

CHAPTER III

WHERE SHOULD TAXES FALL?

What Property Is Benefited By Taxation?

We have pointed out what justice demands as to taxation. According to the views so far presented, the first principle is that taxes upon the property should be a return for equivalent benefit to it. This is the immovable rock upon which all just taxation must be based. If it be so based, the other requisites will exist. Taxes will automatically no longer interfere with industry and liberty; they will not vitiate co-operation, or be shifted or drive away persons or things. Resting upon such a foundation, evil results become impossible.

But what is the property that alone receives benefit and alone should bear the burden of taxation? We would say above all things, special privilege, and we shall find that the greatest of all special privileges is that of exacting ground rent. Why do we say this?

We have just said that one of the great purposes of government is to insure co-operation. Let us now consider some of its invisible but logical effects within the State.

Before groups of men commenced to gather, the land, because of lack of inhabitants and of the security of tenure which the government confers, had no value. With a growing use which was essentially co-operative, though under special forms, the value grew. As mankind learned to make land more productive, its worth increased. Government gave it a value theretofore unknown. Under its protection more could be produced and at a better return. Most notably this became the case as the villages grew into towns and then great cities. The individual man increased his ability to produce through close associ-

ation with his fellows, and for this in the largest degree was the government responsible. With every increase in such ability the land, without which he could not labor, grew more desirable.

As conditions of government improve, the advance becomes more marked. When the feudal system with its hampering fears and restrictions passed away men could produce and exchange their products more and more freely. Improved government and increasing land values go together.

We have witnessed a like phenomenon most vividly in our own country. From rough, uncouth beginnings, in which government was scarcely known, we have seen it enter into almost every relation of life. With each new step we have found new value given to land. Today social co-operation, though not recognized under that name, becomes in truth greatly multiplied, with the direct result of raising land values. A like rise in value does not pertain to any branch of industry, for the value of every product of industry rests upon the cost of production or, within certain fairly well defined limits, upon the law of supply and demand.

We recognize the fact that government may create monopolies, such as our patent system, or basic transportation monopolies of various kinds. In creating a monopoly or special privilege, the government gives temporary or permanent advantages to a few at the expense of the community. These, after all, are relatively minor compared with the basic rewards coming from landholding in its many forms. We must pass them by and limit ourselves to the great economic work of government in fostering and maintaining land values. Government and land values, land values and government, are the two sides of the shield.

Why Land Values Should Be Taxed

It becomes necessary to restate and amplify some of the positions taken and arguments made heretofore.

There is a direct relation between government and land values. Every improvement in government, every advancement in the community of whatever nature, shows itself in the value of land.

Let a new road be built, however crudely, and the comfort of human life has been increased. Because of this increase, the land along the course or at the terminals of the road is more desirable for residence or industry, and therefore the value of such land is increased. Land values increase as a road grows better and better adapted to the needs of the community until and after it develops into the city-paved street.

With every new aid to health, land values again increase. When the tax on doors and windows is abolished and life becomes more healthful, when in the course of time the positive steps of formation of boards of health, hospitals, medical inspection, proper sanitation and disease prevention are taken by the government, a like result ensues.

On the side of education the establishment of schools for all instead of merely the well-to-do increases land values. Turn to the more esthetic things of life—parks, playgrounds, libraries, art galleries, music—and we see land values increase as these are created.

Thus again we find police and fire protection, designed to defend life and property, returns in its added value to the land more than its cost.

Who among us would not prefer to live in a well-ordered, intelligent, cultivated community and to pay the price therefor rather than in one of the opposite character?

A like phenomenon attends the coming of each new citizen to a community, since he adds to the desirability of the city and therefore to the land on which he must live. Every new birth means one thousand to two thousand dollars to the same end. Every improvement in government, every new industry, brings about a like result.

The services of the government and of the community at large enter so intimately into the life of every individual as to form part of our civilized necessities. To charge to each person his share of their value is an impossibility. We find their total amount summed up in the desirability of residence or the profits of business on any particular spot, and this means its land value.

To appreciate the full value of these services, let us try to imagine the consequences if it were possible in an instant to wipe out all the exterior evidences of this work—roads, bridges, schools, public libraries, fire and police buildings and apparatus, art galleries, courts of justice, everything—and leave solely our abodes and places of business. The results, shown by decrease of land values, would stagger the imagination, so much do we owe to living together.

The objects we have enumerated, coupled with the consequences of their existence in added land values, should be the merest commonplaces, but we overlook them and wander off in strange directions to find the solution of our tax puzzle.

What do they mean? All the elements named, and many others we shall not take time to enumerate, have built up for us an immense body of value. This is the result of community action under or conceivably with its agent, the government. No man can put his finger on a single cent of this and say: "This is mine; I created it." True, the co-operation of the

individual has helped form the mass, but without the aid of his fellows in the community, and the co-operation of all acting through government, the individual contribution would not be noticeable.

We find, then, that we have a great body of wealth created by all, but which we have through title deeds placed in the charge of some. May a part of this wealth created by all be taken by taxation for the common benefit of all?

