

## CHAPTER VIII

### METHODS OF REFORMING OUR LAND SYSTEM

IN economic and social discussion the word reform is commonly opposed to the word revolution. It implies modification rather than abolition, gradual rather than violent change. Hence reforms of the system of land tenure do not include such radical proposals as those of land nationalization or the Single Tax. On the other hand, some extension of State ownership of land, and some increase in the proportion of taxes imposed upon land, may quite properly be placed under the head of reform, inasmuch as they are changes in, rather than a destruction of, the existing system.

In general, the reform measures needed are such as will meet the defects described in the last chapter; namely, Monopoly, Excessive Gains and Exclusion from the Land. Obviously they can be provided only by legislation; and they may all be included under ownership and taxation.

By far the greater part of the more valuable lands of the country are no longer under the ownership of the State. Urban land is practically all in the hands of private proprietors. While many millions of acres of land suitable for agriculture are still under public ownership, almost all of this area requires a considerable outlay for irrigation, clearing, and draining before it can become productive. Forty years ago, three-fourths of the timber now standing was public property; at present about four-fifths of it is owned by private persons or corporations.<sup>1</sup> The bulk of

<sup>1</sup> "Summary of Report of the Commissioner of Corporations on the Timber Industry in the United States," p. 3.

our mineral deposits, coal, copper, gold, silver, etc., have likewise fallen under private ownership, with the exception of those of Alaska. The undeveloped water power remaining under government ownership has been roughly estimated at fourteen million horse power in the national forests, and considerably less than that amount in other parts of the public domain.<sup>1</sup> This is a gratifying proportion of the whole supply, developed and undeveloped, of this national resource, which was estimated by the United States Geological Survey in 1924 at about 35 million horse power available 90 per cent of the time and an addition 20 million available 50 per cent of the time.

### *The Leasing System*

In many countries of Europe it has long been the policy of governments to retain ownership of all lands containing timber, minerals, oil, natural gas, phosphate, and water power. The products of these lands are extracted and put upon the market through a leasing system. That is, the user of the land pays to the State a rental according to the amount and quality of raw material which he takes from the storehouse of nature. Theoretically, the State could sell such lands at prices that would bring in as much revenue as does the leasing system; practically, this result has never been attained. The principal advantages of the leasing arrangement are: to prevent the premature destruction of forests, the private monopolization of limited natural resources (which has happened in the case of the anthracite coal fields of Pennsylvania) and the private acquisition of exceptionally valuable land at ridiculously low prices; and to enable the State to secure just treatment for the consumer and the laborer by stipulating that the former shall obtain the product at fair prices, and that the latter shall receive fair wages.

Public grazing lands should remain government prop-

<sup>1</sup> "Report of the Commissioner of Corporations on Water Power Development in the United States," pp. 193-195.

erty until such time as they become available for agriculture. Cattle owners could lease the land from the State on equitable terms, and receive ample protection for money invested in improvements.

The leasing system cannot well be applied to agricultural lands. In order that they may be continuously improved and protected against deterioration, they must be owned by the cultivators. The temptation to wear out a piece of land quickly, and then move to another piece, and all the other obstacles that stand in the way of the Single Tax as applied to agricultural land, show that the government cannot with advantage assume the function of landlord in this domain. In the great majority of cases the State would do better to sell the land in small parcels to genuine settlers. There are, indeed, many situations, especially in connection with government projects of irrigation, clearing and drainage, in which the leasing arrangement could be adopted temporarily. It should not be continued longer than is necessary to enable the tenants to become owners.

#### *Public Ownership of Urban Land*

No city should part with the ownership of any land that it now possesses. Since capitalists are willing to erect costly buildings on sites leased from private owners, there is no good reason why any one should refuse to put up or purchase any sort of structure on land owned by the municipality. The situation differs from that presented by agricultural land, for the value of the land can easily be distinguished from that of improvements, the owner of the latter can sell them even if he is not the owner of the land, and he cannot be deprived of them without full compensation. While the lessee paid his annual rent his control of the land would be as complete and certain as that of the landowner who continues to pay his taxes. On the other hand, the leaseholder could not permit or cause the land to deteriorate if he would; for the nature of the land renders this impossible. Finally, the official activities involved in

the collection of the rent and the periodical revaluation of the land, would not differ essentially from those now required to make assessments and gather taxes.

The benefits of this system would be great and manifest. Persons who were unable to own a home because of their inability to purchase land, could get secure possession of the necessary land through a lease from the city. Instead of spending all their lives in rented houses, thousands upon thousands of families could become the owners and occupiers of homes. The greater the amount of land thus owned and leased by the city, the less would be the power of private owners to hold land for exorbitant prices. Competition with the city would compel them to sell the land at its revenue-producing value instead of at its speculative value. Finally, the city would obtain the benefit of every increase in the value of its land by means of periodical revaluation, and periodical readjustment of rent.

