CHAPTER VIII

THE TAX AS A SOCIAL REFORM

§ 1. If it is true of all taxes that the fiscal considerations are not to be divorced from the economic and other effects in judging of their expediency, it is especially important to consider the economic and social effects of the tax on land value. As a modified realty tax, the proposed changes involved in the tax on land value must be discussed in all their aspects. While no one will dispute the expediency and necessity of full-value assessment and of scientific valuation of real property, there is less unanimity of judgment with regard to the exemption of improvements from taxation. This is not strange when we consider that some fundamental social problems are involved in the proposal to exempt improvements. There is no agreement upon the meaning and prevalence of "unearned increment" and of speculation in land, nor upon the seriousness of the so-called housing problem in the various communities; while the whole problem of property in land will ever remain a logically controversial one. The best that can be done is to attempt to understand the nature of the above-mentioned problems in the light of the facts under the existent order; to examine certain social evils and the proposed reforms; and to test the efficacy of the tax on land value as a social reform by the effects of its operation where it exists.

It will be agreed that the most currently potent argument for the taxation of land value is that land rent is an "unearned" increment. The justification of this view is based on the rent concept explained in the preceding chapter. Now, the criticism generally directed by economists and laymen alike against the tax is that land rent is not the sole differential, that other incomes are likewise "un-

earned." Thus quasi-rents arising from capitalistic enterprises, from speculation in general, and even from natural ability [1] are likewise called "unearned" increments. As commonly understood "unearned" increment is any surplus value accruing to an individual not by virtue of sacrifice or exertion on his part, but by virtue of his property right to a commodity. But it is also questioned whether even a transaction in landed property does not involve some labor on the part of the owner. Whatever view we admit, so much is certain. There is a tendency in recent years to differentiate between income accruing to labor in its widest sense including entrepreneurship, and that accruing from the investment of capital in any form. The latter is commonly considered the source of the enormous wealth accumulated by individuals which, it is evident, the modern "Sozialpolitik" would prevent. Misleading as the term "unearned" income may logically appear, it will probably be retained, since English and German legislation has recognized the distinction between earned and unearned income.[2]

Just as in the case of monopoly and large scale capitalistic production, legislation has been employed to check the concentration of wealth in the interest of the social well-being, so with regard to the land-value increments, it is proposed to prevent some of the putative evils by means of a tax. The fiscal expediency of the proposal having been discussed,[3] the problem is now to discover (1) whether those putative increments in land value are of widespread occurrence, if they occur at all, (2) the causes and the social evils that ensue therefrom, and (3) the effectiveness of the tax to remedy the evils.

§ 2. What are the facts concerning the appreciation in the value of the land? The difficulties encountered in at-

[1] *Cf.* Marshall, *Principles of Economics* (5th ed.), p. 579.

[2] *Cf.* the English income tax and the German "Wertzuwachssteuer" where the term "unearned" is employed.

[3] See *supra*, chapter VII.

tempting an answer become apparent when we consider the several kinds of land, the lack of uniformity in the development of the several countries, the social, economic, and physical differences of communities, and the inadequate data due partly to insufficient information, partly to the practice of assessing, as a single class of property, both the land and improvements upon it.

To begin with, it will be necessary to classify land into three main categories: —

(1) Land used in the production of raw stuffs, i.e., agricultural land which forms the main source of human sustenance.

(2) Land necessary for dwellings and industrial purposes, i.e., urban land.

(3) Land containing the product in a form ready for use — in contradistinction to that requiring fertilization — i.e., mines and forests.

The following considerations make the distinction between rural and urban land apparent: First, agricultural production must be put in a class by itself. And it must be borne in mind that as yet the prevailing unit in agricultural industry is the small farm. Secondly, the transition from extensive to intensive farm cultivation has been very much retarded on account of the relative abundance of virgin soil. Thirdly, the demand for urban land is not merely for industrial purposes. The demand is composite; for it is a demand also for dwellings by a comparatively numerous population in a comparatively limited area. Fourthly, the unit of valuation of rural land is the acre, as compared with the lot in towns. The third kind of land, namely, natural resources in a limited sense, must be differentiated from the other kinds for many reasons. Unlike the other kinds, mines and forests belong in the category of wasting assets.[1] Upon their proper use or misuse, therefore, de-

[1] In a larger sense this is true also of agricultural land which may be used up through a careless, extensive cultivation.

pends the welfare of society. Hence in considering this kind of land, the whole problem of conservation confronts us.

In the following sections, then, we may expect to find the tendency of values in the three kinds of land to vary not only with regard to one another, but with regard to the diverse conditions of place, population, and stage of development.

§ 3. The discussion of agricultural values necessitates a further division, for the lands under cultivation in the old countries are not comparable to the virgin soils of Australasia and America. Bearing this fact in mind, we shall first present some data regarding the European situation, and then shall endeavor to show the tendency of value changes in the newer countries.

TABLE SHOWING THE RENTAL OF AGRICULTURAL LAND IN THE UNITED KINGDOM, 1750–1904 [1]

Year	*Rental in millions* (£)	*Per cent of change in value*
1750.....	16.6	..
1776.....	22.4	increase, 34.9
1800.....	32.6	" 45.5
1815.....	46.5	" 46.5
1843.....	54.4	" 17.0
1860.....	58.3	" 7.1
1870.....	64.1	" 9.1
1880.....	69.5	" 8.5
1888.....	61.2	decrease, 11.9
1894.....	56.2*	" 8.1
1904.....	52.0	" 7.1

* This figure was obtained from Mulhall, *Industries and Wealth of Nations*, p. 406.

