"Keeping Those Buzzards out"

By Frederic Cyrus Leubuscher

Stuart Chase, the well-known writer, has an article entitled "Resettlement Farmer" in the September Cosmopolitan. While inspecting and discussing the Grand Coulee project a resettlement farmer said to him: "Another thing I liked was that the engineer said that the only people who couldn't make a living in the district were land speculators. The Government has already passed laws keeping those buzzards out." Mr. Chase does not pursue the subject.

As it will be of interest to Georgists to learn what plan, other than the collection by the government of the entire economic rent, can succeed in "keeping those buzzards out," it would be profitable to study the following act approved by the President May 27, 1937. (For brevity, only the relevant parts of the act are stated.)

(Public—No. 117—75th Congress)
(Chapter 269—1st Session)
(S. 2172)

AN ACT

To prevent speculation in lands in the Columbia Basin prospectively irrigable by reason of the construction of the Grand Coulee Dam project and to aid actual settlers in securing such lands at the fair appraised value thereof as arid land, and for other purposes.

* * * That no part of the funds heretofore or hereafter appropriated or allotted * * * shall be expended in the construction of any irrigation feature of said project, * * * until after the following provisions have been complied with:

(a) The privately owned lands proposed to be irrigated under said project * * * shall have been impartially appraised * * * for the determination of their value at the date of appraisal without reference to the proposed construction of the said irrigation works and without increment on account of the prospect of the construction of the said project.

(b) A contract or contracts shall have been made with an irrigation or reclamation district or districts organized under State law * * *: Provided, That every such contract with any district shall further require that all irrigable land held in private ownership by any one owner in excess of forty irrigable acres * * * shall be designated as excess land and as such shall not be entitled to receive water from said project. * * * The Secretary of the Interior may require, each landowner, as a condition precedent to receiving water from the said irrigation works, to execute a valid recordable contract wherein he shall agree to dispose of excess holdings then or thereafter owned by him in the manner provided in this Act and in the contract between his district and the United States, and wherein the said landowner also shall confer upon the Secretary of the Interior an irrevocable power of attorney to make any such sale on his behalf. For the purpose of determining excess lands * * * husband and wife shall be considered separate persons and each may hold not to exceed forty irrigable acres as nonexcess lands or husband and wife together may hold eighty irrigable acres of community property as such nonexcess lands: * * * Provided further, That * * * * * every such contract with any district shall also provide, with respect to all irrigable lands whether initially excess or nonexcess, that whenever any land is sold at a price in excess of the sum of the appraised value of the arid land, the appraised value of improvements made thereon after the date of the original appraisal, and the amount of irrigation construction costs actually paid for that land, then, before the new owner shall be entitled to receive water from the project, a proportionate part of the said excess or incremented value shall be paid to the United States as follows: If such payment is made to the United States more than fifty months after such sale at an excessive price has been made, then as a prerequisite to the right to receive water all of the incremented value shall be paid to the United States to apply on construction installments to come due on such land in inverse order of their accrual; * * * and so on for earlier payment allowing an additional reduction of 1 per centum for each month, so that in the event that such payment is made to the United States within one month after the date of such sale, then the percentage of the incremented value required to be paid to the United States for application to construction costs as a prerequisite to the right to receive water shall be 50 per centum thereof: * * * And provided further, That the foregoing four provisos shall not apply to any lands in the State of Washington which have already been developed and are now being cultivated with the aid of water from sources other than the said Grand Coulee project and for which additional water may be desired.

Dear Mr. Leubuscher: I read your article for the Freeman over with great interest and have sent it on to the northwest with the idea that your valuable comments may be useful in plugging the possible gaps in the new law. Sincerely, Stuart Chase.

This is practically an increment tax. While it will give the land speculator pause it will not eliminate him. After the settler and his wife have had their eighty acres irrigated and thereby produced good crops, their success will attract other settlers, for, as Mr. Chase says: "The big idea is to irrigate a section of farm land as big as the State of Connecticut." When ten thousand families have had their eighty acres irrigated, there will be a community of say fifty thousand on 800,000 acres of cultivated land, with ten thousand dwelling houses and other structures. As none of these lands will be subject to the increment tax, each farmer becomes a potential land speculator. If the eighty acres, including irrigation ditches, buildings, etc., cost him $5,000 and he sells for $10,000, the only tax he will have to pay is an income tax on his $5,000 profit. With half of it exempt as a married man and probably the greater part of the balance for children under eighteen, his income tax would be negligible.

Besides that, the increment tax does not apply to town centers or villages that would be necessary in a community of fifty thousand souls. "Those buzzards" would have free play there. Note particularly the last quoted sentence of the Act which excludes from the increment tax all lands that are already being irrigated by the State of Washington but desire further irrigation from Grand Coulee. The writer does not know how many acres these comprise; but it is fair to assume that, together with the newly settled land, there will be upwards of a million acres that will not be affected by this law.

But, it may be argued, these resettled farmers who were unsuccessful on their former farms through no fault of theirs, will be so glad to have good homes without the menace of drought, that they will not easily become the prey of land speculation. It may also be claimed that the main purpose of the law was to encourage the improvement of "excess lands" by forfeiting the greater part of the profit made in their sale. The scheme as to "excess lands" is this: these arid lands will have little market value were it not for the prospect of being irrigated. Therefore, refuse irrigation until the government receives the greater part of the profit in the event of a sale. Thus land speculation is eliminated. That this increment tax would have that tendency at the beginning is undoubtedly true. But after a real settler on these "excess lands" has received irrigation, the law is no longer effective. It would pay a man who does not desire to make a living by farming to take up "excess lands" for a nominal sum and receive irrigation. Then he begins his real vocation of land speculator.

The objection to this law is that it nowhere eliminates the fundamental wrong. The economic rent which is created by the presence and activities of the community and therefore belongs to it, will still be collected and retained by the land-owners. It is encouraging, however, that the federal government is beginning to realize, albeit in a dim way, that land is in a different class from things produced by capital and labor. There are some men in the present administration who know the real solution, but by the administration are deterred from applying it except in this feeble way. Possibly also the constitution would not allow the federal government to collect the economic rent, as such. The United States Supreme Court, however, has decided that an excise tax for a privilege is constitutional. There is nothing to prevent Congress from levying an excise tax for the privilege of owning land. If such a tax were at a rate which, together with the local tax, would aggregate the entire economic rent, there would be no further trouble in "keeping those buzzards out."