

CHAPTER XXIII

NEW SOURCES OF CITY REVENUE

THE most obvious fact of the preceding chapters is the persistent growth of municipal activities. Irrespective of our desires, the city is being socialized at a rapid rate. Election promises of economy as well as the disinclination of officials and taxpayers to pay more taxes are powerless before the necessities which confront every growing city. This is true all over the world, and those cities which have frankly acknowledged the necessity and made provision for it have become the most attractive, the most comfortable, and even from a commercial point of view the most prosperous. For business is attracted to the city by efficiency, and efficiency in municipal administration means socialization, co-operation, the protection of the citizen on the one hand and the increase in the services rendered him on the other.

We accept many things as necessities to-day which a few years ago had not even been suggested. There are more exacting standards of education, of health and sanitation; distant sources of water-supply have to be found, filtration plants must be installed, while provision has to be made for the disposal of refuse and garbage. New means of

transit have to be provided by subways or elevated systems to relieve congestion and permit the proper expansion of the city. There are increasing demands for better fire and police protection, for fire-prevention bureaus and high-pressure systems. The water-fronts must be reclaimed, municipal docks and harbors must be constructed to develop the city's commerce, while new streets must frequently be opened to relieve the business congestion. All these activities are demanded by business men and taxpayers for the promotion of the city.

Growth of City Expenditure.

Expenditures are also increasing for recreation, for more humane consideration of the dependent and delinquent classes and more generous provision for hospitals, institutions, and poor relief. Civic pride is finding a place in the budget in town-planning projects, the erection of imposing municipal buildings, the laying out of boulevards and park systems, while concern for the economic well-being of the poorer classes is demanding the erection of markets, the inspection of food, the supply of milk, and provision for nurses and community doctors. All these and many other functions are adding new burdens to the city. They are increasing the city budget more rapidly than the growth of population. And, measured by continental cities, the movement has only begun.

The budgets of our cities are responding to these demands. New York is a conspicuous example, in which city from 1903 to 1913 the valuation of all

personal and real property increased by 49.23 per cent. and the population but 42 per cent., while the levy upon property increased 90.01 per cent. The receipts from direct taxes in 1903 amounted to \$69,584,432, while in 1913 they were \$128,412,956.

According to the bureau of the census, the budget of 147 cities shows that "receipts from revenues increased from \$420,177,674 in 1902 to \$663,832,409 in 1909, or 58 per cent., while payments for expenses and interest increased in the same period 51.2 per cent.; and except for a decrease from 1908 to 1909, payments for outlays during the same period increased steadily from year to year, such payments being for the 147 cities 99.8 per cent. greater in 1909 than in 1902."¹

This increase in expenditure is only to a small extent due to waste, extravagance, or inefficiency. The increase is probably more rapid in the cities that are well governed than in those that are not; it is quite as rapid in Europe as in America. Cities are undertaking new activities, public opinion insists on a higher standard of workmanship, while improvements are on a much more permanent scale than heretofore. There is every reason to expect that expenditures in the future will increase even more rapidly than in the past.

New Sources of Revenue.

New sources of revenue are being sought to meet the increasing needs of the city, and three general expedients are being urged or adopted. They are:

¹ *Financial Statistics of Cities* (1909), p. 30.

(1) Reliance on special assessments upon property benefited for many improvements heretofore paid for by direct taxes or general indebtedness.

(2) Excess condemnation by means of which more land is taken than is needed for a street, parkway, or other public improvement, and the resale of the unused land at its increased value after the improvement has been completed.

(3) An increased tax on land values or the "un-earned increment." All of these expedients look to increased revenue from real estate, and especially from land.

