

CHAPTER V.

THE A B C OF TAXATION

THREE GENERIC PECULIARITIES OF LAND

A

THE FIRST GENERIC PECULIARITY OF LAND

GROUND RENT A SOCIAL PRODUCT

GROUND RENT, WHAT LAND IS WORTH ANNUALLY FOR USE, IS A CREATION OF THE COMMUNITY, A SOCIAL PRODUCT—ALL LOCAL TAXES ARE SPENT UPON THOSE THINGS WHICH MAKE AND MAINTAIN GROUND RENT.

I.—Definition of Ground Rent.*

(1) "Ground rent is what land is worth for use." Strictly speaking, the "worth for use" attaches not to the land itself, but to scores of things exterior to the land and through it available for use, so that, as applied to urban land, the following would be more accurate:

(2) Ground rent is the annual value† of the exclusive use and control of a given area of land, involving the enjoyment of those rights and privileges‡

*See Appendix F of The A B C of Taxation.

†The rental value and the capital value of land differ in that the one represents what land is worth for use during any limited period, while the other represents what it is worth for "perpetual" use.

‡"Rights and privileges" are here used in their legal and not in a moral sense.

pertaining to the land which are stipulated in every title deed, and which, enumerated specifically, are as follows: right and ease of access to water, health inspection, sewerage, fire protection, police, schools, libraries, museums, parks, playgrounds, steam and electric railway service, gas and electric lighting, telegraph and telephone service, subways, ferries, churches, public schools, private schools, colleges, universities, and public buildings—utilities which depend for their efficiency and economy on the character of the government; which collectively constitute the economic and social advantages of the land; and which are due to the presence and activity of population and are inseparable therefrom.

II.—The Nature of Ground Rent.

As defined by Mr. Shearman, ground rent is, in its nature, "a tribute which natural laws levy upon every occupant of land as the market price of all the social as well as natural advantages appertaining to that land, including necessarily his just share of the cost of government." It is found operative in every civilized country, automatically collecting "from every citizen an amount almost exactly proportionate 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." It is a tribute, "a tax, just, equal, full, fair, paid for full value received." "It is not merely a tax which justice allows; it is one which justice demands. It is not merely one which ought to be collected; it is one which infallibly will

be and is collected. It is not merely one which the State ought to see collected; it is one which, in the long run, the State cannot prevent being collected. . . . Seldom has there been a more beautiful illustration of the wise yet relentless working of natural law than in the proved impossibility of justly collecting any tax other than upon ground rent. It shows that nature makes it impossible to execute justly a statute which is in its nature unjust." This definition of Mr. Shearman is offered as one difficult to be improved or condensed.

Such, it may be added, is the nature of rent—ground rent—that all the public and private improvements of a community to-day are reflected in the land values of that community. Not only this, but the value of all those ideal public improvements conceived of as being possible under Utopian conditions would be similarly absorbed, as it were, in the ground, would be reflected in its site value. Stand before a big mirror and you will see your image perfectly reflected before you. If you are a man scantily, shabbily clad, so is the image in the glass. The addition of rich and costly attire is imaged in the glass. Load yourself with jewels and fill your hands with gold; in the mirror, true to nature, is the image and likeness of them all. Not more perfectly, nor more literally, is your image reflected in the mirror than are public improvements reflected in the value of the land.

One peculiarity in the nature of ground rent to which we urge your attention is the subtle relation existing between this natural income and the artificial outgo of the public taxes—a relation not unlike that

of cause and effect, by which the wise expenditure of the tax contributes, in a manner especially direct, to the element of ground rent.

Simple illustrations may help to open the mind to a consideration of whatever may seem novel or strange in the re-statement of a familiar truth. For instance: The cook turns the crank of her coffee mill; the whole coffee that was in the hopper comes out ground coffee, but it is coffee just the same. The Minneapolis miller lets on the water that turns the crank of his flour mill; the wheat that goes into the hopper comes out flour, wheat in a more subtle form. The people turn the crank of a great tax mill; the taxes that go into the hopper come out ground rent, no tax quality lost, no rent ingredient added.

Or again: The myriad springs and rivulets of the great Mississippi are continuously delivering themselves in one great river to the sea. Suppose that some day you should read in the weather bulletin that nature had decided to suspend the regular return of these waters in clouds and rain and dew to their point of departure. How long would it be before the Mississippi Valley would be as parched and dry as the Desert of Sahara, or the North End of the City of Boston, or the East Side of the city of New York?

Or, more pertinent still, because more vital: The constant round of taxes and ground rent is the blood circulation of the body politic. When the heart throws out the life blood through the arteries, if that blood does not return through the veins, the patient dies—not of heart failure, but from loss of blood. When the public heart charges the arteries of the land with

ground rent, if that ground rent does not return, the body politic is prostrated or enervated by loss of blood. The body politic to-day, like a man with a ravenous appetite, is cleaning its plate of all the millions a year that it can earn, and mortgaging the future for nearly as much more, always eating, yet always hungry, and simply because the best part of its millions of dollars' worth of arterial life blood, instead of coming back to the public heart, ebbs rapidly away through severed blood vessels in the private appropriation of ground rent.

These illustrations of the miscarriage of a beneficent provision seem to hint strongly at the true theory of ground rent, as waiting to be naturally developed under a natural law, and as a natural social product.

III.—The Operation of Ground Rent.

Critical consideration is invited to Mr. Shearman's statement that the operation of ground rent is to exact from every user of land the natural tribute which he ought to pay in return for the perpetual public and social advantages secured to him by his location, a part of which natural tribute now goes to the State in the form of a tax, and the remainder to the landlord in the form of rent. Objection to monopolies and special privileges is that they participate in the private appropriation of an undue share of this natural tribute, and while recognising that in the end all quasi-public, as well as all public service, should be at the least practicable cost to the people,

it is held that meantime whatever monopoly is enjoyed should be obliged, through taxation, to repay to the public a full and fair equivalent for the privilege conceded to it.

The monopolies and special privileges which should properly share with land values the burden of taxation, may be partially enumerated as follows: the private appropriation of natural resources such as gold, silver, copper, iron, and coal mines, oil fields, and water powers; all franchises of steam and electric railways; all other public franchises, granted to one or several persons incorporated, from which all other people are excluded, and which include all "rights, authority, or permission to construct, maintain, or operate in, under, above, upon, or through any streets, highways, or public places, mains, pipes, tanks, conduits, or wires, with their appurtenances for conducting water, steam, heat, light, power, gas, oil, or other substance, or electricity for telegraphic, telephonic, or other purposes."*

The reforms contemplated by the single tax would leave the State and the individual to deal together exactly as individuals deal with one another in ordinary business. Persons desiring special privileges would rent them from the State or the municipality, just as they now rent them from individuals and corporations, and on similar terms, fixed from year to year. When paid for in this way, the special privilege feature would be eliminated. Then there really would be no special privileges, and there would be need of

* Quoted from the Ford Franchise Tax Act of New York.

no other taxation. Hence, we say, the least the public can do is to tax and collect upon these special privileges, including ground rent, a sum sufficient to defray all public expenses.

The value of these special privileges is held to be ground rent, which in turn is held to be very largely, if not entirely, a social product.

IV.—The Office of Ground Rent.

The true office of ground rent is that of a board of equalization—equalization of taxation, of distribution, and of opportunity. The tendency of an increase in the tax upon ground rent is not only to equalize taxation and distribution, but to equalize the opportunity of access to what is erroneously called the land, which of itself, even in a city, would be of little or no use if it had a perpetual fifty-foot tight board fence around it. In this clear distinction between land and land value, which cannot be too critically noted, may there not be found an explosion of the notion that a man has a right to the private appropriation of ground rent, because his father bought and paid for the land fifty or one hundred years ago?

