

CHAPTER XII

PROGRESS OF OUR IDEAS

Some General Considerations

If the ideas we have sought to elaborate were entirely novel and had received no practical application, we might well be distrustful of them and wonderingly inquire why, if obviously correct, they had not received earlier recognition. We shall find, however, on examination that they have been in the thought of many men and have to no inconsiderable degree been introduced into the politics of our time. The only originality, therefore, which can be claimed for the present work is in the new approach and point of view, and consequently different emphasis.

We may look in vain in ancient history for any solution of value considering modern conditions. This is not to say that in one shape or another the fundamentals had no existence in society. Most prominent in the ancient world was the land question. We find that this was appreciated by the Jews, who sought to maintain equality as between the different families by the Fifty Years' Jubilee, when the original owners were restored to their former possessions. We are interested to learn that Lycurgus in Sparta sought to preserve individual equality and to insure to every young man attaining majority his fair share in the use of the community property.

Again, we discover that the Gracchi endeavored to prevent too great accumulations of land in the ownership of private persons. In their efforts they lost their lives, and ultimately Rome perished through its Latifundia, or great landed possessions, placing the land in the ownership of a small group of persons, while the common man became little other than a serf.

Among the Russians was the institution of the Mir, controlling communal lands for use.

The significant difference, however, between all the ancient instances and the modern situation arises from the superior development of our modern society, which has transformed the ancient land question into the modern phase of taxation. The old remedies, or attempted remedies, have no place in present civilization, which must reject communal ownership and family equality and find a suitable return to our artificial government of that which is created by all.

The first evidence of a realization of more modern conditions was among the French physiocrats. Their work failed to distinguish clearly the difference between land and improvements, while they had no adequate conception of the more recent growth of personal property in its various phases and of the development of mineral wealth. To them agriculture presented an importance which has ever since tended to diminish. Nevertheless, if the broad ideas of Turgot had prevailed, the later history of France had been happier.

In 1780 a young Italian, Gaetano Filangieri, wrote a work, celebrated to this day, entitled "La Scienza della Legislazione," in the course of which he discusses the question we have raised. Whether he was influenced by the ideas of the French physiocrats or separately arrived at a like conclusion, we have now no way of knowing. His theory is developed at considerable length and with clarity. He points out the evils of indirect taxation, under which he classes all taxation other than that upon land values. In this connection he declares that a man may support a weight of 100 pounds on his back, but succumbs under one pound upon his nose, this showing the importance of the incidence of the tax burden. All

indirect taxes are, he finds, assaults upon public tranquillity, violent irritants, the resort of fraud and oppression, and unequal. All this weakens liberty and diminishes exchanges, injures agriculture. The only tax, he found, should be on the land from which come perennially riches and the national rent. This tax removes all obstacles to agriculture, commerce, arts and industry. Unused land should be taxed according to the productiveness of like land in use. This change of system he did not think should or could be instantaneous, but the result of steady education and progress by gradual steps. He stressed the fact that public happiness is nothing else than the aggregate of well being of the individuals who compose society; that where a few possess all the wealth the society is ruined.

Progress in the United States

We have already noted the failure of Colonial and State governments to differentiate between land, improvements and personal property and their confusing all three in taxation. Only within the last hundred and ten years does the importance of taxation in our social economy appear.

It is interesting to read that in 1825 (Ely's *Taxation in American Cities*, p. 135) land was valued in Ohio "without taking into consideration the value of the actual improvements thereon," and that at the beginning of the century land in Kentucky was taxed without regard to improvements. However, dwelling houses in Ohio, at least in the country, were rarely rated above two hundred dollars. With regard to Ohio taxation, Ely quotes a letter which says: "The result of rating farm lands unimproved was beneficent, and large bodies of land were held in northern Ohio, where I lived, by non-residents; and

they generally held on to the land until pioneers, by improving neighboring farms, rendered this land valuable. * * * The effect was to induce them to sell to those who had used the land, improved it and obtained a profit from it by way of production, and not simply by rise in value. It thus contributed to the more rapid settlement of the State. It also tended to discourage farmers from buying more land than they could use. * * * Barns, fences, fine fields, good plows, harness, etc., were not taxed at all." Ely changed his economic views upon making a fortune as a land speculator.

