

CHAPTER VII IMPROVEMENTS

General Considerations

We have seen that improvements on land usually consist merely of personal property temporarily in a particular form and devoted to a special use. Should production of such improvements be permitted unhampered?

We may first look at the general problem from the simplest point of view. Is it not to the advantage of communities and individuals that dwellings, stores and factories should be erected? We will at once give assent. We go so far as to permit appeal to the courts to prevent any individual interference with such action, for man may not impede the lawful action of his fellows.

Turn to the State and its subordinate jurisdictions. In so doing we do not forget that the State is simply the whole body of men acting through its representatives. Here we find that the rules accepted between man and man are entirely forgotten. Our original controlling principles of action are overlooked. Does that which was wrong in one man become right when done by the mass? The human element is no longer given attention. Nevertheless, it continues to exist. The revenges taken because the State ignores or fails to recognize this element become apparent in an unjust civilization.

What have we collectively done? The man who would establish a home, the dearest of all human ends, is subjected to a perennial penalty. As soon as the house is completed the tax assessor appears to determine its value and the amount to be paid annually for the high crime of protecting one's family from the elements. Do not make the mistake of thinking the penalty a small one. In the course of the life-

time of the house it may easily amount to as much as the original cost.

What, after all, has the home builder done? Aside from the fact that he has created a house and added to the well being and stability of the community, he has given employment to his fellow men, even in the most distant part of the country. For him trees have been felled in the forest, ore has been dug out of the mines, foundries have been busy, transportation has been employed, men of twenty trades have fabricated the final structure. One would think that such conduct would at least justify non-interference—would rather have justified help, if anything.

We look with pleasure upon the well-constructed and well-appointed house. But the better the house the higher the tax. We say repeatedly that we desire men to be actively employed in beneficial labor. Why then do we interfere with such action by taxing the ultimate product of so many? The only possible answer is that the State possesses the power and so acts, impelled in its course by the influence of privileged citizens and moved by false theories as to “ability-to-pay” and that “no property should escape taxation.”

Is this tax a return for any benefit conferred by the State? If so, it is just.

Let us recall observations already made. If the carpenter, the bricklayer, the jeweler and all others find the value of their work embodied in their productions, so likewise, if the State has contributed anything, that value should enter into the house—which is taxed. Has this taken place?

We are told that the State affords protection to the house through its police force, that it furnishes a fire department, that it has built roads to the house and placed sewers in the streets. True all this is, but

not one dollar has been added to the value of the house. Built in a wilderness or built in a thickly inhabited city, except under very temporary and exceptional conditions of supply and demand, the house will not be worth more than its cost of construction. Not all the governmental powers of the state can add to its value one cent.

The property is protected against the marauder and fire. Such services are of value, and they add value to the land but not the house. The vacant lot next door shares this added value equally with the lot upon which the house stands. Roads and sewers may be constructed and again value is added only to the land. Benefit results from the action of the State, but not to the house.

In the State of California not far from 50 per cent of all local taxes go to the support of schools. These taxes render no man's house more valuable, though it is thereby heavily burdened. We find, however, that schools have raised land values. The State of California, with one-twentieth of the population of the Union, possesses 10 per cent of all High School students in the United States. Nevertheless, school taxes are not paid in due proportion by the property benefited.

Steadily the house deteriorates in value with the passage of time and obsolescence due to changing ideas of comfort in the community. Again the State can do and does nothing for the house, yet taxation upon it continues. In time it may prove more economical to preserve a shack on valuable land lightly taxed than to build a house which would be heavily taxed, although the new structure would be at the same time a public benefit.

Improvements on land may be wise or may be foolish. When they are of a nature to accord with

the general surroundings they may usually be classed as wise. When out of touch with the realities they may prove otherwise. How many towns there are throughout the country with places known as "Smith's Folly," representing large expenditures in an inappropriate neighborhood? The men who are responsible for their construction are sufficiently punished by their monetary loss. There is no occasion to make them pay smart money in taxes.

Yet the idea remains that the owner of a house of considerable value should pay accordingly. What he should pay he does pay in communities where only land value taxation prevails. If an extensive house is to be constructed he will build either upon a small plot of high value or upon a considerable tract of lesser value. Fine houses require high land values if one would not emulate the builder of a "Smith's Folly." Similarly, a man of business acumen will not ordinarily construct a modest house on land of great value, but will build an improvement appropriate to the land. We thus find there is a definite ratio between the value of land and improvements. No method of taxation can change this situation.