Unfortunately the amount of municipal land available for such an arrangement in our American cities is negligible. If they are to establish the system they must first purchase the land from private owners. Undoubtedly this ought to be done by all large cities in which the housing problem has become acute, and the value of land is constantly rising. This policy has been adopted with happy results by many of the municipalities of France and Germany.<sup>1</sup> At the state election of 1915 the voters of Massachusetts adopted by an overwhelming majority a constitutional amendment authorizing the cities of the commonwealth to acquire land for prospective home builders. In Savannah, Georgia, no extension of the municipal limits is made until the land to be embraced has passed into the ownership of the city. Another method is to refrain from opening a new street in a suburban district until the city has become the proprietor of the abutting land. Whatever be the particular means adopted, the objects of municipal purchase and ownership of land are definite and obvious: to

<sup>1</sup> C. F. Marsh, "Land Value Taxation in American Cities," p. 95.

check the congestion of population in the great urban centers, to provide homes for the homeless, and to secure for the whole community the socially occasioned increases in land values. Indeed, it is probable that no comprehensive scheme of housing reform can be realized without a considerable amount of land purchase by the municipalities. Cities must be in a position to provide sites for those home builders who cannot obtain land on fair conditions from private proprietors.<sup>1</sup>

Turning now from the direct method of public ownership to the indirect method of reform through taxation, we reject the thoroughgoing proposals of the Single Taxers. To appropriate all economic rent for the public treasury would be to transfer all the value of land without compensation from the private owner to the State. For example: a piece of land that brought to the owner an annual revenue of one hundred dollars would be taxed exactly that amount; if the prevailing rate of interest were five per cent the proprietor would be deprived of wealth to the amount of two thousand dollars, for the value of all productive goods is determined by the revenue that they yield, and benefits the person who receives the revenue. Thus the State would become the beneficiary and the virtual owner of the land. Inasmuch as we do not admit that the so-called social creation of land values gives the State a moral right to these values, we must regard the complete appropriation of economic rent through taxation as an act of pure and simple confiscation.

#### *Appropriating Future Increases of Land Value*

Let us examine, then, the milder suggestion of John Stuart Mill, that the State should impose a tax upon land sufficient to absorb all future increases in its value.<sup>2</sup> This

<sup>1</sup> Municipal purchase and ownership of land has been advocated by such a conservative authority as the Rev. Heinrich Pesch, S. J. "Lehrbuch der Nationaloekonomie," I, 203.

<sup>2</sup> "Principles of Political Economy," book v, ch. 2, sec. v.

scheme is commonly known as the appropriation of future unearned increment. Either in whole or in part it is at least plausible, and is to-day within the range of practical discussion. It is expected to obtain for the whole community all future increases in land values, and to wipe out the speculative, as distinguished from the revenue-producing value of land. Consequently it would make land cheaper and more accessible than would be the case if the present system of land taxation were continued. Before discussing its moral character, let us see briefly whether the ends that it seeks may properly be sought by the method of taxation. For these ends are mainly social rather than fiscal.

To use the taxing power for a social purpose is neither unusual nor unreasonable. "All governments," says Professor Seligman, "have allowed social considerations in the wider sense to influence their revenue policy. The whole system of protective duties has been framed not merely with reference to revenue considerations, but in order to produce results which should directly affect social and national prosperity. Taxes on luxuries have often been mere sumptuary laws designed as much to check consumption as to yield revenue. Excise taxes have as frequently been levied from a wide social, as from a narrow fiscal, standpoint. From the very beginning of all tax systems these social reasons have often been present."<sup>1</sup> Our Federal taxes on imports, on oleomargarine, and on white phosphorus matches, and many of the license taxes in our municipalities, as on peddlers and dog owners, are in large part intended to meet social as well as fiscal ends. They are in the interest of domestic production, public health and public safety. The reasonableness of effecting social reforms through taxation cannot be seriously questioned. While the maintenance of government is the primary object of taxation, its ultimate end, the ultimate end of government itself, is the welfare of the people. Now if the public welfare can be promoted by certain social changes, and if

<sup>1</sup> "Progressive Taxation in Theory and Practice," 1908, p. 130.

these in turn can be effected through taxation, this use of the taxing power will be quite as normal and legitimate as though it were employed for the upkeep of government. Hence the morality of taxing land for purposes of social reform will depend upon the tax that is imposed.

*Some Objections to the Increment Tax*

The tax that we are now considering can be condemned as unjust on only two possible grounds; first, that it would be injurious to society; and, second, that it would wrong the private landowner. If it were fairly adjusted and efficiently administered it could not prove harmful to the community. In the first place, landowners could not shift the tax to the consumer. All the authorities on the subject admit that taxes on land stay where they are put, and are paid by those upon whom they are levied in the first instance.<sup>1</sup> The only way in which the owners of a commodity can shift a tax to the users or consumers of it, is by limiting the supply until the price rises sufficiently to cover the tax. By the simple device of refusing to erect more buildings until those in existence have become scarce enough to command an increase in rent equivalent to the new tax, the actual and prospective owners of buildings can pass the tax on to the tenants thereof. By refusing to put their money into, say, shoe factories, investors can limit the supply of shoes until any new tax on this commodity is shifted upon the wearers of shoes in the form of higher prices. Until these rises take place in the rent of buildings and the price of shoes, investors will put their money into enterprises which are not burdened with equivalent taxes. But nothing of this sort can follow the imposition of a new tax upon land. The supply of land is fixed, and cannot be affected by any action of landowners or would-be landowners. The users of land and the consumers of its products are at present paying all that competition can compel them

<sup>1</sup> Cf. Taussig, "Principles of Economics," II, 516; Seligman, "The Shifting and Incidence of Taxation," p. 223.

to pay. They would not pay more merely because they were requested to do so by landowners who were laboring under the burden of a new tax. If all landowners were to carry out an agreement to refrain from producing, and to withhold their land from others until rents and prices had gone up sufficiently to offset the tax, they could, indeed, shift the latter to the renters of land and the consumers of its products. Such a monopoly, however, is not within the range of practical achievement. In its absence, individual landowners are not likely to withhold land nor to discontinue production in sufficient numbers to raise rents or prices. Indeed, the tendency will be all the other way; for all landowners, including the proprietors of land now vacant, will be anxious to put their land to the best use in order to have the means of paying the tax. Owing to this increased production, and the increased willingness to sell and let land, rents and prices must fall. It is axiomatic that new taxes upon land always make it cheaper than it would have been otherwise, and are beneficial to the community as against the present owners.