Going farther west, the early constitution of Illinois provided for equal taxation of land and personal property. The city of Alton, not believing that the constitution applied to municipal taxation, in the latter part of the 1830s, directed that improvements should be stricken from the assessment list. This gave rise to a suit which went to the Supreme Court of the State, (Filch et al. vs. Pickard et al., 4 Scammon, 69) that body concluding that the State constitutional provision did apply to municipalities. The lawyers defending the ordinance said: "Nor did the act of incorporation require that improvements should be included in the assessment of the lots. It had reference to the naked soil, and did not intend to interfere with that liberal policy which protects and encourages improvements." But the Court invalidated the ordinance as above indicated.

We are further told that "in the territorial days of Iowa, for instance, improvements were exempted for a time in 1840, and a few years later an important discussion took place in which the disadvantages of the unearned increment accruing to non-settlers and especially to absentee speculators were fully set forth, with reflections on the dangers of

land monopoly. As the country was built up, however, absentee ownership diminished in its relative importance and the demand for the exemption of improvements disappeared." (Seligman, p. 95. note.)

Aside from the intimation just made, we are not informed as to why the experiment ended. It seems probable that the farm-owning class had become infected with the speculative spirit, and, controlling in the legislature, worked in its immediate pecuniary interest. At that time the evils of taxation of improvements and personal property had scarcely become manifest, and urban development had hardly begun. The real study of the subject of taxation was in its incipiency.

Treating first of the more recent developments in this country, and with particular regard to exempting personal property and improvements from taxation, we have to pass over many years before reaching modern applications. The Pennsylvania constitution of 1873 represented a tendency toward greater liberality by providing that "all taxes shall be uniform upon the same class of subjects within the territorial limits of the authority levying the taxes, and shall be levied and collected under general laws." In practice, personal property in Pennsylvania is almost completely exempt from taxation.

In 1892 the Commissioners of the town of Hyattsville, Maryland, relying upon a decision of the Court of Appeals of the State to the effect that municipal corporations were not subject to the constitutional provision requiring uniform taxation upon all classes of property, and also relying upon special charter provisions, freed all personal property from taxation and levied town taxes upon land values, exclusive of improvements. Their action was immediately

challenged in the courts, and the Court of Appeals, in its final decision, dismissed the particular action as improperly brought, but at the same time, and as entirely *obiter dicta*, declared the town without authority to take such action, and that it was unconstitutional. The Court went so far as to hold that it was economically unsound—something as to which it was not qualified to judge.

It is to be added that for one year the entire town taxes of Hyattsville were collected from land values. In order to obtain sufficient revenues, the rate of taxation was increased two-thirds, which yielded rather more money than the town had before received. The large landholders whose properties were generally held speculatively bore an additional burden of taxation, while in almost every instance the small householders found their taxes materially diminished.

This led to a long struggle to amend the constitution, which finally succeeded in 1915. The result was to give the legislature power to classify improvements and personal property, to direct that land should be taxed; and that as to all other classes taxation for State purposes should be uniform within such classifications as the legislature should direct to be taxed. The same power over the subjects of taxation for their purposes extended to the various counties and the City of Baltimore, but all other municipalities were left entirely uncovered. The legislature subsequently passed an act, allowing under certain conditions, full freedom to municipalities of its creation. Under this the town of Capital Heights has since levied its taxes exclusively on land values, and several other towns have exempted personal property, and also improvements, in part.

In 1911 the town of Everett in the State of Washington voted by a large majority in favor of a par-

tial exemption of improvements; but this was declared by the State Tax Commission to be unconstitutional and never put into effect.

