

the members of the Council who passed the ordinance have dared to return home, but all remain in a state of the most obscure exile.

It is probable that few readers will find themselves able to believe this simple statement, but Biles has a good reputation for truth and veracity, as the lawyers say, and he has some corroborating documents.

JACKSON BIGGLES.

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## THE INFLUENCE OF TAXATION ON THE PROSPERITY OF CITIES.

A Paper Read by Lawson Purdy of New York Before the League of American Municipalities, in Session at Chicago, September 26, 1906.

In 1873, Enoch Ensley, a wealthy planter of Tennessee, wrote to Governor Brown asking him to call a special session of the legislature to amend the constitution so that changes could be made in the tax laws of Tennessee. The tax rate of Nashville was three and one-half per cent. and of Memphis four per cent., and Mr. Ensley said that the burden on business was insupportable. Great land owner as he was, however, Ensley did not urge a search for new sources of revenue, but rather the application of the "rule or motto" which, he said, "It would be well for the State to adopt and have cut into the stone at the capitol (in large letters and have them gilded), in the Senate chamber, the hall of the House of Representatives and in the governor's office, . . . to-wit :

"Never tax anything  
That would be of value to your State,  
That could and would run away, or  
That could and would come to you."

This rule laid down by Ensley has become an axiom, but before it can be applied the constitutions of about thirty-five States must be amended by repealing those despotic limitations on legislative power which are not found in the earlier constitutions, and which should find no place in the constitution of any free people. Because of constitutional and statutory restraints upon the power of cities we need discuss only what can be accomplished in most cities by executive officials under existing laws.

### Conditions of Prosperity.

City officials often regard the city as apart and distinct from the individual citizens, and sometimes therefore uphold policies which appear to be in the interest of the city corporation, although opposed to the interests of the citizens. This is, of course, a short-sighted view. In reality nothing can be good for the city which is bad for the citizen, nor bad for the city which is good for the citizens. Again, many consider the interest of classes and speak of what will be advantageous to manufacturers or shopkeepers or land owners. This, too, is a mistaken attitude. Citizens should be regarded alike as men, and not as the owners or users of some kind of property. All depend upon the workers who render service for service, and it is fair therefore to consider the interest of all citizens as bound up in the interest of those who earn their living; and that city may be regarded as the most prosperous in which it is easiest and most agreeable to earn a living.

The interests of the city and of its citizens are identical. Nevertheless, they may be viewed from both standpoints.

### The City Standpoint.

From the standpoint of the municipal corporation the revenue must be ample and economically administered.

To secure ample revenue there must be an ample source of revenue, and I shall point out how the source of revenue will be increased by increasing the demand upon it.

Revenues should be economically and wisely expended. Mere honesty of administration, without intelligence, is not sufficient, for needless expenditures must be avoided, such as the unnecessary streets so common in all our cities, which must be sewered, paved, lighted, cleaned and policed. To avoid opening unnecessary streets the development of the city must be uniform and compact yet without any overcrowding. Every lot must be put to its best use. It is not difficult to determine when a lot is not put to its best use; for every lot should yield the largest rental return of which it is capable, and when we see old three-story dwellings next door to business blocks, it is evident that there an opportunity is wasted. It is hardly possible to travel a mile in any American city without noting scores of such wasted opportunities. We see worn out wooden buildings of one to four stories on lots which ought to be improved with modern offices or lofts; tumble down tenement houses on sites needed for factories; lots entirely vacant and unused for which the demand, expressed in selling value, is very great for stores, factories or dwellings. In the suburbs we must pass hundreds of acres of unused land intersected by streets before we reach the next settlement. The best use for the vacant lots nearer the center would be for dwellings, and the best use for the lots on which are the distant dwellings would probably be to raise vegetables for the city market.

Men individually are not responsible for this foolish waste of energy; men on the average are intelligent and seek to earn a living by the least exertion. It is our laws or their administration which force them to exert their energy in directions which are wasteful for the community.

### The Personal Standpoint.

From the standpoint of the individual it is easy to see that the same conditions which make the prosperity of the city make the well-being of the citizen.

For the man seeking to earn a living, opportunities to earn a living must be plentiful and wages high. Sites for manufacturing or business purposes or for homes must be easy to acquire at low cost. The place of work or business must be near the home and easy of access. Streets must be clean, well paved, sewered and lighted; there must be a plentiful supply of good water, sufficient public parks, good schools and efficient fire and police protection.

Any city with such advantages would be a desirable place to live in, there would be a great demand for sites for business and residence, and more than this, such a city would be a blessing to the whole country, because it would make an effective demand for all manner of things produced elsewhere.

