

## CHAPTER V.

# Economic Reasons for Taxing Land Values Heavily

The brief survey of some results of the present system of taxing buildings at the same rate as land has shown the complexity. The bill introduced in the New York legislature providing for making the rate of taxation on all buildings one-half the rate of taxation on all land was endorsed by many prominent business men, bankers, manufacturers and professional men. In a statement supporting this bill, entitled "To Free Industry and Encourage Enterprise and Effort," they assign the following reasons for the enactment of the bill:

"The proposition to make the tax-rate on all buildings half the tax-rate on all land in New York City offers an important measure of freedom and incentive to the business men, manufacturers and constructors of buildings in the city. They have long felt and expressed the desire for relief from the growing burdens of taxes on business premises, factories and tenements—for the heavy taxes on tenements reflects itself in the necessity for higher wages. Such stimulation of business enterprises will be immediate and vital as soon as the proposed adjustment of taxation is in force. To secure the total levy upon ordinary real estate in 1910, in New York by taxing land double the rate on improvements, including buildings of all sorts, the rate on land would have been \$2.193 per \$100 of assessed value; on buildings, \$1.096 per \$100 of assessed values.

*Business Men's statement of economic advantages of halving the tax-rate on buildings.*

"In addition to the saving in taxes amounting on different classes of buildings to from one-sixth to one-quarter of the usual taxes, the proposed halving of the tax-rate on buildings will have three distinct beneficial effects on business and manufacturing.

"1st. It will bring more and cheaper land into the market for business purposes.

"2nd. It will make the landowner improve his land with buildings and cause competition for tenants, thereby decreasing rents.

"3rd. It will make the landowner and not the lessee pay the taxes, because the tax on land can't be shifted to the tenant, and the tax on buildings usually can.

"We therefore recommend to business men this halving of the tax on buildings in the hope that they will consider it in relation to their business interests, and support the demand that energy and business be encouraged by the proposal to reduce by half the tax burden on all improvements."

*Why business shouldn't be taxed at the same rate as land values.*

It will of course, be asked, "Why should industry not be made to bear its fair share of the cost of municipal government by being taxed at the same rate as land?"

The reasons are:

*A tax on industry is always shifted.*

1st. A tax on industry is shifted to the consumer or laborer whenever possible. It is impossible to determine exactly who pays a tax upon business but the tendency is inevitable to turn it over on to whomever it can most readily be shifted, and this is frequently, if not usually, those least able to bear it.

*Industry doesn't yet bear its own burdens.*

2nd. Industry has not yet begun to bear its own burdens.

There is a country-wide determination that business shall bear its proper burden of the cost of industrial accidents and industrial diseases.

*Industry must pay the cost of its accidents.*

While temporary setbacks to this popular mandate have occurred in a few states through crude, or worse, court decisions, nevertheless it is the settled determination of the people to exempt the workers of the country from hardships and suffering in their employment due to conditions over which they have no control.

*Industry must pay fair wages.*

Industry, too, has not paid fair wages to its workers. Labor has been the last fixed charge on production, while an enlightened public opinion is now demanding that it shall be, if not the first fixed charge on industry, at least equal in its claim to that of the capital invested. To pay a living wage under present conditions, industry must increase its payment to laborers in this country by hundreds of millions, and so long as the landowner, as well as the government, is permitted to tax the manufacturer, this will continue and this tax will be shifted in large measure to the consumer.

*Industry taxed will be industry gone.*

3rd. Industry taxed will remove from the jurisdiction of the taxing power, because industry takes risks and landowning does not in the same sense or to a similar extent.

To secure factories is the highest ambition of most growing cities, evidenced by the attractions offered new factories to locate, such as exemption from taxes, reduced taxes, free sites, free water, water power, etc.

*Industry must provide safer working conditions.*

4th. Industry must provide safer conditions for workers than it has hitherto. Brutal and unhealthy overcrowding and dangerous fire-hazards exist in most large manufacturing cities of the country, the remedying of which will involve large expenditures by manufacturers. With a uniform rate of taxation on land and buildings this will put a heavy and unjust burden upon industry—which can be prevented only by a lower tax-rate on buildings. In most states 250 cubic feet of air space only is required for every employee

in a factory during the day, but there is practically no means of enforcing this law and often workers are so crowded that only 150 to 200 cubic feet of air space is afforded. In point of fact as much air space should be required for factories as for tenements, and the requirement for tenements in this country varies from 400 to 700 cubic feet per occupant. On a conservative estimate many manufacturers in large cities should be compelled to provide at least double the amount of cubic air space now provided as well as to furnish fire towers connecting or party walls and adequate exits, while many buildings now used for manufacturing purposes cannot by any structural changes, be made safe, but should be demolished.

5th. Government already exercises through State Departments of Labor, the Interstate Commerce Commission, Public Utilities Commissions, etc. much closer supervision and control even now over the business interests of the country than over the landed interests.