In the second place, the tax in question could not injure the community on account of discouraging investment in land. Once men could no longer hope to sell land at an advance in price, they would not seek it to the extent that they now do as a field of investment. For the same reason many of the present owners would sell their holdings sooner than they would have sold them if the tax had not been levied. From the viewpoint of the public the outcome of this situation would be wholly good. Land would be cheaper and more easy of access to all who desired to buy or use it for the sake of production, rather than for the sake of speculation. Investments in land which have as their main object a rise in value are an injury rather than a benefit to the community; for they do not increase the products of land, while they do advance its price, thereby keeping it out of use. Hence the State should discourage instead of encouraging mere speculators in land. Whether



it is or is not bought and sold, the supply of land remains the same. The supreme interest of the community is that it should be put to use and made to supply the wants of the people. Consequently the only land investments that help the community are those that tend to make the land productive. Under a tax on future increases in value, such investments would increase for the simple reason that land would be cheaper than it would have been without the tax. Men who desired land for the sake of its rent or its product would continue as now to pay such prices for it as would enable them to obtain the prevailing rate of interest on their investment after all charges, including taxes, had been paid. Men who wanted to rent land would continue as now to get it at a rental that would give them the usual return for their capital and labor.

So much for the effect of the tax upon the community. Would it not, however, be unjust to the landowners? Does not private ownership of its very nature demand that increases in the value of the property should go to the owners thereof? "*Res fructificat domino:*" a thing fructifies to its owner; and value-increases are a kind of fruit.

In the first place, this formula was originally a dictum of the civil law merely, the law of the Roman Empire. It was a legal rather than an ethical maxim. Whatever validity it has in morals must be established on moral grounds, by moral arguments. It cannot forthwith be assumed to be morally sound on the mere authority of legal usage. In the second place, it was for a long time applied only to natural products, to the grain grown in a field, to the offspring of domestic animals. It simply enunciated the policy of the law to defend the owner of the land in his claim to such fruits, as against any outsider who should attempt to set up an adverse title through mere appropriation or possession. Thus far, the formula was evidently in conformity with reason and justice. Later on it was extended, both by lawyers and moralists, to cover commercial "fruits," such as rent from lands and houses

and interest from loans and investments. Its validity in this field will be examined in connection with the justification of interest. More recently the maxim has received the still wider application which we are now considering. Obviously increases in value are quite a different thing from the concrete fruit of the land, its natural product. A right to the latter does not necessarily and forthwith imply a right to the former. In the third place, the formula in question is not a self evident, fundamental principle. It is merely a summary conclusion drawn from the consideration of the facts and principles of social and industrial life. Consequently its validity as applied to any particular situation will depend on the correctness of these premises, and on the soundness of the reasoning process.

The increment tax is sometimes opposed on the ground that it is new, in fact, revolutionary. In some degree the charge is true, but the conditions which the proposal is intended to meet are likewise of recent origin. The case for this legislation rests mainly on the fact that, for the first time in the world's history, land values everywhere show an unmistakable tendency to advance indefinitely. This means that the landowning minority will be in a position to reap unbought and continuous benefits at the expense of the landless majority. This new fact, with its very important significance for human welfare, may well require a new limitation on the right of property in land.

It is also objected that to deprive men of the opportunity of profiting by changes in the value of their land would be an unfair discrimination against one class of proprietors. But there are good reasons for making the distinction. Except in the case of monopoly, increases in the value of goods other than land are almost always due to expenditures of labor or money upon the goods themselves. The value increases that can be specifically traced to external and social influences are intermittent, uncertain and temporary. Houses, furniture, machinery and

every other important category of artificial goods are perishable, and decline steadily in value. Land, however, is substantially imperishable, becomes steadily scarcer relatively to the demand, and its value-increases are on the whole constant, certain, and permanent. Moreover, it is the settled policy of most enlightened governments to appropriate or to prevent all notable increases in the value of monopolistic goods, either through special taxation or through regulation of prices and charges. Taking the increment values of land is, therefore, not so discriminative as it appears at first glance.<sup>1</sup>

Another objection is that the proposal would violate the canons of just taxation, since it would impose a specially heavy burden upon one form of property. The general