The question is: When he bought the land fifty or one hundred years ago, did he buy and pay for the land value of to-day? In 1686 a company having five shares and five stockholders bought a lot of land in Philadelphia for \$5. In 1900 the same company, with its five shares and five stockholders, sold the value of the same land for \$1,000,000. Does it sound reasonable to say that for one pound sterling in 1686

these five men bought and paid for the \$1,000,000 land value of 1900, with its ground rent of \$40,000 a year? Would not such a sale in 1686 of goods to be delivered two hundred and fourteen years later be dealing in futures with a vengeance? True it is that the land sold to-day is the same land bought in 1686. But it is just as true that its value to-day is not the value of the land itself, but is the value of the rights and privileges pertaining thereto, and exterior to the land itself. The demand that enhances land value is not for land itself, but for the command of these same rights and privileges.

Land value being a social creation,* and rent being socially maintained, equal access to the rights and privileges pertaining to the land can be promoted by the taxation of ground rent alone, and by this means only. Ground rent, the natural tax feeder, extracts from the user of land the exact measure of his ad-

*Professor J. B. Clark, then of Smith College, now of Columbia University, said, in a discussion at Saratoga, N. Y., in 1890:

"The community has created the value that resides in land, and whoever usurps the ownership of it deals a blow at the community. What is more, he strikes at the basis of the civil order, since governments have been evolved in and through the effort to secure to each producer the value that he brings into existence, and it is anarchic in principle to habitually counteract this effort.

"Of the wealth that resides in land, the State is certainly the creator and the original and lawful owner. As a sovereign it has a certain ultimate ownership of all property. Treasures of every kind are, in the last analysis, its own. As the creator, not of the substance of the earth, but of the value residing in it, the State has a producer's immediate right to use and dispose of its product. If any theory depreciates either the State's reserved right over all wealth or its special producer's claim to the wealth residing in land, so much the worse for that theory."

vantage over other men in his exclusive enjoyment of rights and privileges pertaining to his own location, and the whole tendency of the taxation of ground rent is to equalize participation in these common rights and privileges, by commuting into dollars and cents, which can be divided, those indivisible advantages of location, which can only be enjoyed individually. Whatever of rent goes into the public treasury tends to a fairer distribution of produce in wages earned. Whatever of taxation is transferred from other wealth to ground rent leaves so much more wealth to be distributed in wages.

Again, it is submitted that the true office of ground rent is to offer a communal shoulder suited to bear all the burden of common needs, leaving produce—current wealth—to be distributed, as fast as produced, in wages and interest, the total volume of which will always be increased by the amount of rent appropriated through the taxation of whatever of economic rent there is in special privilege.

Ground rent being a social product, is not its private appropriation a special privilege?

V.—The Cause of Ground Rent.

The dimensions, as well as the continuous character of the contribution made by the people to the growth and volume of ground rent, are seldom measured—by many persons hardly suspected. Almost anything else that he owns, except land, a man may appropriate, destroy, tear down, burn down, remove, consume, change in form, wear out. To the land itself he can-

not do any of these things. The value of its use is ground rent, an annual value, which is all that the owner of land can consume each year. The land value itself survives, and usually intact. People speak of owning land, because they or their fathers have bought and paid for it.

A simple illustration will indicate how a disproportionate reliance may be placed upon this argument, considered in the light of all the causes contributing to the value of land. Suppose, for instance, that a vacant lot was bought fifty years ago for \$1000, which to-day is worth \$10,000. The chances are that when the purchaser paid his original \$1000, the people, in one capacity or another, paid for the same year \$50 to maintain that purchase value, and that for forty-nine years thereafter the people have paid in annual arithmetical progression up to \$500 for the present year. The purchaser paid \$1000 in one payment. The people have paid during the fifty years an average of \$250 a year to maintain this value. On the part of the people it has been not unlike a continuous purchase in the proportion of \$250 a year of the people's tax money to \$50 a year of the purchaser's interest money.

In addition to whatever income the purchaser has received, he possesses to-day \$10,000 worth of land, while the people possess nothing except an outgo of 5 per cent. in maintenance, offset in small part by an income of $1\frac{1}{2}$ per cent. in tax. Such an inheritance would usually be counted worse than nothing. Is it not reasonable that the community should derive profit from its part in this transaction, by appropriating to its own use the one-half at least of that ground rent

that is manifestly created by the simple expenditure of its taxes? Why should not taxes, all of which are spent upon the land, be taken from the land?*

Ground rent may be said to result from at least three distinct causes, all connected with aggregated social activity:

(1) **Public expenditure:** All wise public expenditures are direct feeders of ground rent. Streets, lights, water, sewerage, fire and police systems, public schools, libraries, museums, parks and playgrounds, all contribute to enhance the value of land, and a corresponding depreciation would follow the abolition of any of these systems. It follows, therefore, that expenditure for maintaining these services constitutes the maintenance of ground rent, if not in a literal sense, at least in an all-sufficient common sense.

(2) **Quasi-public expenditure:** In the same way, the expenditure by the municipality or by private corporations for steam and electric railways, gas and electric lights, telegraph and telephone facilities, subways and ferries, contributes to the value of land, at least to the extent of their actual cost.

(3) **Private expenditure:** Equally, and by parity of reasoning, private or voluntary social expenditure

*E. Benjamin Andrews, formerly President of Brown University, said at Saratoga, N. Y., in 1890:

"To turn the golden stream of economic rent partly or mostly into the State's treasury, where it would relieve the public of taxation in burdensome forms, seems to be extraordinarily desirable. I by no means concur in all the reasons which many assign for this; nor should I expect from it, even if carried to Mr. George's length, more than half the benefits to society which he anticipates. Still the proposition to lay the main tax on land impresses me as just, safe, accordant with the best canons of public finance, and in fact, every way excellent."

for churches, private schools, colleges and universities, all private buildings, apartment houses, stores, and office buildings, contributes to ground rent, the annual value of land.

In an enumeration of the causes of ground rent, population is usually the one first named. But a passive population gives little value to land; it is rather the activities consequent upon the character of population that create the value.

It is generally conceded that, as a matter of fact, ground rent is what land is worth annually for use; but it is of far greater importance to understand clearly what is the source of ground rent, and especially to what extent it may be regarded as a social produce. Inasmuch as all the contributions representing these activities, so far as enumerated, are from the treasuries of the people, it is correct and proper to say that ground rent is chiefly and peculiarly a social product.

From one point of view (that of demand) it may be said that the value of all commodities is a social product. But when we come to consider the other side of the value problem, we find that most other commodities, e. g., houses, increase or decrease at man's will, according to the principle of cost, the value being a resultant of a balancing of social desire against social cost.

With land it is more generally true that the quantity either cannot be increased at all or can be increased only at increasing cost; and hence the practical determinant of the value of land is almost entirely in the social and private activities that make the use of land desirable.

VI.—The Maintenance of Ground Rent.

So far as the cost of streets, lights, water, sewerage, fire, police, schools, libraries, museums, parks, playgrounds, steam and electric railways, gas and electric lights, telegraph and telephone companies, subways, ferries, churches, private schools, colleges, universities, public buildings, well appointed houses, stores, and office buildings is what constitutes the cost value of the land, just so far the maintenance of all this public or social service constitutes the maintenance of ground rent.

A simple illustration may help to an appreciation of the absurd absence of a true economy in tax affairs to-day. A landlord owns a factory which requires steam power, and which is useless and worthless without it. Another man owns a steam plant, and furnishes steam to factories at so much per horse power. The man who hires and uses the factory pays factory rent to his landlord, who furnishes the factory, and steam rent to the man who furnishes the steam. He would smile if you should talk to him about paying his steam rent to the landlord who does not furnish it. In vivid contrast with this sensible performance we may take the case of another landlord who owns a store, requiring public service and convenience, and useless without it. The municipality owns and runs a public service plant, and furnishes public service at a cost of so much per thousand dollars' worth. The man who hires and uses the store pays store rent to his landlord, who furnishes the store, but, by a strange perversion, he pays his public service rent to the same

landlord. Should he not pay his public service rent to the public that furnishes it?

Inasmuch as all these contributions to its maintenance, so far as enumerated, are from the treasuries of the people, what can ground rent possibly be, if it is not a social product?

VII.—An Illustration: The Ground Rent of Boston.