(1) *Special Assessments.*—Special assessments have long been relied on to pay for streets, sidewalks, and sewers. Assessments for paving and sidewalks are usually confined to the property immediately abutting on the street and are levied according to street frontage or the value of the property. Sewers are divided into classes. The cost of the street sewer is assessed against the property on the street benefited, the cost of the district sewer against a wider area, while the trunk sewers are charged against the city as a whole or upon districts served by them. Notes or bonds running from five to ten years are issued by the city but are charged against and paid by the property owners benefited in annual instalments. By this procedure property increased in value is made to pay for its immediate benefits. In New York small parks, street openings, and other improvements are being paid for in part by this plan.

Mr. Nelson P. Lewis, the chief engineer of the

board of estimate and apportionment of New York, says of special assessments:

“One principle should be invariably recognized; namely, where there is local benefit there should be local assessment. There can be no improvement which has been intelligently planned and executed which will not result in some local benefit, and it follows that there should always be some local assessment. No improvement, however small or however large, will be of equal benefit to the entire city, and to distribute the burden of paying for it over the whole city according to taxable values is unfair in that it is not placed according to benefit. The owners of property in the immediate vicinity are frequently enriched at the expense of those whose holdings are entirely outside the district directly affected. . . .

“It needs no extended argument to prove the equity and wisdom of local assessment wherever there is local benefit. That it has been done to such a limited extent in the past is no reason why it should not be more generally done in the future. That certain property owners have heretofore been treated with such prodigal liberality is no good reason why others should fatten through a continuation of an irrational and essentially unfair policy.”¹

Proposed Extension of Special Assessments.

It is urged that the principle of special assessments should be extended to many other improvements such as boulevards, parks, playgrounds, the opening of new streets, the acquisition of land for pub-

¹ *Paying the Bills for City Planning.* Fourth National Conference on City Planning. Boston, 1912.

lic buildings and civic centres. Land is increased in value by these improvements as well as by water, gas, electric-light, and transportation facilities; it is usually increased in value far beyond the cost of the improvements. In 1908 the City Club of New York made a study of the effect of the first subways upon city land values and found that the new means of transit had increased the value of the land opened up to use far in excess of the subway cost but that this cost had been borne by general bonds issued by the city. The club addressed a memorandum to the board of estimate and apportionment on "The Building of Rapid Transit Lines by Assessment upon Property Benefited." The report said:

"For many years the city has deemed it just to assess upon abutting property the cost of opening streets and building sewers. The theory of such a tax upon property is that it receives almost the exclusive benefit from the construction of a street or sewer adjacent to it. The question naturally arises, does not a transit line, by the benefit that it confers, fall in the same class as new streets and sewers? If a street railroad or rapid transit line be extended into an undeveloped territory, is it not built primarily for the purpose of furnishing transit facilities to future residents in that section? People will buy this property primarily because it has good transit facilities and the value placed upon it is largely based upon its accessibility. This being true and universally admitted, why should not the property thus enhanced in value by the extension to it of a transit line pay for the construction of such

line, to the extent that the increased value warrants it, instead of receiving such increased value as a present from the city. . . . To throw light upon the above question, the City Club has been making some painstaking investigations, extending over several months, of the rise in value of land along the present subway. . . . Between 135th Street, 155th Street, Convent Avenue and North River the land increased in value between 1900 and 1907 about \$17,825,000. Although the elevated road paralleled this district, yet owing to the topography the road was of little service, so the subway added very materially to the transit facilities of the locality.

“The district between the Harlem and North Rivers from 155th to 178th Street increased in value about \$22,450,000; from 178th to Dyckman Street the increase was about \$15,925,000; from Dyckman Street to the Spuyten Duyvil the increase was about \$13,100,000. The aggregate rise in this land from 135th Street to Spuyten Duyvil was about \$69,300,000. If an estimated normal rise of \$20,-100,000, based upon the rise of the previous seven years, be subtracted from this, it leaves a rise of about \$49,200,000, apparently due to the building of the subway, which is 104 per cent. increase on the value of 1900.