### The Principal Source of Revenue.

The principal source of revenue in all American cities is a tax on real estate. Probably not one gets less than 50 per cent. of its revenue from this tax, and many cities get much more. Nevertheless the average man gives very little thought to what economists call the incidence of the tax on real estate, and people, otherwise intelligent, cling to opinions which a little thought would disprove, or which if they are too lazy to think for themselves, would be cured by a little dose of any standard work on political economy.

The very first inquiry as to any tax should be about its effect, and especially by whom it is ultimately paid. Many people erroneously think of taxes as falling only upon those who pay the tax bills and speak of them as the "taxpayers." Often suggestions are made and even acted upon that the "taxpayers" should have exclusive control of public expenditures.

Another erroneous theory widely held is that tenants or occupiers pay all real estate taxes and that the entire burden falls upon them. This is not so foolish and probably had its origin in the statement that "The consumer pays the taxes." A great many men see clearly enough that the producer of goods must recover from the purchaser any tax imposed upon the production of the goods, just as he must recover from the purchaser the cost of his raw materials, the wear and tear of machinery and the wages of workers. If a tax is imposed on goods, production must be curtailed in order that the price of the goods may be advanced. Sometimes it may be that coincident with the imposition of a tax economies in production are effected and the price does not rise. Sometimes there may be a change in quality to bring about the necessary economy.

The only difficulty in determining the true effect of a tax on real estate arises because real estate is two things of different nature joined under one name. It is necessary to distinguish the effect of the tax in so far as it falls on the value of land alone exclusive of improvements, from the effect of the tax so far as it falls on improvements alone. The failure to distinguish between these two different effects is responsible for the persistence of the two erroneous theories described, which are all the more misleading because of their partial truth.

### The Tax on Buildings and Other Improvements.

The effect of the tax on buildings and other improvements is the same as the effect of the tax on any other product of human labor. So far as there is any difference in the effect of a tax on buildings and a tax on movable goods it is of degree and not of kind. The difference is in the rapidity with which the tax can be shifted and not in its ultimate destination. Men erect buildings in order to get a certain income or in order to sell the building on the basis of that expected income. If a tax is imposed on buildings, other things remaining the same, it must reduce the net income of the owners of those buildings. The mere imposition of the tax does not in itself confer any power to exact a higher rental. On the average, owners of buildings always exact the highest rental that can be secured, and there must be some increased demand for buildings or decrease in their supply before tenants can be forced to pay

higher rentals. If a tax is imposed on buildings, some persons will be deterred from erecting new buildings and thus production will be checked. This will go on until the demand due to an increase of population or to the destruction of old buildings absorbs the supply, raises the rents and so induces builders to erect new buildings.

Without a more minute examination of all the varying conditions, such as growth of population, which influence rentals, it is evident then that so far as buildings are concerned the consumer does pay the taxes. This is true because buildings are products of labor which may be indefinitely produced, and it must also be true of any other improvements fixed to the land and made real estate. So far as any tax falls on buildings or on other improvements on land, it is paid by tenants who may or may not be also owners.

One more step concludes the examination. A tax which falls on those who use the buildings or other improvements on land for productive purposes, increases the cost of the things produced, and this cost must be recovered from those who finally use the products. The condition is truthfully summed up when we say that the consumers of buildings and other improvements on land pay the taxes, in so far as they fall on those buildings or improvements; for the consumer of a pair of shoes or a coat is also a user and consumer of the building in which the coat or shoes were made.

### The Ad Valorem Tax on Land.

In analyzing the effect of the tax laid on land in proportion to its value—levied, as it is, universally throughout the United States—we must constantly bear in mind that price cannot be affected in any other way than by affecting demand or supply. This phrase "demand and supply determine price," is often glibly spoken by those who never think out the manner in which any given conditions affect demand or supply, and thus affect prices. Some seem to think that demand and supply are constant forces which operate without regard to other forces of physical nature, or to social forces induced by legislation. Demand and supply, however, are both affected by what may be called physical and human conditions. If there is a drought or excessive rain which reduces the supply of wheat the price rises; if there is an ample harvest the price falls. In both cases supply is affected. On the other hand, there may be a normal supply in such hard times that the purchasing power of the people is seriously affected. In this case demand falls off and the price of wheat falls with it.

