

## CHAPTER IV.

# Alleged Objections to Heavier Taxation of Land Values.

Aside from the general objection to taxing land values at a higher rate than buildings, that it is "confiscation of property rights and immoral" which is dealt with fully in the chapter on "The Moral Sanction for Taxing Land Values Heavily," several alleged objections are raised which deserve careful consideration. The most important objection presented is that it "will create a panic in real estate and prevent the construction of new buildings because money will not be loaned under such conditions, and mortgages will be called."

*Refutation of the claim that heavier taxation of land values will create a real estate panic and prevent loans for constructing new buildings.*

The most direct and convincing answer to this claim is the experience of Vancouver, British Columbia. The marvelous success from a financial point of view of the so-called "single tax" experiment in Vancouver is described by Mr. Luther S. Dickey in the "Single Tax Review" for May-June, 1911. It should be noted, however, that even Vancouver has not tried out-and-out "single tax," that is it has not abolished all other sources of municipal revenue since during the year ending March 31st, 1911, there was levied from the city:

*Vancouver exempts buildings from taxation, but has not a real estate panic.*

Personal Property .....	\$63,375.08
Income Tax .....	56,876.11
Revenue Poll Tax.....	56,055.00
	\$176,306.19
Total .....	

Brief reference must be made also to the system of taxation in Vancouver as reported by the Mayor, L. D. Taylor, in 1910:

*Mayor Taylor's explanation of the working of taxing land values in Vancouver.*

"The taxing of the 'unearned increment,' a term used to express the increase in land values uninfluenced by the effort of the owner, is no longer an experiment in Vancouver. Fifteen years ago the city government concluded to encourage building by reducing the improvement tax fifty per cent. The effect was immediate. Huge buildings at once began to rise up where shacks had stood.

"In 1906, as a result of the success of the first experiment, an additional decrease of twenty-five per cent was made in the improvement tax. At once building operations showed another startling increase—an increase that when compared with the increases shown in the statistics of other cities was wholly out of proportion to the increase of population.

"At the beginning of this year (1910), it was decided to eliminate the building tax altogether, and, in consequence, the Single Tax was adopted in its entirety.

"From the beginning the cities of the Canadian West have taken the initiative in promoting the Single Tax policy by putting it into actual operation while other municipal governments have not reached beyond the theoretical. Vancouver's policy of valuing land at full capital value and improvements at only fifty per cent, thereby taxing buildings only half as much as sites, was adopted long before the Single Tax leaders had begun their campaign of education that to-day reaches around the world. And so satisfactory was this first experiment that when the further reduction of twenty-five per cent was made so as to tax the capital value of improvements only one-quarter as much as that of sites, the opposition was so small as to be scarcely worth taking into account.

"The landowners, as a matter of fact, receive greater benefits from the Single Tax than the builders and building owners themselves, for while the tax on improvements has been abolished, the tax on land has not been increased, and still remains twenty-two mills on the dollar, just what it was before the Single Tax was adopted. With the tax remaining the same, whether a site is improved or unimproved, it is readily seen that lot owners would rather have their property improved and bringing in an income. It is simply a question of which is best policy, to have a dollar lying idle in an old stocking, or to have it working, bringing in an income at a bank.

"The municipal building statistics during the last fifteen years clearly demonstrate the value of the Single Tax in hastening the substantial upbuilding of a city. Before the fifty per cent reduction in the value of building improvements was voted in the year 1895, building operations in the city of Vancouver represented approximately \$200.00 per capita. In the year 1905 the per capita value of building improvements increased to \$245.00, and in 1905—the end of the ten-year period during which the fifty per cent basis was in operation, the per capita value of improvements had increased to \$284.00. A similar increase was shown immediately following the further reduction of twenty-five per cent. In 1908 the per capita valuation of building improvements was \$302.66, and in 1909 the figures were \$308.17, and yet these statistics, striking as they seem, do not half tell the story, for the reason that the population of Vancouver increased from 17,000 in 1894 to over 100,000 last year, and in the last five years has been trebled.

"Since the reduction of the improvement tax to twenty-five per cent in 1906, more steel and granite buildings have been erected in Vancouver than during any previous decade, and in proportion to the size of the city, more substantial, costly buildings have been erected in Vancouver than in any other city on the coast. Beginning with the election of last January, when the Single Tax system was adopted by the Council in its entirety, permits for buildings have been applied for at a more rapid rate than at any other time since the incorporation of the City, and it is estimated that over a million dollars' worth of handsome private residences are either under construction now, or will be before the end

*Mayor Taylor  
claims taxation  
of land values  
benefits  
landowners.*

*Illustration of  
effect of  
exempting  
buildings, upon  
the construc-  
tion of  
buildings.*

of the year. Since the first of the year six steel skyscrapers have been projected, two of them already under construction, and plans have been drawn for four more. Modern steel apartment buildings are going up in every section of the city, and frame and brick buildings that for years have stood untouched on Granville Street are now giving way to steel structures. The effect of the Single Tax on building operations has been immediate, but nowhere has the beneficence of the system been more fully felt than among factory workers and wage-earners. In Vancouver seventy-five per cent of the toilers own their homes. This estimate is conservative, and is based on figures presented by the employers of labor.