Inadequate as is admittedly in many states the work of the Department or Bureau of Labor, nevertheless their functions are constantly enlarging as the citizens of the state appreciate the need for standardizing conditions of working and this appreciation expresses itself in laws regulating hours of labor, sanitary conditions of factories and providing for arbitration or mediation of industrial differences or disputes. Thirty-four states and the Philippine Islands now have such a bureau.

The Interstate Commerce Commission has unique jurisdiction based upon the police rights of government to regulate those relations which cannot be determined by private control and agreement any more satisfactorily or equitably than can a single worker in the higgling of the labor market ensure for himself a living wage. The right of this Commission to review rates and adjudicate them, however unfortunate some of the decisions may have been, is nevertheless the revival of the principle accepted by the fathers of the country of the right of collective supremacy over individual caprice. The exercise of that right was in abeyance for many years during which the motto of the country was, as Mr. Herbert Croly states, "individual aggrandisement and collective irresponsibility," but the national disgust and apprehension of action in accord with that motto is complete as the social results of such action have become apparent.

The creation during the past few years of public utilities or service commissions in seven states of the Union, and the partial control of public utilities exercised in fifteen other states, as well

*Taxing buildings discourages the construction of such safe factories and increases rents.*

*Comparative supervision of State Departments of Labor, the Interstate Commerce Commission and Public Utilities Commissions.*

as the fact that progressive cities such as Los Angeles, Kansas City and St. Louis have created similar municipal utilities commissions, emphasize the fact that the regulation of public services and utilities by competition is no longer sufficient and that collective control is essential.

*Landowners are practically unregulated and allowed to prey on business interests.*

In many respects private land ownership unregulated is more dangerous than public utilities companies unregulated since the threat of competition cannot be used to club land into public service instead of extortion from the public. Land ownership is, however comparatively unregulated; the chief exceptions being building regulations, and prohibition of the use of land for public nuisances. Landowners alone have the right to "tax what the traffic will bear," even the injustice of our tariff being mollified by giving manufacturers the right to levy only a specific or *ad valorem* tax upon the public consuming their products. Heavy taxation of land values is the most direct, cheapest and effective method of regulating the use of land, comparable to the regulative control exercised in other fields by the governmental agencies enumerated.

*High taxation of land values will release money and reduce interest charges.*

6th. Adequate taxation of land values—as will be shown later in discussing the fiscal advantages of taxing land values—will release large sums of money for other purposes and tend to reduce interest rates. Prof. E. R. A. Seligman in his "Principles of Taxation" states with reference to the claim of single taxers that more buildings would be constructed if land values were heavily taxed or taxes on buildings abolished, that there is not any general fund lying around loose seeking investment in buildings, and that no such fund can be conjured up. If, however, New York City should pay its debts as it goes along or even a large share of them, and should issue only \$31,000,000 of corporate stock a year instead of \$71,000,000, meeting the \$40,000,000 additional annual expenditures by taxing land values, it is apparent that \$40,000,000 would be seeking investment.

*Money invested in municipal bonds to be released by taxing land values.*

The \$2,000,000,000 of municipal debt of the one hundred and fifty-eight cities having in 1908 a population of 30,000 or over as gradually paid off would naturally be seeking other fields of investment, and very few of these cities pay over 4½ per cent interest, while many issues of corporate stock net only 3½ to 4 per cent. A curious illustration of the alternatives which will be suggested to prevent taxation of land values is found in the coincidence that while preparing this book the writer received a letter from a prominent real estate operator in Brooklyn deploring the high rate of interest charged builders, especially in Brooklyn, and suggesting

*Socialistic alternatives suggested as substitute for taxation of land values.*

that the state or county should borrow money at 4 per cent and loan it to builders at  $4\frac{1}{2}$  per cent (charging  $\frac{1}{2}$  per cent for the risk and expenses) in the hope that the competition of lower rates of interest would reduce the present interest and commission charges to builders, amounting to 7 per cent to 8 per cent. This is a novel suggestion of adding to the heavy burdens upon the poor, of the state and county expenses involved in the present systems of taxation for state and county purposes, so as to encourage land speculation, instead of taxing land values sufficiently so as to release millions of capital now loaned to the city which would reduce rates by natural economic laws of supply and demand.

The suggestion amply demonstrates, however, that economic laws when their working is not hampered by economic injustice are a sufficient corrective of many social evils. It is, of course, much easier and more profitable to loan large sums to the city secured by the city's credit which in turn is based upon the industry of the entire population, than to loan money in sums of \$1,000.00 to \$10,000.00, but when cities stop borrowing money so prodigally the natural result will be a lower rate of interest both to cities and to other borrowers. It may be noted in passing that European and British municipalities borrow money at  $3\frac{1}{2}$  and even 3 per cent.

*Economic forces will be released for normal operation by heavy taxation of land values.*