From the above table we note that the rental value rose steadily until early in the nineteenth century, held its own

[1] Mulhall, *Dictionary of Statistics* (1899), p. 341; the figures before 1870 are estimates; from that date, the figures are those taken from the Reports of Inland Revenue. *Cf. Agricultural Statistics* (Cd. 3870), 1907, Table XXIV.

until the eighties, although the percentage of increase diminished gradually, and since the eighties has declined considerably. The tendency of agricultural land values in the United Kingdom (1781–1880) to fluctuate about an average, showing comparative stability and appreciation in the price of the land, is illustrated also by the following table: —

AVERAGE PRICE OF FARM LAND PER ACRE [1]

1781–1800	£33.8
1801–1820	36.2
1821–1840	23.7
1841–1860	36.4
1861–1870	43.
1871–1880	51.3
Average price	£35.1

Evidence of the decline in agricultural land values in Great Britain since the eighties is abundant. For example, the Royal Commission on Agriculture of 1895 [2] quoted numerous illustrations of the decline in rental; in fact cases occurred where no rent could be paid. That this depression has continued to the present the following statement by Professor Nicholson [3] is evidence: "The conclusion, then, is that for the last half century instead of an *unearned increment* from agricultural land, there has been an unearned (and certainly undeserved) decrement."

Turning to France the situation regarding agricultural land values is similar to that in England. In France "land trebled in value between 1817 and 1879, but it has since fallen one-third." [4] This estimate is borne out by the following table showing the value of arable land in France: [5]

[1] Mulhall, *Dictionary of Statistics* (1899), p. 759. Average prices of estates sold in those years.

[2] See *Final Report of the Royal Commission of Agriculture*, 1894–97 (C. 8540), pp. 207–08; also *Particulars of Expenditures and Outgoings*, etc. (C. 8125), 1896, pp. 40 *ff*.

[3] *Rates and Taxes as Affecting Agriculture*, p. 72.

[4] Mulhall, *Industries and Wealth of Nations*, p. 413.

[5] *Ibid.*

Year	*Value in millions* (£)	*Per cent of change in value*
1817.....	548	..
1879.....	2,301	increase, 319.8
1881.....	2,986	" 29.7
1895.....	1,386	decrease, 53.2

From another source of information, the percentage of decrease in the value of agricultural land in France was estimated at less than appears from the preceding figures.[1] This more conservative estimate was derived after a careful valuation of the land in 13,606 French communes, covering, therefore, a large part of the territory of France. From 1879 to 1884 the rural land in these communes was valued at 783,636,000 fr.; in 1909–10 the value had fallen to 616,540,000 fr., or 21.3 per cent. Another authority estimates the decline in the value of farm land at forty per cent.[2] Although the estimates of the extent of the depression vary, the fact remains that during the last generation the value of agricultural land has considerably depreciated.

Belgium has been likewise affected by the agricultural depression of the eighties. The average value of farm land per hectare declined from 4261 fr. in 1880 to 2838 fr. in 1895, about thirty-one per cent; the rental value declined during the same period from 107 fr. to 90 fr.[3] Ample evidence exists to show that this trend of values has been general throughout Europe.

The causes for this situation are not far to seek. They are to be found chiefly in the low prices of grain due to American and Australian competition, resulting from the

[1] *International Institute of Agriculture. Bulletin of Bureau of Economic and Social Intelligence*, vol. XVIII, April, 1912, pp. 220 *ff*. The author estimates the depression in the price of typical holdings from 600 fr. in 1856 to 210 fr. in 1908, or 65 per cent.

[2] *Cf. Congrès International de la Propriété Foncière* (1900), p. 561.

[3] *Annuaire Statistique de la Belgique* (1902), vol. XXXIII, p. 291.

improved facilities for transportation, and in the greater profitableness of manufacturing industries. An effect which is at the same time a proof of the general condition of agricultural depression in Europe is the marked decrease in the rural population. For example, the English rural population, which was 42 per cent of the total population in 1771, constituted 22 per cent of the total in 1841 and less since then; [1] the agricultural population in Belgium fell from 24.98 per cent to 18.79 per cent of the total population from 1846 to 1895.[2] In Germany too the percentage of those engaged in agricultural production decreased from 42.5 per cent in 1882 to 28.65 per cent in 1907.[3]

§ 4. But while value decrements, not value increments, characterize European farm land, the opposite tendency seems characteristic of the newer countries. Generally speaking, with the progress of the nineteenth century to the present, with the introduction of railroad and improved waterway transportation, the superior fertility of the soil in America and Australasia caused an extension of the grain market to a world market, while the growth in population had the same effect, an increased demand for agricultural land. The result has been a corresponding increase in the value of farm land as the accompanying table shows.

It is obvious that to determine precisely the real increase in the value of the land when farms and buildings are classed together as in the subjoined table is impossible. Nevertheless, as the ratio of the value of the buildings to that of the land in the country is small, the degree of error in estimating the percentage of increase can be but slight. It will be noted that while the number of farms since 1850 increased nearly 339 per cent, the value of the farm land

[1] Weber, *Growth of Cities in the Nineteenth Century, Columbia University Studies in Political Science*, vol. XI, p. 166.

[2] *Annuaire Statistique de La Belgique* (1902), vol. XXXIII, p. 272.

[3] *Handbuch der Politik*, vol. II, p. 263.

INCREASE IN THE VALUE OF FARM PROPERTY AND IN AGRICULTURAL PRODUCTION IN THE UNITED STATES [1]

Year	*No. of farms*	*No. engaged in agriculture*	*Value of farms and buildings*
1850.....	1,449,073	..	$3,271,575,426
1860.....	2,044,077	..	6,645,045,007
1870.....	2,659,985	5,922,471	7,444,054,462
1880.....	4,008,907	..	10,197,096,776
1890.....	4,564,641	8,565,926	13,279,252,649
1900.....	5,737,372	10,438,219	{ 13,058,007,995 * 3,556,639,496
1910.....	6,361,502	12,659,203	{ 28,475,674,169 6,325,451,528

* The upper figure is the value of the farm land, the lower one that of the buildings.

and buildings increased almost 964 per cent. Furthermore, during the last decade, 1900–10, the increase in farm land *per se* was over fifteen billion dollars, or 118 per cent.

If we turn to the conditions in Australasia, it will be discovered that a similar trend of value increment exists there as appears from the data given in the table on page 356.

