

**SCIENTIFIC TAXATION.****THE EFFECTS OF TAXATION ON THE COMMERCIAL PROGRESS OF  
VANCOUVER, HOUSTON AND LITTLE ROCK.****By K. P. ALEXANDER.****DELIVERED BEFORE THE LITTLE ROCK SCIENCE CLUB, AT CHAMBER OF  
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Political economy embraces no feature of greater importance to mankind than consideration of the equitableness, as well as the best method, of deriving for public purposes the necessary revenue commonly termed taxation. The prosperity, the happiness, the welfare, and even the future safety of the nation, require that methods of taxation be considered by the highest standard of ethics as well as being mere fiscal measures for obtaining public revenue.

It is certainly manifest that only that which is fundamentally just to every man can permanently endure. Unfair advantage, or special privilege without due remuneration therefor, however attractive they may for the present seem, can be but temporary. They must in time bring reactionary results unfavorable to those who, either with purely selfish intent practise them, or, through ignorance or apathy permit them.

It is claimed for the land value tax that it is natural taxation, that it is the only form of taxation which, the more heavily it may be imposed, the more it frees the natural opportunities for wealth production, with co-incident least disturbance of the natural laws governing the equitable distribution of earned wealth; that every other kind of taxation, including the income tax, penalizes enterprise, encourages both sloth and craftiness, is ethically wrong, and is inimical to the best interests of every member of society. If this is true, it is of the utmost significance.

Taxation should neither repress the production nor restrict the equitable distribution of wealth. It should be incapable of being shifted. It should bear most lightly on enterprise, on producers and consumers, and if burdensome to any it should be only to non-producers of wealth. It should stimulate the highest use by penalizing the non-use and inadequate use of land. It should most sacredly respect the moral right of privately-produced property, primarily by not unnecessarily permitting public-produced values to go to private hands without equitable return for such transfer. It should be capable of being collected most simply and economically, and evaded with the greatest difficulty.

If conformity to natural law is a correct premise on which to provisionally consider a just and equitable system of taxation, it appears to follow necessarily that, to such degree as public revenue-production is assessed in non-conformity to natural law, to that extent do we prevent maximum individual

productiveness, create inequalities of opportunity, and invite ultimate social disaster.

Definitions of the principal terms employed in considering scientific taxation, as held by probably a large majority of the deeper students of the most currently accepted political economy, are as follows:

**LAND** is the source of all wealth and includes nothing made by man. It is, in its natural state, solely the product of the Creator. It includes the surface and all under the surface of the earth, embracing all natural materials and opportunities for wealth-production.

**LABOR** is all physical or mental exertion employed in the production of wealth. Its reward is wages, or that which unaided it produces.

**CAPITAL** is that portion of wealth employed in producing more wealth. It is wealth in process of creation and adds to the productive power of labor. Its return is interest, the equitable earnings for its use.

**WEALTH** is exclusively the product of labor, or the joint product of labor and capital, applied to land or the elements of land, "the better fitting them for the gratification of human desires." It includes nothing not made, moved or modified by man.

**WAGES** depend primarily upon such margin of production as is not absorbed by interest and ground rent; interest depends upon such margin of production as is not absorbed by wages and ground rent. As land, labor and capital constitute the sole factors of wealth-production, it therefore follows that, on land or in a location of given productivity, wages and interest can rise, and business increase, only as public-created land values are taken by the community for public uses.

**EQUITABLE TAXATION** should be based on such communal value as is possessed, or used to the exclusion of others, rather than on the basis of ability to pay it, as is universally true in every other business transaction involving exchange of values. Every other basis of taxation tends to discourage and penalize industry, and repress enterprise and population.

**ECONOMIC RENT**, or ground rent, the annual rental value of land, is the measure of communal or people-made value accruing to land. It is the annual sum that the exclusive use or possession of a piece of land in its natural state, exclusive of improvements or of the application of any labor on or under it, will bring. It is the exact equivalent of the public-created use or location-value it possesses. It is the value which arises and increases with accretion of population and enterprise, and decreases as population and enterprise disappear. Payment to the community of economic rent is merely and solely paying the producer of a value for the use of a value the producer has previously rendered to the user.

#### THE INJUSTICE OF TAXATION ON IMPROVEMENTS.

Neither in economics nor in practise is it possible for land to possess taxable value, aside from the value given it by population and public enterprise.

Neither by the general property tax, by the land value tax, nor by any other system of taxation, is it possible for even the strongest government on earth to extract from land, exclusively as land, a dollar of tax not first produced by the public. Land, as land, pays no taxes whatever.

Land value possesses a peculiar favor in its accumulation of public-created value, being by nature specially exempted from the burden of ultimate total dissipation, which is the lot of virtually every product of man.

