

to Germany, save in degree. The justification of the *zuwachsteuer* does not seem to have been demonstrated for Germany any more than for England where it was adopted into the Lloyd George Budget. This tax is one on the increased value of land as determined when sales are made, and over 600 German cities have adopted it. Though it is not a tax on transfers of real estate it must operate as such a tax, and must exempt land that is not sold, no matter what its increase in value. It is also a tax for the escape from which we may be confident methods of evasion will be discovered.

Nevertheless, it is better than nothing. Nor is its educational value to be despised, for it can only be defended on the ground that it is a value belonging to the people. On this ground it is urged by the German land reformers who have "seen the cat."

We can afford to be patient with our brothers if they seem to differ radically in their methods. At least their aim is the same as ours. And maybe they know their business—at least they have better means of knowing. They know the German mind, the German political tendencies, the laws and institutions which must determine the direction of this great reform. At all events, God speed them!

UNEARNED INCREMENT TAX.

COMPLICATED SYSTEM ADOPTED IN GERMANY

Professor Brooks, of Cincinnati, recently addressed the Cincinnati City Club on the German method of taxing the unearned increment of land values, saying:

"When in 1898 the Germans bought land at Kiauchow and planned to erect buildings upon it, the resolution to take advantage of the enhanced values of the adjoining land was taken—of all offices—by the marine office. Sight of the revenue thus raised led to emulation, first in Cologne, in 1905, and since then in many other cities, among them Essen, Frankfurt, Leipzig, Hamburg, Breslau, and lastly in Berlin in 1910. Berlin had once before rejected the proposition under pressure from the landlord interests; the second

attempt was more successful. Altogether, the total population now living in cities, towns, and rural counties that tax the unearned increment is 15,000,000. Finally, in February, 1911, the Empire entered the field with a law taking effect April 1.

In the law three elements must be borne in mind: the purchasing price, the cost of any permanent improvements made upon the land, and the selling price. Suppose a man buys a piece of land for 5,000 marks, makes permanent improvements upon it costing 80,000 marks, and sells it for 110,000 marks. His profit of 25,000 marks is what is called unearned increment, a phrase invented by John Stuart Mill and current today, not only among Single Taxers, but among our students of economics, particularly in Germany. Here comes in the first disputed question. In calculating the percentage of profit, should this be reckoned by comparison with the purchase price, or the selling price? By the former basis of estimate, his profit is 500 per cent., by the latter, about 23 per cent. The Single Taxers favored the former; the landlords were successful in incorporating the latter into the bill, thereby materially decreasing the revenue originally expected.

Taking up the first of the three factors named above, viz., the purchase price, we find that to this is added four per cent. to cover expenses incidental to transferring the property. Here comes in the question: How far back should the law go? Some cities have feared to go back of the passage of the ordinance, others go back 25 years; Hamburg goes back to the last sale, no matter how long that may be. The average city takes 1885 as a starting point, and will continue to do so till 1925, when the initial date will be changed to 1886. In 1927 they will start with 1887, and so on. The Single Taxers wanted the beginning to be with the formation of the empire in 1870, partly because the valuation records are much more complete for that date than for 1885, and partly to take advantage of the enormous increase in values that took place during the ensuing decade.

In regard to the second factor, the cost of the permanent improvements, we may

note that ordinary repairs and maintenance are not reckoned in, so that a man may paint his house without fear of adding to his tax bill. Five per cent. is allowed for the owner's trouble in getting the repairs put through; and if he conducted them himself, 15 per cent. as a sort of architect's fee. He may also count four per cent. a year for whatever street assessments have been levied against him, until such time as he sells the property. He may likewise add in two per cent. a year for what he paid for improved property, and one and one-half per cent. for unimproved property; this, because a man often seems to be making a large profit on land sales when such is not the case at all. The obvious defect in all allowances is that they provide for the owner's interests when prices go against him, and do not show an equal tenderness for the welfare of the State.

From the selling price deductions are made if the owner has not made three per cent. a year, with the effect that unless the owner makes at least five per cent. a year, the tax does not touch him at all. For those who do fall within the act's scope the rates are progressive (a feature of governmental policy in taxation which is definitely accepted in Germany), running from 10 to 30 per cent., the latter rate being charged only when the owner's profits are 290 per cent. or more. The rate is reduced one per cent. for each year of tenure.

The income from the tax is divided on the basis of 40 per cent. for the city, 10 per cent. for the State, and the remaining 50 per cent. to the empire. Unquestionably the two latter organizations are entitled to a share in the revenue, contributing as they do to the landowner's welfare, but the cities feel that the empire has been greedy. The amount that will be raised is hard to predict. The expectation that it would yield ten million marks a year, on which theory a stamp tax to that amount was dropped, is sure to be disappointed because of the changes, detailed above, that have been made in the original scheme.

In general, we may call the plan fairly strong in its retroactive features, but weak elsewhere. It is not a financial

mainstay, and its principal product for some time is likely to be litigation. Needlessly complex, and not suiting city, empire or real estate owners, it is certain to be severely amended. But the principle has come to stay; and though the Single Taxers complain the law has no teeth, the truth probably is that as yet it has only cut its milk-teeth, and that a more permanent set will follow."

TAXATION OF THE UNEARNED INCREMENT IN GERMANY.

Municipal experts of Germany are united in recognizing the efficiency of taxation as a means of discouraging land speculation, of promoting house building, and of reducing the burden of local taxation. Prior to 1893, local real estate taxes in Germany were assessed against the actual rental value of property, according to the English rating system. Land in the suburbs of a city might be used as a cabbage patch: its rental value for taxation was that of a cabbage patch rather than of a building site.

In 1893 the Interior Department issued an order enabling municipalities to assess land according to its selling value, as is done in the United States. Local authorities immediately took advantage of the authorization. Within a few years 350 communities had made the change in the face of the hostility of speculators and large landowners. The revenues of these cities increased enormously. More than this, it made possible the taxation of unearned increments inaugurated by the City of Frankfort in 1904. The new tax is termed "Wertwachsteuer," or tax upon the increment of value. This is not the Single Tax, although it partakes of the character of this proposal in appropriating a portion of the social value given to land by the growth of population. Under the ordinances of Frankfort—and the ordinances, methods and rates of taxation in the cities differ widely—a tax of 2 per cent. is levied on the increase in value between sales of property if the increase between such sales amounts to from 15 to 20 per cent.; from this tax of 2 per