<sup>1</sup> The "discrimination" objection is put in a somewhat different form by the Rev. Sydney F. Smith, S. J., in an article in *The Month*, Sept., 1909, entitled "The Theory of Unearned Increment." His argument is in substance that if the people of a city can claim the increases in land values which their presence and activity have occasioned, the purchasers of food, clothes, books, or concert tickets are equally justified in claiming that, "having added to the value of the shops and music halls, they had acquired a co-proprietary right in the increased value of the owners' stock, and the owners' premises." While this argument is specifically directed against those who maintain that the "social production" of values confers a right thereto, it affects to some extent our thesis that there is a vast difference between value-increases in land and in other goods. Father Smith seems to confuse the origination of value with the increase of value. The presence of consumers is an obvious prerequisite to the existence of any value at all in any kind of goods, but labor and financial outlay on the part of the producers of the goods are an equally indispensable prerequisite. The reason why the value is appropriated by the latter rather than the former is that this is clearly the only rational method of distribution. What we are concerned with here, however, is not this initial or cost-of-production-value of artificial goods, but the *increases* in value above this level which are brought about by external and social influences. Theoretically, the State could as reasonably take these as the increases in the value of land; practically, such a performance is out of the question, for the simple reason that such increases are spasmodic and exceptional. If Father Smith thinks that "food or clothes, or books, or concert tickets" regularly advance above the cost-of-production-value, he is simply mistaken. Since these and other artificial goods bring to their owners as a rule no socially occasioned increments of value, they and their owners are in quite a different situation from land and the owners of land.

doctrine of justice in taxation which is held by substantially all economists to-day, and which has been taught by Catholic moralists for centuries, is that known as the "faculty" theory.<sup>1</sup> Men should be taxed in proportion to their ability to pay, not in accordance with the benefits that they may be assumed to receive from the State. And it is universally recognized that the proper measure of "ability" is not a man's total possessions, productive and unproductive, but his income, his annual revenue. Now, the increment tax does seem to violate the rule of taxation according to ability, inasmuch as it would take all of one species of revenue, while all other incomes and properties pay only a certain percentage.

All the adherents of the faculty theory maintain, however, that it is subject to certain modifications. Incomes from interest, rent, and socially occasioned increases in the value of property should be taxed at a higher rate than incomes that represent expenditures of labor; for to give up a certain per cent of the former involves less sacrifice than to give up the same per cent of the latter. Therefore, increments of land-value may be fairly taxed at a higher rate than salaries, personal property, or even rent and interest. When, however, the law absorbs the whole of the value increments, it seems to be something more than a tax. The essential nature of a tax is to take only a portion of the particular class of income or property upon which it is imposed. The nearest approach to the plan of taking all future increases in land value is to be found in the special assessments that are levied in many American cities. Thus, the owners of urban lots are frequently compelled to defray the entire cost of street improvements on the theory that their land is thereby and

<sup>1</sup> Cf. Seligman, "Progressive Taxation in Theory and Practice," part II, chs. ii and iii; also the classic refutation of the "benefit" theory by John Stuart Mill in "Principles of Political Economy," book v, ch. ii, sec. 2. The traditional Catholic teaching on the subject is compactly stated by Cardinal de Lugo in "De Justitia et Jure," disp. 36; cf. Devas, "Political Economy," p. 594, 2d ed.

to that extent increased in value. In such cases the contribution is levied not on the basis of the faculty theory, but on that of the benefit theory; that is, the owners are required to pay in proportion to benefits received. All adherents of the faculty theory admit that the benefit theory is justifiably applied in situations of this kind. It might be argued that the latter theory can also be fairly applied to increments of land value that are to arise in the future. In both cases the owner returns to the State the equivalent of benefits which have cost him nothing. There is, however, a difference. In the former case the value increases are specifically due to expenditures made by the State, while in the latter they are indirectly brought about by the general activities of the community. We do not admit with the Single Taxers that this "social production" of value increments creates a right thereto on the part of either the community or the civil body; but even if we did we should be compelled to admit that the two situations are not exactly parallel; for the social production of increases in the value of land involves no special expenditure of labor or money. Hence it is very questionable whether the appropriation of the whole of the future value increments can be harmonized with the received conceptions of the canons of taxation.

#### *The Morality of the Proposal*

However, it is neither necessary nor desirable to justify the proposal on the mere ground of taxation. Only in form and administration is it a tax; primarily and in essence it is a method of distribution. It resembles the action by which the State takes possession of a newly discovered territory by the title of first occupancy. The future increases of land value may be regarded as a sort of no man's property which the State appropriates for the benefit of the community. And the morality of this proceeding must be determined by the same criterion that is applied to every other method or rule of distribution;

namely, social and individual consequences. No principle, title or practice of ownership, nor any canon of taxation, has intrinsic or metaphysical value. All are to be evaluated with reference to human welfare. Since the right of property is not an end in itself, but only a means of human welfare, its just prerogatives and limitations are determined by their conduciveness to the welfare of human beings. By human welfare is meant not merely the good of society as a whole, but the good of all individuals and classes of individuals. For society is made up of individuals, all of whom are of equal worth and importance, and have equal claims to consideration in the matter of livelihood, material goods, and property. In general, then, any method of distribution, any modification of property rights, any form of taxation, is morally lawful which promotes the interests of the whole community without causing undue inconvenience to any individual. Whether a given rule of ownership or method of distribution which is evidently conducive to the public good is, nevertheless, unduly severe on a certain class of individuals, is a question that is not always easily answered. Some of the methods and practices appearing in history were clearly fair and just, others clearly unfair and unjust, and still others of doubtful morality. Frequently the State has compelled private persons to give up their land at a lower price than they paid for it; in more than one country freebooters and kingly favorites robbed the people of the land, yet their heirs and successors are recognized by both moralists and statesmen as the legitimate owners of that land; in Ireland stubborn landlords have been compelled by the British government to sell their holdings to the tenants at an appraised valuation; in many countries men may become owners of their neighbors' lands by the title of prescription, without the payment of a cent of compensation. All these practices and titles inflict considerable hardship upon individuals, but most of them are held to be justified on grounds of social welfare.

