

CHAPTER VI

NATURE OF PROPERTY—REAL AND PERSONAL

Meaning of the Word "Property"

Before we proceed further in the discussion of a tax levy upon land values as opposed to a tax upon buildings and other improvements on or in land, we must consider just what is meant by certain words.

By the term "property" we cover everything capable of individual ownership. The government determines what may be privately owned. At one time the State recognized property in men. In the United States at present property in liquors is subject to various limitations. We have to remember that within a short time laws of property in Russia have changed fundamentally, and even with us property in slaves was abolished and business in distilleries and breweries limited within recent years. The statutes of the future as to property may materially differ from those of today. We cannot, therefore, regard the word as more fixed in meaning than we have stated.

The things which the State today regards as property—that is, capable of individual ownership—are included in common parlance in the terms "real estate" and "personal property." Both classes are regarded as consisting of visible objects, save as to money in bank, evidences of ownership or claims of various kinds and certain monopolistic creations of the State, such as patents and ownership in public utilities and the like.

What Is "Real Estate?"

The lawyer, who was no economist and looked not beyond certain external conditions, created the term "real estate." Under this term he included not only the naked land, but also every improvement in and on land. He assumed that in some subtle manner the

house changed in nature from the materials of which it was constructed, and became converted to the character of the bare estate or land on which it was placed. For purposes of inheritance or transfer this may have been convenient enough, but as an economic proposition it was and is false. A growing conception of its falsity is shown in the quite general separation of land and improvements for purposes of taxation, although this separation is as yet particularly defective as to farm lands.

In fact, a building is merely personal property put to particular uses. Resolve it into its constituent parts, as by tearing it down, and the result is recognized as personal property. Only in minor details can the land be altered. Its destruction in any material way is impossible.

Further, improvements and land are of different origins. One is the creation of nature exclusively; the other, as all tangible personal property, is the result of the labor of man. The value of the land depends upon its natural wealth, as associated with the growth and prosperity of the community. Personal property, whether placed as improvements or not, embodies and owes its value to human labor. Like all other objects of human origin, it loses value through the lapse of time, finally becoming worthless. Economically there is no affinity between land and the buildings upon it—only juxtaposition. While the tax on land values is not shifted, as we have shown, that on improvements ordinarily is passed on. “Real estate” is therefore not an economic but a legalistic conception. The original classification of the lawyer is turned into an economic error of the first magnitude.

Acting upon this blunder, the modern day realtor objects to the placing of larger taxes upon real

estate. In part he is unconsciously right, but in detail fatally wrong, either through ignorance or intent. He is using the small taxpayer to protect unearned wealth and to promote land speculation through ignoring or purposely concealing the vital difference between the two elements in real estate—a difference so great that their interests absolutely clash. We may accept his belief that improvements are over-taxed. We must reject his contention that land is overburdened.

This brief analysis changes our classifications from real estate and personal property to land and personal property, whether the latter is placed more or less permanently on the land or is of the other tangible or intangible characters of which we have spoken. So treating improvements of whatever nature, we find them subject to the economic consequences usually attaching to personal property, and when we speak of taxation upon them we shall largely be discussing the consequences of taxation of other forms of tangible personal property.

Too many taxpayers fail to distinguish between taxation upon land values and taxation upon personal property in place as improvements. The fact is that with hardly an exception taxes upon land values are too low and that no tax on improvements is ever justified. In the State of California it is safe to say that billions of dollars' worth of land values now almost entirely escape taxation, while improvements are taxed nearly beyond endurance. Yet all go under the name of real estate. Let the individual taxpayer analyze his bills and contrast them with payments made by owners of golden natural opportunities, particularly of oil and gas properties, and of speculative holdings awaiting the development of cities. So long as the people generally remain ignorant upon

this most important topic, just so long can realtors, land speculators and sellers of "real estate" assert successfully their most unfounded claims.

What Is Personal Property?

We have pointed out that improvements are simply personal property which has assumed a special and more or less temporary phase. Therefore, before discussing improvements and the effect of taxation upon them, it seems best to consider at some length what personal property is. It is ordinarily divided into tangible or movable property, and intangible property—evidences of ownership or money in bank, as the case may be.

Personal property is the production of individuals for the use of the immediate producer or otherwise. It is the property of the possessor as a producer, though he has given other results of his labor in exchange.