It would be possible to show the same tendency of rising value for farm land in the other Australian states and Canada [2] and wherever the development of the country and the demand for foodstuffs is growing.

§ 5. It may be expected that with the further extension of the cultivation of the soil and with the closer settlement of the country rural land will continue to rise in value in new countries and ultimately in the European countries. Nevertheless, it would be erroneous to assume that all farm land even in the newer countries tends to rise in value. The fact is that the value of farm land is subject to

[1] *Statistical Abstract of the United States Census* (1910), pp. 119, 121, 265; also *Report of the Twelfth Census*, vol. v, Table IX.

[2] *Cf. Statistical Year Books of Canada* (1904, 1910, etc.).

INCREASE IN THE VALUE OF RURAL LAND IN AUSTRALASIA [1]

Year	*Unimproved value of land in counties of New Zealand*	*Unimproved value of rural land in Victoria*
1878.....	£48,212,290	..
1888.....	57,201,387	..
1891.....	57,880,233	..
1897.....	63,732,516	..
1902.....	71,747,758	..
1904.....	82,513,630	£77,557,628
1906.....	99,236,462	81,198,431
1908.....	114,301,726	91,025,874
1910.....	124,560,720	100,646,814
1912.....	138,813,886	106,752,622
1913.....	152,273,929	109,512,311

great fluctuation. In many parts of the United States, for example, much country land has become impoverished and abandoned. This impoverishment has been greatest in our south central states, except Alabama, Kentucky, and Tennessee. There has also been considerable impoverishment and retardation in the southeastern states, especially in West Virginia and Georgia; also in North Dakota, Nebraska, and Kansas land values have depreciated when cultivation of the soil had to be abandoned. West of the Mississippi four states reported a considerable reduction in productivity. The total area of counties comprising impoverished land has been estimated as 307,730 square miles or 10.3 per cent of the total land area of the United States.[2] Moreover, 16,597 square miles, 0.6 per cent of the total area, have been abandoned. Half of this abandoned land is in southeastern United States.[3] Temporary fluc-

[1] *New Zealand Official Year Book* (1913), p. 860; *Victorian Year Book* (1911–12), p. 223. *Cf.* also, Mulhall, *Dictionary of Statistics* (1911), p. 367.

[2] *Report of the National Conservation Commission* (1909), vol. I, p. 77.

[3] *Ibid.*, p. 78. It is not generally known that the oft-mentioned aban-

tuations frequently occur with the extension of production to our western prairie regions as well as with the exhaustion of the soil. Again, considered for short periods of time, through the introduction of improvements in the methods of cultivation and the substitution of intensive for extensive production rural land values are very often affected.[1]

Similarly, fluctuations are frequent in Australasia and Canada. Speculation in these countries has been and continues to be rampant, leading to "land booms" or to inordinate appreciation in land value, which later result in precipitate depressions. An illustration from Ontario, Canada, will make this tendency of rural land value to fluctuate more apparent. Consequent upon the opening up of Manitoba, the value of farm land experienced a decline in Ontario from $625,478,706 in 1884 to $587,246,117 in 1894.[2]

To conclude: (1) The extension of distant sources of grain supply due to the improvement of transportation facilities, along with social causes, e.g., dissatisfaction with rural life, changed conditions of labor, etc., has been the cause of the agricultural depressions and of the decline of rural land value in European countries. (2) In the new world, the extension of production, so detrimental to European agriculture, has not only been a boon to the farmers, but is also the cause of the appreciation in the value of rural land of the country as a whole. (3) The general upward trend of values is, however, not universal throughout the more newly opened countries, nor is the rise in value uniform. In many states and sections of the country, the value of rural land is subject to great fluctuation; in others the value remains constant. (4) Although,

doned farms common in New England have been largely reoccupied and rendered productive recently by Italian and French-Canadian farmers. (*Ibid.*)

[1] *Cf.* Fairchild, *Rural Wealth and Welfare*, pp. 300 *ff.*

[2] *Statistical Year Book of Canada* (1895), p. 303.

as free land is taken up and cultivated, as intensive supersedes extensive cultivation, and as the population increases, agricultural land will tend to appreciate in value; for a long time to come, we may expect to find constant values and decrements, more often than increments, characteristic of rural land.

§ 6. The problem of determining the trend of land value in urban communities presents serious difficulties. The rise and growth of cities in the nineteenth century have been phenomenal and unprecedented in the history of the world. And it is generally held that the movement of concentration of the population in cities will tend to continue.[1] Cities, however, do not always progress in the same way, nor to the same degree, the growth of some being far more rapid than that of others. Their relative growth depends upon such factors as differences in wealth, in the character of the industries undertaken, in the number of population, in topography, in transportation facilities, in climate, in the platting system, and so forth.[2] All these factors in urban growth likewise exercise an influence on the value of the land. The value of urban land, indeed, is affected and disturbed even by changes in the current rate of interest (the capitalization rate for realty varies with the character and use of the building and neighborhood, etc.), and by any judicial decisions affecting property rights. Other influences that are apt to depreciate land value are public or quasi-public structures, as, for example, the elevated roads and other so-called "nuisances." In studying the data presented below, therefore, showing the general movement of values, it must not be overlooked that even in the most developed cities there are districts markedly retrogressive and deteriorated.

The value of urban land is, of course, attributable to the

[1] *Cf.* Weber, *Growth of Cities in the Nineteenth Century*, in *Columbia Univ. Studies*, vol. XI, chap. IX.

[2] Hurd, "Distribution of Land Values," in *Yale Review*, vol. XI, p. 144.

fact that land is needed for residence and business purposes and that the number of more desirable sites is limited. It may therefore be laid down as a general principle that in all countries, wherever the concentration of population and progress are in evidence, the value of land will tend to rise. Not to illustrate any abnormal growth in value, but to show the general trend and to emphasize the extraordinary character of the increase especially in the larger cities, the following statistics are presented.