Now the public appropriation of all future increments of land value would evidently be beneficial to the community as a whole. It would enable all the people to profit by gains that now go to a minority, and it would enable the landless majority to acquire land more easily and more cheaply. We have in mind, of course, only those value increases that are not due to improvements in or on the land, and we assume that these could be distinguished in practice from the increments of value that represent improvements. Would the measure in question inflict undue hardship upon individuals? Here we must make a distinction between those persons who own land at the time that, and those who buy land after, the law is enacted.

The only inconvenience falling upon the latter class would be deprivation of the power to obtain future increases in value. The law would not cause the value of the land to decline below their purchase price. Other forces might, indeed, bring about such a result; but, as a rule, such depreciation would be relatively insignificant, for the simple reason that it would already have been "discounted" in the reduction of value which followed the law at the outset. The very knowledge that they could not hope to profit by future increases in the value of the land would impel purchasers to lower their price accordingly. While taking away the possibility of gaining, the law enables the buyers to take the ordinary precautions against losing. Therefore, it does not, as sometimes objected, lessen the so called "gambler's chances." On the other hand, the tax does not deprive the owners of any value that they may add to the land through the expenditure of labor or money, nor in any way discourage productive effort. Now it is, as a rule, better for individuals as well as for society that men's incomes should represent labor, expenditure, and saving instead of being the result of "wind-falls," or other fortuitous and conjunctural circumstances. And the power to take future value increments is not an intrinsically essential element of private property in land.

Like every other condition of ownership, its morality is determined by its effects upon human welfare. But we have seen in the last paragraph that human welfare in the sense of the social good is better promoted by a system of landownership which does not include this element; and we have just shown that such a system causes no undue hardship to the individual who buys land subsequently.

Such is the answer to the contention, noticed a few pages back, that the landowner has a right to future increments of value because they are a kind of fruit of his property. It is more reasonable that he should not enjoy this particular and peculiar "fruit." Were the increment tax introduced into a new community before any one had purchased land, it would clearly be a fair and valid limitation on the right of ownership. Those who should become owners after the regulation went into effect in an old community would be in exactly the same moral and economic position. Finally, there exists some kind of legal precedent for the proposal in the present policy of efficient governments with regard to the only important increases that occur in the value of goods other than land; namely, increases due to the possession of monopoly power. By various devices these are either prevented or appropriated by the State.

Those persons who are landowners when the increment tax goes into effect are in a very different situation from those that we have just been considering. Many of them would undoubtedly suffer injury through the operation of the measure, inasmuch as their land would reach and maintain a level of value below the price that they had paid for it. The immediate effect of the increment tax would be a decline in the value of all land, caused by men's increased desire to sell and decreased desire to buy. In all growing communities a part of the present value of land is speculative; that is, it is due to demand for the land by persons who want it mainly to sell at an expected rise, and also to the disinclination of present owners to sell until this expecta-



tion is realized. The practical result of the attitude of these two classes of persons is that the demand for, and therefore the value of land is considerably enhanced. Let a law be enacted depriving them of all hope of securing the anticipated increases in value, and the one group will cease to buy, while the other will hasten to sell, thus causing a decline in demand relatively to supply, and therefore a decline in value and price.

All persons who had paid more for their land than the value which it came to have as a result of the increment tax law, would lose the difference. For, no matter how much the land might rise in value subsequently, the increase would all be taken by the State. And all owners of vacant land the value of which after the law was passed did not remain sufficiently high to provide accumulated interest on the purchase price, would also lose accordingly. To be sure, both these kinds of losses would exist even if the law should cause no decline in the value of land, but they would not be so great either in number or in volume.

Landowners who should suffer either of these sorts of losses in consequence of a tax appropriating future value increases, would have a valid moral claim against the State for compensation. Through its silence on the subject of increment-tax legislation, the State virtually promised them at the time of their purchases that it would not thus interfere with the ordinary course of values. Had it given any intimation that it would enact such a law at a future time, these persons would not have paid as much for their land as they actually did pay. When the State passes the law, it violates its implicit promise, and consequently is under obligation to make good the losses.

In the foregoing pages we have been considering a law which would from the beginning of its operation take *all* the future increments of land value. There is, however, no likelihood that any such measure will soon be enacted in any country, least of all in the United States. What we shall probably see is the spread of legislation designed

to take a part, and a gradually growing part, of value increases, after the example of Germany.