A dense skepticism and, indeed, a denser ignorance, seem to obtain even in regard to the simple fact that there is such a thing as ground rent, and yet much more in regard to what is the volume of ground rent. It has been questioned whether the ground rent of the City of Boston, for instance, under the single tax, with the accompanying shrinkage in speculative values, would exceed to-day 5 per cent. on the assessed valuation of land, or \$32,000,000. Indications are that the net rent of the land itself might not, but our investigations are directed to ascertaining not the net, but the gross, ground rent, which is net rent plus the taxes.

In a systematic attempt to dispel these clouds of ignorance and skepticism—now to be found in surprisingly high places—and to demonstrate beyond a reasonable doubt about how much gross ground rent there is in the city of Boston, actual sales for the year 1902 and actual rentals have been collected from official sources.

One hundred and twenty pieces of real estate* in various sections of the city are shown to have been

*An exhibit of these specimen cases in detail will be found in Appendix G of The A B C of Taxation.

sold at prices averaging one-fifth higher than their assessed valuation, indicating that at least in these one hundred and twenty cases the valuations were less than five-sixths of the selling price.

Landlords and real estate men are the best judges of the following calculation which, taking into account the fact that the prices given in these tables are those indicated by the revenue stamps on deeds, assumes that the buildings sold for one-third more than their assessed valuation:

Deducting from the total of prices indicated by the footing of the 120 sales.....	\$7,291,375
Four-thirds of assessed valuation of buildings.....	2,772,933
	<hr/>
Would give perhaps a fair estimate of what the land sold for	\$4,518,442
To this it is necessary to add the capitalized tax upon the land for the same year, 1900, \$3,758,600 x \$14.70 (the number of dollars tax per thousand) x 20 (the number of years' purchase)	\$1,105,028
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In order to get the gross capitalized ground rental value of the land.....	\$5,623,470

Of which the assessed valuations were only two-thirds.

Seven hundred and fifty-one rentals* of estates, together with their assessed valuations, averaging \$47,680 each, were also obtained from reliable sources. In the total for these it is found that the net rent is 5 per cent (4.8), and the gross rent—net rent plus taxes—is

*An exhibit of these specimen cases in detail will be found in Appendix G of The A B C of Taxation.

6 per cent of the assessed valuation. That is to say, the net value, based upon net income to the owner, corresponds with the assessed valuation, and is five-sixths of the gross value, based upon what the user pays for the land. It is probable that these estates are in the aggregate improved to less than one-half of their normal efficiency, and hence the income which they now yield is less than 5 per cent of the price that they would actually sell for.

In the absence of contradictory or correcting testimony, it is fair to ask the reader to accept these lists of 120 sales and 751 estate rentals respectively as an indication of the ratio existing between assessed valuation and selling value.

Based upon the foregoing ratio, the following conservative estimate of the gross land value of Boston is submitted for scrutiny and criticism:

If the assessed valuation* of Boston's land for 1907, which is in round numbers.....	\$653,000,000
Is five-sixths of its selling value, then the addition of one-fifth.....	130,600,000
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Would give us as the net selling value.....	\$783,600,000
Adding to this the capitalized value of the amount of tax now on the land, \$15.90 per	

*The official figures are:

	Valuation.	Rate.	Tax.
Land	\$652,995,300	\$15.90	\$10,382,700
Buildings	417,869,400	15.90	6,646,200
Personalty	242,606,857	15.90	3,857,485
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	\$1,313,471,557		\$20,886,385

thousand on \$653,000,000, or \$10,382,000 at twenty years' purchase**.....	207,600,000
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Would give us as the true capitalized ground rental value.....	\$991,200,000
Add moderate estimate for franchises, say....	108,800,000
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And we should have as a basis of assessment under the single tax a total capitalized ground-rental value of at least.....	\$1,100,000,000
At 5 per cent. this would indicate for Boston a ground rent of.....	\$55,000,000

or considerably more than double the total taxes of Boston.†

Even if \$5,000,000 be deducted from this \$55,000,000 for error in estimate, there will still be left \$50,000,000, or more than double the amount of present taxes.

It is believed that sufficient reason is found for taking in taxation five-tenths, instead of two-tenths, in the fact that since ground rent is a social product its taxation is in no way a burden upon business or industry.

Having now finished the special task of trying to explain ground rent in its leading features, it is a privilege to offer a few words of tribute—and sugges-

**See p. 119, lines 5-9, and p. 126, lines 5-10, and p. 35 (g), of The A B C of Taxation.

†Boston's income from taxation for 1907 was:

Land values	\$10,382,628
Buildings and other improvements	6,644,121
Personal estate	3,857,449
Polls	369,966
Corporation taxes	1,087,793
Liquor licenses	1,079,585
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Boston's total city tax (including State tax)	\$23,421,542

tion—to those landlords who are open to a discussion of this vexed question of taxation.

Next to that of the farmer, the province and function of the landlord would seem to be one of the greatest in its importance to his fellow-men. The farmer is the commissary of subsistence; the landlord is quartermaster of the camp. The farmer feeds the world; the landlord houses the world. Besides being the natural housers and the natural tax gathers, the landlords are also the natural assessors. "Nobody runs after the assessor to tell him what property is worth. Everybody runs after the landlord to tell him what his land is worth." With this triple responsibility and privilege of housing and tax collecting and tax assessing, landlords ought to be, as, if they paid all the taxes, they would be, the natural guardians of the public treasury against wastefulness and misapplication, for the simple reason that ground rent, while increased by every wise outlay, is decreased by every unwise expenditure.

There remain to be considered five points of special application to the landlord's interest, viz.:

The taxation of real estate only; the tax imposed by time; corresponding exemptions; the exemption of assessed value; and the single tax as an income tax.

VIII.—The Taxation of Real Estate Only.

Every single taxer, no doubt, may be relied upon to vote for the concentration of all taxes upon real estate (land and buildings), as a rapid transit measure toward his preferred exemptions of buildings also. Such a course would secure a basis for honest assessment

and collection, and would eliminate the possibility of evasion, but how much of an advance would this be toward a just equalization of the burden? The landlord of a new building would still be paying, as he does now, the taxes of an adjoining landlord of old buildings or none at all. He would be worse off by his disproportionate share of taxes transferred from personal property.

If Smith owns land and buildings in equal amount he will pay, for each \$1,000 of land, taxes upon.....	\$2,000
If Jones owns land with worthless buildings, or none at all, he will pay, for each \$1,000 of land, taxes upon	1,000
If Brown owns his own house, worth three times as much as his land, he will pay, for each \$1,000 of land, taxes upon.....	4,000

Under the theory that taxes are absorbed in maintaining the value of the land, as indicated by the equal or even greater price that land often commands when practically unimproved rather than improved, it is held that the proportion of advantage afforded by the public outlay is fairly represented by the value of the land. If this theory is sound, then neither Smith, who pays twice as much as Jones, nor Brown, who pays four times as much, has any greater command per \$1,000 than has Jones over the facilities afforded by society for the promotion of private business.

IX.—The Tax Imposed by Time.

A representative real estate man of Boston has said that the lifetime of the best new buildings in the city

cannot be figured to exceed two score years, and that with swiftly accelerating changes they will have to give way in forty years to a new and better order. Granting these facts, if during the forty years the new buildings shall yield to the landlord interest upon their cost and 2 1-2 per cent annually for depreciation, he is at no disadvantage from the necessity of tearing down and building greater, while both labour, which builds buildings, and business, which uses buildings, will be greatly benefited by such a process. What a paradise any American city might be made if built over new every forty years! Yet the users of the buildings can well afford to pay 2 1-2 per cent a year for such a luxury.

Any sensible readjustment and equalization of taxation should take this annual depreciation directly into account as a tax imposed by time upon all products of labour, a tax so heavy as to seem an instant excuse for exempting them from all other taxes.

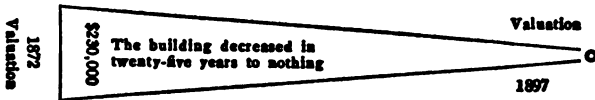
On the other hand, while time is engaged in the destruction of the building, it is occupied in the construction of the land value.

