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Land Value Taxation in the Twentieth Century

By PHILIP H. CORNICK

AT THE BEGINNING of the twentieth century, a movement for the taxation of land values had been in progress for some two decades, and was gathering momentum in practically all English-speaking nations. It had found its advocates also in several nations on the continent of Europe, as well as in Asia and Latin America. Henry George, founder of the modern movement, had closed his eyes on an unusually active and influential career only three years before the turn of the century. In Australia and New Zealand, as well as in two provinces of western Canada, local governments had been given, and large numbers had exercised, the right to impose their property levies in whole or part on bare land values.

Growth of Movement Notable Until 1914

IN THE EARLY PART of the current century, the movement continued to grow. There was a steady, though never spectacular, growth in the Antipodes. Under the stimulus of a substantial growth in population, fostered by the Dominion government, two added provinces in western Canada authorized, and many of their municipalities resorted to, the land tax. In Pennsylvania, legislative enactments provided for a so-called "graded tax" in Pittsburgh and in Scranton, under which there was a gradual shift of property taxes levied for city purposes only (though not of those resting on the same real estate for county or school district purposes) until the city rates on buildings reached one half those on land.

During the same general period, the legislature of California granted an option to electors in *ad hoc* irrigation districts to levy their taxes for costs of operation and maintenance, and for debt service, on lands alone, instead of on real estate, as they had been doing. In districts containing large areas of unimproved lands used for grazing, in which the petitions for the option had originated, the voters promptly availed themselves of the act. As a direct consequence, the large cattle companies sold off so much of their holdings as lay within the boundaries of the districts; the new owners converted their bare lands into farms without being penalized by recurrent annual taxes on their expenditures for improvement and embellishment of their farmsteads; and those districts are reported to have become show-places. Subsequently, growing revenues from the sale of electric power, generated as a by-product of irrigation, appear to have made the levy of

district taxes superfluous in these stellar examples in the United States of the benefits of a tax on land values.

A few years after the California experiment, the four provinces of the Union of South Africa were affected by the spreading movement. There the provincial enactments also took the form of permissive legislation. One third of all taxing units in the commonwealth have availed themselves of one or another of the possible options for experimenting with total or partial reliance on the land value tax. A number of them, including the largest city in the Union, are deriving all their tax revenue for general purposes from the levy on land value.

In the meantime, the Liberal Party of England had precipitated one of the most hotly contested constitutional battles in the history of the British Parliament, by the proposal that a new unit be established in one of the national ministries for the comprehensive listing and valuation of the private landholdings within the nation. Stated for the sake of brevity in oversimplified form, the purposes of a long series of bills—the first of which passed the House of Commons in 1907—were (1) the imposition of a national tax on unearned increment along the lines advocated by John Stuart Mill, and (2) the establishment of a base for the levy on the municipal level of a land value tax of the type advocated by Henry George. Winston Churchill, then a member of the Liberal Party, was an active and fiery campaigner for the bills. When the House of Lords, composed largely of hereditary landowners, had been deprived in 1911 of its power of veto over “money bills,” and had been severely limited in its powers to delay the passage of other legislation, the necessary laws were enacted; and the preliminary listing and valuation of lands got under way. The outbreak of the First World War, and the subsequent return of the Conservatives to power in the House of Commons, led first to suspension and then to repeal of the valuation act. Two successful attempts to revive the legislation, the last in 1931, were too short-lived to lead to any durable accomplishments.

In China, land value taxation was advocated even before the turn of the century, by no less a person than Sun Yat-sen, provisional president of China. Articles and quotations favoring it appeared in the journal he edited in furtherance of the revolution against the Manchu dynasty, and land reform was included among the three principles he laid down for the guidance of the revolutionary movement. In an interview he gave in 1912 after the overthrow of the dynasty, he emphasized the importance of the land value tax in any program of land reform.

A more successful movement came to fruition in Denmark. There a healthy attitude toward individual landownership had been intelligently fostered and merged with the Georgist plan for the land tax by a system of adult education operating throughout much of the nation. By 1916, it had brought about the complete separation of land and improvements on a national tax roll, similar in some respects to that which had been advocated in England. A small national tax on land values has now been levied annually for more than 30 years. Local governments, including counties and cities, have also drawn on the land value tax for part of their revenues for almost as long.

Relative Importance Now Declining

TO SUM UP then, the movement for land value taxation on the local level had been established on firm legal foundations in several English-speaking nations and commonwealths at the turn of the century. Prior to the beginning of the First World War, it had spread to other nations, and had drawn to itself leaders whose accomplishments in other fields assure them of permanent places in the history of their nations and of the world.

It continued to spread and to grow in a few countries after the world had been plunged into war, but lost much of its former momentum. For obvious reasons, during the first war, the second war, the intervening depression, the Korean war, and the "cold war," the attention of political leaders was drawn to more immediate tasks. The unprecedented costs of modern war, the economic dislocations incident to war financing on such a mammoth scale, and the effects of the attendant inflation on costs of normal functions of state and local government have made both difficult and confusing any attempts to measure trends on the basis of available statistical time series.

