

Germany

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DURING THE LAST QUARTER OF THE NINETEENTH century and the early years of the twentieth, the practice spread in German cities of levying taxes at the time of sale on increments in the capitalized value of land. These were the so-called "increment taxes" or "land-value-increment taxes."¹

These taxes do not have much in common with the land-value tax discussed elsewhere in this book. An increment tax does not affect land rent at all; nor does the amount collected depend upon whether the annual rent is large or small, but merely upon whether the land has a higher value at the time it is sold than it had when it was purchased. Moreover, if land is not rising in value, an increment tax provides no penalty for holding it out of use. Nor will it have any great tendency to induce the owner to make use of land, since he pays no more for holding it vacant. Nevertheless, both these taxes aim to take for public purposes a portion of the increased

¹Whereas these taxes applied only when a sale had taken place, the English land-value duties of 1911 were levied on all occasions of transfer, whether the increment actually had accrued or was only potentially realized.

value of land, the "unearned increment." For this reason, the German increment taxes are of interest here.

LOCAL LAND-VALUE-INCREMENT TAXES

As far back as 1374 a fee was collected by many German municipalities at the time property changed hands.^{1a} Out of this custom grew the Umsatzsteuer, a tax on land increment levied at the time of sale, and then the Kommunalabgabengesetz of 1893.² This was an act forbidding the localities to levy income taxes and certain excise duties and permitting the levying of special taxes on land.

The next important development in this form of taxation was the Zuwachssteuer,³ levied in many cities after 1900. The first ordinance to collect the Zuwachssteuer to be adopted by a major city was passed in Frankfurt in 1904. A description⁴ of this ordinance is included to show the development that had taken place, and also because it became a pattern for subsequent legislation.

The Frankfurt ordinance comprised in reality three taxes:

(1) An ordinary transfer tax of two per cent of the selling price.

(2) A progressive transfer tax, collectible in addi-

^{1a}This can be compared with the modern practice in many of our states of collecting a fee to cover the clerical work involved in the recording of the deed when property changes hands.

²For a full description of these taxes see *The Taxation of Land Value*, by Yetta Scheftel (Houghton Mifflin Co., 1916), pp. 124-32.

³*Ibid.*, p. 132.

⁴The description which follows is taken substantially from Miss Scheftel's book, pp. 133-34.

tion to the ordinary transfer tax in case of land which had not changed hands in more than 20 years. This additional tax was chargeable only when the selling price on the occasion of the levy exceeded the last purchase price by an amount greater than the amount of the additional tax. The base of the tax was the selling price of the property; and a distinction was drawn between improved and unimproved land, lower percentages applying to improved estates. The rate of tax increased with the number of years a property had been under one ownership.

(3) A tax on value increment, an additional charge collectible only in case of land which had changed hands within less than 20 years. The base in this case was the value increment and this was ascertained by taking the difference between the last purchase price and the present selling price. In computing the value increment, however, certain additions to the purchase price were made: (a) the expenditure for permanent improvements, including cost of street construction and sewer charges, the cost of new buildings or alterations; (b) five per cent of the previous purchase price as compensation for the cost incurred in connection with the previous transfer, and (c) in case of unimproved land not used for purposes of agriculture or industry by the vendor, four per cent of the purchase price, excluding compound interest, as compensation for capital invested.

The increment tax was not levied if the value increment was less than 15 per cent of the purchase price (the additions included). The rate was progressive, being a percentage of the increment, and this percent-

age increased as the increment itself increased as a percentage of the purchase price.

By 1911, 652⁵ local governments had adopted the *Zuwachssteuer*. Apparently its operation was satisfactory, for it attracted the attention of the revenue-hungry central government and in February, 1911, was taken over by them.

THE IMPERIAL LAND-VALUE-INCREMENT TAX

The imperial tax on land-value-increment grew out of the need of the imperial government to add to its revenue. In 1909 a bill was introduced in the Reichstag providing that: "Before April 1, 1912, an imperial tax on the unearned increment of land shall be enacted, which shall be so regulated as to produce an annual revenue of at least 20 million marks . . . The bill shall provide that to those local governments where the increment tax was in force on April 1, 1909, the average yield of the tax shall be turned over for a period of not less than five years after the enforcement of the imperial tax. Such a bill shall be submitted to the Reichstag before April 1, 1911."⁶

In accordance with this provision the imperial tax, the *Reichszuwachssteuer*, was passed on February 14, 1911 and local and state taxes were repealed, except in so far as the local bodies retained the option of levying additional rates.

The base of the tax was "the difference between the previous purchase price and the present selling price,"

⁵*Ibid.*, p. 144.

⁶*Reichsstempelgesetz*, 1909.

modified by various exemptions.⁷ As with the local taxes, the purpose of these exemptions was to remove from the tax base all value attributable to the investment of labor and capital. But the imperial government went several steps further than any local government had gone, and the law, when finally enacted, was so complicated that it created enemies almost at once.

During the first year of its operation the imperial tax produced 24.2 million marks, and during the second, nearly twice as much. According to the law, the central government received 50 per cent of the revenue; 10 per cent went to the states who administered and levied the tax, and 40 per cent was apportioned to the local bodies in whose jurisdiction the land subject to the tax was located.