*Effect of taxing land values and exempting buildings on home ownership.*

"Other cities of the west, making efforts to attract capital to them, have discovered that landowners instinctively 'boost' prices to the outside purchaser, and this stands in the way of a city's progress. With the Single Tax in force, no property owner is going to set up a claim that his property is worth twice its real value, when he knows that such a claim will make him pay twice the amount of taxes he is now paying. Under the Single Tax, as it is operated in Vancouver, a new sky line is being built up for the city, a sky line of tall, substantial buildings of stone and granite, and under the Single Tax, not only is the man who builds benefited, but also the landowner, the tenant and the man who works with his hands in the city's factories and saves his money to build his family a place they can call home."

In reply to the statement that the geographical advantage of Vancouver and the construction of railroads was the cause of the city's remarkable growth and that as high as 8 per cent and 8½ per cent is charged on mortgages, Mayor Taylor in a letter to the writer says that:

*Mayor Taylor admits all contributing factors to Vancouver's growth.*

"While attributing to a great extent the impetus building in this city has received to the adoption of a single tax on land, he, together with other advocates of the system, fully recognize that the geographical situation of Vancouver, the number of railroads which are being directed to this port, and other contributory causes have been responsible for much of the development which has been taking place in this city during the past few years, and in regard to the claim that as high as 8 and 8½ per cent is charged on mortgages, that although such rates prevail occasionally when the security is not considered good, it is hardly fair to quote rates like that as usual for mortgage loans in Vancouver. The current rate is 6 or 7 per cent, on large amounts sometimes as low as 5½ per cent, when good security is offered."

The following table, giving the number of building permits, value of buildings and population of Vancouver from 1906 to 1910, refutes, however, the charge that money will not be loaned for the construction of buildings:

	Number.	Value.	Population.
1906.....	1,006	\$4,308,410	52,000
1907.....	1,773	5,632,744	60,100
1908.....	1,697	5,950,893	66,500
1909.....	2,054	7,258,565	78,900
1910.....	2,260	13,150,365	93,700

Fairness compels the admission, however, that there seems to be a defect in the operation of the tax, because too low a tax-rate is levied, only 22 mills on the dollar.

The Editor of *The Single Tax Review*, commenting on this, says:

*Criticism of the low tax-rate on land in Vancouver.*

"This must be accepted as a statement of fact, and not as favoring the taking of no more than 22 mills on the dollar. It is no part of the Single Tax to favor landowners as landowners. But because 99% of landowners have interests as builders, capitalists or laborers, their gain from the application of the Single Tax principle must be quite as great as that coming to other members of the community. If this tax of 22 mills on the dollar leaves the same amount of economic rent or site value in the hands of the landowners as before, or if—as now seems the case in Vancouver—the impetus to property caused by the removal of the tax on buildings has been to actually increase economic rent or site value remaining to landowners, there is even greater necessity of keeping on in the way the city has begun, and taking gradually an ever increasing proportion of land values until the full amount is absorbed for public purposes. Otherwise Vancouver faces the inevitable interruption that comes to the prosperity of every 'boom town' whose history is a matter of record."

*The obvious remedy for the low tax-rate in Vancouver is a higher tax-rate.*

The remedy for the failure to secure a larger share of the ground rent is obvious. The city should, instead of passing on to future generations the cost of providing public improvements such as streets, sewers, transit, schools, parks, etc., pay its way as it goes along. The result of the policy the fathers and grandfathers of the present citizens adopted of bequeathing to us the payment for improvements they should have met, is shown in the enormous debt charges which burden American cities.

*Vancouver should pay its bills currently instead of borrowing money for postponed payment.*

The Report of the Corporation of Vancouver for 1910 states that the value of the real property of the city at the end of that year was \$98,777,785, while the outstanding General Debentures and Stock of the City amounted to \$12,808,265.95, or approximately 12 per cent of the total valuation of real estate, *i. e.*, exclusive of improvements which are exempt from taxation. About \$10,250,000 of this municipal indebtedness bears interest of from 4 per cent to 6 per cent, and over half was issued for terms of nearly forty years, while the interest charges of the city were in 1910, \$279,861.16,

exclusive of the lumped sum for "Interest and Sinking Fund" for Schools and Waterworks, aggregating \$178,514.96, and the Sinking Fund (Debentures other than water and school) amounting to \$118,091.38.