If, for the moment, we disregard the factor of speculation in land (which results in some land being withheld from use and from sale in the expectation of a rise in price), and if we then apply the principle that supply and demand determine price, it is easy to see that laying an ad valorem tax on land has no influence upon the supply of land nor upon upon the demand for land. Hence the tax cannot enable the owner of land to exact a higher price or a higher rental. Disregarding speculation, so long as the tax is not more than the entire sum which can be obtained for the use of land, it makes no difference in the rent whether the tax is high or low. The imposition of the tax does not increase the num-

ber of persons who desire to use any particular site, and does not decrease the supply of land competing with it. Such a tax, therefore, falls wholly upon the owner.

If the owner of the land is also the user, a tax upon it which does not take more than its entire rental value does not help the owner to increase the price of his products. The price of any product is limited by the cost of production upon the least, desirable site. The saving effected in the cost of a product by producing it on a more desirable site is the rental value of that site, and goes to the owner of the site, not as a profit of manufacture but as rent. If part of this rental is taken by taxation, the profit of manufacture is not decreased. This is a fact frequently overlooked, although we all know that cheap goods are sold on very valuable land. Goods can be bought for less, for example, in our great cities than in country villages, and it is generally more profitable to establish factories on the valuable land of cities than on low-priced country land.

So far we have left out of consideration speculation in land. As a matter of fact we know that in every progressive community there is speculation in land, and that much land is withheld from use in expectation of an advance in value. This decreases the supply as effectively as though the land were to sink into the sea, and the decrease of the supply increases the price. Withholding any land from use increases the rental and the selling value of all land. The tax reduces the profit of withholding land from use because the land operator must take into account what are called his carrying charges, which include taxes as well as interest on the purchase price. The more carrying charges increase, the stronger is the pressure upon the operator to part with his land. Thus an ad valorem tax tends to increase the supply of land, and as supply increases price falls, whether it is considered as selling price or rental price.

A very important feature of our system of land taxation is that when the rate is uniform the tax falls wholly upon those who own the land at the time the tax is first imposed. The selling price of land depends upon the net revenue which can be obtained from it, and if the net revenue is reduced by the imposition of a tax, the selling price falls proportionately. For example, the gross revenue which can be obtained from a certain lot or farm is \$1,000. If there is no tax upon it the selling price, calculated on a basis of 5 per cent., would be \$20,000. If there is a tax of \$200 a year the net revenue would be only \$800, and the selling price would be \$16,000. The owner at the time the tax is imposed would suffer a loss of income of \$200 a year. If he sold he would obtain a price based only on the reduced revenue, while the purchaser would buy this revenue of \$800 a year and would get all that he paid for. The tax would be no burden to him, as it has operated to save him the sum of \$4,000, which he can invest otherwise.

The general result of our tax on land may then be summarized as follows: The tax is paid entirely by the owner and neither increases the rent nor the price of land. The tax tends to check speculation and to force some land into use, which in the absence of the tax would be withheld. So long as the rate remains uniform the tax is no burden upon

those who have bought since the tax was first imposed, because the purchase price paid was reduced by the amount of the tax capitalized at the current rate of interest.

These conclusions in regard to a tax on both land and improvements could be enforced by quotations from the leading economists. But the reasoning is so simple and the conclusion so plain that it is needless to read quotations in their support.

#### Assessment of Real Estate.

In some of our States the basis for the tax levy is some proportion of the assessed value. In Illinois, for example, it is one-fifth. In all States, however, the ultimate basis is the market value of the property, and the decisions of the courts in regard to what constitutes "full value," "market value," "selling value," and the other terms by which the assessment basis is defined, are practically uniform. In the city of New York the charter provides for the assessment of real estate at "the sum for which, under ordinary circumstances, it will sell;" and the tax commissioners in their directions to their deputies in 1903 summed up the criteria of value which should guide the assessor in arriving at his conclusion. They said:

Foreclosure sales, sheriff's sales, or forced sales of any description are not to be considered by you as evidences of true value. On the other hand you are cautioned not to base your estimates of value of real estate upon the fictitious considerations now so frequent in deeds and mortgages, nor upon sales or mortgages made to "dummies," nor upon the amounts awarded in condemnation proceedings, nor upon "boom" prices, or the prices advertised in speculators' circulars, nor upon the unverified statements of alleged "offers," nor upon the wants or necessities or the idiosyncrasies of buyers or builders. Neither are you always to base your estimate upon the aggregate value of the land and the cost of the buildings thereon, for the structures may be antiquated, defective in architecture, inappropriate to the location, and consequently unproductive.

None of these is conclusive evidence of true value.

The full value at which you are required by law to assess real estate for the purpose of taxation does not mean extreme value, exchange value or prospective value, but the actual value, selling value, market value. Full value, selling value and market value are synonymous terms. Market value has been appropriately defined to be the sum which a willing purchaser is prepared to pay and which a willing seller is ready to accept.