Virtually all products of man begin to depreciate from the moment of production, and their value is by nature ultimately wholly dissipated. Virtually all land, due to accretion of population, to public enterprise and to expenditure of a tax fund levied on both improvements and land, constantly increases in value.

To tax equally an investment of a given sum in land value and a similar sum in the products of man, on account of the tremendous potential value of land and of the inevitable contraction and ultimate total loss of the products of man, would seem beyond question to be at variance with a strict construction of all State Constitutions.

For, the two purchases would possess latent value as divergently different in permanent worth as two investments of unlike character could well be. The Statistical Abstract of the United States, page 142, shows that bare farm lands, exclusive of improvements, from 1900 to 1910 increased in value from \$13,000,000,000. to \$28,000,000,000. All land values constitute a privilege whose value would be extinguished by cessation of expenditure of public funds, and they should, therefore, properly be taxed as a privilege, at a higher rate than products of man that do not enjoy the favor of such special privilege.

These deductions seem to be in accord with Art. 16, Sec. 5 of our Constitution, reading, "All property subject to taxation shall be taxed according to its value. No species of property shall be taxed higher than another of equal value. The General Assembly shall have power to tax privileges in such manner as may be deemed proper." Webster defines "privilege" as "A peculiar benefit or favor; special exemption from burden."

The public, by its collective presence and activity, and by its expenditure of public funds, gives a lot a certain use-value. The public, therefore, has an indefeasible right to demand an equal or an adequate compensation for the use of the land value, the public value, thus produced; this, regardless of whether the possessor of the lot has upon it a palace, a hovel or nothing. But the public has no economic right to take any part of the value of the house or the palace, this value being of private production, because representing work performed.

The purchase price or capitalized value of land equals its annual use-value multiplied by as many times as the percentage of the current rate of interest is contained in 100, minus the annual tax imposed and any incumbrances. The annual economic rent or ground rent, which is always equivalent to the use-value of land, equals the interest on purchase price plus taxes

or other charges. As an example; when money is commanding 5% interest, a lot sold at the capitalized value of \$1,000 would be worth in use-value 5% of \$1,000, or \$50. per year, minus such tax as may be imposed. This is the full annual rental value the public gives the lot. Should population increase or decrease, the use-value will proportionately increase or decrease.

The basic fundamentals of natural taxation are very uniquely and tersely described in the following extracts from Chas. T. Root's little pamphlet entitled "Not a Single Tax," which is issued by C. B. Fillebrown of Boston:

"Every community, whatever its political name and extent, whether village, state or nation, has its own normal, unfailing income, growing with the growth of the community and always adequate to meet necessary governmental expenditure. This income is known as land value, or economic rent."

"Had economic rent always been retained by the community, taxation would never have been heard of. When economic rent is reclaimed by the community, the need of taxation will disappear. At present a tempting premium is placed upon keeping land unimproved or inadequately improved, while a heavy penalty is imposed upon improvement. Most land appreciates constantly. All buildings depreciate from the moment of completion. Yet the building is taxed equally with the land."

"The amount of economic rent which is taken by the community for public purposes is not a tax paid by the landholder, but whatever amount of such rent as is left in his hands is a gift to him by the community, or else is the compensation which the community allows him for acting as its agent and collector in the matter of economic rent."

Thomas G. Shearman, in his highly valuable work on "Natural Taxation," published by Doubleday, Page & Company, says, "If we find a species of taxation which automatically collects from every citizen an amount almost exactly proportioned to the fair and full market value of the benefits which he derives from the government under which he lives and the society which surrounds him, may we not safely infer that this is natural taxation, and capable of being reduced to a science?"

Henry George, the noted author of "Progress and Poverty," the originator of the Single Tax plan of taxation, has said, "It is a violation of justice to tax labor, or the things produced by labor, and it is also a violation of justice not to tax land values. When we tax houses, capital or wealth, we take from individuals what rightfully belongs to them. But when we tax ground values, we take from individuals what does not belong to them, but belongs to the community." Taxing land values does not decrease area, but taxing wealth tends to make it dearer or scarcer. Mr. George did not advocate land nationalization. He was opposed to disturbing land titles. He only insisted that the community take its own earnings, and leave inviolate to individuals their earnings.

Actual results, concretely demonstrated, are to many people more conclusive than the most logically arranged abstract theory. Happily, the land-value tax, or Single Tax limited, is not dependent on logic alone to prove

either its ethical justness or its fiscal value. As practical business men, we are rightly inclined to critically examine the dollars-and-cents value of any proposition that is a departure from long established methods. In this instance the closest possible analyzation is invited.

The land-value tax, wherein improvements are exempted from 25% up to 75% of their assessed valuation, and in some instances beyond 75%, has been in operation in various cities, and in a number of Canadian Provinces and in New Zealand, from three to eighteen years. It is quite significant that no city that has adopted this tax system has ever returned to the general property tax.