“The rise in land values of The Bronx is likewise very noticeable. Taking a district along the subway extending in width about a half mile on either side, the increase in land values was somewhat as follows: From the Harlem River to Willis and Third Avenues the rise was about \$9,200,000; from the latter point to Bronx Park, about \$13,500,000. The aggregate rise in land values for this district from the Harlem River to the Bronx Park was about \$44,800,000. Subtracting from this an aggre-

gate normal rise of \$13,500,000, it leaves an increase of \$31,300,000, due to the building of the subway.

“Since this property has been so enhanced in value by the building of the subway by the city, could it not have contributed largely toward the expense of constructing the line and yet have reaped a good increase in addition to such assessment? . . . It will be noted that the aggregate rise in land value in Manhattan from 135th Street to the Spuyten Duyvil, and in The Bronx, due to the building of the subway, was \$80,500,000. The cost of the entire subway from the Battery to the Spuyten Duyvil and the West Farms branch to Bronx Park was but \$43,000,000. The property benefited, in the districts above noted, could have paid this entire cost, and yet have had a net profit, due solely to its construction and operation, of over \$37,500,000. Had it paid only for the portion running through its own territory, there would have remained a profit of over \$67,425,000. In view of this fact, would it not be reasonable to require property benefited in outlying districts to pay for the cost of a rapid transit line built to serve it?”

Assessments for Parks and Boulevards.

Parks and boulevards increase the value of adjacent land in the same way. Mr. John Nolan, in a report on the park and playground system of the city of New London, Conn., shows that in Madison, Wis., the new parks not only meet all their charges but, by reason of the increased value of adjoining property, pay into the city treasury at least \$10,000 a year in increased taxes. The value of the “Fens” part of the park system of Boston was about \$4,300 an acre before the parks were laid out. The build-

ing of the parks increased the value of the adjoining property until it is now worth on an average \$86,000 an acre. The report of the New York park commission (1892) says:

“The amount collected (in taxes) in twenty-five years on the property of the three wards (contiguous to Central Park), over and above the ordinary increase in the taxable value of the real estate in the rest of the city, was \$65,000,000 or about \$21,000,000 more than the aggregate expense attending and following the establishment of the park up to the present year. Regarding the whole transaction in the light of a real estate speculation alone, the city has \$21,000,000 in cash over and above the outlay, and has acquired in addition thereto land valued at \$20,000,000.”

Kansas City Example.

Some Western cities are paying for parks and boulevards just as Eastern cities pay for streets and sewers. Kansas City has acquired its entire park system by this method. In the early '90s the city undertook to develop a park system, but the courts decided that bonds could not be issued for the purpose, so that the improvement would have been out of the question had not the principle of special assessment been adopted. Five districts were established for development. The needed land was acquired; the boulevards were laid out, and to-day the city has a great park system and forty miles of parkways, at a cost of over \$10,000,000, without adding anything to the general indebtedness or taxes of the city.

In the case of Benton Boulevard, the value of the land before the improvement was from \$15 to \$20 a front foot, while after the boulevard was completed its value was from \$45 to \$60 a front foot. The assessed cost of the boulevard was \$8.53 per front foot, which left an average advance to the owner of \$26.50 per front foot. The value per front foot of Linwood Boulevard before the improvement was \$50, while the value after the boulevard was completed was from \$80 to \$100 per front foot. The boulevard cost, assessed against the property improved, was \$7.99 a front foot, leaving to the owner an increased value of \$32.

(2) *Excess Condemnation*.—By excess condemnation is meant the purchase of more land than is needed for a particular improvement and the resale of the surplus after the improvement has been completed at the increased value which the improvement itself created. This idea is comparatively new in America but is being provided for by laws and constitutional amendments.

The most notable example in Europe of what is the equivalent of excess condemnation is that of the celebrated Ringstrasse in Vienna, probably the most magnificent street in the world. It is laid out upon the site of the old fortifications around the inner town, which were demolished to make room for the city's growth. A part of this area was converted into the Ringstrasse, a part was set aside for parks, gardens, and public buildings, and a third part was divided into lots and sold to private builders.