In New York City the assessed value of real estate has increased as follows: [1]

Year	*Total real estate*	*Land*	*Improvements*
1898	$1,856,567,923	..	..
1900	3,168,557,700	..	..
1902	3,332,647,579	..	..
1904	5,015,463,779	..	..
1906	5,738,487,245	$3,367,233,746	$1,959,179,364
1908	6,722,415,789	3,843,165,597	2,298,334,522
1910	7,044,192,674	4,001,129,651	2,490,206,348
1912	7,861,898,890	4,563,357,514	2,716,222,137
1913	8,006,647,861	4,590,892,350	2,796,344,754
1914	8,049,859,912	4,602,852,107	2,855,932,518
1915	8,108,760,787	4,643,414,776	2,884,475,851

In considering the above figures, it must be noted that the assessed value of the land here given does not include the value of the land owned by corporations, which is, however, included in the total value of the real estate; and that until a few years ago the assessment was much below the actual value, in some cases as much as thirty per cent below. Since 1906 the per capita value of the land itself has fluctuated from between eight and nine hundred dollars.

[1] *Report of Tax Commissioners of New York City* (1915), pp. 20–21, 71. The discrepancy in the figures between the separate and combined values of real estate is accounted for by the separate classification of the real estate owned by corporations and special franchises which are included in the total value of real estate.

In 1915, the per capita value was estimated at $816. Allowing for the incompleteness of the data, the enormous increments in land value are, nevertheless, evident. In the decade, 1898–1908, the increase in the total value of real estate was nearly *five thousand millions* of dollars, or 262 per cent; since 1908, the increment has been again more than *one thousand* millions. To take a particular instance of the enrichment of private individuals by the enormous increments of land value, it was estimated by the assessors that the bare site on which Macy's store in New York City is located was worth, in 1907, $10,000,000 per acre.[1] And lest this be considered an exceptional case, attention is again called to the fact that for every additional member to the population of New York City the value of the land is enhanced about $800.[2]

Similar value increments have occurred in London, where it has been estimated that the increase in the value of the land from 1870–90 amounted to about £7,620,000, annually, and where every new inhabitant added during that same period more than $400 to the value of the land.[3]

Or take Chicago for illustration. The financial history of a quarter acre of land in Chicago, not unlike that in all the larger cities, has been traced as shown in the subjoined table.[4]

The correlation of land-value increments with the growth of population will be noted. In the same connection the

[1] *First Conference on State and Local Taxation* (1907), p. 401. There are sites in New York valued at $40,000,000 per acre.

[2] "The *bona fide* land values of New York City exclusive of expenditures by the owners or assessments by the city increase about $800 a year for every person who has been admitted to the population." (Marsh, *op. cit.*, p. 23.)

[3] Weber, *Ueber Bodenrente und Bodenspekulation*, pp. 128–29.

[4] *Eighth Biennial Report of the Illinois Bureau of Labor Statistics* (1894), p. 277. The enormous rise in the value of land in Chicago is even more astonishing than that in New York City and London because the territory comprised by Chicago is much greater in proportion to population than in the other two cities.

Year	Population of Chicago		Value of one quarter acre	Per cent of increase in value	Per cent of decrease in value
	Numbers	Increase per cent			
1830.....	50	..	$20	..	..
1831.....	100	100	22	10	..
1832.....	200	100	30	40	..
1833.....	350	75	50	67	..
1834.....	2,000	467	200	300	..
1835.....	3,265	60	5,000	2400	..
1840.....	4,470	37	1,500	..	70
1845.....	12,088	170	5,000	233	..
1850.....	28,269	134	17,500	250	..
1855.....	80,023	183	40,000	129	..
1860.....	109,000	36	28,000	..	30
1865.....	178,900	64	45,000	61	..
1870.....	298,977	67	120,000	167	..
1875.....	400,000	34	92,500	..	23
1880.....	503,298	26	130,000	40	..
1885.....	700,000	40	275,000	111	..
1890.....	1,098,570	57	900,000	228	..
1892.....	1,300,000	19	1,000,000	111	..
1894.....	1,500,000	16	1,250,000	25	..

following estimate quoted by Mr. Marsh [1] is impressive: "In 1818 the United States gave the square mile between State, Madison, Halsted, and Twelfth Streets (Chicago) to the State of Illinois to be held in trust for the support of the public schools and the education of the children of Chicago. Except for one block between Madison, Dearborn, State, and Monroe Streets, nearly all of this square mile was sold about seventy years ago for less than $40,000. Within fifteen years after it was sold this square mile was worth six million dollars. To-day its value is hundreds of millions of dollars (without improvements). The rent from this square mile of land would be sufficient to support for all time the entire school system of the State of Illinois without an additional dollar of taxation."

The development of German cities, likewise, has been

[1] *Op. cit.*, p. 109.

and continues to be extraordinary. From agricultural values about 1870, land has risen many hundred fold in value as the towns grew. Examples have already been given of this oft-cited phenomenon.[1] A few more must suffice here. As in the other countries the metropolis, in this case Berlin, leads and exemplifies this tendency best.

The approximate value of the area on Kurfürstendamm, the principal thoroughfare of Charlottenburg, a comparatively new portion of Berlin, is shown below:[2]

Year	*Value in million marks*	*Per cent of increase*
1860	0.1	100
1865	1.0	1,000
1870	2.5	2,500
1872	6.5	6,500
1885	14.0	14,000
1890	30.0	30,000
1898	50.0	50,000

The value of the land in Charlottenburg as a whole has also appreciated enormously:[3]

Year	*Value in million marks*			
	Improved land	*Per cent of increase*	*Unimproved land*	*Per cent of increase*
1865	6	..	4	..
1880	30	400	20	400
1886	45	50	30	50
1897	300	566	100	233

From Professor Conrad's[4] illustrations of land-value increments we quote the following: "In Frankfurt a. M. in

[1] *Cf.* chapter IV, § 7. [2] Mangoldt, *op. cit.*, p. 62.

[3] Voigt, P., *Grundrente und Wohnungsfrage in Berlin and seinen Vororten*, p. 217.