A partial exemption of improvements was obtained in Houston, Texas, with beneficial results, but met with legal opposition on the part of land speculators, which was to a large degree successful.

The most conspicuous of recent instances in this country illustrating a tendency toward freeing improvements is afforded by the city of Pittsburgh. In 1913 the legislature of Pennsylvania passed what was known as the graded tax law for second-class cities, which included Pittsburgh. Under its provisions the tax on improvements was to be diminished ten per cent each three years until it should stand at fifty per cent. Improvements are now taxed at one-half the rate of taxation upon land values. Unfortunately, this step is not as great as would appear, for the city taxes represent, roughly, but one-half of the total taxation on land and improvements. The net result, therefore, has been to diminish the entire taxation on improvements but about twenty-five per cent.

This step of relief met with much opposition, finally culminating in an attempt at the repeal of the Act. However, a veto by the governor, based on protest of many organizations, prevented its repeal.

Small as is the approach toward complete exemption in Pittsburgh, nevertheless its effects, in the opinion of its chief assessor, have been great. (The Annals, Real Estate Problems, 1930, p. 139.) He writes: "In the years to come, when full development takes place, a full realization of the benefits of the graded tax system will be found. We can say at least that the man who does something is not being penalized by having a heavy tax burden placed on

the buildings which he erected, no matter for what purpose." Significantly he adds, as bearing upon the suggestion that the holders of vast improvements profit particularly from the tax, that "sky-scrapers, i.e., the portion of the building above the second or third story, show a very low return on the investment; and where a return above normal is shown for a sky-scraper, comes from the ground floor rentals."

He further says: "It is my judgment that 95 per cent of the housing properties in Pittsburgh are benefited through tax savings by the graded tax plan. A complete analysis was made of a typical home-owning ward, and in this ward, out of a total of 3272 owners of improved properties, it was found that 3250 pay from 30 per cent to 5 per cent less in taxes by reason of the graded tax plan. It is my conviction that these are the properties which should receive the greatest consideration, because the land values of this type of property remain stable, whereas building values suffer an annual depreciation. The wealth invested is greatly decreasing, while these same people are helping to create the increased wealth in the form of land values in the best section of the city."

Professor Seligman has expressed a fear (Proceedings of the National Housing Conference, 1915) "that the under-taxing of buildings will increase the congestion per acre, * * * increase the tendency to erect lofty apartment houses and decrease the tendency to have little gardens about the houses in the suburbs." An unfriendly critic of the Pittsburgh graded system, in what he terms "a critical analysis" of its operations, (The Annals, Real Estate Problems, March, 1930, p. 154) says, "Undoubtedly this theory [that above cited] is founded on well-established economic principles. It cannot,

however, as yet be proved by Pittsburgh's experience." It could not be proved by the experience of Pittsburgh or any other city trying it, simply because there is no such economic principle. Our later citation of the experience of Sydney sustains our position.

There is now a very considerable movement in Pittsburgh toward completing the exemption of taxation on improvements to the extent of the additional fifty per cent which, after all, represents but one-half of the total taxation levied upon improvements in that particular area, considering that the rule would not apply to more than the city taxes.

Scranton, the only other second-class city in Pennsylvania, affected by the above-mentioned action of the legislature, appears to be entirely satisfied with the change which has been wrought in its condition.

Let us turn to some other developments of the same nature, but different in detail, which have taken place in the United States. While the constitution of California includes for taxation both land and improvements, nevertheless, the Supreme Court of the State has recognized the right to create taxing districts for particular purposes, wherein a tax may be levied upon the sole property benefited—the land values. The effects of this position have been especially evident in the irrigation districts of the State.

As originally framed, the irrigation law of California provided for the taxation of improvements as well as land for district improvement, though personal property had never been taxed for this particular purpose. In 1909 the statute was amended to permit the assessment in all districts organized after April 1, 1910, on the land value only, for the purpose of paying interest and sinking funds of the bonded debt, and other purposes. Five districts or

ganized under the old law were permitted to adopt the system of taxation of land values only by "a majority vote of the resident holders of title to lands situated within the district." It was through the efforts of such owners in the Modesto Irrigation District that the change in the law was brought about.