Frequently the owner of valuable improvements on land, as an apartment house or an office building, discovers that, owing to high taxes, his return is less than the average return on money invested. Let him investigate and he will find that the community has done no more for him than it has done for his neighbor who owns only a shack or an inferior house. Yet every dollar he pays is expended in maintaining one way or another land values in which the two of them share. He pays more than is returned to him, while the other pays less. His industry and his employment of labor have put him in worse plight. Can

we not see how this discourages further improvement?

It is interesting to find, as will be shown later by particular instances, that in the cases of the more humble houses everywhere the land values represent a smaller percentage of the total value of the "real estate" than is the case with more ambitious homes. Further, it will be found that the assessor, perhaps through ignorance, will under-assess the more expensive houses while maintaining much higher ratios of value on houses of modest value. The tax, therefore, upon the houses of modest value is a special discrimination against them. This adds to the general distress resulting from the levy of a tax unsupported by principle.

If we have demonstrated anything so far it is that taxes which should have been paid on land values have been shifted on to the improvement values. The extent to which this has been done, accepting even the present unscientific methods of determining land values, is extremely onerous to the improvement owner.

Relation Between Land and Improvements

The relation which improvement values bear to land values, according to assessment rolls, differs with every jurisdiction, yet it is not far out of the way to accept, as we do for discussion, equality of value as between the two. If, therefore, land be valued at one hundred millions and improvements at the same figure, with a tax of two per cent, each would pay \$2,000,000 annually, or an aggregate of \$4,000,000. Suppose the tax on improvements were immediately shifted to the land values, the latter would pay double and improvements be free.

But part of the new tax on land would rest upon land covered by improvements, and to this extent such land values would make up part of the tax theretofore borne by the improvements. Nevertheless, the change would be large. If we suppose one-half the land to be associated with improvements, the result would be as follows:

	Present Tax	New Tax
Land associated with im-		
provements	\$1,000,000	\$2,000,000
Land bare of improvements..	1,000,000	2,000,000
Improvements	2,000,000	
	\$4,000,000	\$4,000,000

Carried to its ultimate, the land values would tend to decrease because of higher taxes and the tax rate would have to be raised to produce the same revenue; but a striking benefit to owners of improved values would always result. In a certain instance, just this procedure resulted in a two-thirds increase in rates which produced a larger revenue. In only a single case out of a hundred was there a slight increase on an improved household property, and this because an exceptionally large area of valuable land was included. The beneficial result to the owner of improvements becomes therefore enormous. We shall recur to the proof of this in a moment.

From all that has preceded it becomes apparent that the owners of the smaller tracts of land with appropriate home improvements will gain in even a larger measure than indicated. For the fact is not to be overlooked that the land values included in the modest household usually are from one-fifth to as great as one-third as much as the improvement values. At the same time, where there are greatly in-

creased improvement values, the land values usually far exceed those of their improvements. But now we read of land values in Chicago of \$15,000 per front foot, far exceeding the value of any improvements likely to be placed upon them. It is not so with the small householder.

Perhaps the most thorough investigation into the effect of exemption of all improvements from taxation upon the small householder was made by Professor Robert M. Haig in "Some Probable Effects of the Exemption of Improvements from Taxation in the City of New York," published in 1915. From a multitude of figures and instances he proved that such exemption would in almost every instance enure directly to the benefit of the small householder, even though the tax on land values were advanced to cover the exemption. The diminution of land values would amount to about 8½ per cent, were such exemption made all at once.

But the benefit of such readjustment will extend much further. At present the basis of land-value taxation must be largely increased. Our privately owned beds of mineral, oil and gas remain largely untouched by the taxgatherer. Let them be suitably brought under the taxing arm of the government and the basis of land-value taxation will be infinitely broadened, with marked benefit to the small householder. This will make it easier to exempt all improvements from taxation.

Still another phase of the problem remains to be touched upon, which more directly affects the farmer. We have considered improvements upon land. Let us discuss the matter of improvements *in* land, which are of the same nature.

Much of the work of the farmer is less conspicuous. After clearing the top he breaks up the surface,

fertilizes and drains it, perhaps providing irrigation ditches. Of course his visible improvements, such as fences, houses, barns, etc., should be free from taxation. So should the less visible results of his labor. His basis of taxation should be no greater than that of the absentee owner of neighboring land who holds his land vacant and unimproved. As a result of the change, it will be discovered in almost every instance that his basis of taxation will be exceedingly small. At the present time the assessor confuses improved and unimproved values. The farmer should no longer tolerate this. It is the opportunity to cultivate land that should be taxed, and burdens should not be increased because land is put to its best use.