[4] *Grundriss Zum Studium der Politischen Oekonomie*, vol. I, p. 128.

a period of fifteen years, 1880–95, the land had appreciated sixty per cent in value, while in Karlsruhe it had increased from 400 to 500 per cent in a period of thirty years."

In a paper delivered before the Congrès International de la Propriété Foncière, Professor Philippovich was cited as authority for the case of a piece of land in Vienna whose present value increment amounted to 3526 per cent of its original value in 1875.[1] Similar striking instances were cited at this conference. For example, a certain part of Paris was worth, less than a century ago, scarcely fifty centimes per square metre (5000 fr. per hectare); this land has since increased 699,900 per cent in value. "The value increment of unbuilt property in the environs of Paris, that is suburban land, has been estimated to have increased 1,793.07 per cent between the years 1851–79." [2]

The general trend of urban land values is unmistakable. The best proof of this is the fact that realty experts have been able to formulate an approximate scale of normal values per front foot like the following one,[3] "it being understood that the actual highest values in the various cities vary widely from any average scale, owing to the marked differences between these cities in wealth, character of industries . . .": —

City population	*Best business per front foot*	*Best residences, per front foot*
25,000.....	$300 to $400	$25 to $40
50,000.....	600 " 800	40 " 75
100,000.....	1,200 " 1,600	75 " 150
150,000.....	1,800 " 2,400	100 " 200
200,000.....	2,400 " 3,200	100 " 300
300,000.....	3,600 " 4,800	200 " 500
600,000.....	7,200 " 9,600	1500 " 2000
2,000,000.....	23,000 " 31,000	2000 " 3000
3,500,000.....	42,000 " 56,000	6000 " 9000

[1] *Congrès International de la Propriété Foncière* (1900), pp. 566–67.

[2] *Ibid.* Quotation translated from the French.

[3] Hurd, "Distribution of Urban Land Values," in *Yale Review*, vol. XI, p. 144.

According to Lawson Purdy, the president of the tax department of New York City, the annual rate of increase of real property in New York City should be from four to five per cent, since real property tends to increase somewhat faster than the annual increase in population, which is about three per cent.[1]

§ 7. In spite of the facts cited to show the upward tendency of urban land value, it must not be inferred that no decrements occur. Even in the most advanced urban communities, land does not increase in value always and everywhere. Some of the reasons have already been given for the occurrence of depreciation in value.[2] Changes in the development of the city or town are apt to depress values in certain districts. For example, when the utilization of land either for business or residence purposes declines, the value of the land likewise declines. Sometimes through changes in the internal structure of the city, e.g., when the residence section is superseded by industrial undertakings, or when a factory and a foreign population invade a neighborhood, values are adversely affected. Sometimes districts retrograde because of encroachments of public utilities or so-called "nuisances." [3] As a general rule retail property tends to follow the best residence section, while wholesale business replaces retail property or changes its location so as to be near the wharves and railroad terminals.[4]

Besides decrements that reflect changes in the city's development,[5] urban land has often experienced a depreciа-

[1] *Report of the Commissioners of Taxes and Assessment of the City of New York* (1909), p. 17; (1908), p. 7.

[2] *Cf. supra*, § 6.

[3] The improvement of transportation facilities, moreover, such as the construction of elevated roads, may cause a decline in land value by opening up suburban land. Some public improvements such as parks increase values generally. *Cf. Real Estate Magazine*, November, 1913, pp. 61 *ff.*

[4] *Cf. Practical Real Estate Methods* (1909), pp. 202–03.

[5] There are many other causes than changes in the population. The New York Tax Commissioners found that the owners' failure to replace

tion in value because of a previous overvaluation. For example, take the case of the quarter acre of Chicago land whose changing value has been tabulated.[1] Had the complete original table in which the annual changes were traced been reproduced, it would have been observed that in the sixty-five years, from 1830 to 1894, decrements in its value had occurred seventeen times.[2] Indeed, Chicago is an illustration of fluctuating values in real estate. As a result of the speculation and overcapitalization of land, Chicago real estate is said to be valued to-day on an 1889 basis,[3] for the expected rentals on which the value of the land was then based have failed to materialize. For example, in 1851 certain sites on Twenty-fifth Street were valued at $250 per acre; six years later the value had risen to $5000; after three years it sold for $25,000; in 1862 the value fell to $20,000, after which the property was improved, its value rising enormously until 1900, when it sold for only one-half its value twenty years earlier.[4] According to a real estate dealer this example is typical of Chicago property. "Real estate is now selling about on an 1889 basis. It reached high figures in the early seventies, too high for that time, and it required some fifteen or twenty years for the city to reach the values fixed in 1873; but while the city was growing to these values, the values themselves were falling back, so that somewhere about 1885 real estate was selling at about what it was worth. Another upward movement in the

their obsolete buildings with new ones resulted in lower returns and the depreciation of land value. See *Report of Commissioners* (1913), p. 8.

[1] *Supra*, § 6.

[2] These decrements, it is noteworthy, occurred in 1837, again in 1857, again in 1873, showing the effect of the panics and hard times on the value of realty.

[3] That is because, on account of the immense territory of Chicago and on account of the easy transportation facilities, the congestion of population is less imminent. This is shown by the comparative average value of land quoted in the Chicago *Tribune*, August 26, 1913, as follows: the average for Pittsburgh was $19,096; for New York City, $19,887; for Chicago, only $8138.

[4] Chicago *Real Estate News* (1909), p. 186.

early nineties carried values some ten years ahead of real conditions. The city began rapidly to overtake these values while the values themselves fell back to meet real conditions. This process has gone on now for fifteen years. Since the World's Fair a new city has been added to each of the sides of the river, wealth has accumulated, public improvements have been made, every token which goes to make a great metropolis has come into evidence, but the real estate pendulum has only begun to swing upward." [1]

In still another way are depreciations likely to occur for a shorter or longer period. Whenever the attempt to build artificial towns or cities, "paper towns," fails, the result is disastrous to the value of land. In Hurd's words:[2] "An apparent exception to the general law of no value in the site when the city starts occurs where cities are speculatively undertaken and the future is discounted, lots selling at comparatively high prices in advance of utility. The difference between price and value is usually demonstrated before many years, the swing of the pendulum carrying these lots as far below their value as prices were formerly above it. Thus lots in Columbus, Ohio, which sold in 1812 at $200 to $300, sold in 1820 at $7 to $20, and of recent instances there are many, such as the collapses in the early history of the speculatively started towns of West Superior, Wis., Tacoma, Wash., Everett, Wash., and Birmingham, Ala."