In Massachusetts and some other States the law requires a statement of the value of the land, of the improvements thereon, and of the total value of real estate, separately. In the city of New York the charter provides for a statement of "the sum for which each separately assessed parcel of real estate, under ordinary circumstances, would sell if it were wholly unimproved; and separately stated, the sum for which, under ordinary circumstances, the same parcel of real estate would sell with the improvements, if any, thereon." This provides for two columns of figures only instead of three, and has a decided advantage in its psychological effect upon assessors. If assessors are required to set down the value of improvements they are tempted to place a value upon improvements which are really valueless, and to base their judgment on the cost of reproduction, regardless of whether the improvements are

sued to the site or are certain to be replaced by the next purchaser.

The law for the assessment of real estate in New York as amended in 1903 is the best now in force, because it embodies in the best form what is absolutely essential for an equitable assessment of real estate, that is, provision for the separate statement of the value of land. This provision tends to prevent discrimination in the assessments of land as compared with one another; to prevent the mere copying of previous assessment rolls, and to prevent wilful discrimination. It makes comparison between the assessments of neighboring property much easier, and in the event of a dispute between taxpayers and assessors there is better evidence to substantiate the just contentions of either party.

Much improvement can be made in many places by a change in the law, but no law can obviate the necessity for honest, intelligent, industrious assessors. It is the most important work to be performed by any city official; therefore, assessors should be sufficient in number, highly paid, and hold their places so long as they do their work efficiently.

It is notorious that assessments are not generally made as the law directs, at full value, but are made at some arbitrary proportion. The adoption of any standard of value other than that required by law really takes away all standards. Each assessor is a law unto himself, and each assessment becomes a matter of his own arbitrary and secret judgment. Arbitrary, because when he is not held to a legal standard, no one can order him to adopt any other. Secret, because he is liable to indictment if he declares he has adopted any other than the legal standard. Disobedience to the law results in a varying and fluctuating standard.

An almost inevitable result of the disregard of the legal standard is a discrimination between different classes of property. A discrimination between individual owners may amount to an intolerable persecution of individuals, but is more easily detected and corrected than discrimination between classes, which is productive of grave evils to the city as a whole. Even in those cities which have the fairest assessment, investigation will always disclose that certain classes of property bear an undue burden, and these classes are always the same. The conditions that existed in 1893 in Chicago and were fully investigated by the Bureau of Labor Statistics of Illinois, are typical of what is still common. It was then the practice, and has since become the law in Illinois, to make an assessment at 20 per cent. of full value the basis for the tax levy. The investigation proved that unimproved property was assessed at less than 5 per cent. of its true value, expensive residences at less than 8 per cent., business and office buildings under 10 per cent., and cheap residences at about 16 per cent. In Chicago land was paying only one-quarter as much in proportion to its value as a small house.

In the city of New York, in spite of great improvement in recent years and an assessment which probably compares favorably with any city in the country, it is common to find vacant land assessed for half or less than half of its market value, and residences costing \$2,000 to \$4,000 assessed at their full cost of reproduction, a contemptible though thought-

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Entered at the Chicago, Illinois, Postoffice as second class matter.

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Yearly .....	\$1.00
Half yearly .....	.50
Quarterly .....	.25
Single copies .....	.10
Trial subscription—4 weeks .....	.10
Extra copies in quantity, \$3.00 per 100, in lots of 50 and upward; if addressed to individuals, \$3.50 per 100.	

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less oppression of the poor. In parts of the city in which the value of land is rapidly rising there is some excuse for its under-valuation, but an assessment at less than half the value cannot be excused, and such assessments are not uncommon.

The chief remedy for discrimination between individuals and between classes of property is that already outlined, of requiring a separate statement of the value of land. A further remedy is in the largest degree of publicity, by methods suited to the character and size of the city, either such as that we have in the City of New York, through the publication of the assessment rolls in a convenient form, or by the methods employed by Mr. W. A. Somers in the City of St. Paul, which provide for public hearings to fix unit front-foot values. More important still is an enlightened public sentiment which will demand the highest class of service in this most important city function.

**The Benefits of a Real Estate Tax Equitably Assessed.**

A low tax rate is commonly assumed to be a blessing in itself. But a comparison of our own cities with cities of Europe shows plainly that the sources of taxes are of much more importance than the amount of them, and that it is a full tax on real estate, equitably assessed, that is a blessing and not a detriment. I have already pointed out that our cities derive a large percentage of their revenue from the tax which falls on land, exclusive of improvements. In the City of New York 44 per cent. of the revenue from taxation is derived from the value of land, and if real estate were assessed with perfect equity, the proportion would probably be increased by one-fifth, so that the city would derive 55 per cent. of its revenue from taxation from the tax on land values. Since 1903, when the proportion of revenue from land values was increased by the attempt to assess at full value, as the law directs, the city has grown faster than ever. The construction of buildings has been unparalleled and the value of land has increased enormously.