If this could be called the creation of the individual, we would deny the justice of the taking as an invasion of private rights. Under the circumstances we can consider it only as a repossession by the community of something that, to the extent of the taking, the community has temporarily loaned to the landholder. The action by the community will be just, as the value is created by the community; and it will be just, furthermore, in that the government will at once expend the money for public purposes, maintaining and even increasing the value of the land.

There remain the immense stores of natural wealth in metallic ores and deposits of coal, oil and gas. These, capable of conferring untold benefit to mankind, belonged at first to the public, but have passed into private ownership. Whence comes their value save from the organized community? But for the ability afforded by the State to put them into production, manufacturing and commerce, they would remain as valueless as the sands of the desert. It is organized industrial society that gives them value.

In vain the discoverer claims rights exclusive of the society of which he is a part. With like justice might the finder of a spring in the desert claim a right to exclude other members of his caravan from the life-saving water, save upon payment of toll to

him. He can in justice retain his advantage only by rendering a proper return, leaving him sufficient reward for the labor involved in his discovery.

Sincerely we may deny the swollen claims of the man who first perceives the direction likely to be taken by the city in its future development. There are writers on the subject of taxation who claim his profits to be a proper return for his superior shrewdness. In the Middle Ages in England it was regarded as a crime to be guilty of forestalling or regrating—purchasing provisions on their way to market with intent to compel the people of the towns to pay an excessive price for the necessities of life. Though these offenses are no longer crimes, yet the man who today exacts a premium before permitting the expansion of a community offends in a somewhat like manner. The taxing power may well be used to mitigate or suppress this course without wrong to anyone. This is not to deny that today the speculator acts well within his legal rights and privileges, and in some cases, by improving the land, may even be conferring, incidentally, a public benefit. He should not demand extraordinary rewards at the expense of the community, but should always remember that he is dealing with a fund created and maintained by the co-operative industry of the whole community and which morally belongs to such creator.

When we reflect upon the peculiar nature of this property, founded upon perhaps the necessity of private right to the exclusive use of portions of the earth, when we consider that the mere possession of title deeds involves no labor whatever, while the production of all else requires active exertion, may we not wonder that such a man as Professor Seligman, a professed tax expert, can discover no essential difference between land values and other values?

Land value is the only thing that represents the growth and advancement of the community, and represents nothing else.

We may digress here to challenge the state of mind which prevents one from seeing that all the things that go under the name of property are not alike affected by taxation. The differences are so great as to clearly indicate what should and what should not be taxed. Taxation upon tangible objects of a personal nature causes their non-production or a diminished production, or in some cases their disappearance. All these effects we may justly set down as evil. Taxation of intangible personal property is attended by evils we indicate, and for the most part fails to accomplish the ends sought. The results of the taxation of land values are so markedly different as to show that such values are not to be classed with any other sort of property. Writers upon the subject of taxation often place themselves apparently so near the object of which they write as not to see its most striking outlines.

However great the tax upon land values, the land cannot be hid from the taxing authorities. It lies open to all as much after the tax as before. The tax neither helps nor hinders the production of the material object, land.

With personal taxes we find that the payer of the tax, unless he is the ultimate consumer, is compelled to add the tax to his article and pass it along. Save in peculiar instances, the tax on land values remains where it is placed, and may tend to diminish the selling price of the land, though the public benefits for which the tax money is spent tend to maintain that value. Personal property taxes, on the contrary, are always shifted unless the payer is the ultimate

consumer, and the value of personal property is not increased or even maintained by public benefits.

There is reason to emphasize the varying effects shown by the adoption of different subjects for taxation as demonstrating the rightfulness or wrongfulness of their imposition. These furnish the true criteria. Writers should abandon the attempt to find an easy, or a convenient and not too distressful, method of obtaining money by taxation, and consider the results as affording the true test of what can and ought to be done. We cannot emphasize too much the fact that taxes are beneficial or harmful according to the class or classes of property taxed, and that the effects upon industry and the property taxed are the only true criteria.

Probably in a vague way what has just been said has been recognized as true since shortly after the formation of organized society. Certainly it has found believers from the time of the recognition of private property in land. Our task is not so much to prove that land values should be taxed as it is to prove that it is wrong to tax other things.

After all, land represents nothing save a natural opportunity. Put the land to what use we may, it remains this and this only, whether we grow fruit trees or wheat, or make clothing or furniture or automobiles, for either or all the land is the indispensable opportunity for labor.

If we have something which sums up in its value all that the government can give, something whose very existence rests upon the growth of the community and those relations of each to all which we call government, is not this a value to be taken as it were to sustain its own usefulness in the shape of the return we call a tax? Let us see if we can do this

without violence to what we have found to be canons of taxation.

The first precept was that taxes should be a return for equivalent benefit. Conspicuously does the proposed "tax" meet such a requirement. No operation of government aimed in any wise at meeting the necessities or improving the condition of the people fails to maintain or increase land values. To pay back to the government a modicum of the benefit it has created will therefore be an exchange for equivalents.