§ 8. With regard to the third class of land, namely, mines and forests, the problem is of a different character. We are here concerned with the problem of the conservation of natural resources. Mineral and forest lands are, moreover, distinguished from each other by the important fact that when exhausted or used up minerals cannot be replaced, while forests can be cultivated provided a suf-

[1] Chicago *Real Estate News* (1909), p. 186.

[2] "Distribution of Urban Land Values," in *Yale Review*, vol. XI, pp. 126–27.

ficiently long time is allowed. Nevertheless, as operated to-day forests as well as mines may be regarded as wasting assets. The United States Conservation Commission estimated that at the present increasing rate of production the coal supply of the United States will be near exhaustion before the middle of the next century, and that the high-grade iron ore will not last beyond the middle of the present century; so with the known supply of petroleum in the United States. "The consumption of nearly all our mineral products is increasing far more rapidly than our population. In many cases the waste is increasing more rapidly than the number of our people. In 1776 but a few dozen pounds of iron were in use by the average family; now, our annual consumption of high-grade ore is over 1200 pounds *per capita.* In 1812 no coal was used; now, the consumption is over five tons and the waste nearly three tons *per capita.*" [1]

As regards our forests there are to-day over 200,000,000 acres less forest land than there were originally. "We take from our forests each year, not counting the loss by fire, three and one half times their yearly growth." [2] Of the countries exporting timber, only three, Russia, Finland, and Sweden, "have increased their exports to great extent without encroaching on their timber capital." [3] Yet, in spite of the substitutes for timber for various purposes, the consumption of timber has increased many fold.

In these circumstances the value of mineral and forest land has enormously appreciated. And taking these lands as a whole, the upward trend of values will continue as the opening of inferior mines is necessitated, and as the supply of timber is lessened. But the exhaustion of these natural resources, unless a policy of conservation is pursued, is inevitable. Moreover, as regards particular mines or forests, under ordinary circumstances, when the resources

[1] *Report of the National Conservation Commission* (1909), vol. I, p. 16.
[2] *Ibid.*, p. 58. [3] *Ibid.*, vol. II, pp. 351.

give out the value increments do also. Great fortunes have been made through the increased value of natural resources and great fortunes will continue to be thus gained, but the process is limited. This class of land, then, is not only to be differentiated from the other two classes; but the problem presented by it is also of a different character from that which either the agricultural or urban land presents.[1]

§ 9. If we summarize the results concerning the three kinds of land we shall answer the inquiries: First, what gives land its value and its value-increment? Secondly, what factors distinguish one kind of land from each of the others? Thirdly, what problems does the phenomenon of increments and decrements present?

Scarcity, not of land as such, but of the various grades of land, depending upon the fertility, location, or richness of deposit, is the cause of the value of land. Land as a non-reproducible good becomes subject to monopoly price, whenever the demand for a certain quality or kind exceeds the supply. This demand, which is reflected in the high value or value increment, is created by an ever-increasing population and progress. By the latter are meant the changes in mode of life, pleasures, and comfort which occasion a proportionately greater demand for all products, including urban land. Granting that the population will grow and progress continue, we may assume that higher values will follow in all three classes of land. That, however, is a hypothesis concerned with the remote future. At present the problem is practically different for each kind of land and it is with the present conditions that we are here concerned.

To-day, in the case of agricultural land, the fact that decrements in value prevail in the older countries shows that there exists no world scarcity of farm land below a

[1] In essence there is less difference between agricultural land and forests, for example. Both need to be conserved. In the present era, however, the problem of conservation is not the same for both.

certain grade. And the fact that in new countries agricultural land tends to appreciate in value in some sections, but to depreciate in others, shows exceptionally favorable conditions of the soil which render the competition with foreign countries and with other parts of the same country profitable. Here, then, there is no problem of discriminatory legislation to divert to the coffers of the state the excessive profit accruing from the rise in the value of land. On the contrary, the government may find it expedient to promote the profit of the farm owners in the interest of greater and cheaper production.

With regard to urban land, on the other hand, the problem of monopoly value becomes more acute. Every person added to the urban population affects the value of the land more or less. The tendency of urban land value to appreciate is unmistakable. The result is that the owners of this commodity, land, reap the ever-increasing profit at the expense of the consumers, the tenants. The first problem, therefore, is that of the distribution of the value increment of the land. But the universal need on the one hand, and the scarcity of the commodity on the other, raises a second question, namely, does the present system of land tenure insure the best utilization of the land; since any misuse of the land by self-seeking individuals affects the social well-being. The evils charged to the present system of tenure are briefly: (1) speculation in land; (2) the so-called housing problem; (3) the misuse of natural resources.

The charges against speculation in land are that it fosters the monopolization of an indispensable commodity; that it artificially screws up the value of land; that it enriches one class at the expense of society in general. It is claimed that in cities a great deal of ripe building land is kept out of use by speculators who wait to pocket the profits arising from the appreciation in value. In this way they control or affect the supply like other monopolists, and through this practice rent in urban communities is unnecessarily

exorbitant. As a further result, it is contended, the masses, upon whom the expenditure of rent falls most heavily as compared with the wealthier classes, are compelled either to resort to poorer dwellings, in the unsanitary and congested districts, or to give up a greater proportion of their income for rent, leaving other urgent wants unsatisfied. It is further charged that the private appropriation of land value breeds and perpetuates an idle class who contribute nothing to the improvement of the land or to social well-being. Such are the criticisms and problems which the phenomenon of urban land-value increments awakens.