A conspicuous example of the contrariety of this time agency is found in the biography of a once modern building that in 1870 supplanted a colonial residence which for several years previous to 1809 was the residence of John Quincy Adams.

AN OBJECT LESSON.

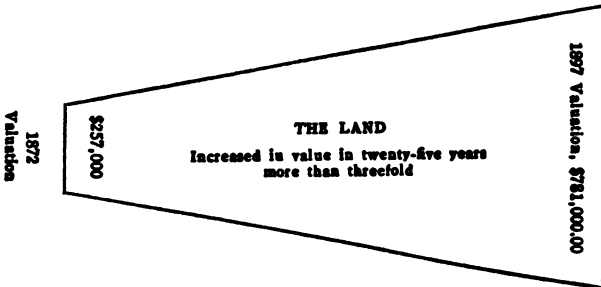
Growth of Land Values vs. Decay of Buildings

The Hotel Boylston, S. E. corner of Boylston and Tremont Streets, Boston, known also as the Charles Francis Adams Building, on the site of the present Hotel Touraine.



Labour

1. Labor constructs the building as a basis of taxation.
2. Labor pays its taxes, insurance, and repairs.
3. Labor, at the end of twenty-five years, builds a new building in place of the old one which has entirely disappeared; that is, it renews the very basis itself of taxation for another twenty-five years.



Land

1. Land starts with a basis made by other people's labor.
2. Land apparently pays its taxes at same rate as the building, but pays no insurance or repairs.
3. Land, at end of twenty-five years, has increased its basis threefold through other people's labor, and its income in proportion. Under the present crooked system, the distribution of untaxed wealth is according to special privilege; its taxation, according to ability (i. e., according to production). Under

straight single tax it would be the very reverse. The distribution would be according to ability (i. e., according to production), while taxation would be according to special privilege. It is this right-about-face in taxation to which this illustration is addressed.

The inequality of the present system of taxation is apparent in the following calculation (based upon the above assumption of 2 1-2 per cent depreciation) regarding the land and buildings of Boston for the last twenty years, bearing in mind that it is not the rent, either of buildings or land, that is under consideration, but only the effect of taxes and depreciation upon the one, and the opposite effects of taxes and appreciation upon the other.

BUILDINGS

The valuation of Boston's buildings in 1887 was	\$223,000,000
If time's annual tax or depreciation of 2½ per cent. (besides the city's tax of 1½ per cent. which is paid by the owner only when he is also the tenant) has been for twenty years 50 per cent. of.....	111,500,000
Then the value of same buildings in 1907 is only	\$111,500,000

LAND

The valuation of Boston's land in 1887 was...	\$322,000,000
Time's average net annual appreciation has been (after paying city's tax of 1½ per cent.) for each year 5 per cent. and for twenty years more than 100 per cent. or.....	331,000,000
And the value of the same land in 1907 is.....	\$653,000,000

Thus the increase in the valuation of land in twenty years is nearly 50 per cent. more than was the valuation of all the buildings twenty years ago.

Five per cent on this twenty years' increase of \$331,000,000 would be \$16,650,000, which, added to the \$4,300,000 assessed upon the land in 1887, would be \$20,900,000, as compared with Boston's taxes of \$21,254,000 in 1907.

Those who agree with John Stuart Mill that it would be sound public policy and no injustice to land owners to take for public purposes the future increase in ground rent will be interested to note what an opportunity for putting such a plan in operation in Boston is shown by the above figures to have been lost twenty years ago.

X.—Corresponding Exemptions.

In any calculation of the effect of the imposition of all taxes upon ground rent, it must be borne in mind that the landlords, who are the owners of the ground rents, also own buildings, and other improvements upon the land, together with a large per cent of the personal property, so that they, as a class, would find the additional tax upon their land offset by the exemption of buildings and personal property.

XI.—The Exemption of Assessed Values

One reason why, under a just system of taxation, large-hearted landlords would cheerfully offer their necks to the tax yoke is the fact that so far as concerns their *investment* in land most of them are now privileged to be entirely exempt. In other words, the pres-

ent tax is not a tax burden upon them, even though this fact is not to their prejudice. But while it is true that the capitalized value of any tax on land is deducted from its selling price, and that any purchaser, after the tax is once imposed, gets his land tax free,* so that the landowners of Boston who have bought their holdings since the present tax rate was reached are practically exempt from taxation, it is also true that the appreciation in the value of their land may be fairly reckoned as an offset to the imposition of any new tax upon it.

This present exemption, however, is not offered as a reason for additional taxation, but rather as a justification for taking the opportunity to transfer the present load from the head and the tail to the back and shoulders of the horse. As an anti-single-tax professor of political economy happily puts it. "The beauty, to my mind, of a tax upon land values is that in a few years nobody pays it."

XII.—The Single Tax as an Income Tax.

An income tax has always been a favourite form of tax, because it has been regarded as well calculated to bear upon "each according to his ability." The taxation of ground rent would surely be the purest possible

*A tax, as a first lien, is practically a first mortgage to which any regular mortgage must be second. The effect of the tax in the first case and the mortgage interest in the second case upon the selling value of land is exactly the same. When the State imposed a tax of \$10 upon a lot of land hitherto untaxed and worth \$1,000, the effect upon the selling value was the same as though it had taken a first mortgage of \$200, leaving to the owner as the selling value an equity of \$800.

exemplification and application of the principle of the income tax, because it would fall upon all those incomes which are unearned, which are in their nature perpetual, and which are amply able to bear the whole burden of taxation. Of course, such an income tax should have impartial application. A large unearned income should be taxed at the same rate as a small income of the same nature and derived from the same source. If it is right that corporations or other aggregations of capital should engage in business enterprises for profit upon equal terms with individuals, then it is right that an impartial income tax should impose at least the same rate upon the many million dollar incomes of the railroads, and the coal operators, and United States steel companies, as upon smaller unearned incomes of one, five, or ten thousand dollars, derived from the same source. If eight hundred and fifty industrial combinations or trusts have a capital stock of nine billions, of which five billions are represented by common stock—and that common stock, water—it means that every 1 per cent (\$50,000,000) or every 5 per cent (\$250,000,000) received in dividends on this common stock is, as an income from rent, unearned by the people who receive it.

An income from special privilege is usually part and parcel with an income from rent, and, as such belongs to the class of unearned incomes. As ground rent is a social product, its private appropriations is a special privilege, which affords large private profit at public expense. Why not, then, at least tax such a privilege upon what it is worth?

The gross income of the owners of the land of Boston in the form of ground rent is.....	\$55,000,000
Or \$90 per capita.	
And there is now taken in taxation only.....	10,300,000
<hr/>	
Hence the amount that is distributed annually in unearned incomes (if rent is an un- earned income) is.....	\$44,700,000

This amount is equivalent to \$75 per capita for the 600,000 population, or to \$375 for each of the 120,000 families of five persons each.

Boston's total taxes for the year 1907 amounted to \$40 per capita. If all of this \$40 had been taken from the above \$90 there would still have been left to the landlords \$50 of ground rent per capita (equivalent to \$250 for each of the 120,000 families), besides the exemption of \$660,000,000 of buildings, personal property, and polls.

Is it even apparently fair to let so much common wealth escape taxation at the expense of individual wealth?

The fifty-five millions are, we submit, the "income" in very truth earned by the city and people of Boston—created by their actual labour and actual expenditure. Under the single tax Boston would pay all its current expenses out of this legitimate \$55,000,000 income of its own, earned by itself, instead of allowing four-fifths, or \$45,000,000, of this amount to be divided, through the channel of special privilege, into unearned incomes, thus aggravating those inequalities in distribution of wealth which people are wont to declaim against as partial and wrong.