### *The German Increment Taxes*

The first increment tax (Werthzuwachssteuer) was established in the year 1898 in the German colony of Kiautschou, China. In 1904 the principle of the tax was adopted by Frankfort-am-Main, and in 1905 by Cologne. By April, 1910, it had already been enacted in 457 cities and towns of Germany, some twenty of which had a population of more than 100,000 each, in 652 communes, several districts, one principality, and one grand duchy. In 1911 it was inserted in the imperial fiscal system, and thus extended over the whole German Empire. While these laws are all alike in certain essentials, they vary greatly in details. They agreed in taking only a per cent of the value increases, and in imposing a higher rate on the more rapid increases. The rates of the imperial law varied from ten per cent on increases of ten per cent or less to thirty per cent on increases of 200 per cent or over. In Dortmund the scale progressed from one to 12½ per cent. Inasmuch as the highest rate in the imperial law was 30 per cent, and in any municipal law (Cologne and Frankfort) 25 per cent; inasmuch as all the laws allowed deductions from the tax to cover the interest that was not obtained while the land was unproductive; and inasmuch as only those increases were taxed which were measured from the value that the land had when it came into the possession of the present owner,—it is clear that landowners were not obliged to undergo any positive loss, and that they were permitted to retain the lion's share of the "unearned increment."<sup>1</sup>

<sup>1</sup> Cf. Fallon, "Les Plus-Values et l' Impot," pp. 455, sq.; Paris, 1914; Fillebrown, "A Single Tax Handbook for 1913"; Boston, 1912; Marsh, "Taxation of Land Values in American Cities," pp. 90-92; New York, 1911; "The Quarterly Journal of Economics," vols. 22, 24, 25; "The Single Tax Review," March-April, 1912; "Stimmen aus Maria-Laach," Oct., 1907.

It is to be noted that most of the German laws were retroactive, since they applied not merely to future value increases, but to some of those that occurred before the law was enacted. Thus, the Hamburg ordinance measured the increases from the last sale, no matter how long ago that transaction took place. The imperial law used the same starting point, except in cases where the last sale occurred before 1885. Accordingly, a man who had in 1880 paid 2500 marks for a piece of land which in 1885 was worth only 2000 marks, and who sold it for 3000 marks after the law went into effect, would pay the increment tax on 1000 marks,—unless he could prove that his purchase price was 2500 marks. In all such cases the burden of proof was on the owner to show that the value of the land in 1885 was lower than when he had bought it at the earlier date. Obviously this retroactive feature of the German legislation inflicted no wrong on the owner, since it did not touch value increases that he had paid for. Indeed, the value of the land when it came into the present owner's possession seems to be a fairer and more easily ascertained basis from which to reckon increases than any date subsequent to the enactment of the law. On the one hand, persons whose lands had fallen in value during their ownership would be automatically excluded from the operation of the law until such time as the acquisition value was again reached; on the other hand, those owners whose lands had increased in value before the law went into effect would be taxed as well as those whose gains began after that event; thus the law would reach a greater proportion of the existing beneficiaries of "unearned increment." Moreover, it would bring in a larger amount of revenue.

#### *Transferring Other Taxes to Land*

Another method of land reform by taxation consists in exceptionally high levies on the *present* value of land. As a rule, these imply a transfer of taxes from other forms of property. According to the usual practice, buildings

and other improvements and sometimes certain forms of personal property, are partially or wholly exempted from taxation. Generally the process is gradual, extending over five, ten or fifteen years. The method has been adopted in varying but moderate degrees, and with varying results in Canada, Australia, and in our own cities of Scranton and Pittsburgh.

Suppose this plan were applied in thoroughgoing fashion to the United States. It would mean that all tariff dues, all internal revenue levies, all taxes on incomes, inheritances, business operations, and general and special property would be abolished. All the revenue now obtained from these sources would be sought from taxes on land. What would be the result of this experiment?

In 1922 the total revenue collected by all our governmental divisions was \$7,425,045,000.<sup>1</sup> The total value of land subject to taxation the same year was \$100,617,000,000.<sup>2</sup> Dividing the former sum by the latter, we get 7.38 per cent, as the rate necessary to produce the required revenue from land alone. This tax rate is considerably in excess of the average interest rate received by landowners. It could not have been collected, and a persistent attempt to collect it would have meant outright confiscation. Hence the Single Tax in full measure is fiscally and ethically impossible.

Let us now suppose a milder application of the plan. All federal revenues continue to be derived from other sources than land, and all state, county and city taxes are unchanged, with the single exception of the general property tax. In other words, all the following taxes remain as they are: all federal taxes, all special taxes, and all taxes on licenses, business, incomes and inheritances. The whole of the general property tax, that is, all levies on improvements and on personal property, is shifted to land. In 1922 the revenue obtained from these sources was \$3,324,-

<sup>1</sup> Dept. of Commerce, "Report on Taxes Collected," p. 2.

<sup>2</sup> Federal Trade Commission, "National Wealth and Income," p. 34.

484,000. Had this sum been derived from land alone (\$100,617,000,000) it would have meant a tax rate of 3.3 per cent. In all probability the greater part of the agricultural land of the country did not return to its owners that rate of interest in the year 1922. How much would a rate of 3.3 per cent exceed the present rate on land? In 1922 the average rate of the general property tax was 2.81 per cent. on the assessed valuation of \$92,369,378,000.<sup>5</sup> This was equivalent to 1.38 per cent on the true value (\$188,052,000,000). A rate of 3.3 per cent would, therefore, be 2.4 times the present tax rate on land, or almost two per cent additional.