As for mines and forests where speculation is also rampant, it is not so much the matter of distribution of the value, as the matter of conserving the natural resources, which calls for solution. Yet, it must not be overlooked that in this country, at any rate, the mineral and forest wealth is in the possession of a comparatively small group of persons, who practically control the prices of the natural products. The recent protests of the governments against the wasteful management of the natural resources which is a menace to social welfare is proof of the necessity for reform. As regards this class of land, therefore, the most expedient use of the resources must be considered.

All the above-mentioned problems fundamentally involve the expediency of private land ownership. Before, however, the latter is even considered, certainly before any conclusions can be reached, it is necessary to raise the questions: How rampant is speculation in land? What evils does it create? What are the extent and effect of bad housing? It is to the examination of these conditions that we now turn.

§ 10. That speculation in land exists needs no elaborate proof. The value of land is subject to change, and the essence of speculation in any commodity consists in the anticipated fluctuations in its value. Yet there is a marked distinction between the speculation in land and that in

other commodities which deserves mention. We note that practically no real estate stock is sold on the stock exchange in this country,[1] and that no dealings in realty on the other exchanges occur.[2] The explanation for this lies in the peculiarity of land speculation, namely, that no short selling in land occurs. Land speculation is always "bullish." [3]

The fact seems to be that of all investments real estate is considered the safest and as yielding the most permanent income. "Nothing is more solid and permanent, more enduring in its nature and steadier in its value during cycles of time. Land cannot be destroyed, burned up, carried away by thieves, worn out or lost, nor can its real value be 'watered' by exploiters and impaired by the peculations and speculations of dishonest bank or corporation officials." . . . "It has been proved that the element of gamble in realty is less than in any other venture. Life itself is not so certain. . . . " [4] It is said that no commodity is so little affected in value during depressions as land. Some one has described the cycle of speculation somewhat as follows: At the beginning of a "boom" period there is but slight demand for real estate; at such times even realty dealers

[1] In New York, for example, the stock of only one real estate company is listed on the Stock Exchange. *Cf. Practical Real Estate Methods*, p. 273.

[2] So, too, guaranteed real estate mortgages are not attractive to speculators. *Real Estate Magazine*, October, 1912, p. 55.

[3] Dr. Eberstadt calls attention to this fact as follows: "Speculation in land is one-sided speculation; it differs decidedly from other kinds of speculation, such as, for example, speculation in stocks and grain. In the latter, the bids are up and down ('long' and 'short'), and in such transactions two parties try synchronously to further their diametrically opposed interests. In land, on the contrary, no one can speculate 'short'; without exception speculation tends to bring about a rise in price. Irrespective of the ownership, speculative land values are always 'bullish.' By this very fact speculation in land assumes a singular position as compared with all other objects of speculation." Translated from *Die Spekulation im neuzeitlichen Städtebau*, pp. 30–31.

[4] By an enthusiastic realty dealer. See Chicago *Real Estate News* (1909), p. 186; also Kirkman, "Real Estate," in *Business, Commerce and Finance* (1910), p. 319.

turn to the stock market. Everybody invests in personal property. Then the demand for realty improves, and so does its value. Although real property is the last thing to be affected, the speculative mania does finally set in, screwing up the value of land. The result is an overvaluation of property that cannot last long. As some one put it, "after real estate speculation comes the deluge." [1] It is these "fictitious" values that when the panic sets in need readjustment for the most part.[2] Aside from this element of safety and aside from the "bullish" character of the speculation in land, the fact that real estate security constitutes poor collateral for banks, makes this class of property a less attractive commodity for exchange speculation. Thus speculation in land must be placed in a class by itself.[3]

§ 11. Since the essence of speculation is to buy cheap and sell dear, we find the best examples of land speculation in new settlements where there is an abundance of free land, e.g., in the United States when first settled, the Australasian colonies, or western Canada. With the extended use of minerals in industry, mines formed an especially fertile field for speculators. And as urban communities assumed greater and greater importance, a further field was opened up for speculative operations. So long as free and cheap land existed, the speculator was generally an individual. All he had to do was to invest in a piece of land in

[1] Carney, *How to Buy and Sell Real Estate at a Profit*, pp. 202, 207.

[2] While stocks fell during 1907 more than half in value, real estate values were said to have depreciated very little and there were fewer foreclosures than in normal times. *Practical Real Estate Methods*, pp. 232–33.

[3] This anomalous character of the real estate market explains what to Mr. Cederstrom (*cf. Unjust Taxation*) seems irreconcilable, namely, the continued increase of real estate assessments in New York City during a time of a depressed market for real estate. The fact that people prefer some other investments to real property by no means signifies that real property has fallen in value. There is no overproduction or oversupply as in case of reproducible and perishable commodities. While the market activity, no doubt, in the case of real estate also, is an index to general values, yet the actual, stable value of land will rise without a market, provided the demand for dwellings and raw materials continues to rise.

a district which he expected to develop, sit down and wait until the anticipated value was realized. For example, lots in the Bronx, New York, which sold in the eighties for $200 are now valued at $16,000 to $18,000 apiece. One who at that time invested $60 or $65, if he retained possession, can now sell the land for $6500 to $7000.[1] The returns, to be sure, were not immediate, but one of the cardinal traits of the land speculator is patience. Here is an actual illustration of a speculative transaction: In 1853 Morris sold to Nimphius a parcel of land, 150 feet front, for $300; in 1895 two lots of the parcel were sold for $9500. The following year the owner received from the city for exercising its right of eminent domain, for 9 feet, $40,000. In 1900 he received $70,000 for the balance of the land, making on his outlay of $300, $119,500, besides the usufruct of the property for fifty years.[2] Another person similarly realized, on an investment of $8000, $295,000 plus the rent of $4000 to $5000 annually. In this connection it may be pointed out that many of the millionaires owe their vast fortunes in part to land-value appreciations. The Astor fortune of $450,000,000 is a standard example. According to one writer [3] eighty-nine per cent of the millionaires started with real estate investments, and sixty per cent continue to invest in it largely.