Articles produced are to be regarded as the property of the creator because in their production he has expended a part of himself,—of his time, his exertions, his mentality. They cannot be taken from him without taking a part of his life. No one may deprive him of them unless with his consent, without being properly characterized as a robber. As between men, this is thoroughly recognized. When the State enters upon the scene we permit it, without question, to take part of his production in the shape of taxes. This situation is not altered by the fact that money is paid instead of a part of the specific property levied upon.

If any right, that of producing freely whatever man needs for his existence can be termed a natural one. All useful articles are the results of the exercise of such right, whether food or clothing or house-

hold necessities. To prevent interference with this right, we have our courts; but no one can prevail against the State, which, we repeat, is but an aggregation of men. The State may violate a canon of right action, and we unthinkingly submit. Is the State's action defensible?

If the State, taking through such taxation on personal property, has rendered an equivalent, however harsh its action may be, no fundamental objection can be maintained. If the good of all demands it, there may be some justification; but in fact it renders no equivalent and the public good demands no such method of taxation.

Let us see if the State has rendered an equivalent, for such pretense is made. This forces us to review some things already said.

The equivalent is not to be found in improvement to the personal property that is taxed. No magic wand waved by the State has changed the character of the object levied upon. The watch, the bed, the cookstove, the plow or reaping machine, remain physically unaffected by anything the government may do. The food supply continues to exist unaltered. Unchanged in nature, so also it remains unchanged in value, although merchants may increase its price to the extent of the taxes levied. This cannot be called a benefit either to the holder or to the subsequent purchaser. Thus far the State has taken away, and has given nothing in exchange.

Has the State conferred any intangible benefit not noted in the value of the article? The community, acting through the State, has given value to the land upon which men work; and this land value, otherwise capitalized economic rent, and not the product of the individual, is the proper subject of taxation.

While violating the rights of the individual by lessening his freedom of production and action, has the State infringed upon any other proper limitation upon its taxing power? It has, by creating a tax which through all its permutations rests on the final user of the property. While appearing to tax one man, it has in reality taxed another, until it reaches the final consumer, who finds life so much the harder.

If the personal property takes the form of a house subject to annual taxation, and is rented, the ultimate consumer is the renter. The owner rents the house expecting that the tenant will pay enough to cover interest on the capital invested in the house. The cost of the house is considerably increased by the various taxes already paid on the material used in its construction. Hence the renter, as ultimate consumer, must pay much higher rent because of taxes concealed in the cost of materials, and the direct tax on the house—which amounts to a tax on consumption. For buildings are as truly consumed by use and time as food is through entry into the body. We may in substance repeat what is said in “An Unshackled Civilization.”*

Anthropologists tell us that from the history of a single article used by civilized man it is possible through all allied relationships to reconstruct the whole history of a civilization. So dependent are we upon one another that to give the complete history of one object we would be obliged to describe the making of everything which entered into its construction. As taxation everywhere attends upon what we call civilization, the different points at which it touches production, affecting the thing produced,

* By Jackson H. Ralston, Ingram Foundation, San Diego, Calif., 1930.

renders its history quite as difficult and as widely ramified. Only in a cursory manner can we attempt it, but in a way we hope to awake attention.

We will take for our illustration as simple a thing as the axe. In it we can see mirrored the history of nations. Man went through centuries of time and tried less effective agencies and innumerable experiments before he arrived at the production of iron, and still more centuries and experiments before he came to understand steel. These products represent everything in connection with civilization, its wars as well as its peaceful pursuits.

Immediately and remotely we shall find that the tangled skein of humanity must be touched at every point before we complete the circuit of all the elements involved in the production of so minor a thing as an axe.

Taxation, likewise, as an element interwoven with civilization, enters in a thousand forms into the history of the axe, for all present phases of human industry had to co-operate to bring about its production, and all were taxed.

We shall review the situation today, confessing that our account will err in being an understatement of the facts rather than an overstatement. The woodsman with his axe, bearing upon it the burden of many taxes, each an offense against industry, sallies forth into the forest and cuts down a tree. This tree, by means originally simple but afterward through steam and rail becoming more complex, is hauled to the mill where it is turned into lumber. Everything connected with the mill has been and is the subject of taxation—all the lumber and metal forming a part of it. However, in its shape as a mill, it is levied upon by the State, and the logs cut by the woodsman's axe, as they pass through the mill and

are turned into lumber, are again taxed. When the log has been reduced to lumber, this is transported by rail or water vessel (taxed instrumentalities) to a wholesale lumber yard. Upon its arrival it is subject to taxation, for usually the wholesaler pays a license tax, as well as a tax upon the average stock in trade of lumber he carries.

