

## CHAPTER IV LAND VALUES

### **Distinction Between Land and Other Values**

The distinction between land values and all other values must be clearly understood. The man who buys a house or a chair buys something for personal use, and the value of which constantly grows less and less, until in the course of time it completely disappears. Government may interfere with the production of such commodity, but cannot give anything for the money it has taken.

### **How Land Values Are Calculated**

Land values rest upon entirely different principles. Strictly speaking, they are not a lump sum based upon antecedent factors of cost, as is the case with such taxable items as houses and chairs. Land values represent existing conditions and future expectations of community growth. The selling value of land is the capitalization of the annual value, or rent, best understood in the relation between landlord and tenant. This selling value is sometimes spoken of as equal to so many years' purchase. For instance, if five dollars be regarded as the year's rental and the selling price be one hundred dollars, such price may be spoken of as amounting to twenty years' purchase value. The owner has simply an expectancy that over long periods he will be able to command the services of the community, or in other words the State, to maintain the annual value.

The fact is, that what is considered the rental value of land is determined by the excess of its produce over that which the same application can secure from the least productive land in use. This is known as the Ricardo law of rent. A part of the rent remaining in the hands of the owner (whether user or simply landlord receiving rent from the tenant)

is taken as taxes, and to such extent reduces the profit of land-holding. Whatever remains to the landlord after paying taxes is his net rent, and this amount is governed by the return received from the least productive land in use.

It is apparent, therefore, that the annual return or gross rent to the land owner will be altered by the amount of taxes he pays, and will in no wise enter into the cost of production. He cannot ask the tenant to pay an added tax on land values; he has already charged and received all the land is worth, and the tenant can pay no more.

It follows that normally economic rent (rent of land only) cannot be shifted, nor can the portion of taxes taken out of such rent be shifted to the article sold to, and therefore paid for by, another than the landholder. If abnormal rents are asked or obtained, the result is a constant struggle on the part of industry to overcome excessive payments to the land owners.

From the standpoint of taxation, the moral element in landholding (if there be one) is immaterial, so long as the owner gives suitable return to the State for the privileges enjoyed.

#### **Various Types of Land Values**

Land values may be described as public values—those values which have accrued to individuals holding real property which originally belonged to the community. Upon slight or no present consideration, but with the underwritten condition that the holder shall pay to the State its just charges collected in the name of taxes, the State has turned land over to individuals.

Upon the farm land values would include the value of the naked land only, but would exclude farm

dwellings and barns, fencing, drains, fertilizers in or on the land, crops, fruit trees, vines, expenses of clearing, and, of course, in this and all other cases, personal property of every description.

In the mine or underground, they would include beds of oil and gas, coal, copper and all other minerals when in place, and would exclude shafting, hoisting apparatus, pipes, pumping machinery, derricks and everything necessary for the exploitation and removal of the ultimate product of the undertaking.

In the city they would include the value of the naked land separate from all improvement in and on it.

In both city and country they would include, so long as the government farms out its right of eminent domain, the landed privileges largely represented by the franchises of all electric light and power, as well as gas and water companies, but would not include their operative apparatus of whatever kind. The franchise represents a special contribution by the government, for which a return should be made. A franchise enables the company to take from the community a sum much in excess of what the government would receive, did it perform its public duty, for, with no necessity of making profit for stockholders, and with power to coordinate enterprises over large areas, it could perform the same work at a vastly smaller cost.

Along the ocean, river and lake fronts land values would include wharfing privileges and rights. What was originally public property has been turned over to private individuals or corporations which receive enormous rentals.

Within a very few years we have discovered, through the use of radio, a new source of public rev-



enue in the air which the government alone can claim, wealth which exists solely because of the existence of the community. This means of communication, as well as air travel, should doubtless be the exclusive monopoly of the State. The government has farmed out the radio with but slight idea as yet of its real value.

Let us return to an examination of the principles we have laid down and see if such a tax as we favor meets their demands. We believe we have shown that a just tax should be a return for equivalent benefits. The benefits may be, and generally are, far in excess of any likely return to government. It is unthinkable that the return to government should exceed the benefit received, unless government is deliberately wasteful of the treasure of the people, as in war. To say that government costs more than it is worth as measured by land values, is to say that it is so inefficient as to destroy the basis of all values. Such a government could not long survive. It would speedily be as impotent as a stalled automobile, to which it could aptly be compared.

The tax which makes it easier for men to co-operate in the work of the community, allowing each more freely to do his share for the common good, will certainly help further the well being of all. Today taxation hampers us at nearly every point in helping ourselves and others. This great disability would be largely removed by taxing the land values only and allowing industrial freedom.

Will a tax on land values oppress industry? The corollary to our reasoning is that no tax must exist on beneficial industry. We do not advocate abolition of taxation on prejudicial industry or one so adjudged. This is an arm of defense of which it is unnecessary to deprive the State.