This tax remained with the imperial government for two years. At the end of that time it was repealed and returned to the local units, where it was practiced widely until the end of World War I. The unpopularity of the imperial tax was due in part to difficulties concerning its administration. Moreover, there was a strong sentiment favoring the idea that such a tax belonged to the communities where the increment was created and where consideration could be given to local conditions.

THE WEIMAR CONSTITUTION

In view of Germany's long experience with land-value-increment taxes, it is not too surprising to find in the

⁷No adequate, short explanation of these exemptions can be made. The reader is referred to Miss Scheffel's book where they are described in detail, see pp. 146-60.

Weimar Constitution of 1919 (section V, article 155) the provision that ". . . An increase of the value of land arising without the application of labor or capital to property shall inure to the benefit of the community as a whole."

This provision would seem to foreshadow a return of the old increment taxes or else the application of land-value taxation in its traditional form. Time passed, however, and no national attempt was made in either direction.

The chief importance of this statement in the Weimar Constitution would therefore appear to be that it is "perhaps the first and only expression of the theory of 'unearned increment' to be found in any national organic law."⁸

THE BODENREFORMERS

The immediate stimulus for the land-value-increment taxes was the enormous appreciation of land values in German cities after 1871, and the need of the municipalities for new sources of revenue with which to meet their growing budgets. This, however, does not altogether explain the widespread acceptance of the theory of "unearned increment." According to Professor Geiger, this acceptance was due to the work of a small group of German scholars who "prepared a theoretical foundation"⁹ for this form of taxation.

These scholars were to a considerable degree influ-

⁸*The Philosophy of Henry George*, by George R. Geiger (The Macmillan Co., New York, 1933), pp. 449-50.

⁹*Ibid.*, p. 450.

enced by the American economist, Henry George. Professor Geiger says:

Especially significant was the name of Professor Adolph Wagner, whose work later in the '70s directed largely to the development of his "socio-political" theory, which argued for the employment of taxation as a means to correct the unequal distribution of wealth, and also for a "social benefit" justification of taxation, was largely responsible for the spread in Germany of the "Umsatzsteuer" . . . As early as 1881 *Progress and Poverty* was translated into German, and the immediate result was the incorporation of Henry George's work into the German tradition and the rise of a new group of Bodenreformers led by Wagner himself, Adolph Damaschke, Michael Flürscheim, and others . . . Germany's venture into land-value taxation thus presents an interesting example of the fusion of economic theory with the fiscal and social requirements of a specific situation.¹⁰

The scope and influence of these Bodenreformers to which Professor Geiger refers was greatly increased when a league was started in 1898 by Adolph Damaschke. Its membership included public officials and many university professors, and in 1910 numbered about 75,000 persons. The platform of the organization was contained in a single sentence: "The Bund Deutscher Bodenreformer holds that land, being the basis of our national existence, should be subjected to a law which shall encourage its use for industry and dwellings, shall prevent its misuse, and shall render to the entire community those values which appertain to land regardless of the activities of the individual."

This, of course, is an outright declaration in favor

¹⁰*Ibid.*, pp. 450-51.

of land-value taxation. The Bodenreformers, it seems, supported the increment taxes simply because the peculiar fiscal pattern of the German municipalities¹¹ lent itself more readily to this type of taxation. Whereas real property had always been the main source of local revenue in the Anglo-Saxon countries, in Germany the local bodies were levying many kinds of taxes, and these varied from state to state.

The tradition of the "unearned increment" concept occupied an important and largely original place in German political economy. It was vigorously preached by its supporters, and was widely understood. Therefore it could be translated into increment-tax legislation when the burden of debt upon the municipalities became heavy enough to provide the opening wedge.

KIAO-CHAU

Land increment taxation was applied in Germany as a means of forcing the land speculator to contribute to the needs of the community from whose growth he profited and as a means of raising revenue. A similar system was practiced for like reasons in the German Chinese colony of Kiao-chau, an area of about 200 square miles on the Shantung Peninsula, acquired by the German Empire as a protectorate in 1898. At the time of acquisition there were 187,000 Chinese living in the area and about 4,000 Europeans.

Land speculation started as soon as it was known that the German Government would undertake extensive improvements. To curb speculation and also to finance

¹¹*The Taxation of Land Value, op. cit.*, pp. 121-24.

an expansion program, the Reichstag passed an act in 1898 which gave the government the exclusive right to purchase land for building purposes at the price which the land was worth before the German occupation. This land could then be sold by the government at a profit. Thereafter it was subject to a tax of 6 per cent and an increment tax of one third of the total increment in any future sales. This increment tax was essentially along the lines of the increment tax in German cities, discussed above.

In 1903 the method of increasing the annual tax as long as land remained undeveloped was adopted. Land not utilized for the purpose for which it had been purchased was to be taxed after 1906 at 9 per cent instead of the usual 6 per cent, with a 3 per cent increase thereafter every three years until an annual tax of 24 per cent had been reached. Whenever land should be built upon and improved, the act provided that the tax should revert to 6 per cent.

Here it may seem that we are close to the land-value-tax principle. We cannot, however, without knowing about the accuracy of assessments and the general rate of return on capital in Kiao-chau (presumably much higher than in Germany itself), know how much of the annual value of land in use was being taken for public purposes. What we do know is that because of the penalty which the tax imposed on land speculation the threatened land boom never materialized in Kiao-chau, and the colony is said to have developed industrially and commercially until World War I, when it fell as a prize to the Japanese.