In other words, the total "debt service" of Vancouver was in 1910, \$575,476.50 out of a total budget of \$1,942,227.26, i. e., about 30 per cent. It is partly due to such reasons that land speculation still continues as indicated by figures which Mr. Dickey gives in the magazine referred to above :

"Two lots on which were two modest buildings were mortgaged in 1904 for \$1,600. In 1910 the property was sold for \$55,000. In 1911 the assessed value of these lots is \$22,500, but they are on the market for \$75,000. Three vacant lots were sold in August, 1909, for \$75,000; in April, 1910, for \$115,000. They are assessed in 1911 at \$63,125.

*Many sites in Vancouver are under-assessed.*

"Another lot was purchased in 1907 for \$1,100. The owner has refused \$10,000 for it and is holding it at \$15,000. It is assessed for 1911 at \$3,000."

Mayor Taylor frankly recognizes the necessity of securing by taxation more of the ground rent. He has told the writer personally that he expects to bring this about as soon as possible, that is just as fast as public sentiment will permit. The first step, he says, will be to raise assessed values from 65 per cent, as at present, to 100 per cent, that is to full valuation; and the next to increase the tax-rate slowly but to a much higher one than the present,—even at full valuation.

*Mayor Taylor believes that the tax-rate on land in Vancouver should be raised,*

In January, 1911, all buildings in Vancouver were restricted in height to 120 feet, but not to exceed ten stories at the maximum while Mayor Taylor believes that no tenements should be over four stories high at most and that the practical ideal for the wage-earners in cities on this continent is detached dwellings with gardens and yards. The attainment of this practical ideal, too, he states, will be helped by heavy taxation of land values, but involves also definite restrictions on the use of land.

*And that restrictions on the use of land are also necessary.*

It is significant, too, that the leaders of the organizations which have done most in this country to promote the construction of good homes to be owned by wage-earners, the Savings and Loan Associations heartily favor the reduction of the tax-rate on buildings. Commenting on the criticism of the bill before the New York State Legislature to reduce the rate of taxation on buildings to one-half the tax-rate on land, Mr. Walter L. Durack, Chairman of the Executive Committee of the Metropolitan League of Savings and Loan Associations, says :

*New York Savings and Loan Associations favor halving the tax-rate on buildings.*

*Loaner of millions on buildings, says halving the tax-rate on buildings will help real estate.*

"I have paid taxes for twenty-five years on vacant and improved land, and have never lost anything by reason of the assessment. Some years I have paid as high as \$1,000 in taxes. The halving of the tax-rate on buildings will be a benefit to real estate as a whole in New York City.

"I have loaned several millions on such property, and am sure that halving the tax-rate on buildings will not in any way interfere with loaning money for all legitimate purposes, whether on buildings or on vacant land."

Mr. Charles O'C. Hennessy, President of the Franklin Society for Home Building and Savings, says:

"So many misleading statements have been made as to the result of making the rate of taxation on buildings one-half the rate of taxation on land, as provided in the Sullivan-Shortt bills, by five equal reductions in as many consecutive years, that I wish to express my judgment on the matter, reached through twenty-five years of experience in the business of placing loans, as an officer of a savings and loan association. During this quarter of a century I have placed many millions of dollars in loans on buildings.

"Even admitting that there would be a slight reduction in the value of land, this will be only a small portion of the increase in the value of new buildings. A difference is made in the rate of taxation, not in the assessments.

*President of a Savings and Loan Association says halving of tax-rate on buildings will encourage the loaning of money on buildings.*

"The other claim that mortgages would be called in upon a large scale is also disproven by the past experience of the city. The average increase in the rate of taxation on both land and improvements in most of the boroughs of the city during the past three years has been as great as the increase that would be involved in halving the tax-rate on buildings and no panic has resulted. An increase of .09 per \$100.00 on assessed value of a tenement, assessed for \$30,000, on a lot assessed for \$10,000, is \$36.00. With the halving of the tax-rate on buildings, however, while the increase in the tax-rate on land will amount to about \$9.00 this year, the decrease in the tax on buildings is about \$39.00 a year, showing a net saving of \$30.00 a year, or by the time the full half tax-rate on buildings is in force, of about \$150.00. Even when this rate is in operation, however, the tax-rate on land will be only about \$2.20 per \$100.00 of assessed value. A building in moderately good order is usually assessed for from two to three times the assessment on the land, and the larger earning capacity of the buildings through reduced taxes would encourage the lender of money to let his loan remain on the property. To call this legislation 'confiscatory' in an economic sense is illogical, since a tax of even \$3.00 on land, or about half as much again as would be required, would leave a margin of 5 per cent to 6 per cent profit. If the tax were \$2.20 per \$100.00 value on both land and buildings, the Allied Real Estate Interests would probably not call it 'confiscatory,' but it is the distinction in rate of taxation on land and buildings which seems to perturb them needlessly. Mr. Robinson continues: 'Legislation which is confiscatory in character as this is would drive such investors out of the mortgage markets. As a result of this driving out