How much would this increase in the tax rate cause the value of land to fall? Two per cent added to the tax rate would mean two dollars subtracted from the revenues derived from every one hundred dollars worth of land. Capitalized at five per cent (which is probably more than the average return yielded by land to its owners) this would indicate a decline of forty per cent in land value. The situation may be illustrated thus; Brown owns an acre of land which, after taxes and all other expenses are paid, brings him five dollars annual interest. On a five per cent basis, this acre is worth one hundred dollars. Smith, who is seeking a five per cent investment in land, will pay that sum. Let the tax rate be increased by two per cent and the net return will be only three dollars. Smith will now pay but sixty dollars for this acre; for at that price his investment will yield him only five per cent.

A reduction of two-fifths in the value of land would be socially and morally unjustifiable. Therefore the proposal to concentrate all the general property taxes on land is at the present time indefensible as well as impracticable.

Let us consider a still milder application of the transfer plan. The personal property portion of the general prop-

<sup>5</sup> Dept. of Commerce, "Report on Assessed Valuation and Tax Levies." pp. 5, 19.

erty tax remains in force, but all taxes on improvements are placed upon land. Inasmuch as land values constitute fifty-three per cent of real estate values, that is, land plus improvements, this arrangement would almost double the existing tax rate on land. The new rate would be two and six-tenths per cent. That would be a little more than one and two-tenths per cent in excess of the present rate. It would involve a deduction of \$1.20 from the returns on every one hundred dollar tract of land. On a five per cent basis, this would mean a decline in land values of twenty-four per cent.

This degree of tax transfers to land is the utmost that will be feasible or justifiable for many years. If it were fully applied at once to all kinds of land it would inflict considerable hardship on vast numbers of owners. Proprietors of real estate whose land values stood in the same ratio to its improvement values as the general ratio for the entire country (53 per cent) would be neither better nor worse off than they are now. What they gained through the abolition of improvement taxes they would lose through the increased tax on land. Those whose land value ratio exceeded 53 per cent of their real estate values would find their taxes proportionately increased. Those in the opposite position would pay correspondingly less than at present. Those who owned buildings or other improvements but no land would be relieved of all taxes on real estate. Those who owned land but no improvements would find their tax rate increased by one and two-tenths per cent and the value of their holdings decreased by 24 per cent.

Hence the arrangement ought to be applied gradually. If the transfer were spread over a period of five years it might not cause an unreasonable amount of hardship, at least, in places where the tendency of land values was upward. Indeed, the plan might well be restricted, as far as possible, to lands of this sort. For example, it could begin with cities of over 50,000 population. Thus restricted, it would produce a minimum of hardship and

a maximum of social benefits, and provide the experience and guidance that would be helpful for further extensions.<sup>1</sup>

*The Social Benefits of the Plan*

These may be summed up under three heads: making land easier to acquire; cheapening the products and rent of land; and reducing the burdens of taxation borne by the poorer and middle classes. An increase in the tax on land would reduce its value and price, or at least cause the price to be lower than it would have been in the absence of the tax. This does not mean that land would be more profitable to the purchaser, since he is enabled to buy it at a lower price only because it yields him less net revenue, or because it is less likely to increase in value. The value of land is always determined by its revenue-producing power, and by its probabilities of price-appreciation. Consequently, what the purchasers would gain by the lower price resulting from the new tax, they would lose when they came to pay the tax itself, and when they found the chances of value increases diminished. If a piece of land which brings a return of five dollars a year costs one hundred dollars before the new tax of one per cent is imposed, and can be bought for eighty dollars afterward, the net interest on the purchase price has not changed. It is still five per cent. Hence the only advantage to the prospective purchaser of land in getting it cheaper consists in the fact that he can obtain it with a smaller outlay. For persons in moderate circumstances this is an important consideration.

In the second place, higher taxes would cause many existing owners either to improve their land, in order to

<sup>1</sup> Probably the most concrete and satisfactory discussion of the increment tax and the project to transfer improvement taxes to land, is that presented in the "Final Report of the Committee on Taxation of the City of New York"; 1916. It contains brief, though complete, statements of all phases of the subject, together with concise arguments on both sides, majority and minority recommendations, a great variety of dissenting individual opinions, and considerable testimony by experts, authorities, and other interested persons.

have the means of meeting the added fiscal charges, or to sell it to persons who would be willing to make improvements. An increase in the rapidity of improvements on land would mean an increase in the rate at which land was brought into use, and therefore an increase in the volume of products. This virtual increase in the supply of land, and actual increase in the supply of products, would tend to cause a fall in three kinds of prices: the price of products, the rent of land, and the price of land.

In the third place, the reduction, and finally the abolition, of taxes on improvements would be especially beneficial to the poorer and middle classes because they now pay a disproportionate share of these charges. Lower taxes on dwellings would mean lower rents for all persons who did not own their homes, and lower taxes for all owners whose residence values were unusually large relatively to their land values.