At the election held in 1911 the Modesto Irrigation District adopted the new system. A statement signed by the Directors of the District and many others, including the two Modesto newspapers, says that "as a result of the change, many of the large ranches have been cut up and sold in small tracts. The newcomers are cultivating these farms intensively. The new system of taxation, in collecting all of the taxes from the value of the land, has brought great prosperity to our District. Farmers are now encouraged to improve their property. Industry and thrift are not punished by increase in taxes. In the Modesto Irrigation District the man who builds a house or barn will not have his irrigation tax increased. He will pay no more than his neighbor next door who allows his weeds to grow on his land." The very considerable city of Modesto is within the lines of this irrigation district.

The first district organized under the new law was the Oakdale Irrigation District. In 1914 the City Trustees of Oakdale and the Directors of the District joined in a statement saying: "Speculators do not buy land here; each sale is made to an actual settler who brings his family among us, builds a decent home, seeks to better the conditions of the neighborhood and adds greatly to the prosperity of our community. Our experience has taught us that the more you relieve improvements from taxation, the quicker will the country improve. * * * Our farmers put the land to its highest use, the use that

is most beneficial to the whole community; our system of taxation compels them to do this and they reap a greater profit for themselves. Many say they can now afford to borrow money to make improvements, which they could not do under the old system. * * * We make the man who keeps his land idle pay the same as the man who improves.”

At the present time not far from 1,500,000 acres are being cultivated in California under this system. Of course it will be noted that the system offers but a partial application of our ideas, but its effects even thus far are fully recognized. Taxes other than for the irrigation district are still paid under the old plan of taxing both land and improvements, but it seems probable that the irrigation district tax is the heaviest of all.

It is also to be noted that since 1904 the orchards and vineyards of California are exempt from taxation, under a constitutional amendment, during the first years of their growth. Why the exemption should not be made complete is not obvious, save it be on the same theory of ability-to-pay. Surely it is not for the best interests of the community, which should not tax industry simply because productive.

In California, as in almost every other State of the Union, street improvements are charged largely against the abutting lands, irrespective of their improvements. This method of taxation, usually within growing cities, is only approximately just. It is a recognition of the principle for which we contend, in that only property benefited is taxed. Since the tax is levied according to the surveyor's tape, and not in proportion to benefits, it is not absolutely fair.

Frequently in the State named and in others, special taxes are levied upon areas benefited, without regard to improvements, for parks, water and other

purposes. These are very properly levied in proportion to benefits conferred, another recognition of the truth of our general thesis.

The special taxes referred to above do not always bear close relationship to benefits returned. The picture is bound to be imperfect until all taxation is levied upon land values, for land values represent the total values, large and small, which have been added to land. However, even partial exemption will be welcomed as acquainting the public with the fundamental theory.

Others of the American States have shown similar advancement. In North Dakota land is fully valued and the assessment on improvements and personal property reduced to a nominal figure. Farm improvements are entirely exempted. Perhaps North Dakota learned from the experience of the adjoining Canadian provinces, to which reference will be made later.

In South Dakota buildings occupied as homes by their owners receive large exemption. Of course if the law-makers were in any degree logical, a like exemption would extend to all homes, whether occupied by the owner or not. Such a partial exemption tends even to the prejudice of those who have been unable to buy homes, since as renters they are compelled to pay to the landlord the tax levied upon their buildings, which has been increased because of the exemption of home-owners.

Minnesota illustrates the general progress by levying 6 per cent on the royalties received by owners of mineral lands for "permission to explore and develop, take and ship iron or other ores."