Let us get away from the mysticism with which we have enshrouded government, consider it merely as a human instrumentality for the doing of very human things, and contrast the effects of the action of the individual with those of the mass acting through government.

If a carpenter builds a house he calls into being something theretofore non-existent in that place and particular shape. His action gives a new value, and for it the house-owner compensates him. The new value the carpenter creates furnished in effect the fund rewarding his labor. So it is with the production and fashioning of any article made or used by mankind. There is a direct relation between the value created by one man and payment therefor by the user, or the next in line of users. Value for value is the rule in all individual affairs.

When we concern ourselves with the operation of government we discover that an interesting variation of the problem is presented. We no longer deal with visible objects capable of definite admeasurement. It is not the duty of government to add value to a house, or coat or any other material thing owned by man, and it does not do so. On the other hand, it should not add by taxes to the cost of any useful

thing. These positions will later on be argued more in detail.

This is not to say that the operations of government have no value. They have, but it does not relate to physical things of man's creation. Their nature is quite different. They result in services, not additions to or changes in things which remain the personal property of men. These things done by the government consist in protection of the individual and his property, care of his health and education, development of the streets and roads he must use. All these services in many forms must the government furnish or stand ready to furnish to all under its jurisdiction.

When we speak of the services of the government as not being done or given for profit, we are not more than half right. It is true they may not, and in most cases do not, return an income directly to the government. For this reason they are spoken of as non-profit undertakings. But if they are of real value to the community, the result is to raise the value (rental value) of land in the control of the landholder. To him the school or park, unprofitable to the government, becomes a perennial fountain of wealth. The operations of the government are always profitable to someone, save as to war, and that carries only incidental and momentary benefit to the few who sell munitions of destruction.

The individual in the community avails himself of public services as he has need. No scheme has been or can be devised to directly charge the individual with the exact proportion of governmental service that he uses at any time. Who can say how often or how far a person uses the streets and is to be charged therefor or may call upon the police or fire department service? Sometimes certain definite things, as

water and lights, are furnished and may be charged for; but such things so furnished partake of the nature of business, at least in some phases, though intimately connected with the government's right of eminent domain and the exclusive though partial use of the streets.

We find, therefore, the distinction between the operations of individual with individual and the operations of government with the individual is in the fact that one concerns the change, improvement or transmission of private property, while the other relates fundamentally to service not attached to any property nor in its workings confined to any person. It is general throughout the community.

But has this service value to anything? Should it be paid for? And how?

Yes, we have answered to the first question. Though the value of the services of the government to any individual may not be admeasured, yet we have a sure measure, considering the community as a whole. This is found in its land values.

As we have seen, every advancement in government means a new value to land. Every new service to the community adds to its attractiveness and enhances its value. The most esthetic things done by the government—like furnishing art galleries—or the most severely practical—as building wharves or improving streets—add to land values. The facilities secured under government which lead to new business enterprises add to these values.

The charge for services which is not and cannot be made against the individual becomes a charge proper to be made against the land which has garnered up its value.

But how has this phenomenon taken place? How comes it that the service tendered to individuals be-

comes turned into land value? Again we have to repeat ourselves, at least in idea. The more government does to make life secure and attractive in a given place, the more the value of the place, through the pressure of men to live there, grows. Thus society working through the government creates what we term landed wealth.

If, therefore, the land through new or maintained values receives the benefit of government, should not such values pay accordingly? If they do, the land values will be simply paying back the benefit they receive. The rain which has descended to revive the earth will again go to the clouds to be once more precipitated. A complete and natural relation between benefits received from and returned to the government will be established.

We have found the final recipient of all the services given by government. All service rendered by government to each individual—service impossible of apportionment between individuals—is reflected in the value of land. There only remains at this point the question of the method to be adopted to ensure that such service be recompensed.

Let us “render unto Caesar the things that are Caesar’s.” Let us return to the government, the representative of all, the things that all furnish through government to make the land desirable and profitable. For convenience, this return will be made annually. If it seems better to call this return a “tax,” then so be it. But how far removed it will be from any dictionary definition of tax! It will not be in any true sense a “compulsory contribution.” In essence, it will no more be such than any ordinary payment of a debt. It will not be paid for the “support of government” in any other sense than the payment for butter and eggs is made to support a merchant.

It will be strictly a return for benefits conferred. Thus the greatest of all institutions among men will be placed upon the basis of right prevailing in the ordinary operations of business.

At this point an explanation should be made. We are not considering the problem of civilization from the standpoint of the land reformer. We are not asking a change in our system of landholding or seeking to disturb anyone in his possession of land. From our point of view, it is immaterial whether one's exclusive ownership is rightful or wrongful, for or against the interests of the community. We are not asking confiscation of lands or rent. We are not seeking land nationalization. Our ideal is equally removed from the entire abolition of private property of Russia and the constant interference with production of some of the South American republics, for example. We are not proposing interference with industry, but protection against its hostile invasion by the State. We do desire a return to the State of as much of the benefits it gives as the State may need. In this connection we regard the community and the State or government as synonymous.