

CHAPTER I

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‡ pertaining to

* See Appendix F.

† 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.

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 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.

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

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 equalisation — equalisation of taxation, of distribution, and of opportunity. The tendency of an increase in the tax upon ground rent is not only to equalise taxation and distribution, but to equalise 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 advantage 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 equalise 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

* 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."

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 cannot 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 \$1,000, which to-day is worth \$10,000. The chances are that when the purchaser paid his original \$1,000, 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 \$1,000 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?*

* 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."

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 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 product. 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, play-grounds, 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 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:

*An exhibit of these specimen cases in detail will be found in Appendix G.

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Deducting from the total of prices indicated by the footing of the 120 sales	\$7,291,375
Four-thirds of assessed valuation of buildings	<u>2,772,933</u>
Would give perhaps a fair estimate of what the land sold for	\$4,518,442
To this it is necessary to add the capitalised 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)	<u>\$1,105,028</u>
In order to get the gross capitalised 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 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.

* An exhibit of these specimen cases in detail will be found in Appendix E.

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

A CONSERVATIVE CALCULATION OF BOSTON'S GROUND RENT

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
Would give us as the net selling value	\$783,600,000
Adding to this the capitalised value of the amount of tax now on the land, \$15.90 per thousand on \$653,000,000, or \$10,382,000 at twenty years' purchase	207,600,000
Would give us as the true capitalised ground rental value.	\$991,200,000
Add moderate estimate for franchises, say	108,800,000
And we should have as a basis of assessment under the single tax a total capitalised 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 that double the total taxes of Boston.†

* 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	3,857,435
	\$1,313,471,557		\$20,886,335

† 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 licences	1,079,585
Boston's total city tax (including state tax)	\$23,421,542

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 suggestion—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 gatherers, 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 exemption 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 equalisation 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 of 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 $2\frac{1}{2}$ 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 $2\frac{1}{2}$ per cent a year for such a luxury.

Any sensible readjustment and equalisation 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.

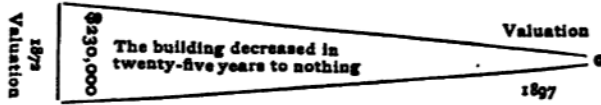
On the other hand, while time is engaged in the destruction of the building, it is occupied in the construction of the land value.

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

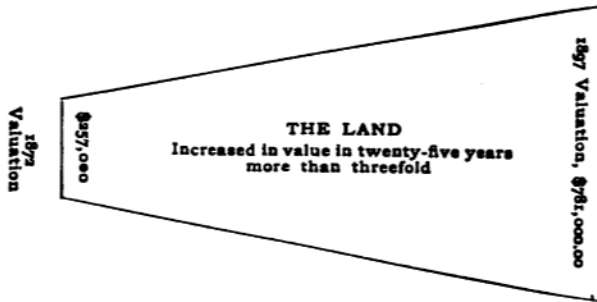
Growth of Land Values vs. Decay of Buildings

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. Labour constructs the building as a basis of taxation.
2. Labour pays its taxes, insurance, and repairs.
3. Labour, 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 labour.
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 labour, 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 2½ 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 or	<u>111,500,000</u>
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	<u>331,000,000</u>
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 \$20,950,000, 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 present tax is not a tax burden upon them, even though this fact is not to their prejudice. But while it is true that the capitalised 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

*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.

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 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 appropriation 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 . . .	<u>10,300,000</u>

Hence the amount that is distributed annually in unearned incomes (if rent is an unearned income) is	\$44,700,000
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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 monopo-

lies, 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:

"Both ground rents and the ordinary rent of land are a species of revenue which the owner, in many cases, enjoys without any care or attention of his own. Though a part of this revenue should be taken from him in order to defray the expenses of the State, no discouragement will thereby be given to any sort of industry. The annual produce of the land and labour of the society, the real wealth and revenue of the great body of the people, might be the same after such a tax as before. Ground rents, and the ordinary rent of land, are, therefore, perhaps the species of revenue which can best bear to have a peculiar tax imposed upon them.

"Ground rents seem, in this respect, a more proper subject of peculiar taxation than even the ordinary rent of land. The ordinary rent of land is, in many cases, owing partly at least to the attention and good management of the landlord. A very heavy tax might discourage too much this attention and good management. Ground rents, so far as they exceed the ordinary

rent of land, are altogether owing to the good government of the sovereign, which, by protecting the industry either of the whole people, or of the inhabitants of some particular place, enables them to pay so much more than its real value for the ground which they build their houses upon; or make to its owner so much more than compensation for the loss which he might sustain by this use of it. Nothing can be more reasonable than that a fund which owes its existence to the good government of the State, should be taxed peculiarly, or should contribute something more than the greater part of other funds, toward the support of that government."—*Adam Smith, "Wealth of Nations," Book V., Chapter II., Part 2, Art. 1.*

"The ordinary progress of a society which increases in wealth is at all times tending to augment the incomes of landlords; to give them both a greater amount and a greater proportion of the wealth of the community, independently of any trouble or outlay incurred by themselves. They grow richer, as it were in their sleep, without working, risking, or economising."—*John Stuart Mill, "Principles of Political Economy," Book V., Chapter II., Sec. 5, Par. 2.*

"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 labour 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.