Despite these facts we have in our cities abnormal fire losses, and inadequate police protection, death rates are cruelly and criminally high, jails and reformatory institutions are disgracefully crowded, and school buildings are unsanitary, classes are too large, and teachers are grievously underpaid. The sweeping claims made as to waste which can be eliminated gave promise of material reduction in municipal expenditures, but the promise has not been achieved.

*Good government makes right action profitable and wrong action unprofitable.*

*Taxes should be judged by their moral results.*

*Collective municipal social activities still in their beginnings.*

*Many municipal expenditures merely "lock the door after the mule is stolen."*

*Dominance of real estate owners in budget-voting bodies is now challenged.*

*Not the tax rate, but who pays the taxes, the most important question.*

*Robbing the sick and poor by taxation a more serious evil than a small waste of funds.*

*Legalized robbery through taxation must stop.*

The dominant influence of real estate owners over budget-voting bodies is at least challenged, however.

Ability to "keep down the tax-rate" is no longer the criterion of efficiency. The thinking public of American cities realizes that important as are economy and efficiency in administration, adequate appropriations for social needs are equally important. Of course, the two are not incompatible, but the people of American cities while desiring strictest economy do not wish adequate provision for the city's social needs to await perfection in the organization and administration of all the city's departments. Efficiency in administration has outstripped efficiency in scope of municipal activities. The questions who pays the taxes, and whether those who do pay, are able to pay, are demanding as much attention as whether 5% or even 10% of public funds is wasted and this charge is more easily made than proven. A waste of 5% even of the city's expenditures, which should be stopped, is, nevertheless, not so serious an evil as taking \$10 to \$50 in taxes, a year, from scores of thousands of families in the city who are not able to pay even a dollar toward the expenses of the city. A certain sum of money is required in every city to enable a family, even making allowance for the personal equation, to maintain a standard of living essential to national efficiency. The lower a family's income is below this minimum of national efficiency, the more heinous the city's offense in extorting from them by unjust systems of taxation even a dollar for expenses, and the more costly the later atonement the city must make for such a policy.

In times of war, deprivation of the necessities of life may be condoned, but the legalized robbery through taxation sanctioned in American cities to-day by inert or unthinking public opinion is unparalleled since the days of the Duke of Alva in the Netherlands. We rob widows, consumptives, and children because we do not tax land values adequately. We fetter industry and condone low wages because the owner of ground rent—the landowner—is permitted to tax the industrious users of land.

Before examining in detail the economic, fiscal and social aspects of taxing land values, we may profitably study the incidence of present methods of taxation in American cities.

Of the total receipts in 1908 of \$479,834,806 from general revenues in the one hundred and fifty-eight cities in the country having a population of over 30,000, \$393,940,142 was derived from taxes. Of this amount \$377,340,940 was the original levy upon general property, and \$2,643,309 penalties upon such property, while

\$12,686,929 was derived from special property and business taxes, and \$1,268,904 from poll taxes, \$50,435,297 was derived from licenses and permits, \$3,893,719 from fines and forfeits and \$31,545,785 from subventions, grants and gifts from other civil divisions—such as school funds from the state—and from private individuals.

*About three-quarters of revenue of cities with over 30,000 population derived from general property tax, a large proportion of this levied on buildings.*

In other words nearly three-quarters of the total revenue of these one hundred and fifty-eight cities was derived from a general property tax. The tax on land values was the only tax that usually cannot be shifted. Over \$63,000,000, about one-eighth, was secured from taxes on special property and business licenses and permits including \$40,716,637 from liquor licenses and taxes.

Unfortunately a few cities only of the total one hundred and fifty-eight separate land and improvement values in their assessments, so that it is impossible to state accurately the levy on each. This is not so important, however, as to see the effect upon individual renters which the taxation of land and buildings at the same rate would produce.