of investment funds, there would be an inability to replace the mortgages so called, and a panic in real estate price would ensue.' As has been shown, loans on improved land would not be withdrawn, since they are safer with a better return. The only real estate upon which there is the remotest possibility of any such effect as Mr. Robinson predicts is vacant and underimproved land. The effect of such a tax upon this vacant land will be to compel the owner to improve it, and this is just what it is intended for. Money is not lent, however, upon vacant land, and so the slightly higher tax upon land will not affect the present loans to any material extent. The cheaper the land, the more inducement there is to the owner to improve it adequately, which is stimulated by the lower tax-rate on buildings. It is evident that the exact reverse of the calamity the Allied Real Estate Interests predicts would follow the enactment of this bill, would actually occur, and that there would be a marked stimulus to the construction of much needed tenements and homes and factories to relieve the fearful overcrowding of rooms in tenements such as the Congestion Commission reports, and the overcrowding of factories such as was an important cause of the recent disaster in the Triangle Shirt Waist Factory in the Asch Building.\*

*And that, instead of a calamity, as claimed by real estate interests, this will benefit tenants.*

Mr. John Moody, editor of *Moody's Manual* and *Moody's Magazine*, states:

*John Moody says halving the tax-rate on buildings is the most just piece of legislation proposed for a long time, and that most tenement-house legislation increases congestion.*

"I am unhesitatingly endorsing the Sullivan-Shortt bill for gradually reducing the rate of taxation on buildings and concentrating it on land values, for the reason that it appears to be, by every analysis, the sanest and most just piece of legislation proposed in many a long day.

"Every so often a lot of comfortable and well-meaning people (many hailing from Wall Street, where I come from) suddenly awake to the fact that the housing conditions in this great city are deplorable and that the congestion of population 'is most alarming.' Committees are appointed, campaigns are waged, public parks in the congested districts are advocated, model tenements are proposed, and then, after all these things are done, everybody is surprised to find that rents have mounted still further, and the congestion is greater than ever.

"But here at last we have a bill which goes to the root of the situation. No one will dispute me when I say that I know something about the meaning of speculation. An experience of over twenty-five years in Wall Street, where the whole atmosphere is charged with speculation, has taught me to do a little thinking now and then. And I know what I am talking about when I say that nearly everything in Wall Street of a really speculative nature is capitalized land value. I have for years seen this land value grow, in the shape of stocks and bonds, until to-day we have about eighty billions of dollars' worth of corporate stock in this country, of which more than half—the speculative half—is based on land values purely.

"What are these land values? Are they capital? Capital is simply stored-up labor, and labor is the one thing which produces wealth. This production of wealth is not a bad thing; it is a good thing. It is the

\*Note.—At a fire in this building, 143 girls lost their lives owing to inadequate fire exits and fire protection.

*Mr. Astor objects to taxing land values because it would reduce his rents.*

cornerstone of our entire civilization, and why the people should be so anxious to tax it is something I never could understand. Of course I understand why landowners wish to tax it. Something must be taxed, and Mr. Astor, who owns both lands and improvements, knows that as long as labor keeps busy feeding and clothing itself in New York City, his lands will grow in value without any effort on his part, and he will be able to increase his rents in direct proportion to the increase in the value of his lands. So why should he wish, through land value taxation, to disturb his present satisfactory position?

"Some one has said that to take taxes off improvements and put them on land values would be confiscatory. Confiscation is a great word, especially in Wall Street. If taxing land values is confiscation, why is not the reduction of the tariff also confiscation? To abolish the tariff on steel would impoverish a whole lot of people who have invested in Steel Trust stock at fancy prices, just as to tax the full speculative value of land would impoverish many speculators who are working land booms at the present moment. But on the other hand, abolishing the tariff on steel products would give us cheaper steel, just as the lightening of the tax on buildings would give us lower rents and tend to relieve congestion.

"I know something about panics and their causes, and I do not hesitate to come out flat-footed and say that this is just the character of legislation which will tend to prevent panics, as well as relieve congestion."

*Mr. Moody says taxation of land values tends to prevent panics.*

2. "Adequate transit lines alone, will prevent speculation in land without the taxation of land values."