The cost of this project, which has made Vienna one of the most beautiful cities in the world, was largely repaid through the sale of that portion of land which remained unused for public purposes. This, amounting to one fifth of the whole, was laid out for private sale. Restrictions were imposed on the kind of buildings that could be erected and the style of architecture to be followed. The total sum realized from the sale of the excess land was \$80,000,000.

European Examples.

The London county council applied the same procedure in the opening of thoroughfares through old parts of the city. The region between High Holborn and the Strand was terribly congested; it was filled with unsanitary slums and tenements. There was great need of an arterial highway between the north of London and the Victoria Embankment. To meet the need the Kingsway, a street of splendid proportions, was cut through. It left many irregular pieces of lots unsuited for building. Some were small triangles, others were long slices. They were of little value to the owners. To meet this situation the public authorities acquired not only the land necessary for the street but a considerable strip on each side of the street as well. This made it possible to rearrange the small pieces of property into suitable building lots and to resell them after the street was completed. The new avenue made the abutting building lots very valuable, and they were subsequently leased or sold at a greatly increased price, with the result that the improvement

is paying for itself out of the value which the improvement has created.

Under the administration of Joseph Chamberlain the city of Birmingham, England, undertook the clearance of a blighted slum area at great expense. It razed a big tenement district and opened up new business streets, of which Corporation Street is the most commanding. Then it laid out the remaining land in building sites, which were leased but not sold to private individuals. The leases contained provisions for the reappraisal of rental values at stated intervals. Under this arrangement the city has already made a large return upon the cost of the improvement, and within a short time the debt will have been paid off by the sinking-fund accumulations, leaving the city free of debt on the undertaking and in possession of a very valuable area of land in its centre.

German cities follow the same procedure. They purchase more land than is needed for an improvement and hold it for a rise in price. Frankfort-on-the-Main purchased 1,180 acres of land for a harbor and industrial development which it laid off as a new factory and industrial centre. The land was bought at agricultural prices, and when the territory was ready for development sites were leased or sold at a price which is expected to repay the city for a large part of the investment.

Excess Condemnation in America.

The right of excess condemnation does not generally exist in the United States. Ohio has en-

dowed its cities with this right in city projects, and Cleveland has acquired considerable land in connection with boulevard improvements, to be developed and later resold for building purposes. The city of Hartford, Conn., enjoys similar powers. Wisconsin cities may acquire land for streets, parks, playgrounds, and similar purposes, and after the establishment and completion of the improvement (the city) "may convey any such real estate thus acquired and not necessary for such improvements, with reservations concerning future use and occupation of such real estate, so as to protect such public works and improvements and their environs, and to preserve the full appearance, light, air, and usefulness of such public works, and to promote the public health and welfare."

In 1911 Massachusetts adopted a constitutional amendment which permits cities to use the power of excess condemnation and to acquire land in connection with public improvements, while similar powers have been granted to Philadelphia in connection with the Fairmount Parkway, which is being built from city hall to the entrance to the park system. New York recently adopted a constitutional amendment permitting cities to use the power of excess condemnation in making city improvements.

John Cotton Dana, writing on excess condemnation in *The Newarker* (March, 1913), says:

"Excess condemnation not only enables the city to make improvements such as opening new streets

at practically no expense to the taxpayer; it also insures the success of the improvement by the proper treatment of the abutting property. Instead of a medley of handsome residences, ramshackle tenements and unsightly stores fronting a beautiful boulevard, there are buildings which, by their correspondence with the whole scheme, ensure its natural development and permanence. In other words, under excess condemnation the improvement is treated as a unit, not as an accident.