While that part of the ground rent of Boston that goes to individuals may be said to be unearned by them, the whole of it can hardly be said to be unearned, because, having been produced by society, it may truthfully be said to be earned by society, and hence it may go to it as its wages, just as properly as his earnings go to the individual who works for wages. If a railroad has the special privilege of a monopoly in the transportation of coal from the Pennsylvania coal mines, or in the transportation of people, why not tax the railroad in proportion to the value of its franchise? The private monopoly of a natural resource is a special privilege. If the private ownership of the two or three billion tons of unmined anthracite coal is a special privilege, why not tax it what others would give for the privilege of mining and marketing it, thus making all the people sharers in what is called a natural bounty? If the private appropriation of a billion dollars' worth of iron ore is a special privilege, would it not be "proportionate and reasonable" for its owners to pay in taxation one-half at least of the value of that privilege? It is becoming common to scold about trusts and monopolies, coal barons, oil magnates, and railroad kings, but many people do not think of the perfectly natural resort of taxing them to the same extent that other people are being taxed.

This bugbear of monopoly is the central point at which numberless palliatives are ineffectively aimed. Taxation, it will be found, is the only "power to destroy" what there is of wrong, and the only "power to build up" what is right in these conditions.

XIII.—The Opinions of Economists.

Concerning the first generic peculiarity of land, the following statements gleaned from some of the world's greatest thinkers in the field of economics and public finance, who, however, have approached the subject from another point of view, support the contention of this chapter that the value of land is a social product:

"Ground rent is the advantage accruing to landowners from the use of certain uncreated or socially created powers and utilities connected with land, including, besides mere fertility of soil, also mineral wealth, water privileges, location, etc.

"Let a considerable number of human beings settle in a new country: special value instantly attaches to particular localities, and this with no act of creation save the act of the people in coming there. . . . Such dearness, springing though it does from a sort of human agency, is not the product of conscious doing on the part of any one person. In bringing it into being, A, B, and C were instruments, not agents."—*Andrews, "Institutes of Economics," p. 168, and footnote.*

"The utility of a piece of land may be increased by the natural growth of the community, when no labor is exerted directly to increase the usefulness of the particular tract of ground."—*Bullock, "Introduction to the Study of Economics," p. 116.*

"The growth of the city occasions unusual expenditures; the growth of the city also creates unusual values. Why should not the values which the city creates go to bear the expenses which the city occasions?"

"The volume of traffic on a street railway increases with the increase in municipal population, and the receipts of the company on this account grow more rapidly than do the operating expenditures which the increased traffic occasions. . . . Now it is this income to which a franchise tax should address itself. . . . One might, then, say that by means of the

franchise tax the State taxes its social earnings from the capital which it has created, but which for reasons of public policy it assigns to private parties for administration."—*Adams, "Science of Finance," pp. 504 and 380.*

XIV.—Conclusion.

Throughout this chapter the impelling aim has been to invite and promote the understanding of ground rent, an agency clear to few, very obscure to many, but as subtle and powerful in the social organism as is the life-blood in the human organism.

Legislatures and Congresses are prevented by inconvenient distance from revising and improving the planetary laws, but they busy themselves with the enactment of statute after statute designed to keep men and women in their natural orbits. Discerning, as we surely do, a natural law in the material world, established by a Law-giver greater than any state or nation, we urge simply a repeal, one by one, of all artificial tax laws, putting upon the statute book instead a single one—an enacting clause to this natural law—under which every American city may begin at once to administer the single tax remedy.

B

THE SECOND GENERIC PECULIARITY OF LAND

A TAX UPON ECONOMIC RENT CANNOT BE SHIFTED

A TAX UPON GROUND RENT CANNOT BE SHIFTED UPON THE TENANT BY INCREASING THE RENT. IF IT COULD, THE SELLING VALUE OF LAND WOULD NOT BE REDUCED, AS IT NOW IS, BY THE CAPITALIZED TAX THAT IS IMPOSED UPON IT.

The question is whether, if a new tax should be put upon land, the owner would not escape by adding it to his tenant's rent?

It is not a sufficient answer to quote the authorities: the query still remains, what are the arguments upon which the authorities rely? Following is an attempt at the clear statement which these arguments deserve.

Ground rent, "what land is worth for use," is determined, not by taxation, but by demand. Ground rent is the gross income, what the user pays for the use of land; a tax is in the nature of a charge upon this income, similar to the incumbrance of mortgage interest. It is a matter of every-day knowledge that even though land be mortgaged nearly to its full value, no one would think for a moment that the owner could rid himself of the mortgage interest that he has to pay through raising his tenant's rent by a corresponding amount. Mortgage interest is a lien held by an indi-

vidual; similarly a tax may be clearly conceived as a lien held by the State. Both affect the relation between the property owner and lien holder; neither has any bearing upon the relations between owner and tenant. "Tax" is simply the name of that part of the gross ground rent which is taken by the State in taxation, the other part going to the owner; the ratio these two parts bear to each other, has no effect upon the gross rent figure, which is always the sum of these two parts, viz., net rent plus tax. The greater the tax, the smaller the net rent to the owner, and vice versa. Ground rent is, as a rule, "all the traffic will bear;" that is, the owner gets all he can for use of his land, whether the tax be light or heavy. Putting more tax upon land will not make it worth any more for use, will not increase the desire for it by competitors for its tenancy, will not increase its market value.

To illustrate, let us consider the case of a piece of land for which the landowner gets \$1,000 rent from the man who uses it.

First: The owner, let us say, pays over to the city in taxes \$100 of this \$1,000 rent. Is there any indication that this \$100 tax has any influence in fixing the present rent at \$1,000?

Second: Let us suppose that next year the city decides to take another \$100 of the \$1,000 rent in taxes. Could the owner then add the \$200 tax to the tenant's rent, making it \$1,200?

Third: Let us suppose that the following year the tax is increased by another \$100 and so on, by an annual increase, until, for extreme illustration, the tax is \$1,000, an amount equal to the entire rent; would such

a condition make it possible for the owner to raise his tenant's land rent to \$2,000?

These questions would seem to answer themselves in the negative, and thus bring us to a fair conclusion in the matter.

What the Authorities Say of This Second Generic Peculiarity of Land, That a Tax upon Its Rent Cannot be Shifted

"The weight of authority upon such a question is worthy of attention, although by no means decisive. Now, while a few respectable and sincere students of economic science hold to the doctrine of transferability of the ground-rent tax to the tenants, no one will dispute that an overwhelming weight of authority, both in numbers and in reputation, scout that doctrine as absurd. Not only the entire school of Ricardo and Mill, but also nine-tenths or more of other economic writers make it a fundamental doctrine of their science that such a tax never can be transferred to tenants."—*Thomas G. Shearman*, "*Natural Taxation*," pp. 129-132.

"A land tax, levied in proportion to the rent of land, and varying with every variation of rent, is in effect a tax on rent; and such a tax will not apply to that land which yields no rent, nor to the produce of that capital which is employed on the land with a view to profit merely, and which never pays rent; it will not in any way affect the price of raw produce, but will fall wholly on the landlords."—*Ricardo*, "*Principles of Political Economy and Taxation*," *McCulloch's edition*, p. 107.

"A tax on rent would affect rent only; it would fall wholly on landlords, and could not be shifted. The landlord could not raise his rent, because he would have unaltered the difference between the produce obtained from the least productive land in cultivation, and that obtained from land of every other quality."—*Ricardo*, "*Principles of Political Economy and Taxation*," *Chapter X., Section 62.*

"A tax on rents falls wholly on the landlord. There are no means by which he can shift the burden upon anyone else. . . . A tax on rent, therefore, has no effect other than its obvious one. It merely takes so much from the landlord and transfers it to the State."—*John Stuart Mill, "Principles of Political Economy," Book V., Chapter III., Section 2.*

"The power of transferring a tax from the person who actually pays it to some other person varies with the object taxed. A tax on rents cannot be transferred. A tax on commodities is always transferred to the consumer."—*Thorold Rogers, "Political Economy," 2nd edition, Chapter XXI., p. 285.*

"A land tax levied in proportion to the rent of land, and varying with every variation of rents . . . will fall wholly on the landlords."—*Walker, "Political Economy," edition of 1887, p. 413, quoting Ricardo approvingly.*

"A tax laid upon rent is borne solely by the owner of land."—*Bascom, "Treatise," p. 159.*