Mention should be made of the fact that in 1920 the legislature of New York passed an act exempting new dwellings from taxation for a period of ten years. In the year preceding its passage, plans were

filed for the construction of dwellings to house slightly over 14,000 families. In two years and one month after its passage plans were filed to house 110,000 families in one- and two-family houses, and, in round numbers, 100,000 families in multi-family houses. Of course one of the effects of this was largely to increase the demand for land. The same effect as to the granting of exemption was noted in Sydney, Australia, and was true in Pittsburgh.

Conditions and remedy as outlined in this book have received the attention of men in high official station in this country. We may refer to the report of the United States Industrial Commission made in 1915. Mr. Basil Manly, its Director of Research, in preparing the Report and discussing causes of "a burning resentment and a rising feeling of unrest among the workers, unemployment and the denial of an opportunity to earn a living," (Page 33) after discussing "inequality of the distribution of income," said:

"The second principal cause lies in the denial of access to land and natural resources even when they are unused and unproductive, except at a price and under conditions which are practically prohibitive. This situation, while bound up with the land and taxation policies of our States and Nation, also rests fundamentally upon the unjust distribution of wealth. Land or mineral resources in the hands of persons of average income must and will be used either by their original owners or by some more enterprising person. By the overwhelming forces of economic pressure, taxation, and competition they cannot be permitted to lie idle if they will produce anything which the people need. Only in the hands of large owners—free from economic pressure, able to evade or minimize the effects of taxation and to await the ripening of the fruits of unearned increment—can land be held out of use if its products are needed."

The most important means of relief from the situation so described was stated to be "the forcing of

all unused land into use by making the tax on non-productive land the same as on productive land of the same kind, and exempting all improvements." (P. 38 of Report.)

Four of the nine commissioners fully concurred with the Report of the Director and upon this point no dissent was expressed by the remaining five. The four referred to particularly recommended:

"The revision of the taxation system so as to exempt from taxation all improvements and tax unused land at its full rental value." (P. 132 of Report.)

Progress in Other Countries

In Canada the ideas we favor have received a very considerable application, particularly in its western provinces. In Manitoba, farm improvements and personal property of all kinds are totally exempt; the farmer pays no local tax save on the value of his land. Among the cities and towns, while to some extent improvements are taxed, most of the revenue comes from land values only. In Winnipeg, land is assessed at its full value and improvements are assessed at but two-thirds of their value. Accepting the logic of this position, the cost of a new water supply for the greater Winnipeg Water District was made by a special levy upon the value of land apart from improvements.

In the province of Saskatchewan the local authorities of the cities and towns, as well as the rural districts, assess land at its full value and improvements at not more than 60 per cent, although it may be a great deal less. In this province also no taxes are levied on farm buildings, personal property, household effects, machinery or other agricultural improvements, the only local tax paid by farmers in its nearly 300 municipalities being the tax on the value

of bare land. The report of its Department of Municipal Affairs says: "Our municipal law does not lend itself to the penalizing of a man's thrift by making him pay taxes on his personal property, his herds, his barns or his home. * * * This fact means much for the solidarity of our rural municipalities and helps to account for the good price so often received for their debentures." Undoubtedly this course accounts for the advantage the Canadian possesses over the American farmer in the wheat markets of the world.

In 27 municipalities in the province of British Columbia land value is the sole basis of taxation, and improvements are taxed not at all. Some of its cities exempt improvements entirely. Aside from local taxes, the same method has been recognized in western Canada for provincial purposes. Manitoba exempts farm stock and improvements. Saskatchewan, Alberta and British Columbia levy a special tax on what is called "wild" land. In the province of Alberta nearly all town taxes are collected from the value of land, while the rural districts exempt entirely from taxation farm buildings, machinery, household goods, live stock, crops, etc.

In South America progress has been made in the same direction. Beginning with scarcely any taxes on land, some twelve states in Brazil have adopted the principle of taxing land values apart from improvements. Several of the cities have taken long strides towards the entire exemption of improvements in taxation. The subject has received very active consideration in Uruguay and the Argentine.

