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American Plan of Taxation

Taxation, the greatest problem of the day. Two principles struggling for supremacy. The Old World rule of privilege, and the New World idea of justice. Shall we cling to the ancient system of taxation according to ability to pay; or shall we extend and perfect the American plan of taxation in proportion to benefits received? A correct decision will have far-reaching influence upon the social, industrial, and political development of the country.

The United States inherited from the Old World, along with other institutions, its system of taxation. The essence of that system is, (a) all things bought and sold are property, and, (b) all citizens should be taxed according to the amount of property they own.

But a more careful examination into the nature of property reveals the fact of radical differences. It has been discovered that some forms of property are made more valuable by government service, while other forms are not affected by that service. Manifestly, it would be unjust to tax a man whose property was not benefited, the same as a man whose property was benefited.

This discovery led to the development of the American plan of taxing the citizen in proportion to benefits received from the government, rather than according to his ability to pay. The old practice, the system inherited from Europe, is still the more extensively used, but the new plan is steadily gaining.

Congress resorted to the American plan of taxation to defray the cost of its irrigation work. The Roosevelt Dam project, and other undertakings, are being paid for on the American plan. That is, the cost of the irrigation system is levied upon that part of the property in the district that has been increased in value by the improvement. Bringing water to those arid lands added enormously to their value, but it did not add any value to personal property or improvements. Therefore, Congress stood four square with justice when it laid the tax

where values were conferred, and in proportion to those values. It put the whole matter on a business basis, and sold irrigation service the same as it sells postal service, and charged each man, not according to his wealth, or his ability to pay, but in proportion to the service he received.

This American plan of laying the cost of public improvements upon citizens in proportion to the financial benefit they derive from those improvements is used by the State of California in its irrigation projects. It was used by Minnesota in its great drainage work. It is used in all progressive, up-to-date communities for highway construction, for the grading and paving of streets, for the laying of sidewalks and drains, and for the installation of lighting plants and water works.

Kansas City created a park and maintains it by a tax on the surrounding lands, whose value was increased by the park. Winnipeg built its 90-mile aqueduct by laying the cost on the lands benefited. San Francisco put the great street railway tunnel through Twin Peak mountain by a tax on the lands that were made accessible to the city by the car line.

The American plan of taxation is no longer an experiment. It is well established in principle, and it has been amply demonstrated in practice. It is the one method of taxation that squares with the declaration that "all men are created equal." It is the only force that will give vitality to our inalienable right to "life, liberty, and the pursuit of happiness."

The complete Americanization of our tax system is merely a matter of extending this principle of assessing only the property financially benefited by the public service, and taxing it in proportion to the benefits received. This extension can and will be made by gradual advances that will not disturb business, but, on the contrary, will stimulate industry at each step, until the last vestige of ancient privilege has been eliminated from our statute books.

New York City has given the American plan a boost by exempting new dwellings from local taxes for ten years. Pittsburgh is making its contribution by reducing taxes on improvements ten per cent every three years.

A Great Opportunity

Los Angeles, however, has the best opportunity of all to extend the American plan. Traffic congestion in the center of the city has become intollerable. Sentiment quite generally favors subways through the business section. The question is, how shall they be financed? Shall they be paid for by the patrons of the car company, or by a general tax on all property, or by a special tax on the particular property benefited—after the manner of the Roosevelt Dam, or the Twin Peaks tunnel?

Subways through the central part of the city mean a rapid transit system that will enable people in outlying territory to get down town in less time than they can now travel a few blocks. This will add enormously to the value of lots in the business center, just as the piercing of Twin Peaks by the city of San Francisco increased the value of the lands on the farther side of the mountain by making them available for residence purposes.

By means of the American plan of taxation the Los Angeles subway can be paid for by the owners of property that will be increased in value far more than the cost of the work, just as the owners of lands beyond Twin Peaks in San Francisco bore the expense of the tunnel through the mountain.

Who Would Object?

A few property owners who still cling to the special privileges that have come down to us from the past may object to extending this system to the building of subways; but no real American will object. No man who believes in paying for value received will raise a question.

The State law empowering New York City to build subways permitted the city to meet the cost by taxing the lands benefited; but the officials at that time were not sufficiently Americanized to seize the opportunity.

They chose rather to saddle an enormous debt upon the city, while land speculators reaped millions of dollars.

The New York City Club, in its report of 1908, said:

It will be noted that the aggregate rise in land value in Manhattan from 135th Street to the Spuytin Duyvil, and in the Bronx, due to the building of the subway, was \$80,500,000. The cost of the entire subway from the Battery to the Spuytin Duyvil and the West Farms Branch to Bronx Park was but \$43,000,000.