*Transit lines alone without heavy taxation of land values, encourage land speculation.*

If there is any subject upon which real estate owners, especially owners of vacant land, have mesmerized the public in American cities it is rapid transit. It is perfectly true that enough transit into cheap land, that is, lines which bring land cheap at the time they are projected into the market by reducing the time from such lands to the business and manufacturing centers of a city might have some effect—temporarily only—in reducing the price of land. Just the reverse is the object of the owners of the vacant land who hound municipal authorities to run transit lines out into their vacant land. Wood, Harmon & Co., a prominent real estate operating company recently advertised in several New York papers—apropos of the proposed extension of transit lines into Brooklyn where they own or control 20,000 lots, assessed for about \$15,000,000—that they would guarantee the same increase in value of some of their lots with the proposed transit, as had occurred in the Borough of the Bronx where lots worth a few hundred dollars were increased in value to four or five thousand dollars with the provision of rapid transit.



One touch of cupidity makes the whole landowning fraternity akin, and every real estate owner throughout the country is striving to secure the same special privilege of getting free transit to his land, to increase its value and his resulting profits, and not primarily to keep his land cheap for the healthy dwellings of wage-earners and other workers. While self-preservation may be the first law of nature, to get rich at other people's expense is the second.

Another point also deserves consideration, the fact that money invested in transit is costing the city not only sinking fund charges, but interest as well. Some transit companies in New York have now reached the height of dependence in asking that the city shall guarantee them net profits equal to those at least of an ordinary industrial company. On the other hand, charitable experts like Mr. Cyrus L. Sulzberger, for many years President of the United Hebrew Charities in New York, have suggested that transit in that city of such high land values and exorbitant rents should be as free as walking in the streets. Naturally the land speculator cheerfully pronounces his benediction upon both suggestions because he makes money from the passengers coming and going under both propositions. The "forgotten man" in the case is the millions of sweated tenement dwellers who under our present system of taxing land and buildings at the same rate pay the "guarantee" on the cost of superfluous transit and "free" passage for the few people with short hours of work, who could take legalized joy rides at the taxpayers' expense out to the cheap lands whose values rise—but are taken by the landowner—at just about the same rate as the tax-rate of the poorest citizens who are left behind in crowded sections of the city.

One of the traffic experts of the Brooklyn Rapid Transit Company told the writer that that company in response to the demand from citizens has planned lines far out from the center of Manhattan which would not be needed for many years, at a total cost of at least \$12,000,000. Now 4 per cent interest and 2 per cent sinking fund charges will mean a cost of \$720,000 a year on this one investment, to be sure not a large sum for a city which refuses to think in terms of less than millions, but nevertheless a preventable waste, when there are scores of thousands of vacant or underimproved lots within a short distance of the city's centers which would be made available for business and tenement use by taxing them a little higher and taking taxes off buildings.

Superfluous transit is a waste in the cost of production which can be largely eliminated by taxation of land values which will bring available land into the market.

*Free transit and guaranteed profits to transit companies are merely levies on tenants to increase the profits of landowners.*

*A case in point on transit lines through unused land to farm land.*

*Cheaper to tax land than to build transit lines.*

*Unused transit facilities should be availed of before new lines are constructed.*

*Removal of factories from city's centers will distribute population, but will not keep land cheap.*

*The old plea of unconstitutionality.*

The unused capacity of existing transit facilities in every American city should be availed of before more transit at the cost of the citizens at least is suggested. The situation may be further illustrated by the growing tendency in American cities to decentralize industries. Naturally this involves the construction of lines to carry freight, or the expense of trucking and draying. There are comparatively few cities in the country in which the municipality constructs or owns such lines (San Francisco, Los Angeles, and New Orleans being exceptions), but this is a much more economical method of distributing population since, as Adam Smith remarked, man is the most difficult luggage to move. Where freight belt lines, as in Chicago and as contemplated in New York City, are constructed, however, by private initiative the need of taxing land values to keep the land thereby made accessible, available cheap, is more patent, although actually the need is practically the same whether freight or transit lines are provided.

3. "The taxation of buildings and personalty at a higher rate than land is not constitutional since it deprives people of their property without due process of law and discriminates against one form of property in favor of another."

In the first place it is impossible to foresee what laws will be declared constitutional and what unconstitutional. The views of state courts on confiscation of property differ widely. It is apparent, however, that if any state legislature enact a law differentiating between classes of property which it creates, this cannot be held to be "without due process of law." The American people in their effort to secure for themselves the right of self-government, of which court decisions have to a certain extent deprived them, are in pretty general agreement with Abraham's Lincoln's statement that if the policy of the government upon vital questions affecting the whole people were to be irrevocably fixed by decisions of the Supreme Court, the people would have ceased to be their own rulers. In point of fact the Supreme Court has seldom declared unconstitutional any act to protect the public health passed by a state legislature, and the taxation of land values has been pretty definitely shown to be an important health measure.