*Results upon individuals of taxing buildings at same rate as land.*

The Federal Census for 1900 gives the percentage of families tenants in some important cities as follows: Baltimore, 73.9; Boston, 81.6; Buffalo, 60.0; Chicago, 71.3; Cincinnati, 80.8; Cleveland, 60.9; Columbus, 67.3; Detroit, 58.3; Fall River, 82.9; Jersey City, 81.2; Kansas City, 76.9; Los Angeles, 60.0; Milwaukee, 57.9; Newark, 78.0; New Haven, 73.3; Manhattan and the Bronx, 93.7; Brooklyn, 81.4; Omaha, 74.1; Paterson, 76.0; Philadelphia, 77.2; Pittsburgh, 72.1; Providence, 79.3; St. Louis, 79.5; San Francisco, 78.5; Washington, D. C., 74.8; Worcester, 73.7.

*American cities' population largely tenants.*

The basis of assessment in different cities also varies materially from 33 1/3% of full value in Chicago to nearly 100% in New York—the rate of taxation differing naturally similarly, but the effect in every city of taxing the industry represented by a house or tenement at the same rate as the ground values created largely by the community and by municipal improvements so that the taxes on buildings may be shifted to the tenant and enrich the owner of the ground rent—the landowner—is shown in the following illustration.

The taxes on a house assessed for \$3,000 with a tax-rate of \$2.00 amounts to \$60.00. This tax must be paid by the tenant of the building as part of his rent. The taxes on an apartment assessed for \$1,250 at the same tax-rate amounts to \$25.00. It is evident that to secure funds for a city's necessary expenditures by an equal rate of taxation on land and buildings means that an appreciable

*High taxes on buildings means high rents.*

amount is extorted from families, whether they are able to pay or not.

*Taxing build-  
ings lowers  
the standard of  
living and  
creates paupers.*

The consumptive under such a system of taxation who returns from an effort to cure this dread disease, the widow working for a pittance to keep her family together, the unskilled worker who is striving to maintain his family and bring them up to efficient citizenship, all must pay their quota of taxes in their rent, although it means lessening the consumptive's chance to regain health, hastens the day when the widow must abandon the struggle to keep her family together and reduces the vitality of the workingman and his family.

*New York City  
extorts taxes  
from scores  
of thousands of  
consumptives'  
families and  
widows.*

Illustrations from New York City where rents are so cruelly high will sufficiently demonstrate the validity of this statement. There are 40,000 known consumptives in New York City, and probably at least 10,000 more whose location is unknown, while 28,000 new cases of consumption are developed every year and 10,000 people a year go to consumptives' graves. Approximately 4,000 widows are supported, or to be accurate, helped, though not always adequately supported, by private charities of New York City. Some 23,000 children are supported in institutions by the city's appropriations; many whose mothers yearn to care for them, but who can't afford to pay taxes and rent under our present system of taxing land and buildings at the same rate, and in addition to buy food and clothing, while private charities also are unable to keep the homes of all competent widowed mothers intact, and the city does not give public outdoor relief.

*Taxing build-  
ings robs  
families with  
incomes below  
the required  
standard of  
living.*

The New York State Commission on Employers' Liability, Unemployment and Lack of Farm Labor accept the report of a committee on the standard of living of the New York State Conference of Charities and Correction in 1907 in which they express their belief that with an income of between \$700 and \$800 a family can barely support itself, provided that it is subject to no extraordinary expenditures by reason of sickness, death or other untoward circumstances. The Commission remarks, "If unemployment so vitally affects the well-being of the skilled workman and his family, its disastrous consequences in the household of the unskilled workman can be left to the imagination. His income if employed six days every week in the year cannot reach \$550.00, already \$150.00 below the standard."

In point of fact there are relatively few even highly skilled operatives in New York City who get over \$800.00 a year, and

\$500.00 to \$700.00 is the usual income of an unskilled worker in the city with the exception of city employees.