How much of the property tax in the nation as a whole has consisted at any time of a tax on land value has never been reported. For a number of states, taxable aggregates compiled from the reports of large numbers of local assessors, most of them working part time and without either training or suitable records, have been available. Among the relatively few well assessed cities prior to 1914, tax rolls in a few indicated that the tax on land values constituted about one half of the entire tax on real estate. In those same cities, the ratio is now not nearly so high. Both land and building values declined during the depression of the thirties, and aggregate values now taxable have only recently begun to approximate their former peaks. Building values are now increasing at rapid rates, but not as rapidly as one would expect in view of changes in building cost

indexes. Land values have lagged behind building values, and even farther behind tangible personal property valuations since the recovery began.

Whatever the changing land value content of the property tax rolls may be, it is possible to get a good idea of the part that the property tax now plays, and has played in the past, in the overall revenue picture. Half a century ago, the revenue from that tax provided half of the aggregate revenues of all state governments, and more than nine-tenths of the tax revenues of all local governments.

Today, although state governments levy twice as much in absolute amount of property taxes as they did in 1902, that increased amount now is only about 4 per cent of total revenues from all state taxes. On the local level, the property tax remains the most important tax; but because it does not respond to inflationary pressures as readily as local expenditures do, or as taxes on sales and incomes do, the states and many of the larger cities have adopted one or both of the last named taxes also. The states use them not only for their own purposes but also as a source of the grants-in-aid for civic, school, welfare, health, and highway activities of local units. In some of the more populous urban areas—the only ones for which the Census Bureau again provides comprehensive data—property taxes now provide somewhat less than half the costs of all overlapping local units within them.

There can be no doubt then that the property tax has lost greatly in relative importance; and little doubt also that the land value tax—an undetermined fraction of the property tax half a century ago and now—has lost even more greatly in importance.

Such a statement will seem of little moment to most recent graduates in public finance. They judge a tax system by its capacity to produce revenue. But a tax may have merits also because of salutary side effects.

What Difference Does It Make?

THERE SEEMS to be fairly general agreement that an undue concentration of a nation's land in a few hands can lead to unwholesome economic, political, and social conditions. Much space in economic, political, and geographical journals has been devoted of late to articles describing the degree of concentration in selected areas of the world, or the methods advocated or adopted in one country after another in the distribution of large holdings among the former tenants.

Among the countries in which this process has gone on is our near neighbor, Mexico. Some 65 million acres of land are reported to have

been seized and allocated to more than 2 million families since 1910.

The writer happened to be living in Mexico for a considerable period before and after that year. His work had involved much travel in the states of Sonora and Sinaloa where evidences of a growing concentration of landownership abounded—in the outlying hill areas, tumble-down houses, broken corrals, caved-in wells, unused fields; in the irrigable river valleys, expanding settlements of peon laborers living on credit at company stores near large cotton and wheat fields.

Puzzled by what he saw, he took advantage of his contacts to get an insight into the Mexican statutes governing real estate; and conversed with his Mexican acquaintances in state and local government, as well as in business, ranching, and farming. In condensed form, this is what it boiled down to.

Beginning with Mexico's revolt against Spain in 1810, the chief complaint had long been against the almost feudal system of land tenure which the Spanish conquerors had imposed on the conquered. Revolutions and counterrevolutions followed one another inconclusively. At midcentury Benito Juarez, looked on by many Mexicans much as Americans regard Abraham Lincoln—an inspired and able leader sprung from the loins of the common people to meet a great crisis—rose to power. The constitution of 1857, patterned closely on our own, and the *Leyes de Reforma*, designed to destroy the overgrown landholdings and to restore to Mexicans opportunities to earn their living in the land of their birth, represented the foundation stones of the great work he had planned.

Before its completion, the Grand Duke Maximilian of Austria, supported by troops of several European nations, was proclaimed Emperor of Mexico. Already weakened by earlier counterrevolutions, Juarez and his poorly equipped native soldiers were pushed back until they held little of Mexico except the town opposite El Paso, Texas, which today bears his name. After the conclusion of our own Civil War made it expedient, President Lincoln reminded the European nations of the existence of the Monroe Doctrine, and of our intention to enforce it. The foreign armies which had formed the hard core of Maximilian's support, were withdrawn; his remaining armies were defeated; and he was executed. Juarez was back in power, but so enfeebled by his long ordeal that he was no longer able to plan aggressively and work constructively to consolidate the gains he had made for his people. Much land was in their hands, but the tremendous tasks of confirming their titles by further legislation, and by the installation of the necessary public records of title, were never completed.

Sixty years later, the job was all to do over again. Much of the land which had been distributed by Juarez had again been concentrated in a few hands; other tracts which had been held in undivided ownership by large numbers of individuals had fared similarly. Francisco I. Madero—the well-meaning but impractical leader of the new revolution—was again advocating land for the people, and the landless peons were flocking to his standard, north, south, east, and west.

Does that instance mean that it is necessary for revolution to follow revolution in order to keep land in the hands of the people? Obviously, as generation follows generation, a distribution made at one time can hardly be expected to meet either the social or the individual needs of a succeeding age. How can conditions be created which will permit land-holdings to be transferred freely among individuals without at the same time facilitating the growth of needlessly large holdings to be held out of use?