A case recently before the United States Supreme Court on which they delivered an opinion April 4th, 1910, upheld the right of a state to differentiate in taxing (Southwestern Oil Co. vs. Texas 217 U. S. 11,430 Supreme Court 496, affirming 100 Texas 647). A Texas statute imposed a 2 per cent tax upon gross receipts from any or all oils, etc., sold at wholesale in the state and a tax amount-

ing to 2 per cent of the cash market value sold or handled or disposed of in any manner in the state. This was upheld by the state court but appeal taken to the United States Supreme Court which affirmed the state court in the following opinion:

"The Fourteenth Amendment was not intended to cripple the taxing power of the states, or to impose upon them any iron rule of taxation.

"This court will not speculate as to the motive of a state in adopting taxing laws, but assumes—the statute neither upon its face nor by necessary operation suggesting a contrary assumption—that it was adopted in good faith.

"Except as restricted by its own or the Federal Constitution, a state may prescribe any system of taxation it deems best, and it may, without violating the Fourteenth Amendment, classify occupations imposing a tax on some and not on others, so long as it treats equally all in the same class.

"An occupation tax on all wholesale dealers in certain specified articles, does not on its face deprive wholesale dealers in those articles of their property without due process of law or deny them the equal protection of the law, because a similar tax is not imposed upon wholesale dealers in other articles, and so held as to the Kennedy Act of Texas in 1905, levying an occupation tax on wholesale dealers in coal and mineral oils.

"A federal court cannot interfere with the enforcement of a state statute, merely because it disapproves of the terms of the act, questions the wisdom of its enactment, or is not sure as to the precise reasons inducing the state to enact it."

A further point has been raised that by taxing buildings at a different rate from that imposed on land a legislature is really creating a new kind of property since the term "realty" as generally used includes both land and buildings.

A legislature would not be creating any new kind of property, however, since there is a clear, vital and permanent distinction between buildings and land, but would be merely recognizing that distinction. A legislature would appear, however, from the following decisions of the New York State Court of Appeals to have authority to create such different classes of property.

The power of the legislature in matters of taxation is broader than in almost any other field.

In the case of *Janet vs. City of Brooklyn*, 99 N. Y. 300, the Court of Appeals said:

"The power of taxation being legislative, all the incidents are within the control of the legislature. The purposes for which a tax should be levied; the extent of taxation; the apportionment of the tax; upon what property or class of persons the tax shall operate; whether the tax

*The United States Supreme Court has affirmed that the Fourteenth Amendment "was not intended to cripple the taxing power of the states."*

*And that a federal court cannot wantonly interfere with state statutes on questions of judgment.*

*Powers of state legislatures in matters of taxation are very broad.*

shall be general or limited to a particular locality, and in the latter case, the fixing of a district of assessment; the method of collection, and whether the tax shall be a charge upon both person and property, or only on the land, are matters within the discretion of the legislature, and in respect to which this determination is final."

*Discrimination between different classes of property is recognized in state laws.*

Discrimination between different classes of property or different kinds of transactions is generally recognized in our present tax law. Thus in New York, transfers of stock are taxed, but not transfers of general merchandise, inheritances are taxed at various rates according to the value of the property affected and the relationship of the beneficiary to the deceased owner. Mortgages are taxed differently from other personal property, and this mortgage tax law was upheld by the Court of Appeals in a strong decision in the Case of *People vs. Ronner*, reported in 185 N. Y., page 285. Similar differentiations exist in the tax laws of other states.

Relatively little fear need be felt as to the constitutionality of the proposed measure, although it might perhaps be held by courts that any sudden change, as the sudden abolition of all other forms of taxation and the concentration of all the cost of government on land values, would be confiscation, because upsetting the basis of business transactions without giving any time for adjustment.

4. "Other sources of wealth are as much 'unearned' as the increment of land values."

*Heavy taxation of land values is urged only for municipal purposes, other unearned incomes should be taxed for state and federal purposes.*

Prof. E. R. A. Seligman, discussing the "single tax" in his "Principles of Taxation" urges strongly the injustice of taxing only land values and exempting large fortunes made in speculation on stock markets, etc., from heavier taxation. So, too, the fortunes acquired through patent rights and copyrights, it has been claimed, should be taxed more heavily as well as land values. With these contentions the writer is in complete agreement, so long as and to the extent that such sources of wealth are as unearned as is a large part of the increment of land values. It must be remembered, however, that the taxation of land values in cities is urged for municipal revenue alone and not for state or national government. Proper sources of revenue for national, state and municipal purposes should not be confused any more than should political issues in these three political districts.

The total appropriations by Congress for 1911 amount to \$1,027,900,623. While the total Public Debt of the United States bearing interest is only \$913,317,490, the debt not bearing interest is \$381,497,583, and manifestly the disadvantages of a large debt justify the finding of new sources of revenue for the federal government.