“Excess condemnation implies, therefore, the city’s right to profit by its own investments in preference to its exploitation by a few individuals; permanent benefit to the entire community with injustice to none; utilization of small and irregular plats which otherwise cannot be successfully treated; the development of the improvement as a unit instead of as a series of unrelated accidents. Excess condemnation is the first and essential step in city planning, and the *sine qua non* of its success.”

(3) *The Taxation of Land Values.*—Urban land values, or the “unearned increment,” are a third source of revenue to which cities are turning all over the world. In Germany urban land is subject to a tax upon the profits which accrue to the seller or the rise in value which takes place within a specified number of years. The same procedure is provided in Great Britain under the budget of 1909. This is the method which will probably be followed in Europe because of the fact that European countries do not assess land for taxation at its capital or selling value as is done in the United States.

Canadian Experiments.

The idea of taxing land, and land alone, for municipal purposes has made the most rapid progress in western Canada, where many cities have removed all taxes from houses and improvements. The movement began with Vancouver, which city, in 1895, reduced the taxes on houses and improvements by 50 per cent. In 1906 the tax was again reduced to 25 per cent. Finally, in 1910, all taxes on houses and improvements were removed and all local taxes were placed upon land values. The result of the change was to discourage speculation and stimulate building operations. Vancouver has grown with great rapidity, its prosperity being generally attributed to the exemption of capital and labor from taxation. Following the example of Vancouver, other Canadian cities adopted the land tax. Among them are Edmonton, with a population of 30,000; Victoria, with a population of 60,000; Westminster, 15,000; Lethbridge, 15,000; Prince Rupert, 8,000, and Nanajino, 6,000.

A special commission of the Minnesota legislature investigated the results of the Canadian experiment and reported in 1912. Speaking of the result of the land tax, the commission said:

“The most striking feature in a study of tax reform in western Canada is the strong trend throughout the entire country in the direction of the single tax principle. That so far it is working satisfactorily wherever tried is generally admitted, even by opponents of the principle. In no district

in which the principle has been applied is there any noticeable desire to return to the old system. From present indications it is safe to predict that within the next ten or twenty years the single tax principle will be adopted by every taxing district in western Canada."

Reasons for the Taxation of Land Values.

Land values are social as are the ground-rents which spring from them. This is the underlying reason for their taxation. They are created by the whole community and would not exist without the community. As population increases land values increase; as population diminishes land values diminish. This is particularly obvious in the city where a single building lot is frequently worth millions. But the same is true of agricultural land. It, too, increases in value by the growth of population.

It is their social origin that distinguishes land values from other forms of wealth. Land values are not the product of the owner's effort. They have little relation to it. Rather they come from the action of the community itself. Improvements like streets and sewers increase the value of the land, as does the supply of water, gas, and electricity. The building of street-railways or other forms of rapid transit, as indicated in a previous paragraph, usually add more than their cost to the value of the land alone. They bring it into the market. That is the reason for special assessments against the property benefited.

The growth of a city is reflected in land values as in a mirror. In the average city land values usually amount to from \$600 to \$1,000 per capita, or from \$3,000 to \$5,000 per family. Upon this value ground-rent is paid by the tenant. In other words, the tenant pays for the use of wealth which he himself has created.

Land Values in New York.

The taxable land values of New York City in 1913 amounted to \$4,590,892,350, or almost exactly \$1,000 for every man, woman, and child in the city. In other cities, where real estate is assessed at its full market value and the assessments of land and improvements are separated, it is found that the land values approximate those of New York. This socially created wealth should be taxed for municipal purposes, the proposal being that all other forms of taxation should be repealed and the tax be permitted to settle upon the land alone.

This would mean that the ground landlord would receive less and the city would receive more of the ground-rent than at present. There would be no other disturbance to existing conditions. This is what has already been done in the cities of western Canada.

That such a tax would be more than adequate for all local needs is evidenced by New York, where the ground-rent alone of the city is estimated to be over \$250,000,000 a year, or approximately \$250 for every family. The present budget of the city from all sources is less than \$200,000,000, of which nearly 40 per cent. is collected from land values.