In the three and a half continents and many archipelagoes which constitute what Walter Prescott Webb has called the Great Frontier—that is to say the new lands opened up for European settlement and development by the explorations of Columbus, his predecessors, and his successors—certain contrasts stand out which seem to have a bearing on this question. Leaving out the numerous exceptions and qualifications which a closer approximation to precision would require, certain broad generalizations are possible.

In those lands settled by colonists from Great Britain, institutions of local government and of public finance were patterned on those of the mother country. There, family-sized holdings prevail in farming areas, and the property tax provides the major revenues for local governments in urban and rural areas alike. In lands taken over by migrants from France, Holland, Italy, Spain, and Portugal, there has been more of a tendency to the establishment of large estates worked by native or imported labor, and to reliance on indirect taxes for the support of national and local governments. As in the home lands, taxes of various kinds on sales and transactions bulk large in the revenue systems; property taxes, when they are used at all, are levied at rates fixed once and for all on valuations which remain in effect year after year.

These latter variants prevailed in the Mexican states under scrutiny. In Sonora, for example, which I knew best, state and local revenues were derived chiefly from a general turnover tax under which everything that was sold was subject to a tax at the rate of 3 per cent of its price every time it was sold. Because the federal government had imposed a 20 per cent

surtax for its own purposes on all state and local taxes, the sales tax rate within the state had risen to 3.6 per cent. The property tax was levied at a statutory fixed rate of eight pesos on the thousand of taxable value, but the taxable value had remained unchanged since the compilation of a statewide—but notably incomplete—list of taxable real property about thirty-odd years earlier.

To cite one example, out of many like it, the annual levy on one individual ranch holding aggregating about 400,000 acres, plus a town house and an irrigated orange grove, was 350 pesos per year. At the rate of exchange which prevailed at that time, this tax equaled \$175 per annum on real estate then valued for purposes of sale at about \$500,000. Is it any wonder that the owner had found it worth while to strive for about twenty years to acquire those holdings, taking advantage for the purpose of a very well designed procedure for suit to quiet title?

The free born, self-sufficient owners of undivided interests in the several large tracts which he had acquired quite naturally preferred expulsion from the houses in which they, and sometimes their fathers, had been born, rather than pay even a nominal rent to the new legal owner. This fact had built up an intense resentment against him in the entire countryside. As a result, he—and others like him—deemed it prudent not to try to cultivate his holdings, but rather to retire to the shadow of army barracks and police stations in the city. Multiply this instance of land concentration by the hundreds in every region, and of the dispossessed families by the thousands, and it becomes easy to understand why governments are unstable where such a process can go on.

The Stabilizing Effect of a Tax on Land Values

PONDERING THIS FIFTY-YEAR OLD EXAMPLE from the Mexican state of Sonora, it would appear that a property tax falling chiefly on real estate may be a good deal more than merely a source of revenue. If the levy on that piece of real estate had been many times as high—if it had reached a level measured in the high thousands of dollars instead of in the low hundreds, as it would have been if that property had been located in almost any one of the English-speaking nations other than England itself—is it probable that anyone would have been interested in expelling the hereditary owners of undivided interests from the holdings on which they, and sometimes their fathers, had been born? Would it not seem that a heavy real estate tax, which is levied not on capitalized net income, but rather in proportion to the income it is deemed capable of producing, would re-

tard the ancient tendency to lay field against field for the sake of aggrandizement rather than production? Would recurrent revolutions be necessary in order to get land back into the hands of the people every generation or two? Would there not be more likelihood of transfers taking place as conditions, needs, desires, or even whims changed, at prices agreed on between willing buyers and sellers, rather than by expulsion at one period and restitution at another?

Is it worth giving up these features of the tax on real estate merely because it has become fashionable in some quarters to view it as a less efficient revenue producer than an income tax or a sales tax? There are American states where the tax on real property in rural areas has been sinking steadily toward the Mexican level of half a century ago; and where even in the larger cities, the real estate tax is considered a relic of the past which must be levied pending the time when the state or the federal government will support them with grants-in-aid, derived from income and sales taxes—or borrowed money.

In my opinion, the salutary aspects of the tax are traceable to the inclusion of land value in the tax base. The evil aspects, especially when the rate becomes as high as it is in many American cities, are traceable to the inclusion in the base of the cost of erecting buildings, thus penalizing any private individual who builds a home for himself or for someone else, or builds any structure which the government would have to build if individuals didn't.

It is to be hoped, in short, that the decline in relative importance of the real estate tax, and of the tax on land value, which has now been in progress since 1914, is about to reverse itself. Much more is at stake than a method of producing revenue.

Yonkers, N. Y.

. . . There is no improvement in political conditions which does not aid in the amelioration of social conditions; for improvement in social conditions is in many instances possible only where the political organization is reasonably good. On the other hand, there is no improvement in social conditions which does not make easier the solution of the political problem; for the difficulty of the political problem in cities is in large measure due to the social and economic conditions of the city population. (From Municipal Government, New York, The Century Co., 1909.)

FRANK J. GOODNOW