Diminishing returns from the tariff will make this an urgent problem, despite any economies that may be made in federal expenditures. Arguments which might pertinently be brought against a single tax upon land for the support of all government in the country, federal, state, county, municipal, etc., have no weight in considering the propriety of taxing land values more heavily for municipal purposes. Prof. Seligman himself in his argument before the Committee on Taxation of the New York City Commission on Congestion of Population seemed to favor a land increment tax, for he stated:

"I do believe that if you were to have such a system as the tax on the unearned increment, secure a large revenue from that, and with that revenue institute certain proceedings which would make the suburbs far more attractive to the citizen, you would directly or perhaps indirectly accomplish great results. For instance, in some of the German towns they utilize for the cities large sums secured in the main from their insurance funds and the unearned increment tax, for the building of model tenement houses, for the improvement of the suburban section and for the development of transportation facilities. Those, it seems to me, are the important points to be considered. How can you make it possible for people now living in the slums to live in places where land values are much less and at the same time attend to their ordinary vocations in life?"

*Prof. E. R. A. Seligman endorses land increment tax to make suburbs attractive.*

Mr. Chairman: "Was the raising or the expenditure of the money to have the effect you speak of?"

"The expenditure would not have been made but for the increased revenues which were designed to afford the means for this increased expenditure. The tax on the unearned increment in the German cities has been too recent and too slight to warrant any conclusion, but it is expected, and on general principles it would be expected, that a tax on unearned increment would of course prevent the appreciation to that extent of the value of land and would therefore prevent any further congestion."

*And admits social advantages of such a tax.*

With reference to a lower rate of taxation on buildings than on land, Prof. Seligman said:

"Of course anything that would tend to decrease the capitalized value of the land would tend so far, at all events, to reduce congestion. If you could arrange the system of taxation in a way that is not possible under present constitutional methods, i. e., if you divide the city up into districts and put different rates upon different districts, then you could to that extent diminish the value of real estate of some districts and of course increase it in others."

Mr. A. C. Pleydell, Secretary of the International Conference on State and Local Taxation and the New York Tax Reform Association, says:

*Mr. A. C. Pleydell claims the advantages of municipal improvements to the land-owners justify the city in securing more of land values.*

"One reason why it seems it would be fair for the land in a growing community to bear the higher rate of tax is that the benefits of public expenditures go so largely to increase the value of improvements. We need not talk of who gets the benefits of these increased values or the amounts; that is an abstract question at the moment. The practical question is that the city is collecting and spending every year an enormous amount of money. A good deal of this is spent on things that may not be easily seen to be reflected in the increased value of land, but a great part of it is reflected in the higher land value as street paving and such things, which we all know and admit tend to increase materially the value of land. Public expenditures tend to increase the value of land in the centers as well as in the outlying districts. Therefore you ought to adopt the policy of taking a larger share of the value of land. It is extremely hard to say just where the increase does come, but we know it *does come*. We know public improvements will increase the value of land some distance away from the improvement, as well as nearby, because such improvements enable the people to reach a business center. The Brooklyn Bridge, for instance, is a shining example of the fact. It has increased values right around the Brooklyn Bridge, but the Park Row rents are not nearly as high as the Broadway rents or lots, and it has increased the value of the land in all downtown districts. The increased tax upon these values would help to pay for these public improvements, which in turn, when they are made, will help to increase largely the value of the land."

*"Taxation of land increments should be accompanied by recouping owners for decreased land values."*

5. "A land increment tax is unfair unless the city similarly recoups the owner of land for any decrease, especially when due to changes in proposed public improvements."

The shifting of land values, decrease in one section and increase in another section is constantly going on in many cities.

A decrease in value always—where assessments are frequently and carefully made—results in decreased assessments, and hence diminished taxes, while frequently such decreases are only temporary and due to the transformation of the district from one use to another as from residence to commercial purposes. There are only a few spots in any American cities where there would not be a demand for land if the ground rentals were not so high. Failure of the city to prevent too intensive use of land as well as to tax it adequately, tends to create fictitious land values, which naturally slump later as any speculative values are apt to do.

*The city is not obligated to participate in land speculation because it taxes land increments.*

A favorite objection, however, is that when a city projects a transit line, a parkway, etc., to be constructed at the expense of the entire city, and then changes its plan, the city should return to the owner of land the value of which has been increased the proportion of that increased value which it has taken. The defect in this reasoning is apparent. The assessment is supposed to, and where properly made, does merely register the actual open market value

of the land. This value of land the city does not determine, nor has the land any increased value merely because the transit lines are planned, nor even after they are constructed, except that due to the people who use it. A network of railways through a district where people could not possibly exist would not increase the value of land in that district. The owners of land which it is anticipated will be needed, discount that value and attempt to secure it all.

The arguments for and against a land increment tax are succinctly stated by Mr. Robert Brunhuber of Cologne :

1st. The increase in the value of land is usually partly earned, only in rare cases completely unearned.