Among the towns, cities and provinces above referred to are Vancouver, Victoria, the provincial capital, and over twenty-five other towns in British Columbia; Medicine Hat, and Edmonton, the capital of the Province and fifty other municipalities in the Province of Alberta; Auckland, Wellington, and over eighty-five boroughs in New Zealand; twenty villages in the Province of Saskatchewan; Queensland, Australia; Houston, Texas, and I understand recently Pueblo, Colorado; and Pittsburg, Penna.

† The Province of Alberta recently adopted what is known as the "Wild Lands Tax Act," which imposes a tax of ten mills, or about  $6\frac{1}{4}$  cents per acre on unimproved land held for speculation; this to force improvement and induce population. It will apply to about 15,000,000 acres. The valuation will be made by the government and is expected to average \$10.00 per acre. It was considered that vacant cut-over lands, by being forced open to settlement and cultivation, would become a very valuable asset to the province, especially to her mercantile and agricultural interests. Beginning in 1914 the legislature of Saskatchewan, in order to tax into use or to open to settlement, imposed a sur-tax of \$10.00 per acre on certain lands held by speculators.

The boundary line between the province of Alberta and Saskatchewan runs through the center of the main business street of the town of Leominster. One side of the town has the advantage of the land-value tax, while the other side continues to penalize enterprise. Strangers visiting this town are perplexed at seeing all the evidences of thrift and prosperity on one side, and a dead village on the other side of the street.

Edmonton, Alberta Province, was 25 years ago a small village. She has always taxed land-values, exempting improvements and buildings. Her population of 18,836 in 1908 had in 1912 increased to 53,611; in the same years her building permits increased from \$1,086,864. to \$10,250,562. and her assessed valuation of land increased from \$22,535,210. to \$123,902,592. Subsequent figures were not obtained. I understand her population now is about 75,000.

In the year 1912 the Minnesota Tax Commission visited Western Canada to study her tax systems. I quote from chapter 12 of their Third Biennial Report: "The most striking feature in a study of tax reform in Western Canada is the strong trend throughout the entire country in the direction of



the Single Tax principle." "From present indications it is safe to predict that within the next ten to twenty years the Single Tax principle will be adopted by every taxing district in Western Canada." In their 1914 Biennial Report they recommend for Minnesota, home rule in taxation, exemption of personal property, and assessing all other property at full value.

In some of the Canadian Provinces the farmers favor the land-value tax as strongly as the city populations, for it seldom increases their tax, and, the greatly increasing city populations make a better market for their products. Also it is believed "that cultivated farms would be assessed at less than 40% of their whole value, improvements included." Improved farms to a great extent produce and use their own communal values.

The Manitoba Grain Growers Convention, in session at Brandon, Manitoba Province, January 16th, 1915, passed a resolution urging the Dominion Government to "frame a fiscal system of taxation, on land values, both rural and urban, including all the natural resources of the Nation; with a sur-tax on such resources as are held out of use by private interests for speculative purposes."

The vote on this resolution was 499 for and one against it. The Manitoba Grain Growers Association corresponds with the Farmers Union of our Southern States. This remarkable vote indicates the Canadian farmers' idea of the advantage to them of the land value tax.

Houston, Texas, during the first two years after exempting improvements 75% and wholly exempting household furniture and cash in banks, increased her population 25,000; increased her building permits 55%, and increased her bank deposits \$7,000,000. After nearly three years' experience with partial exemption of improvements, over 90% of her tax payers favor her advanced system.

Money and enterprise now naturally gravitate from the surrounding inland towns to Houston. Her system of taxation acts as a perpetual bonus in inviting enterprise and money to Houston. The president of her clearing house recently informed me that "The Houston Plan of Taxation has brought about substantial increases in the deposits of her banks and trust companies, and the majority of the business and mercantile interests of the city think well of the plan."

We will now contrast the results in cities having the Single Tax limited, and Little Rock which continues to tax improvements.

Vancouver:—This city exempted improvements 50% from 1895 to the year 1905; 75% to the year 1909, and since then 100%. Her population increased from 26,133 in 1901 to 122,100 in 1912 and decreased to 106,110 in 1914. The annual valuation of her building permits advanced from \$1,720,411 in 1901 to \$13,150,365 in 1910, to \$19,388,322 in 1913, and decreased to \$4,484,476 in 1914. Reductions of population and building were due to abnormally great impetus in building operations and in 1914 also to the European war. The assessed valuation of land advanced from \$12,792,530 in 1901 to

\$144,974,525 in 1913 and to \$150,456,660 in 1914. Mayor T. S. Baxter states that the "assessed value of land within the city is not more than 55% of its actual selling value." The city council each year decides what its system of taxation will be. This year's decision was made in two and one-half minutes to continue the land-value tax! Her annual building valuation per capita has varied from the enormous sum of \$158.79 to \$42.26. Little Rock's showing for 1914 was \$20.16.