### *Supertaxes*

Every estate containing more than a maximum number of acres, say, ten thousand, whether composed of a single tract or of several tracts, could be compelled to pay a special tax in addition to the ordinary tax levied on land of the same value. The rate of this supertax should increase with the size of the estate above the fixed maximum. Through this device large holdings could be broken up and divided among many owners and occupiers. For several years it has been successfully applied for this purpose in New Zealand and Australia.<sup>1</sup> Inasmuch as this tax exemplifies the principle of progression, it is in accord with the principles of justice; for relative ability to pay is closely connected with relative sacrifice. Other things being equal, the less the sacrifice involved the greater is the ability of the individual to pay the tax. Thus, the man with an income of ten thousand dollars a year makes a smaller sacrifice in giving up two per cent of it than the man whose

<sup>1</sup> Cf. Fallon, *op. cit.*, pp. 442, sq.



income is only one thousand dollars; for in the latter case the twenty dollars surrendered represent a deprivation of the necessaries or the elementary comforts of life, while the two hundred dollars taken from the rich man would have been expended for luxuries or converted into capital. While the incomes of both are reduced in the same proportion, their satisfactions are not diminished to the same degree. The wants that are deprived of satisfaction are much less important in the case of the richer than in that of the poorer man. Hence the only way to bring about anything like equality of sacrifice between them is to increase the proportion of income taken from the former. This means that the rate of taxation would be progressive.<sup>1</sup> It would increase with the increase of income.

It is in order to object that the principle of progression should not be applied to the taxation of great landed estates, since a considerable part of them is unproductive, and consequently does not directly affect sacrifice. But the same objection can be urged against any taxation of unoccupied land. The obvious reply is that the equal taxation of unproductive with productive land is justified by social reasons, chiefly the unwisdom of permitting land to be held out of use. The same social reasons apply to the question of levying an exceptionally high tax on large estates, even though they may at present produce no revenue.

While the tax is sound in principle, it is probably not much needed in America in connection with agricultural or urban land. Its main sphere of usefulness would seem to be certain great holdings of mineral, timber, and water power lands. "There are many great combinations in other industries whose formation is complete. In the lumber industry, on the other hand, the Bureau now finds in the making a combination caused, fundamentally, by a long standing public policy. The concentration already exist-

<sup>1</sup> Cf. Vermeersch, "Quaestiones de Justitia," pp. 94-126; Seligman, "Progressive Taxation in Theory and Practice," pp. 210, 211; Mill, "Principles of Political Economy," book v, ch. ii, sec. 3.

ing is sufficiently impressive. Still more impressive are the possibilities for the future. In the last forty years concentration has so proceeded that 195 holders, many interrelated, now have practically one-half of the privately owned timber in the investigation area (which contains eighty per cent of the whole). This formidable process of concentration, in timber and in land, clearly involves grave future possibilities of impregnable monopolistic conditions, whose far-reaching consequences to society it is now difficult to anticipate fully or to overestimate."<sup>1</sup>

In order to check the growth of absentee ownership and tenancy it has been suggested that a supertax be imposed upon all agricultural land which is not cultivated by the owner. This would tend to increase the owner's desire to sell and to hasten the process of converting tenants into operating owners. In those states where tenancy has steadily and rapidly increased and where the increase shows signs of continuing indefinitely, this measure would undoubtedly be justified on grounds of social welfare. Of course, the supertax should be so restricted that when combined with the general land tax it would not amount to actual or virtual confiscation.

The conclusions of this chapter may be summed up as follows: Exceptionally valuable public lands, such as those containing timber, minerals, metals, oil, gas, phosphate and water power should remain under public ownership. Municipalities should lease instead of selling their lands and should strive to increase their holdings. To take all future increases in the value of land would be morally lawful if owners were compensated for positive losses of interest and principal. To take a small part of the increase and to transfer very gradually the taxes on improvements and on personal property to land would be likewise free from moral censure. The same judgment may be pronounced upon moderate supertaxes on large holdings of

<sup>1</sup> "Summary of Report of the Commissioner of Corporations on the Lumber Industry in the United States," p. 8.

exceptionally valuable land and on certain agricultural land not cultivated by the owners.

## REFERENCES ON SECTION I

- ASHLEY: *The Origin of Property in Land*. London; 1892.
- WHITTAKER: *The Taxation, Tenure, and Ownership of Land*. London; 1914.
- PREUSS: *The Fundamental Fallacy of Socialism*. St. Louis; 1908.
- GEORGE: *Progress and Poverty; and A Perplexed Philosopher*.
- YOUNG: *The Single Tax Movement in the United States*. Princeton, 1916.
- SHEARMAN: *Natural Taxation*. N. Y., 1898.
- MATHEWS: *Taxation and the Distribution of Wealth*. N. Y.; 1914.
- FEDERAL TRADE COMMISSION: *Report on National Wealth and Income*. Washington, 1926.
- DEPARTMENT OF COMMERCE: *Report on Wealth, Public Debt and Taxation*. Washington, 1924.
- CATHREIN: *Das Privatgrundeigentum und seine Gegner*. Freiburg; 1909.
- FALLON: *Les Plus-Values et l' Impot*. Paris; 1914.
- HAIG: *Final Report of the Committee on Taxation of the City of New York*; 1916.
- The exemption of Improvements from Taxation in Canada and U. S.*; 1915.
- Some Probable Effects of Exemption in City of New York*; 1915.
- KELLEHER: *Private Ownership*. Dublin; 1911.
- U. S. COMMISSIONER OF CORPORATIONS: *Reports on the Lumber, Petroleum, Steel, and Water Power of the United States*.
- SELIGMAN: *Essays in Taxation; Shifting and Incidence of Taxation; and Progressive Taxation in Theory and Practice*.
- Also the works of Taussig, Devas, Carver, Pesch, King, Vermeersch, and the Commission on Industrial Relations, which are cited at the end of the introductory chapter.