Social workers and advocates of larger municipal expenditures may well hesitate under the present system of taxation to urge larger expenditures by the city, since it means taking with one mailed left hand from all the poor of the city to give to a few poor with the pseudo-charitable right. For more than one reason a city's right hand doesn't want to let its left hand know what it is doing in "charity" under present systems of taxation. This is a qualitative and not merely a quantitative injustice. It is not a question of whether there are 10,000 consumptives in Chicago, or 50,000, 20,000 or 30,000 families in Philadelphia who receive at least \$100.00 less a year than they need to attain and maintain efficient manhood and womanhood and productivity. In every one of the one hundred and fifty-eight cities to whose receipts and expenditures reference has been made, there are many consumptives, many widows and many, too many, families below an honest line of dependence, and trying to exist on deficits. Nor will any informed citizen in any city of over 8,000 population in the United States, except those charming suburban places to which the wealthy retire to get away from the results of present economic conditions, claim that there is no irremediable poverty in his city. Of course, the income required to maintain a reasonable standard of living is less in most cities than in New York, but the salient fact remains that every increase of 10c in the tax-rate per \$100.00 of assessed value means that the tenant of a tenement house apartment, assessed for \$1,250 will pay \$1.25 more taxes, the owner of a building assessed for \$2,000 struggling to make both ends meet will pay \$2.00 a year more taxes on his building, while a general tax-rate of \$2.00 per \$100.00 of assessed value means that the tenant of such an apartment must pay \$25.00 in taxes in addition to a net profit to the landowner—\$25.00 taken from a deficit of \$100.00 to \$200.00 a year, however, is an injustice which no city should inflict upon its citizens.

A further economic result of taxing buildings at the same rate as land has been referred to in the findings of the New York City Commission on Congestion of Population—that owners of vacant land are thereby encouraged to hold land out of use to secure the increase in values and to discourage the construction of buildings since the owner is penalized in heavier taxes for constructing new buildings or replacing old and unsanitary buildings with new and healthy ones. This subject is more fully dealt with in the chapter on "Taxation of Land Values and Housing Reform."

*Larger municipal budgets, if buildings are taxed, means more families below the standard of national efficiency.*

*The injustice of taxing buildings does not depend upon the number of consumptives, widows and families below the line of dependence.*

*No city can justly take taxes out of a deficit, in time of peace.*

Under the present general system of taxing land and buildings at the same rate, the owner of ground rents feels entitled to and attempts to secure 5% to 6% net return on investment in the land and buildings alike. This tends to keep up rents since it is to the advantage of the owners of lightly taxed land to postpone adequate improvements thereof for as long a time as possible so as to get scarcity value rents, and to secure the maximum share of increasing ground rents. This applies, of course, to land which should be improved for business, manufacturing and commercial as well as residence and tenement purposes. The inevitable result is high rents, and a tendency to overcrowd all buildings and not to provide proper standards of sunlight, space and ventilation. Continuing the illustration we have used of an apartment assessed for \$1,250.00 with a proportionate site value of \$750.00, we find that a net return of 6% on such property above interest, depreciation, vacancy charges, etc., and taxes means a ground rental of \$45.00 and a profit on the tenement apartment of \$75.00 or a total net profit of \$120.00. If, however, we are agreed that, say 2% on the land value, i. e., 2% ground rent, is all that the owner of ground rent is really entitled to, then \$30.00 a year of ground rental is extorted from the tenant of such property, an appreciable sum for a man with an income of \$500 a year, or less.\*

*Is the landowner entitled to more than 2% ground rent, the interest paid on Postal Savings Bank accounts?*

*Taxing buildings at the same rate as land cripples industry and tends to reduce wages.*

Six per cent net return on a factory building assessed for \$80,000, on land assessed for \$30,000—a total of \$110,000—is \$6,600 of which \$1,800.00 is ground rent. If, as in the former instance, the owner of the land is in fact entitled to only 2 per cent net return, i. e., 2 per cent ground rent, then \$1,200.00 is extorted from the manufacturer in ground rent by the landowner. This sum distributed in increased wages to two hundred employees would afford an appreciable increase of wages amounting to from 1 per cent to 2 per cent of the total wages paid many employees in factories. Permitting the landowner, however, to secure the additional ground rent puts a heavy burden upon the manufacturer.

