

CHAPTER II

Effect of "Progress and Poverty" Upon Taxation of Land Values

LET US TAKE such unimpassioned and detached view of the progress of our ideas in recent years as our capacities permit. We have seen that the early enthusiasm excited by *Progress and Poverty* has largely disappeared. What has the work of Henry George—or it may be something else in his line—accomplished in the United States or abroad?

Even before the influence of *Progress and Poverty* began to be felt occasional examples of the exemption of improvements from taxation existed in this country. For brief periods in their early history Ohio and Iowa exempted them. Presumably a little later the speculative interest in the legislatures put an end to this situation. Shortly after its incorporation the City of Alton, Illinois, levied its taxes upon land values, only to have this course declared unconstitutional by the State Supreme Court.

North Dakota today taxes improvements about one-sixth as much as land values. In Scranton and Pittsburgh, Pennsylvania, 50 percent of taxation on improvements has been eliminated for a number of years, this condition having been reached by gradual reductions. However, taxation is only concerned to the extent of one-fourth of the total on real estate, because in each case that levied by the

county is about equal to the levy by the cities, and county taxation is not affected. For many years in California taxes levied by irrigation districts have rested exclusively upon land values. The effects in all these States are described as highly beneficial. In Maryland for several years under permissive legislation some of the minor towns levied only partial or no taxation on improvements, but a recent law compelling them to accept the county assessments and to lay their taxes upon property therein embraced has ended this course.

In 1878 and shortly before the publication of *Progress and Poverty* New Zealand had offered in Parliament a measure providing for a tax of one penny in the pound on land values. Later a bill passed providing for a possible levy on land values to be ordered upon the popular vote in municipalities. Under this a great number of cities and towns adopted the rule. Legislation of a general character provides for increased taxes on land values in the higher brackets.

In 1890 a visit of Henry George to New South Wales greatly helped on a movement resulting in measures in the line of freeing improvements from national and local taxation, the provincial tax, especially on land values, however being small, and local taxation not being large enough to materially affect them, although to some extent checking land speculation. The most important city adopting the principle which we favor was Sydney, of almost a million and a half population. Its effects have been said to be striking. New South Wales has imposed a small tax (one penny in the pound) on unimproved value of land exceeding \$1250, which caused land to be "immediately put to higher uses so that the tax might be paid from profits and not from its capital value," while "the transition occurred so rapidly that the land did not decrease in value but actually increased in value in direct ratio to its higher uses. . . .

. . . The experiment has been tried and found effective." (Report of the New South Wales Trade Commissioner cited in *Large Landholdings in Southern California*, 1919, California State Printing Office.) The same report refers to the Federal Land Tax upon an unimproved value beyond \$26,000 of 2c on \$4.86 which progressively increased upon estates of rising value up to \$375,000 and higher, reaching with additional legislation to 15c. This, Mr. Nielsen, the Commissioner, says "does not fall upon the small land holders at all, but upon the large land holders it presses very heavily."

In a recent address delivered in New York City, Hon. Walter Nash, minister of New Zealand to the United States, among other things, said:

"The land tax in New Zealand has had a varied history. When first introduced in 1891 it had the double objective of bringing in revenue and of breaking up large farming estates. Except in regard to minor details, the system of graduated land taxation during the earlier years remained largely unaltered up to the last world war. The only noteworthy change was the gradual hardening of the graduated rate for the purpose of preventing land aggregation and fostering less scattered settlement rather than of securing additional revenue. Until 1917, the tax consisted of a flat rate equivalent to approximately 2c for each \$5 of unimproved value, plus an additional graduated tax starting with land of unimproved value of \$25,000 and ranging up to slightly over 2c on the dollar on land with an unimproved value of \$1,000,000 or more. In 1917, a single progressive tax was instituted, rising from 2c to 14c for each \$5 on unimproved value plus a super tax of 50 per cent. This meant a maximum rate of tax on the larger estates equivalent to 4½ per cent of their unimproved value, with an additional tax of 50 per cent, bringing the maximum rate to 6¾ per cent in the case of absentees. (The dollar is in every case converted at \$5 to

the New Zealand *L.*) *Land and Freedom*, Jan.-Feb. 1943, page 33.

A recent letter from Justice P. J. O'Regan, of Auckland, New Zealand, says that "We have had local option in taxation since 1896, and today 81 out of 121 boroughs, and 58 out of 129 counties, exempt improvements entirely from taxation."