European cities do not enjoy a tax on real estate such as we have, and in none of the more important cities is a considerable proportion of their revenue derived from the value of land. Paris has recently adopted a small land value tax, in place of the "octroi," or duty on goods brought into the city. And German cities, which enjoy far more home rule than American cities, are one after the other adopting small taxes on land values, for economic rather than revenue reasons. In England the present ministry is committed to such a tax as a matter of party policy.

The argument is so forcibly presented by an authority at once so eminent and so conservative, that it is enough to quote from the first report of Her Majesty's Commissioners for inquiring into the Housing of the Working Classes, signed, among others, by the present King of England, Cardinal Manning, John Morley and Charles Dilke. The commissioners said:

Your Majesty's Commissioners must observe in reference to Lord Shaftesbury's Acts, and to nearly every proposal for improving the dwellings of the working classes, as well as to other local improvements, that the present incidence of local taxation stands seriously in the way of all progress and reform.

**SPECIAL NOTICE TO SINGLE TAXERS OF CHICAGO**

Dinner on October 5

The Single Taxers of Chicago and vicinity, and their friends, will dine at the Washington Restaurant, N. W. Corner Wabash Avenue and Adams Street, Chicago, on the evening of Friday, October 5th, at 6 o'clock. The dinner will be table d'hôte, price 50 cents the plate. Some after-dinner remarks will be made by Mr. George A. Schilling.

This is one of a series of dinners occurring regularly on the first Friday evening of each month. For further particulars communicate with the committee at 1202 Ashland Block, Chicago (Telephone, Central 925.)

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ADDRESS

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At present, land available for building in the neighborhood of our populous centers, though its capital value is very great, is probably producing a small yearly return until it is let for buildings. The owners of this land are rated not in relation to the real value but to the actual annual income. They can thus afford to keep their land out of the market and to part with only small quantities, so as to raise the price beyond the natural monopoly price which the land would command by its advantages of position. Meantime, the general expenditure of the town on improvements is increasing the value of their property. If this land were rated at, say, 4 per cent. on its selling value, the owners would have a more direct incentive to part with it to those who are desirous of building, and a two-fold advantage would result to the community. First, all the valuable property would contribute to the rates, and thus the burden on the occupiers would be diminished by the increase in the ratable property. Secondly, the owners of the building land would be forced to offer their land for sale, and thus their competition with one another would bring down the price of building land, and so diminish the tax in the shape of ground rent, or price paid for land which is now levied on urban enterprise by the adjacent land owners—a tax, be it remembered, which is no recompense for any industry or expenditure on their part, but is the natural result of the industry and activity of the townspeople themselves.

It is evident that our real estate tax, even when poorly administered, as it has generally been, has done much to prevent the withholding of land from use, and to induce the best use of every piece of ground. Much of our American prosperity is due to the fact that so much of our taxes do fall on land. Let us consider, then, some of the effects of a strict enforcement of the law requiring the assessment of land at its market value, bearing constantly in mind in assessing improvements that they never can be worth more than the cost of reproduction; that they deteriorate by use and wear; that with almost every year such improvements in processes of construction are made that the cost of building declines, and buildings erected by old methods become antiquated before they are one-tenth worn out. We must remember, too, that thousands and hundreds of thousands of dollars are spent on buildings for the pleasure of the owner, which add but little to their selling value, which is the measure of assessment.

When land is assessed at its full value and building are not relatively overassessed, the profit now gained by retaining worn out buildings on lots needed for improvement, or by putting up one-story stores as taxpayers, instead of buildings suited to the site, will materially be reduced. The selling value of land will relatively decline; lots for homes and all business purposes will be easier to get, and the tax on the buildings when erected will be lower than at present. The increased contribution from the tax on land will relieve the burden of taxes which check production and increase the cost of goods, which reduce the opportunities for employment, and thus tend to lower wages.

We have found the conditions of prosperity from the standpoint of the city and from the standpoint of the individual. Let us now look at the effect upon prosperity of a tax on real estate equitably assessed. We must have an ample and increasing source of revenue. The higher land is taxed the easier it is to get, the lower the taxes on other things, and the greater is the stimulus to growth and improve-

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ment; this turn increases land values. The further this policy is pursued, then, the more rapidly will the source of revenue increase.

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