"Some of the early German writers on public finance, such as Sartorius, Hoffman, and Murhard, went so far as to declare that, because of this capitalization, a land tax is no tax at all. Since it acts as a rent charge capitalized in the decreased value of the land, they argue, a land tax involves a confiscation of the property of the original owner. On the other hand, since the future possessors would otherwise go scot free, it becomes necessary to levy some other kind of a tax on them."—*E. R. A. Seligman, "Incidence of Taxation," p. 139.*

"The incidence of the ground tax, in other words, is on the landlord. He has no means of shifting it; for, if the tax were to be suddenly abolished, he would nevertheless be able to extort the same rent, since the ground rent is fixed solely by the demand of the occupiers. The tax simply diminishes his profits."—*E. R. A. Seligman, "Incidence of Taxation," pp. 244, 245.*

"If land is taxed according to its pure rent, virtually all writers since Ricardo agree that the tax will fall wholly on the landowner, and that it cannot be shifted to any other class, whether tenant-farmer or consumer. . . . The point is so universally accepted as to require no further discussion. . . . A permanent tax on rent is thus not shifted to the consumer, nor does it rest on the landowner who has bought since the tax was imposed."—*E. R. A. Seligman, "Incidence of Taxation," pp. 222, 223.*

"With these assumptions, it is quite clear that the tax on economic rent cannot be transferred to the consumer of the produce, owing to the competition of the marginal land that pays no rent, and therefore no tax, nor to the farmer, since competition leaves him only ordinary profits.

The amount of each particular rental depends upon units of surplus produced (varying to any extent according to the superior natural conditions), and on the marginal price, which is independent of these superior conditions, and accordingly, a tax that strikes the surplus only, remains where it first falls."—*Nicholson, "Principles of Political Economy," Book V., Chapter XI., Sections 1 and 4.*

C

THE THIRD GENERIC PECULIARITY OF LAND THE SELLING VALUE IN LAND AN UNTAXED VALUE

EVERY LANDOWNER IS EXEMPT FROM TAXATION ON HIS INVESTMENT, TO THE EXTENT OF THE TAX TO WHICH HIS LAND WAS SUBJECT AT TIME OF HIS PURCHASE, AND THEREFORE PRACTICALLY SPEAKING, NEARLY ALL LAND IS TO-DAY OWNED FREE OF ANY TAX BURDEN.

The purpose of the following illustration* is to make clear by means of iteration and reiteration two facts, viz.:

Fact I. The land owner† to-day who has purchased since the present tax was imposed escapes taxation upon his investment.

Fact II. The burden of a land tax cannot be made to survive a change of ownership.

The illustration is intended to show the effect in a normal or advancing community of mortgage interest and taxes upon the market value and cost to the user of a lot of land and a house respectively having equal

*The statements and arguments used in this illustration deal only with the general principles of taxation, and assume such conditions as prevail in the United States, including, for instance, lack of universality and uniformity in taxation. Single tax terms and arguments are studiously excluded.

†Care is taken to designate owner and user in their respective capacities, whether they be two persons, or two combined in one.

purchase and rental value and each subject to the same mortgage interest and taxes.

FIRST: THE LAND

Proposition 1.—Let it be supposed that you want a piece of urban land that is worth \$300 a year to you for use. You can afford to pay \$300 a year and no more, and it can be had at an annual cost of \$300 a year.

Let us then proceed to acquire this piece of land, exercising diligence and caution to profit by each step in the transaction.

(a) At the very outset the question arises, what is the thing for which you are proposing to pay \$300? Surely it is not the soil itself, because it is a question of a building site, which could be had out in the country for little or nothing. It is not merely the area upon which to dig a hole in the ground, wall it about, and erect a building, for the same space can be had elsewhere for a song. In short, it is not the earth's surface; it is not the inherent capabilities of the soil; it is not light and air, or other bounties of nature resident in that lot of land; it is not natural resources of which you are thinking as worth to you \$300 a year.

(b) But what you are going to pay for is the accompanying and incidental use of a great many expensive things outside of the piece of land, things which you will need and must have, which you cannot afford to provide at your own expense, but for the use of which you can afford to pay in proportion as you use them. It is these outside things, available by their proximity, for which you are called upon to pay \$300 a year. To enumerate some of them specifically, they are, in

a town or city lot, right and ease of access to water, health inspection, sewerage, fire protection, police, schools, libraries, museums, parks, play-grounds, steam and electric railway service, gas and electric lighting, telegraph and telephone service, subways, ferries, churches, public schools, private schools, colleges, universities, public buildings—utilities which depend for their efficiency and economy on the character of the government; which collectively constitute the economic and social advantages of the land; and which are due to the presence and activity of population, and are inseparable therefrom, including the benefit of proximity to and command of facilities for commerce and communication with the world—an artificial value created primarily through public expenditure of taxes. In practice, the term "land" is erroneously made to include destructible elements which require constant replenishment; but these form no part of this economic advantage of situation or site value.

(c) In other words, you are to pay \$300 a year for the value of what the law calls the "rights and privileges thereto pertaining," specified in every deed of land conveyance. This \$300 is ground rent, "what the land is worth for use."

Proposition 2.—Assuming this piece of land to be free from all charges and incumbrances, and assuming the current rate of interest to be 5 per cent. per annum, you would purchase the lot for \$6,000, because interest upon that sum would amount to the stipulated \$300 a year. But if, on the contrary, the lot bears a mortgage of \$2,000, upon which the annual interest charge is \$100, then the lot will cost you \$4,000.

(a) The mortgage interest charge of \$100 reduces the selling price of the land by the amount of the mortgage, \$2,000, and you will buy the land, not at \$6,000, but at \$4,000, the value of the equity remaining after mortgage interest has been paid.

(b) By purchasing title you will assume the mortgage and will pay the mortgage interest, \$100, but that \$100 will not come out of your \$200, the net income from your investment of \$4,000; it will come out of the gross income, the ground rent, \$300. It is a part of, and not an addition to, the ground rent. You will pay the interest, but you will not bear it, because you will have bought yourself clear of the burden.

(c) The lot will thus cost you annually for use, interest on your purchase price (\$4,000 at 5 per cent) \$200, plus mortgage interest (\$2,000 at 5 per cent) \$100, equal in all to \$300, all that the land is worth for use, use being the only relation of land to man with which economics has reasonable concern.

Proposition 3.—But, besides being subject to a mortgage of \$2,000, assume further that this lot of land is subject also to an old tax of \$100, which charge the purchaser must also assume. You will then purchase the land not at \$4,000, but at \$2,000.*

(a) As already seen, the mortgage interest charge of \$100 reduces the selling price of the land by the amount of the mortgage, \$2,000. It is equally true that the tax charge of \$100 reduces it by the same amount,

*By the term "old tax" is intended the tax in force at time of last purchase; by "new tax" one imposed since last change of ownership.

\$2,000; the mortgage and the tax together therefore reduce it by \$4,000; and you will buy the land at \$2,000, the value of the equity which remains after both mortgage interest and tax have been paid. This \$2,000 is the capitalization of the annual value of the lot to you after all charges have been met.

(b) In purchasing you will assume both mortgage interest and tax and will pay them, but you will pay them out of the gross income of \$300, and not out of the net income of \$100 from your investment of \$2,000. Therefore no part of the \$2,000 which you pay for the equity will be taken from you in taxation, either as principal or interest.

(c) The lot of land will thus cost you for use: interest on your purchase price (\$2,000 at 5 per cent), \$100; plus mortgage interest (\$2,000 at 5 per cent), \$100; plus taxes, \$100; and these together aggregate \$300, what the land is worth for use, the same as before.

(d) It follows then that, under the present system, assuming free competition, the selling value of land is an untaxed value,* and land owners who invest to-day are exempt from taxation—not indeed upon their land, but upon its annual net or income value to them, or, in other words, upon their investment. The gross value is the taxed value. The net value is an untaxed value.

(e) As this exemption of the present owner holds

*Assessors make use of the selling value of land as the basis for their levy because it is more easily ascertainable than the gross value, but in reality and effect the levy is upon the gross value, which, if land were not taxed at all, would be also the selling value.

true to-day, so it will be true in future of each new purchaser subsequently to the imposition of any new tax. It is in the very nature of things that the burden of a land tax cannot be made to survive a change of ownership.