In Queensland, probably without reference to the theories of Henry George, the first step toward exemption of improvements was taken in 1879 in the interest of the local governments. This was later extended, and practically the unimproved value of land was made the sole basis. A State tax increasing with the value of land was afterwards inaugurated. A notable example of a city following the exemption of improvements theory is Brisbane.

South Australia has imposed a land value tax exempting improvements since 1886. While this is slight, it increases with the size of the estate. Local authorities may follow the land tax principle at their option.

Western Australia has had a similar tax since 1907, while varying percentages prevail among the municipalities. Districts may levy a tax either on the annual rental value of land and improvements or on the capital unimproved value of the land.

Victoria in 1879 was the first Australian State to impose a land value tax with certain provisions tending to increase the tax on the larger values, while municipalities have a right to exempt improvements.¹

Australia has also a Federal land value tax varying from one penny in the pound to 9*d.*

In South Africa the Transvaal, Cape Province, Natal, Orange Free State, Rhodesia and, further north, Kenya, all have cities enjoying either partial or complete exemp-

¹James H. Gilbert, *The Tax Systems of Australasia* (Eugene: University of Oregon, 1943).

tion of improvements. The most important illustration is furnished by Johannesburg, which levies its entire local rates upon the unimproved value of land.

Of British Columbia, Alberta, Saskatchewan, and Manitoba it may be said broadly that in each farming community improvements are entirely exempt from taxation, and in every province there are many instances where local municipalities exempt them completely or as to different percentages.

England has been the scene of sharp discussion of the land question, giving full consideration of the theories of Henry George. This was particularly the case during the years 1900 to 1914. The war then distracted people's attention and a most promising movement came to a sudden stop, and—up to this time—final end. This is said although of late there have been stirrings of life. If the people of England can obtain real advancement in their condition after the present war it must come in this direction. Undoubtedly today there is no little breaking-up of great estates, and more may follow indirectly, through heavy income and inheritance taxes, forcing sales to meet them.²

² England's difficulties and position can be gathered from the recent report of the "Expert Committee on Compensation and Betterment," presided over by Lord Justice Uthwatt, and presented to the British Parliament, which deserves attention for its admissions and failures. Its purpose was to reconcile private ownership of land with some scheme of purchase of areas likely to be useful in land planning. It was quickly found that the difficulties of the problem arose "from the existing legal position with regard to the use of land, which attempts largely to preserve, in a highly developed economy, the purely individualistic approach to land ownership. That . . . is no longer completely tenable in our present stage of development and it operates to prevent the proper and effective utilization of our limited natural resources."

Showing the conflict between public interest and private ownership the report states that "If planning is a necessity, as is undoubtedly the case, a means must be found for removing the conflict between private and public interests."

In Denmark for perhaps centuries had existed what was known as the "hartkorn" tax based upon the respective fertilities of tracts of land. This failed to take into consideration the element of value due to location and incident to population and therefore did not go very far. However, it may have accounted in part for the greater receptiveness of the Danish peasantry to taxes based upon land exclusive of improvements. Of late years, this country, largely under Single Tax influence, has progressed in what we must believe the true direction more than any other European nation. Some steps have been taken in Spain, particularly in the Catalan cities. There have been slight movements in Argentina and Brazil.

A word should be said as to what are called "enclaves." These for our purposes may be briefly described as areas of surface ground held as nearly as possible under what may be regarded as Single Tax conditions but contained

The committee's objections to land nationalization are briefly stated as follows:

First. Land nationalization is not a policy to be embarked upon lightly, and it would arouse keen political controversy. A change of view upon the topic of land nationalization calls for more than a rearrangement of prejudices. Delay, to say the least, would result. *Second.* It would involve financial operations which in the immediate post-war period might, as we see the matter, be entirely out of the question. *Third.* Land nationalization would involve the establishment of a complicated administrative machinery equipped to deal with the whole of the land of the country."

Accordingly the committee recommended "a scheme for the imposition of a periodic levy on increases in annual site value, with the object of securing such betterment for the community as and when it is realized, enjoyed or realizable." This the committee recommended should be 75 per cent of the increased "increment," fixed at intervals. It was further to be provided that there should be no added tax because an owner had made improvements.