2nd. If the increase in the value is to be taxed, a decline in value is to receive compensation, and more particularly where the same individual incurs a loss in selling one piece of property, this is to be deducted from any gain secured by him on another piece of property.

3rd. The tax will be shifted from the seller to the buyer. It will raise the value of the land and so impede the progress of land reform.

(1) Land value not only represents return on capital, but a ground rent which must be paid by the rest of the population to the owner of the land. In cases of land, more than any other form of ownership, great values are created by the activity of the community or by mere chance.

This form of taxing unearned increments does not propose to wipe out by taxation the increase in value, it is simply to be taxed. The increment tax is valued on a newly accruing income. It levies no burden on the taxpayer; only lessening an existing largely unearned gain (when levied at time of sale).

(2) Taxation of gains should be accompanied by compensation for losses. Here Mr. Brunhuber points out that there should be a distinction as to whether loss in value has been directly due to public action (under certain conditions, where the erection of a gas tank or a slaughter-house injures the neighborhood, there should be certain compensation for the detriment of the property, but that apparently should be made by suing the party constructing the gas tank or slaughter-house, for damages to the property injured).

Since, however, as he asserts, there was not at the outset, any right to have bridges, public markets or theatres in one neighborhood, any claim for compensation on the ground of their removal is to be rejected.

*Mr. Robert Brunhuber discusses the land increment tax.*

*A land increment tax does not wipe out the increment, but merely taxes it.*

*Decreases in land values through governmental action distinct from that due to other causes.*

*Land ownership doesn't give any right to public improvements at the city's expense.*

The most important objection is the third—that the tax will be shifted from seller to buyer, and will serve not to lower the value of land, but to increase it.

Now every check on land speculation tends to lower prices. This effect is the greater, the higher the percentage of the tax and the greater the amount of cash which consequently must be furnished. While the details necessarily vary according to the special circumstances of the several cities, the value raising effect of the ordinary taxes on monopoly of real estate is paralyzed by it under the modern conditions of speculative buying. It is obvious that an increment tax, since it opens the prospect that a large part of the increased gains will be appropriated by the community, stands in the way of artificial rise in rents and in real estate value. A substantial and rapidly progressive tax of this sort hence tends to keep down the price of land.

*The increment tax is the specific remedy against land speculation.*

*The possibility of shifting the land increment tax must be met by land reform.*

None the less, something more is to be said. It is to be admitted that sometimes there is such a demand for land that there is a possibility of shifting the increment tax to the ground rent and so causing great economic evils. This possibility must not be neglected by the warmest advocates of the tax, the less so because the means of obviating it are at hand. These are to be found in a firm policy of land reform. The increment tax has been effective in keeping land values down precisely where it has been accompanied by action in this direction.

*The yield from land increment taxes is variable.*

It should also be noted, on the financial side, that the yield of taxes of this sort is likely to be variable. No doubt the yield is likely to increase on the whole, but not at any regular rate. The local bodies (and the Senate) must take this probability of fluctuation into account, and must make use only of an average ascertainable over a longer period or accumulate the funds for some specific purpose.

Finally, we have to consider the effects upon land reform. All taxation of sites, especially of site gains, works toward such reform. I have already indicated why the increment tax will serve to check speculation and to lessen the price of land. Every tax upon ground rents tends to lessen the price of land; the increment tax is further beneficial in its effect on the ways of buying and selling land. According as the earlier or later stages of ownership are more heavily affected, this tax may serve to stimulate or to deaden the market for land. Mr. Brunhuber states: "I believe that the tax should begin with 10 per cent, should rise rapidly to 35 per cent (say for an increase of value of 50 per cent), while a tax of 50 per cent

*Mr. Brunhuber advocates a heavy and progressive land increment tax.*



is entirely reasonable where the increase in value is 100 per cent or more."

Mr. A. C. Pleydell comments on a land increment tax:

"I was rather surprised to hear the advocates of single tax speak in the same breath of taxing the unearned increment by taxing a certain amount out of the value of land at the time of sale. All attempts to deal with the selling values of land in this way are dealing with what in one sense is legal fiction. The only reason land has value at all is that you can get a certain rental out of it. If you keep people from collecting rents you destroy values. Now, how are you going to tax the unearned increment which disappears wherever you increase a tax on the rental value, is a problem I have not yet been able to understand. It is interesting to see how that would work out. A man pays a certain amount of money for his land based upon the estimated net return, but if he is deprived of a certain amount of his net return by an increase in the annual tax, the land will have its selling value reduced. The intricacies would amuse one. And if you add a 50 per cent tax on the unearned increment to the total tax upon the annual value of the land, based on the selling value of the land in a lump sum, it certainly would be a grinding between millstones."

*Mr. Pleydell shows the difficulty of estimating real land increment if land values are heavily taxed.*