(f) This is equally true of a bond, but it is assumed that a tax levy should be not upon intangible stocks and bonds legally conceived as property, but only upon tangible goods and estates. It is, to be sure, just as true that a man who builds a house to rent pays no tax on his investment, but for a different reason. The tax, in that case is shifted upon the user in increased house rent, except so far as, by discouraging building, it is reflected in lower wages for building. But an old tax upon the land is a burden neither upon present owner nor user. The tax on land is "absorbed," that on the house is "shifted."*

(g) We cannot too soon or too rigidly fix in mind the fact that this ground rent of \$300 is the governing factor in the situation;** that it is a tax laid not by the State but by nature, which every man must pay for the use of land, either to a private owner as rent, or to the State as a tax, or to both. No statute or ordinance can increase or reduce, exempt from, or abolish the payment of, this "economic rent," or ground rent, to somebody. Its amount is neither fixed nor affected

*Landlords who own and let both land and tenement houses, apartment houses, and business blocks thereon, escape the burden of the tax on their land, and at the same time shift upon their tenants the building tax, thus avoiding all share in the tax burden.

**This is indeed the point from which the whole discussion proceeds.

by the tax that is put upon it, whether large or small. Taxing it cannot increase it; cannot decrease it; cannot abolish it. Its amount may always be calculated by this simple formula: ground rent equals interest on purchase price, plus interest on any mortgage, plus taxes.

Proposition 4—Neither a tax upon ground rent, nor the ground rent itself, adds anything to the cost of land for use.

(a) Economic rent, ground rent, measures the value of all public, quasi-public, and social service. If the whole ground rent is not a burden, but merely an equivalent for social values received, neither can interest and taxes, two of the parts of which ground rent in our illustration is composed, be a burden upon the user. A tax upon rent comes out of rent, which, as has been explained, is the natural tax that every user has to pay to some one, and hence it subtracts nothing from wages and adds nothing to the cost of living.

Proposition 5.—You cannot pay \$6,000 for the land and in addition pay either the mortgage interest of \$100 or the tax of \$100, because that would make land cost you \$400 per annum, which by our assumption is worth only \$300.

(a) The tax upon land cannot be added to the ground rent—which is kept at its maximum by market demand—but is a part of, and must come out of, ground rent. If it could be added, that fact would itself indicate that the ground rent was \$400 instead of \$300, which is contrary to supposition. Land worth only \$300 a year cannot be made worth \$400 a year by putting a tax of \$100 upon it.

(b) Let it not be forgotten that ground rent, in the

sense in which the word is used, is the same homogeneous thing, one and indivisible, the world over—what land is worth for use. It is rent—or use value—not cost of construction or cost of production—that fixes the price of land. Economic rent is the initial and governing factor from which all calculations must proceed.

SECOND: THE HOUSE

Proposition 6.—The lot having been acquired, let it be supposed that you are in need of a house, and that such a house as you want would cost to build \$6,000, or, in interest, \$300 a year, the same as the annual cost of the land.

(a) You will observe at once that the problem of the house is quite different from that of the land. The cost of acquiring land depends primarily upon its rent. Conversely, the rent of a house depends primarily upon its cost. Builders will not build houses unless they can get interest on the cost of construction. Competition among builders will not allow one builder normally to get more than interest on cost of construction.

Proposition 7.—If such a house were free of tax, but mortgaged for \$2,000, it would cost you to buy only \$4,000, and it would cost you to use, as in case of the land, interest on purchase price (\$4,000 at 5 per cent) \$200, plus interest on mortgage (\$2,000 at 5 per cent) \$100, making \$300 as before.

(a) The mortgage upon a house, like that upon land, will add nothing to the cost of the house for use.

Proposition 8.—But you will find that such a house is subject also to a tax of \$100, which you will have to pay in addition to the above \$300, interest on purchase and mortgage, making the house cost you for use altogether \$400, instead of \$300 a year, or \$100 more on account of the tax.

(a) Unlike the tax upon land, the tax of \$100 upon the house cannot come out of the \$300 rent (house rent or interest) except indirectly through its effect upon wages as before mentioned, because house rent cannot normally be less than interest on the actual cost of building the house; it must instead be paid by the user of the house, over and above his interest, making his house rent, the annual cost of his house for use, \$400 instead of \$300.

(b) To repeat: a house rent, otherwise \$300, is increased to \$400 by a tax of \$100 on the house. In contrast with this, you may either take off a present tax of \$100 from the land, or you may increase that tax to \$200, and in neither case will the cost of the land to the user be affected. Take off the \$100 tax from the house, and the cost of the house to the user will be reduced from \$400 to \$300 a year; of land and house together, from \$700 to \$600.

Proposition 9.—The moral of this illustration is that you get for use annually \$300 worth of land for \$300, and a house costing \$300 for \$400. In other words, a tax upon land is a part of, is included in, and comes out of, ground rent, and is no burden to the user; while a tax upon a house is a clear addition to house rent, and comes principally out of the user of the house.

To recapitulate: (1) It has been shown that a house tax of \$100 that has been regularly levied takes in taxation \$100 a year of the user's income.

(2) It has been shown that a land tax of \$100 takes in taxation no part of the income of the user or present owner, provided that he purchased the land after the tax was imposed.

The beauty of this illustration is that (in a classification which excludes duplication by certificates or mere legal evidences of property, like stocks, bonds, etc., and includes only actual tangible property) while land stands as always for everything except the products of labor, a house is here made to stand as the representative of any and all products of individual labor, that is, for everything except land, and the illustration thus becomes all inclusive.

If you have had the patience to follow it understandingly you may rest assured that you have mastered a basic principle of taxation, and have solved one of the most perplexing problems of political economy.

What the Authorities Say of This Third Generic Peculiarity of Land, viz., That Its Selling Value Is an Untaxed Value.

"The land tax, which is next on the list, should equally cause but little controversy. It is persistently claimed as a burden upon land, or land owners; but this will not bear scrutiny when we inquire out of whose income the tax is paid, or what way it causes pressure, so that its reduction or abolition would be a benefit to the community.

"As a fixed charge upon land for generations, it is now past all controversy a rent-charge. In many instances it has long

since been redeemed, the property having subsequently changed hands; in others, inheritors of property have acquired it under the burden, and have calculated their income minus the tax, while purchasers, in buying, invariably allow for it. To reduce" (abolish?) "it now would be to present the landowners of England with a capital sum of nearly £30,000,000. Their estates, relieved of the burden, would become at once so much more valuable, and if they did not sell, they would pocket an additional income which they never inherited or paid for."—*Sir Robert Giffen, "Essays in Finance," First Series, p. 242.*

"A more difficult and disputable point arises in connection with the incidents of a long-continued land tax. Here it is said that the tax is really a deduction from property. As land is sought for its revenue, what lowers its revenue lowers its selling price, and therefore a land tax falls altogether on the possessor at the time of its imposition. Subsequent acquirers take the land subject to the burden, and pay a lower price in consequence. This process of "amortization," as it has been called, makes the subsequent removal of the tax undesirable; the persons who have lost by its establishment are not the same as those who gain by its remission. A purchaser has got land cheaper, and gains a further advantage by escaping the tax; in fact he is allowed for it twice over, once at the time of purchase and again at that of remission.

"The element of truth in this theory, which has received much favor, appears to be the following. (1) as previously pointed out, when a land tax becomes definitely fixed so that it can be foreseen, or even capitalized and redeemed, there is no inaccuracy in speaking of it as a charge on land, which lowers its selling price; it is just the same as a mortgage, and is so regarded by purchasers."—*Bastable, "Public Finance," (1903), page 440.*

"If a certain tax is levied and it is expected that it will continue to be levied indefinitely in the future, it will reduce the selling value of the land by the amount of the capitalized value of the tax. The future owner will, therefore, be able to buy it so much cheaper that he will realize as large a percentage on his investment as though the tax had never been levied."—*Thomas N. Carver, Yale Review, Nov., 1896.*

A recent College and University text book* makes reference to the argument of this illustration, as restated in Chapter XII, in the following comment:

Many present-day followers of Henry George find in this principle of amortization at once a justification and a method of securing for society all economic rent. Under present conditions, they say, a man who buys land wholly escapes taxation upon it. Consequently, in order to make landowners pay as much as other people we should have to increase the tax upon land by a rate equal to that paid by the average tax payer as often—say every thirty years—as the land of the community changes holders. In this way the State could gradually and with justice absorb all economic rent.