No elaborate arrangements are proposed to avoid the difficulties which the committee had found inherent in their effort. The whole report, however, makes a keen indictment of the present situation, although an involuntary one on the part of its authors.

within larger jurisdictions where usual tax relations prevail. The largest enclave is that of Fairhope, Alabama. Smaller ones are at Arden, Delaware; Halidon, Maine; Tehanto, Massachusetts; Free Acres, New Jersey, and, strange to say, through the efforts of Fiske Warren, at Andorra, bordering France and Spain. The general idea is to establish a territory wherein the municipal or other authority acting in charge should lease parts of the special area to individuals paying in the shape of rent enough, as provided at Fairhope, to "equalize the varying advantages of location and natural qualities of all tracts."

The general theory is that when the leaseholders paid an appropriate rent the managing authority should pay to the political authorities controlling the neighborhood an amount equivalent to that they might levy upon land, improvements and personal property. In this wise the individual holders would pay in rent such an amount as they would pay if what we call the Single Tax were in actual operation. It was the hope of those interested that these examples might be followed by a general extension of the practice. This hope has by no means been realized, greatest success having been achieved at Fairhope and Arden, with effects limited to those areas. Usually the enclave starts with donated lands and its growth is restricted to the extent of these donations.

The United States Bureau of Reclamation in the instance of Boulder City, Nevada, offers government ownership of land with leasing to private individuals. Here the Bureau leases for private enterprise lands of a city of around 3,000 inhabitants, either for business or home purposes. If for business, the term may be for twenty years and if for homes, for up to twenty years, all with a right of renewal. The type of building has to be approved by the Bureau. In these conditions A. G. Boynton, the engineer in charge for the government, declares, speaking of

recent constructions in the business section, "no more stable and permanent structures could be built." Under the leases the cost of usual normal municipal services and of special improvements such as street grading and paving, sidewalks and others giving special benefits to the leased land, is included in the rent. Certain general expenses are met by a payment made by the United States to the States of Nevada and Arizona. Land speculation in Boulder City is practically impossible. The whole experiment seems highly successful.

It is to be said that in many instances referred to—in fact, we know of no exception—the reform steps have been too slight to have had the influence the Single Taxer would desire. These would have included among their fiscal effects the forced opening up of opportunities and the end of speculation, with a view to the ultimate transfer of all rental values to the community creating the value. In fact, there have been Single Taxers who have argued, and even written books to maintain, that the reform should be sought avidly by the owners of real estate, especially that not in use, because exemption of improvements would mean that land thereafter could be more readily and profitably used with no added tax for any improvements. Some color for this belief is afforded by the report of Mr. Neilson of New South Wales, above referred to. Certain it is that the city taxes of Vancouver, transferred entirely to land values, did not apparently check speculation, and the same was true of Alberta. Of course the argument to the contrary is that the city taxes took too small a portion of the economic rent to produce decided results.

We should not overlook exemption of improvements from taxation for a limited period authorized for the purpose of stimulating building particularly of homes. In the United States at least, they assuredly have been the result of lessons taught by *Progress and Poverty*, with Single Taxers the mainspring of the attempt. The New York legisla-

ture in September, 1920, passed an act permitting municipalities to grant exemption from taxation for dwellings, except hotels, from April 1922 to April 1932 for such buildings as were completed after April 1, 1920, or begun not later than April 1, 1922. The latter date was extended to April 1, 1924. Some half-dozen cities of the State, including the City of New York, took advantage of this plan, and as an apparent result many home-building operations were commenced and carried to completion, adding greatly to the tax-rolls. With some apparent dissent, the prognostications of the followers of Henry George as to the effects of even a temporary exemption of improvements, appeared justified.

Parallel in time almost there was a like occurrence in Chile. The National Geographical Magazine for October, 1944, page 482, records that "a building boom was stimulated during Chile's depression year by a law which provided exemption from taxation for ten years for all construction started before 1936. Government loans made possible much of this construction. Hundreds of buildings, some two-thirds of them private dwellings, were erected. Thousands found employment." A statement to like effect is made in Violich's *Cities of Latin America*.

These illustrations may be criticized because they served to give undue advantage in the rental market to the buildings production of which they encouraged. Besides they tended to force ahead constructions which, under proper conditions, might better have been spread over many years. However, they emphasize our principal thesis—relief from the burdens placed upon it enables industry to operate freely and effectively.

Undoubtedly, in many instances of progress cited, the theories of Henry George have played a real part. But we have to confess that for some reason the result has not come up to our expectations, and at present there is little action in motion or contemplated. The reasons for this remain for our examination.