The chairman of the Board of Local Improvements of Chicago, 1921, said:

A subway in any district will result in the landlords boosting rents. The tenant will have to pay the increased rents whether subways are built by special assessment or in other ways. My plan is to make the landlord pay part of his increased income towards subway construction.

The chairman estimated that one-sixth of the additional income-producing power of the property benefited would pay for the entire Chicago subway.

The Federal Electric Railway Commission, in its report of 1920, said that extensions of lines should be paid for by "special taxes against the owners of property in the district, the value of which is enhanced by such extensions."

This is a simple, definite, specific problem. The principle, the law, and the practice are in full accord with American ideas of justice and fair play. Since "the tenant will have to pay the increased rents whether the subways are built by special assessment or in other ways," it would be unjust to lay the cost on the patrons of the railways, and equally unjust to saddle the expense on the business of the city, when only the lands are benefited.

The Los Angeles subway will be paid for in one of the three ways: (a) out of increased land values, (b) by a general tax, (c) by the patrons of the roads using the subway. Which? Shall we continue the special privilege system that allows some to profit at the expense of others, or shall we apply the American plan of service for service?

Tenantry is increasing. The farm mortgage debt is mounting to appalling figures. Out of 436,000 farms reported in Texas, only 105,000 of them are owned and operated free of debt. The mortgage on 69,000 "owned farms" average \$3,000 per farm, or a total of \$172,000,000. We have no report on the mortgage debt against the 232,000 farms operated by tenants. We have these additional figures to consider: Thirty years ago there were 14,000 more farms owned free of debt than now, and instead of 69,000 mortgaged farms there were only 7,000. — W. A. Black, in *Southwest Farmer and Investor*.

FRANCE AND HER BIRTH RATE

War debts, reparations, and indemnities are not the only concern of French statesmen. The declining birth rate transcends in importance all other problems. A parliamentary commission is considering taxation as an expedient for increasing the population. It is proposed to exempt fathers of four or more children from income taxes, when the income does not exceed \$6,000, and to increase the income taxes of bachelors 50 per cent, and of childless couples 20 per cent. Large families are to have a reduction in inheritance taxes, paying none at all on fortunes up to \$40,000; whereas, the inheritance dues of the only child are to be increased threefold.

Here is a wise discrimination in the use of the taxing power: taxing what is not wanted; exempting what is wanted. Our own government drove State bank money out of circulation simply by taxing it 10 per cent. It encourages educational and religious institutions by exempting them from taxation.

Why not go a step further and apply this principle to homes and unused lands. Vacant lands employ no labor, and produce no wealth. Homes are the very foundation of progress. What would happen if taxes were removed from the improvements of farms and homes, and put on unused lots and acres?

NOTES

Home influences: Out of 3,577 divorces granted by Chicago courts in 1921, only seventy couples owned their own homes.

The investor agrees, by embarking capital in a utility, that its charges to the public shall be reasonable. His company is the substitute for the State in the performance of the public service; thus becoming a public servant.—*Justices Louis D. Brandeis and Oliver W. Holmes, United States Supreme Court.*

Wars will continue as long as any nation, or any group of men seeks to gain something from another nation or group of men without rendering an equivalent in return.

If TAX FACTS interests you, subscribe, and hand this copy to a neighbor. If it does not interest you, hand it to your neighbor anyway; he may have a keener civic conscience.

Revolutions are impossible in a country where a majority of the people own, or expect to own, property. What the Red says cannot hurt a democracy; what he thinks may hurt himself. It is not a case for the policeman, but for the educator.

"If rich men put money into untaxed bonds," says Uncle Cy, "maybe they'd put money into untaxed houses. An' if they did put money into untaxed houses, wouldn't that make jobs fer men,

an' wouldn't we have the houses to live in when they was built?"

A Los Angeles home-building company boasts of having built 19,000 houses. "Imagine for a moment," it says in its advertisement, "an avenue of houses with no vacant lots on either side, ranging a distance of ninety-five miles." Imagine! But first find one mile of avenue without a vacant lot on either side.

Warning against agitation for a capital levy in this country is urged upon American business men by George Wheeler Hinman, who notes the growing popularity of the capital tax in Europe. The best fortification against this or any other confiscatory tax is an understanding of the fundamentals of taxation, and a recognition of what is just.

If you want to beat that stubborn neighbor of yours in a political argument, you must be prepared. For fifty cents you can have twelve installments of concentrated economic facts. For a dollar you can have TAX FACTS and a copy of Progress and Poverty, by Henry George, the best book on economic facts ever written. Why remain ignorant?

New York city relieved her housing crisis by remitting taxes on new dwellings for ten years. Fire-swept Astoria, Ore., has plans for 50 new business blocks and manufacturing plants, to cost \$5,000,000, in response to the action of the legislature, which has remitted state taxes due from Astoria to the amount of \$500,000 within the next five years. What city or State will be the first to remit taxes on all industry at all times?