The equal tax-rate upon land and buildings is a serious handicap to the provision of fire protection. The tragedy of the recent factory fires in Newark and in New York City has shown the necessity of better construction of factory buildings, and the making

\*This concrete illustration is arrived at by following the incidence of a single apartment, using the proportion of the assessed value of a tenement accommodating twenty families assessed for \$25,000.00, on a site assessed for \$15,000.00. The same principles and ratio apply to the manufacturer in every American city.

*Taxing buildings at the same rate as land puts a premium on firetraps.*

over of many buildings to safeguard the lives of those employed therein.

The National Board of Fire Underwriters report that from 1866 to 1908 inclusive the cost of conflagrations in the United States has totalled the sum of \$936,551,135—nearly twice the total municipal expenditures in 1908 of the one hundred and fifty-eight cities in the country which in that year had a population of 30,000 or over. By conflagration is meant all fires involving a loss of half a million dollars and over.

The "American Year Book" states, "The direct and indirect losses from fire in the United States during 1907 approximated \$450,000,000 or one-half the cost of construction. Of this loss four-fifths or an average of \$1,000,000 per day could be prevented, as shown by comparison with the standards of fire construction and fire losses in the larger European countries." The provision of fire towers costing \$5,000, in a factory, with a \$2.00 tax-rate on buildings would mean penalizing the owner with \$100.00 additional taxes a year.

*Is it worth while discouraging fire protection?*

A firm leasing factories and lofts in the manufacturing centers of Manhattan states, "The average square-foot rate for manufacturing space in non-fireproof buildings in this section is twenty-five cents, in fireproof buildings forty cents."

Obviously the owner of such a building gets about the same net return upon his property when fully occupied, whether it be fireproof or firetrap. The firetrap building may be worth and assessed for \$5,000 or \$6,000, while a new building with the same rentable area might command higher rents, but the cost would be in the neighborhood of \$20,000 or at least three times as much. On an increased assessment of only \$12,000, however, the increased tax at a rate of \$2.00 per \$100.00 of assessed valuation would be \$240.00 or 1 per cent on a total investment of \$24,000.

*Should a manufacturer be penalized for providing fire protection?*

It should be noted too that while the owner of the building might have to pay higher insurance in the old high fire-hazard building, that the city also has to pay more for fire protection and fire fighting where there are any considerable number of such high fire-hazard buildings, and this cost is reflected in the higher tax-rate, and proportionately shifted to the rent burdens of the poor.

The entire cost of maintaining the Fire Department of New York City is about \$1.72 per capita of population, as compared with a cost in Cologne and suburbs of \$0.25; Berlin, \$0.26; London, \$0.19; St. Petersburg, \$0.22; Paris, \$0.21; Budapest, \$0.08. It is of course true that New York City has an extremely efficient Fire

*Discouraging fireproof buildings by*

*taxation, means  
more expen-  
sive fire  
departments.*

Department, but it is equally patent that no such large expenditure would be required, were there not such widespread serious conflagration hazards.

*Taxing build-  
ings injures  
both employers  
and workers.*

Even though the owner of the factory pay immediately, too, the increased insurance rates he will to the best of his ability shift this increased cost on the consumer of his goods or attempt to take it out of his employees, since no manufacturer except under duress pays for waste, or leakage in the cost of production. In any event these extra costs may be partially laid to the system of penalizing by heavy taxation the man who safeguards his employees, without exonerating officials who permit the continuance of dangerous fire-hazards. No justification can be found in morality, only in law, for punishing or fining a man for doing right. Taxing buildings,—which means the exemption of land values from adequate taxation—injures both employers and workers. Each class to-day as during past centuries is striving to secure the full values of what each class produces. Both classes are despoiled of the values they create by the legal but unmoral extortion of ground rents by landowners. On this point they are agreed, and the most thoughtful members of both classes realize that before they can distribute equitably the values of their joint products, the confiscation of ground rents must be terminated by reducing or abolishing taxation of buildings and other forms of industry.