In England there has been an abundant agitation which immediately prior to the World War seemed on the point of bearing fruit. At present probably one-half of the House of Commons are committed to

favorable steps, but England has yet a long way to go. We are justified in attributing the largest share of its present condition of unemployment to its very backward position, so far as local taxes are concerned.

In Denmark local taxes are levied at a higher rate on land than on buildings. It is now proposed to enable all local authorities to abolish all taxes on improvements and obtain all revenues from land values, and this is likely to be adopted by its Parliament. Since 1922 a direct national tax has been levied on land values. To these reforms we may ascribe largely the more favorable conditions prevailing in Denmark as contrasted with other portions of Europe.

The statistician of the Central Valuation Board of Copenhagen, K. J. Kristensen, under the heading of "Public Guidance in Rural Land Utilization in Denmark" (The Annals, July 1930, p. 237) writes:

"Although it cannot be proved by statistics, it is undoubtedly true that land value taxation, as well as the old land tax which it has displaced, has had a beneficial effect in dividing agricultural lands into such holdings and is bringing them under that cultivation which, from a social point of view, must be considered most profitable."

In Germany much has been done by the state or municipalities in taking, at the time of land sales, a large share of the unearned increment shown by the difference between the selling price and the previous purchase price. After Germany acquired Kiauchow the authorities, first requiring all sales to be reported, bought up most of the land, reselling to the highest bidder, and requiring an evaluation at the end of 25 years. At this time, or upon any resale, the government takes one-third of any increased value. While this was not strictly taxation as the word is

usually employed, it served to prevent speculation in land.

Our principle has been abundantly recognized in many of the cities of South Africa. Durban taxes improvements at a rate one-half as heavily as land values. Bulawayo taxes improvements one-third as much as land values, Salisbury one-seventh, East London one-tenth, and in Johannesburg, Cambridge, Pretoria and many other towns the revenues for local purposes are raised from land values exclusively. And there are many other like cases among the British provinces.

In Australia some degree of state taxation of land values has existed for many years, beginning in South Australia as early as 1884. These taxes, however, do not affect the bulk of land values. Real progress has been made among the municipalities; 14 out of 34 municipalities, for instance, in South Australia having adopted the system of exempting improvements. An odd feature of the system is that while all voters in Australia may vote on a proposal to adopt land value taxation, only land owners may vote to repeal it, after two years' operation. Nevertheless, in but two cases have the land owners called for a vote, and in no case has the old system been re-adopted. In Queensland, all towns, country districts and municipalities, including Brisbane and suburbs with a population of 230,000, have been for more than 20 years entirely exempting improvements from taxation, and raising their local revenues from land values only.

In New South Wales all the councils raise ordinary revenues by taxing land values, and are now trying to add a special rate which applies to water and sewerage.

The city of Sydney in New South Wales, a city of approximately 1,250,000 people, has since 1916 raised its entire municipal revenue from the value of land, excluding improvements. The population has spread out with no over-crowding or congestion, because, as it is said, "the inhabitants have not been held in by ring-fence monopoly prices for land." The general rule is stated to be that in its residence section there are five or six houses to the acre. An alderman of Sydney, speaking upon the subject, says: "We encourage the expenditure of capital and the employment of labor. We make it profitable to use land. We make it a losing game to withhold land from use. * * * The new system is of immense benefit to the man who uses his land well, by taking from his shoulders the burden he had to bear when improvements were taxed and land values were largely exempt." It is to be remembered, however, that the application is not yet complete in any of these instances, in that the most provincial taxes are not so raised and an injurious tariff system still maintains.

New Zealand is noted for the extent to which improvements and personal property have been exempted from taxation. The first instance was in 1897 in Palmerston North, a town of nearly 16,000 people, when this course was taken. Now over half of the local governing bodies have followed the same course, together with almost half the counties, in addition to a large number of other districts. Wellington, the capital, levies all local taxation on land values. During this period of more than thirty years there have been but 16 votes on the question of going back to taxing improvements and only five of them have been successful.