Speaking on the dangers to democracy, Dr. Frank J. Goodnow, president of Johns Hopkins University, told the Cleveland Chamber of Commerce that there was much ascribing of wrong motives in this country, and too little understanding of government and taxation. As a cure for the rising cost of government he suggested a coupling of rentals with taxes so that rents would go up when taxes went up, and come down when taxes came down. In this instance the good Doctor served as example, while offering precept.

When it is realized how much Arthur P. Davis, as director of the Reclamation Service, has done for the arid regions of the West by his efficient service, and how much he has done in behalf of the people's right to power development by his report on the Boulder Canyon Dam, his summary dismissal by Secretary Work will leave a bad taste in the mouths of those who appreciate faithful service of the people. This action of the Secretary of the Interior lends color to the charge that the private power companies have a friend at court.

In Das Kapital there are some glimmers of the fundamentals that make possible the exploitation of labor by employers, such as the growth of the factory system when changes in land ownership had abolished the primitive right of all men to occupy and work upon the unused land. Marx shows that what he calls capitalistic industrialism was made possible only by the existence of large numbers of workers who have been denied access to land. It never seems to have occurred to him that the remedy was not in elaborate paternalistic schemes of government ownership and management of industry but in establishing conditions in which the workers would be free to employ themselves if dissatisfied with their wages.—*Christian Science Monitor.*

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EFFECT OF TAX EXEMPTION

It is perhaps unavoidable that facts bearing upon taxation should be misinterpreted as long as there is so much confusion regarding its basic principles. The Grand Rapids (Mich.) Evening Press, a paper noted for its fair treatment of opponents, appears to have become confused over the New York Tax Exemption laws.

The editor, noting the high rents and profiteering, says of the law exempting new dwellings from taxation for ten years:

The "tax-free" aspect simply made a fine little advertisement for unnecessary buildings and an encouragement to promoters of all sorts. Landlords boosted rents as usual, and nobody would ever have known the tax had been lifted. . . . It has made a mess of home-building and rent reducing in New York.

Over against the Grand Rapids editor's conclusion may be set the facts, as given by Lawson Purdy, formerly president of the New York department of taxes and assessments. Of this same law Mr. Purdy says:

In the year before exemption, plans were filed for one-family, two-family, and multi-family dwellings to house 14,323 families. We ought to file plans annually, just to keep pace with the increase, for about 30,000. In the two years and one month, from February 26, 1921, to March 31, 1923, plans were filed to house 110,549 families in one- and two-family houses, and 99,838 families in multi-family houses.

Doubtless it is true, as claimed by the Press, that rents are still high in New York City, and that profiteering continues, but does that mean condemnation of the tax exemption law? The new housing rate jumped from 14,323 families before the enactment of the law, to 105,000 after its enactment.

That rate of increase may not be enough to provide full relief, but does the Press mean to question the fact that it is moving in the right direction? If the law has been the means of giving 180,000 families accommodation in excess of what the old system was doing, is not that of itself a distinct gain, even though it fall short of complete relief? Demand for housing may still outrun supply, and profiteers may boost rents, but

these advances are in spite of, not because of, the increased supply of houses.

These facts are clearly established: (1) That there has been an enormous increase in the supply of dwellings in New York City under the tax exemption law; (2) that remission of taxes tends to cheapen buildings; (3) that if rents are still too high it must be due to other causes. Reason dictates that we should seek the cause of high rents, not in laws that promote building, but in the laws that retard building.

The three factors in building, wages, materials, and land have advanced. Excessive wages will be tempered as labor flows into the building trades. Materials will come down as the supply increases. But building sites within a given area cannot be increased, and hence will require different treatment.

New York has taken the first step toward solving the housing problem. By remitting the taxes on dwellings she has cheapened houses. If she will now increase the tax on vacant lots she will cheapen building sites.

WINNIPEG'S WAY

American cities might profitably consider the experience of Winnipeg. This thriving city and grain center of the far north has done some things that are common to many municipalities, but done them in a slightly different way. Our cities have a number of brilliant achievements to their credit, but their financial handling of the enterprises has not always been equal to the engineering.

Los Angeles, for instance, in building three hundred miles of aqueduct to bring water from the Sierra Nevada Mountains to the city has done something to be proud of. But when it came to financing the undertaking, resort was had to the prosaic method of issuing bonds, to be paid by a general property tax. Though this seemed fair to a majority of the voters at the time, a vigorous minority held that it was not just to tax houses and personal property for an improvement that enhanced the value of the land alone.

Winnipeg performed a similar feat, but in a different way. The Canadian city built an aqueduct from the Lake of the Woods, a distance of nearly ninety miles, but financed it by creating a special district of the territory to be served with water. A special tax was spread on the lands of this district, ignoring personal property and improvements.