In itself, a tax on land values will help industries in that it will tend to open up opportunities for employment now closed because of the artificially high prices asked for land, payment for which is necessary before industry may function. Speculation in land will be attacked through making speculation unprofitable. Today this seeks to capitalize land not at twenty but often at fifty years' purchase, and even more.

By putting a stop to bogus speculative value, a tax on land values will operate to open the land to productive use. If, instead of paying fifty years' purchase for land, people can buy it for twenty years' purchase, or less, they can more readily settle upon and use the land they need. They will be drawn to, not driven from, labor's essential opportunity. The question as to whether such a tax will oppress industry we may consider as answered sufficiently for present purposes.

Will property or persons be forced to migrate? If we accept as a canon of taxation the idea that property or persons should not be driven away, assuredly a tax on land values properly operated must be welcomed. For reasons already stated, neither persons nor property will be forced to go elsewhere. The capitalist will find it to his advantage to remain with his property and to invest his money in new undertakings. He will no longer be induced to lie in order to live, speaking economically or financially, or flee to a jurisdiction where prevarication and concealment are unnecessary.

We have insisted, as a rule of taxation, that taxes should remain where placed, and not be of such nature that they can be shifted. From its violation have arisen many of the worst evils for which taxation is responsible.

May a tax on land values, exclusive of improvements and personal property be shifted? If the owner is not a producer, it is perfectly clear that nothing can be shifted. From the owner or user of the land, it may not. If he is at the same time the user, he will pay directly to the tax officer. If he is a producer, the result of his labor is brought into competition with that of other producers, including those who labor on land of little or no worth and who have practically no taxes to shift. The selling price of the product of both being on the same level, the rental value of the land, whether or not part of it be taken in the shape of taxes, does not enter into the price of the thing sold. Exceptions to this rule are so small or ephemeral as to be left out of consideration. If, for instance, articles are sold in a locality where cheaper rents prevail, we find the difference made up in difficulty of access or some like reason; it is only in the exceptional case rents represent the opportunity of charging high prices to special classes of customers.

We have concerned ourselves with the development of a principle of taxation meeting the requirements of right action and violating none of them. How this principle will work in practice must be the subject of extended consideration. If unsound, it cannot arrive at the dignity or deserve the title of principle.

Our sole purpose now is to determine if today there exists a standard of right action, under generally accepted canons of sound conduct, which should control the levying and collecting of taxes. If such a standard can be found, and we believe we have found and stated it, then this standard should be followed wherever it may lead.

Our method will be to reason from the existence of rights which may not be denied to the results which flow from the recognition of them or the refusal to recognize them in their true character.

Our analysis so far leads us to reduce the whole question of taxation to the simple proposition that as between the State and the taxpayer there should be the exchange of a proper *quid* for an equivalent *quo*. The whole question is as simple as this, and to every theory of taxation should be applied this cutting-edge, whatever other argument may also seem appropriate.

There is one objection to our plan that, if well founded, is vital.

It is said that the levying of all taxes upon the value of land will create two classes in the community, tax payers and non-taxpayers; that the interest of the non-taxpayer in community affairs would become negligible; that it is contrary to good government for so large a section of the community to be left without a stake in the government and yet probably control its affairs.

Under any imaginable system of government, or any likely to be created hereafter, there are no such persons as non-taxpayers. Today, even with indirect taxes which are so largely shifted under existing systems, those who are relieved at one point pay at some other point. If all taxes were levied upon the value of land, all would remain taxpayers. While the incidence of taxation would be decidedly altered, emphatically none would escape. There is no one living who does not exist by virtue of the fact that in some way he is a user of the land. His apparent escape from taxation is the fact that another pays for him, as in the case of an infant or the disabled. In some fashion, enough land for him must be with-



drawn from the use of the rest of the community and paid for to the extent of such withdrawal. Upon it taxes must be paid to the government, as the representative of all, and then used for the benefit of all. Thus each one is a taxpayer to the extent to which he enjoys exclusive possession of land.

Such a payment is not a tax, but more truly it is a return for his privilege. No such payment can be transferred, as in the case with taxes upon the cost of personal property, which must be recovered or production ceases. The situation of the land owner in every instance is that the selling or rental value of his privileges is reduced by an increase in the tax or increased when taxes are lightened.

The effect of levying new taxes upon land value will be to enlarge the body of landholders interested in the operations of government. The owner will not so readily carry non-productive land or that which produces insufficient revenue to justify holding it out of use. Thus the body of men having a direct interest in the successful operations of the State will increase.

Further, we must not forget that one of the great interests of all, whether the owners of the title to land or not, rests in the proper disposition of the proceeds of taxation; in other words, that the community gets the worth of its money. Anything else is an economic waste, offensive to the small taxpayer as to the large. While he might rejoice over the diversion of public moneys to his own personal benefit, he is offended by its disposition in wasteful ways to another. Any new body of conscious taxpayers adds to the number of citizens having a direct and therefore appreciated interest in avoiding the wasteful use of public moneys.