Houston:—This city used the general property tax until the year 1911, then exempted improvements 66 $\frac{2}{3}$ %, and since 1912 has exempted improvements 75%, and has not since the year 1912 taxed moneys and personal effects. Her population in 1901 was 45,000; in 1910 was 78,000; in 1913 was 129,570. Her building permits in 1901 amounted to \$958,858; in 1913 they were \$5,732,208. Assessed valuation of land in 1905 was \$20,588,940; in 1911 it was \$46,916,176, and in 1914 it was \$77,871,280.

Little Rock:—No exemptions of improvements. Our population in the year 1901 was 38,307, and in 1913 was 51,224. Building permits in 1905 were \$1,011,101; in 1913 were \$1,833,323, and in 1914 were \$1,003,172. The assessed valuation of land in 1905 was approximately \$5,840,000, and in 1913 was \$10,014,000. The data on building permits includes \$1,000,000 for the State Capitol in 1905, and \$500,000 for our new County Court House in 1913.

It is contended that the great natural resources of the State of Arkansas, of which Little Rock is the capital, the metropolis, the center and the natural focus for manufacturing and jobbing, are sufficient to enable us to easily become a city of twice or three times the population of Houston or Vancouver, if it will quit strangling enterprise by repressive taxation.

The most important fact demonstrated is that, with each additional per cent. of exemption on improvements, there followed in Vancouver and Houston a corresponding impetus in growth of population, in building operations, and consequently in volume of business. More business is what we, as business men, are after. Our ratio of overhead expense to business done is entirely too great.

Little Rock, in my opinion, cannot within a reasonable length of time grow to the size and commercial importance that is easily possible, nor can the deplorable condition of the State's finances be improved, until we are ungrudgingly willing to have all taxable values equitably assessed and justly equalized. No fair-minded citizen can reasonably object to paying his fair share of the necessary revenue required for public purposes. But all citizens strenuously object, and are fully justified in complaining of gross undervaluation and inequalities of assessment of property.

The following table shows very great undervaluation of all taxable values in Little Rock as against Vancouver. What is of most concern to our mercantile and industrial interests, is the apparent discrimination against improvements and enterprise.

## PER UNIT OF POPULATION.

City	Assessed valuation of land.				Total assessed valuation		
	1905	1911	Increase	Decrease	1905	1911	Increase
Little Rock, Ark.	146.	127.		19.	328.	404.	76.
Vancouver, B. C.	418.	883.	463.		713.	1,140	,295.

The land values of Little Rock were estimated by considering the ratio of building to land values as 125 to 100, the basis used in making calculations of this kind for towns of like population in Massachusetts.

While no legislative measure for reform can successfully precede public demand, it is to be hoped that Little Rock will at no distant day begin to discontinue a system of taxation, the uneconomic effect of which is to discourage and penalize industry, exchange, enterprise and manufacturing, and home-owning, thus preventing normal increase in our population. This can be accomplished within three years without a jar to business conditions by yearly taking for public purposes a gradually increasing percentage of public-produced value.

A change from the general property tax to a gradually increasing land-value tax, would result first in greater demand for building sites. This would stimulate real estate transfers on a market rising from the real use-value of land and prove of much advantage to our real estate agents and banks. New money would be drawn to Little Rock banks from our interior towns, due to no danger of its being taxed. Manifest advantages would follow to our architects, our skilled mechanics and laborers, our contractors and builders, brick manufacturers, saw mills, planing mills, coal mines, quarries, jobbers and general merchants, our farmers and market gardeners, and our non-speculative land owners. In fact, every class of legitimate industry and enterprise would soon begin to feel the beneficial results of this natural taxation. Within a few years the large electric 200,000 population sign at the foot of Main street would indicate a reality.

The goods of our jobbers, merchants and manufacturers cannot be purchased either by idle acres or vacant lots. We need in the State of Arkansas an additional million and in Little Rock 100,000 greater population, and a quarter-thousand more smoke stacks. Smoke stacks will increase with higher taxes on unused lands and by untaxing manufactures and buildings.

By legislative enactment, or if necessary by means of the Initiative and Referendum, there should be passed an amendment to our State Constitution to legally permit local option in taxation in Arkansas. To this end, I would suggest a Constitutional Amendment such as was recently voted on in California, which was:

"Any county, city and county, city or town, may in its discretion raise all or part of its taxes for local purposes, by taxing communally-produced land-values only, exempting, or partially exempting from taxation, any or all other property, except franchises."