By the wholesaler the lumber will be sent to a retail lumber dealer or to a manufacturer of furniture. In the possession of the retailer it is taxed in like manner, with perhaps a license tax added.

Bearing these taxes upon it, the retail dealer may send it to a building contractor, who in turn is called upon to pay, if not a tax upon the particular lumber itself, at least various business taxes. He, however, puts it finally in the shape of a building whose purchaser settles for all antecedent burdens.

But the lumber may be sold to a furniture manufacturer. If so, the manufacturer pays a license tax and a tax upon his plant used in the conversion of lumber into furniture, although each component part of the plant has been variously taxed before reaching the manufacturer. Because of this continuous series of taxes, as well as his license and the taxes paid by the manufacturer upon his average stock of goods in possession, the furniture goes to the storekeeper again heavily burdened. In his turn the storekeeper is once more required to pay upon his average stock and usually a license for the privilege of selling furniture. The dealer, however, cannot afford to meet all of these taxes except he be recompensed, and this recompense is obtained from the final user or householder.

Nor is the government content with the fact that the whole burden of taxation, up to this moment, has been met in the price paid by the person who en-

joys the use of the furniture. A special tax is levied by the State annually upon all the furniture in the house, excepting only, as a rule, immaterial values small enough to escape the computation of the assessor. But in spite of all these taxes, every single act thus punished has been innocent. The only offender is the State acting in the name of us all.

In this history, only the high points of which have been touched, we discover from beginning to end that the canons of taxation with which we started have been violated in every particular. Taxation has been used to obstruct industry. Taxation has not been levied according to benefits received. Taxation has not rested where it was originally placed, except when imposed on the unfortunate householder. Taxation has interfered with liberty in that it has levied its special tribute upon every occupation before it could be pursued. Taxation has not been levied upon any special privilege, but absolutely upon industry and thrift in very many forms. The natural co-operation which should exist among mankind, for the benefit of the community as a whole and each individual in it, has been set aside as if inconsequential. All this has resulted from the taxation of personal property, though we have scarcely begun to state the evils.

With the larger social damages thus inflicted, we shall not now deal. We do point out, however, that voluntary social acts have been interfered with—natural laws, greater than those of governments established by mankind, have been set at defiance. This cannot be done with impunity. The right to live and to produce for one's benefit is suppressed among us, save it be bought at a price. The producer becomes a criminal whose liberty has to be paid for. This bald

statement may shock us, but it is merely the essential truth.

Attempt to tax personal property, and as far as it can be given legs or wings it disappears. Time and time again it has been proven by the tax rolls that watches have become lost to sight, that horses and cows cannot be discovered. Diamonds fly off, to return when the tax-gatherer has passed by. Only the more stationary objects remain. Utter confusion and disproportion attend such taxation. Food, clothing and other necessities remain, while luxuries are not on the tax rolls. The poor die oppressed and the rich are not much troubled.

We shall turn briefly to taxation upon intangibles. If it be upon cash, it is upon an evanescent thing. In another sense than first given, " 'Tis mine, 'tis his and has been slave to thousands." Here today and gone tomorrow, being after all only a token, to be redeemed and re-redeemed against the stock of the world's goods, it is too volatile to be reached with any certainty. Any attempt to do so with an approximation of justice is as impossible as it would be to chase moonbeams, and but little more fruitful.

Now as to the remaining forms of personal property. These are to be classed as stocks and bonds. We have sufficiently discussed taxation of them when examining the theory that all property should be taxed. The argument need not be repeated. The impossibility of any real tax upon them has been demonstrated, as well as its harmfulness when attempted.

It is notable that while the more wealthy citizens of our communities are succeeding in getting rid of taxation upon their valuables, the poorer taxpayers have not yet waked up to the situation. To find the proper subject of taxation becomes the personal duty

of the well-to-do and the poor alike. We must understand the underlying principles and not be content with merely an escape from our individual burdens.

If in principle these personal taxes have not been justified, do the necessities of the State compel them? Again we must give a negative answer. We have shown that while limiting personal property with the taxing arm, hurting when we have succeeded, and as to intangibles often and justly failing, we have lightened taxes upon the very thing the community itself created and to which it might properly resort for all its revenues—the value of land. Until experience shows this to be inadequate, something we predict will never be done, let us stop punishing the individual earning his living. Let privilege, not industry, be taxed.