The justice of taxing land values to meet the growing needs of the city is being generally recognized. In an article in the *Century Magazine* for October, 1913, Theodore Roosevelt said:

“We believe that municipalities should have complete self government as regards all the affairs that are exclusively their own, including the important matter of taxation, and that the burden of municipal taxation should be so shifted as to put the weight of land taxation upon the unearned rise in value of the land itself rather than upon the improvement and buildings; the effort being to prevent the undue rise of rent.”

In keeping with this idea bills have been introduced into the New York legislature providing for reducing the tax on buildings to one half the rate on land, the reduction to be gradual and to be at the rate of 10 per cent. a year for five years. Such a measure has been adopted in Pennsylvania, limited in its operation to Pittsburgh and Scranton. By referendum vote the people of Everett, Wash., abolished the taxation of improvements altogether by the following city ordinance:

“The assessment, levy and collection of taxes on real and personal property for all corporate or municipal purposes of the city of Everett, and to provide for the payment of the debts and expenses thereof, shall be uniform in respect to persons and property therein: Provided, that for the years 1912 and 1913 there shall be exempt from such taxation 25 per cent., and for the year 1915, 50 per cent., and

for the year 1916, 75 per cent., and thereafter 100 per cent., of the value of all buildings, structures and improvements, and other fixtures of whatsoever kind upon land within said city. Nothing herein shall affect property in said city exempt from taxation under the laws of the State of Washington."

Pueblo, Colo., adopted a similar measure at a popular election in 1913.

German Experience.

Germany has adopted another method of taxing land values under what is known as the *Wertzuwachssteuer*, or unearned-increment tax. In 1898 Germany acquired the harbor of Kiauchau from China, and upon its acquisition it was provided that purchasers of land should pay into the city treasury a tax amounting to 33 per cent. of the increased value which came to the land by virtue of the growth of the community. The new tax was so successful that in 1904 Frankfort-on-the-Main adopted an unearned-increment tax by which the profits of land speculators are taxed at from 1 to 25 per cent., depending upon the size of the profits and the time within which they are realized. Following this example, community after community adopted the unearned-increment tax, until by April, 1910, 457 German cities and towns had accepted it. Finally, in 1911, the Reichstag converted the local unearned-increment tax into an imperial tax and made it apply to all cities and towns within the empire. The land is periodically revalued and the owner is compelled to pay a tax of from 10 to 30 per cent.

upon the increase in value which takes place in the interim. The receipts from the tax are then divided between the empire, the state, and the city.¹

Summary.

Increasing municipal expenditures have greatly increased the burden of taxation and rendered it necessary to seek new sources of revenue for meeting the city's needs. This increase is likely to continue in the future as it has in the past, and to meet this increase new revenues are being sought by special assessments upon property benefited, by excess condemnation, and by the taxation of land values. All of these expedients look to the increased taxation of land as a source of municipal revenue. The use of special assessments is being extended as a means of paying for parks, playgrounds, and civic centres; it is being urged as a means of paying for water-mains and transportation lines. Excess condemnation, or the acquisition of more land than is needed for a public purpose, is being urged for the same reasons, and constitutional amendments have been secured in many States for this purpose.

The taxation of land values is being urged in a dozen States not only as a fiscal but as a social measure. Advocates of this reform point to the rapid increase in urban land values as a reason for their higher taxation, and permissive legislation for this purpose is being urged in New York, Colorado, California, and other Western States. Advocates of the taxation of land values urge that land values are a social product and should be taken by the community for its local needs. They point to the success of experiments in Canada, Australia, and Ger-

¹ For a fuller discussion of the German tax, see *European Cities at Work*, by the author.

many as justification of this new policy, in which countries various expedients have been adopted for the increased taxation of land values and the consequent reduction of the burdens upon improvements and other forms of currently created wealth.