But this whole chain of reasoning is fallacious for three reasons:

(a) This capitalization takes place only to the extent that the tax on land is exclusive and unequal, and modern taxes upon land are not of this nature.

(b) In so far as this programme of the single taxers were anticipated and understood, it would visit the whole burden of the "reform" upon present owners, instead of being distributed over several generations. Subsequent purchasers would discount these periodic increases of the tax and pay to owners for their land only the present value of the rapidly vanishing income from land. Land would be valued simply as a terminable annuity.

(c) This whole doctrine overlooks the inevitable consequence that, if "the selling value of land is an untaxed value" and "if the burden of a land tax cannot be made to survive a change of ownership," these facts would so increase the demand for land that the profits from its purchase and ownership would not exceed profits in other lines of investment."

*"Outlines of Economics," Revised Edition, by Richard T. Ely. The Macmillan Company, 1902, pp. 621, 622.

Let us examine these points one by one.

(a) It is, as I understand, admitted by all economists that in the United States (the country now under consideration) the tax on land is everywhere exceedingly unequal, and, especially in the large cities, almost exclusive.

Either the capitalization of the land tax is a fact or it is not. If it is a fact it is, with its corollaries, the most vital fact of all those bearing upon the material welfare of the race, and ought not to be brushed aside in three short unsupported sentences like the above, all of which are substantially contrary to the mass of evidence assembled in these chapters.

But the capitalization of the land tax in the United States is a settled fact, and hence not debatable; a business condition of every-day knowledge in the buying and selling and assessment of land. It is out of the domain of theory, and not dependent upon any abstract speculation concerning an exclusive and unequal tax.

For the sake of illustration: First, Let it be assumed that there are two, and only two, fields open to investment, viz., land paying 5 per cent on purchase price and bonds paying 5 per cent on purchase price (because either by exemption or by evasion they escape taxation). What is it that fixes the above rate of 5 per cent prevailing to-day in both cases? Is it not supply and demand? When there is a surplus of capital, rates are depressed; when a scarcity of capital, rates are advanced. The question is, What and how has taxation to do with this 5 per cent rate of interest?

Again: Let it be assumed that a way has been found to exact from all bonds a tax of \$25 per thousand, or

one-half the income. Inviting investment, there would then be, land paying 5 per cent, bonds paying $2\frac{1}{2}$ per cent, and what would happen? If the interest rate is 5 per cent owners of bonds will continue to hold them for an income of $2\frac{1}{2}$ per cent or they will sell at approximately half price, but as loans are renewed borrowers will have to pay the market rate of interest, what capital is worth for use, plus the tax. The rate of interest will still be fixed, as now, by supply and demand, and not by taxation. What has taxation to do with the general interest rate more than with the gross ground rent of land? The idea that if a uniform rate of tax were imposed and collected from all incomes it would lower the rate of interest is admitted to be highly speculative and seems to find contradiction in every money market. As to the statement that modern taxes upon land are not virtually exclusive and unequal, how can this possibly be true when the alleged bane of the present system is that more than three-quarters of personal property escapes taxation?

(b) The proposed plan of "some of the present-day followers of Henry George" is set forth in the same text book in the main correctly, and admirably, as above, except that their specific recommendation is limited to absorbing only enough economic rent to meet all public expenses, an object which might be accomplished gradually and almost imperceptibly in one generation. *The execution of this particular plan would involve an increase in the rate year by year sufficient to take in taxation annually an additional 1 per cent only of the gross ground rent for thirty years, or one generation. An average of about 20 per cent*

of gross ground rent is now taken in taxation, as for instance in Boston. If an additional 1 per cent should be taken each year for thirty years, it would amount finally to 30 per cent, which, added to the 20 per cent already taken, would make 50 per cent, or one-half, which is about the average proportion that present taxes bear to ground rent.

By this plan, at the end of thirty years the burden of \$15 (1½ per cent) per thousand on *present valuation*, now borne by the occupier, will have been placed on the land holder, and this transfer of burden would, even if land did not meantime increase in value, reduce the selling value of his land, every \$1,000 to \$700. Meantime, few land owners would suspect the change, much less be prejudiced by it.

But if a thirty-year bond is at a premium, and worth one hundred and fifteen dollars to-day, and will be worth only one hundred dollars or par at maturity, does the whole burden of the vanishing fifteen dollars premium fall upon the "present owner"? The new million dollar office building will probably be worth little or nothing in three generations, but this whole burden of ninety years' natural decay is not visited upon "present owners." The immediate reduction of 1 per cent (or one point on the stock board) in value of land would not greatly depress selling value, while increased taxes and consequent depreciation of ten, twenty, or thirty years hence are very slightly discounted to-day.

Therefore, the assertion that the above programme "would visit the whole burden of the reform upon present owners" is erroneous and confusing, especially

when the burden of a three hundred dollar thirty years' depreciation is offset by an appreciation of perhaps more than \$1,500 (as is the case in Boston which) offset is rightfully a part of the economic situation. Many laws, tariff laws among others, do not pretend to insure against sporadic cases of possible injustice but the universal law remains that, with civilization, the value of land increases.

(c) The statement of the book on this point comes far short of covering the actual condition. The facts that the "selling value of land is an untaxed value" and that "the burden of a land tax cannot be made to survive a change of ownership" have indeed so increased the demand for Boston land that in value probably more than three-quarters of it is to-day in dead hands or in the hands of trustees and syndicates which cannot die, all of whom refuse to loosen their grip upon this "preferred stock" except at exorbitant speculative prices which would yield income far under other lines of investment.

A CLOSING WORD.

"If a special tax be imposed upon land, and if it be suffered to subsist, it will, in course of time, cease to be felt as a tax. Land will be bought and sold subject to it; offers will be made, and prices will be settled, with a reference to it; and each purchaser who buys for the purpose of earning the average rate of profit will reduce the purchase money, owing to the existence of the tax. If he does not, it will be because he prefers something to profits. Hence the land tax imposed

in 1693 so far as it is not redeemed, has probably ceased to be felt as a tax. 'It is no more a burden on the landlord than the share of one landlord is a burden on the other. The land owners are entitled to no compensation for it, nor have they any claim to its being allowed for, as part of their taxes.' Hence, too, it follows that if it was originally fair to impose a land tax of 4s., it is now fair to add a tax of the same amount; or, in other words, if the land owner of the reign of Victoria may be justly called upon to bear as heavy a burden as that borne by his forefather, the land tax must be raised to 8s., of which 4s., will be a rent-charge or the share of a joint tenant, and only the remainder will be of the nature of a tax. *Caeteris paribus*, the land owner's profits will be as high under the 8s. land tax as were those of his predecessor under the 4s. No doubt it may be said that the landlord's return on his capital is constantly diminishing. But this decline is simultaneous with a general lowering of the rate of profits derivable from all branches of industry; and, admitting the facts to be as alleged, it still would be true that the relative subtraction from the land owner's incomes owing to the 4s. and the 8s. taxes would be the same. In course of time the same causes which effaced the first four shillings would remove the weight of the 8s.: whenever land is sold, it will be so with an eye to the existence of the latter tax. The process will not stop here; assuming that rents do not fall, that land is freely sold, that no equivalent tax is levied upon personality, and that the increments of taxation are imposed at very distant intervals, in the lapse of time each addition to the land

tax will be shifted from the land owners. Thus it would seem that there is no taxing them always, unless the land tax be repeatedly raised, and that, if such an impost is just at all, the State must in fairness keep whittling at the portion of the land owner until, at some distant period, it is absorbed by taxation.” —John Macdonell, “The Land Question,” Macmillan Company, London, 1873, pp. 74-76.