But land speculation is no longer the same as it was even a generation ago. Of course, to this day, let the building of a railroad or a subway be contemplated and the surrounding ground becomes appropriated, to be sold at a profit in the future. Or, let a new mine be discovered, and not only the mine but the country round about is soon in the hands of promoters or speculators. "Long Island's waste land," quotes Marsh,[4] "is much of it held now by speculators

[1] *Practical Real Estate Methods*, p. 349. [2] *Ibid.*, p. 354.
[3] *Real Estate News* (1909), p. 186. Quoted from Cincinnati *Real Estate Bulletin*.
[4] *Op. cit.*, p. 70.

who, paying no taxes to speak of and undoubtedly in many cases none at all, can afford to wait for the natural rise. . . ." In Brooklyn, where a subway is waiting construction, 20,000 lots, assessed at a value of $15,000,000, are in the hands of speculators, who are waiting for the value increments.[1] Speculation in suburban and vacant land to-day, however, is mainly in the hands of realty dealers or of "development" companies. Land speculation, according to realty men themselves, is a profession, the four requisites of the speculator being time, capital, courage and judgment.[2] "The real estate operator at one time was a drone in the community. He was really a real estate speculator, would buy and sell at a profit, but would do nothing himself to create increased value. To-day realty operating is a profession, and the speculative side is very unimportant." That is, the real estate operator must be familiar with the market situation, with the economic conditions which influence values, and he must recognize, too, the social forces which tend to build up the community.

In this country, speculators in land are in the main individuals, while realty corporations are comparatively few;[3] in Germany, on the contrary, the latter are said to control realty operations. In the German cities, especially in Berlin, professional realty speculation is said to flourish as nowhere else. These corporations resemble the so-called "development" companies of this country in that building forms part of their operations. It is claimed that the seventy-three or more "Terraingesellschaften" have practically controlled building operations in Berlin and its suburbs. In fact the magnificent apartment houses of un-

[1] Marsh, *op. cit.*, pp. 108–09. "It is stated that within five years after the completion of the Market Street subway-elevated road in Philadelphia the assessed valuation of the property within its sphere of influence increased in value by $130,000,000. The cost of the subway was in the neighborhood of $20,000,000." *Real Estate Magazine*, July, 1913, p. 84.

[2] *Practical Real Estate Methods*, p. 235.

[3] In Illinois realty corporations are forbidden by law.

iform size and structure in and around Berlin are attributed to the activity of these speculators. The extent and character of these operations is shown in the following statement by an American realty agent:[1] "I have great respect for the magnitude of our realty operations in New York, but Berlin can make us sit up and take notice when it comes to buying undeveloped suburban land and taking chances. Imagine a seventeen-million dollar deal in vacant lots in New York. Recently a part of the Tempelhof Parade Ground was bought by a syndicate from the government for 72,000,000 Marks." Then he tells how the Schoenberg apartment-house quarter was founded by the President of the Berlin Realty Company, which has paid one hundred per cent dividends annually for years. The president formed a syndicate and bought the site which ten years ago had been farm land. "It took him several years to get control of what he wanted and he then started to lay out model streets on curved lines." This land was afterwards sold to building contractors, but the realty company retained control of the architectural designs. In this manner some sections of Charlottenburg, Grünewald, and other suburbs were founded.[2]

§ 12. From the social standpoint it is questionable whether this changed character of land speculation is an improvement. To-day the professional land speculator and the building operator are generally combined in the same person. Or they form a corporation. The methods of operation vary. In some cases the speculator borrows money with the land as security to finance the building. Or he may arrange with the building contractor for the construction of the building, and thus undertake operations involving hundreds of thousands of dollars with only a small sum of his own. In many cases speculators have manipulated deals so as to get both the value of the lot

[1] Chicago *Real Estate News*, (1911) p. 169.

[2] See Voigt, *Grundrente und Wohnungsfrage in Berlin*, pp. 218 *ff.*.

and house, the latter costing him practically nothing. This is said to be a common practice in New York State where he can exploit the workmen, because in New York State the mechanic's lien does not take precedence over a mortgage claim except when such a claim is recorded prior to the recording of the mortgage.[1]

In fact, between the speculator, the loan association and the building contractor, many kinds of frauds and socially disadvantageous operations are perpetrated. For example, some cheaply built, ill-equipped houses are often erected, advertised, and sold to workingmen for the most part at a price exceeding enormously the actual value of the property. Nor is this all; in most cases the terms of sale are so manipulated that after a failure to pay interest on the mortgage, the property reverts to the speculator, who repeats the deal, exploiting one person after another.

Through coöperation with building-loan associations enormous sums of capital are put at the command of land speculators, which must facilitate their control of the community's housing. Whole towns have been established, streets laid out and houses built by such operators, who reap enormous profits through the growth of settlements and of industry. A recent illustration is Gary, Indiana.[2] It is claimed, of course, that these land promoters, by developing the suburbs and erecting houses, are benefactors to the city population in relieving the congestion of the cities. This to a certain degree must be admitted. Nevertheless, when the importance of the commodities they deal in, i.e., land and houses, are considered, the expediency of putting the welfare of the community into the hands of money-making corporations may well be questioned.

[1] *Practical Real Estate Methods*, p. 217. This has been declared, by the decision rendered in Allis-Chalmers Co. *vs.* Central Trust Co. (190 Fed. Rep. 700), to hold everywhere.

[2] The Gary Land Company, the real estate department of the United States Steel Corporation, is described as the largest real estate corporation in the world. See Chicago *Real Estate News*, August, 1912, p. 141.

One kind of operation, for example, undertaken by the above-mentioned coöperative speculators and financed by banking or other loan associations, is the erection of the magnificent apartment houses in suburban districts. The timeliness, that is, the need for these is in question. According to some realty authorities these operations in New York City (the upper part of the city) have been losing ventures because untimely. In Germany the erection of these tenements or "Mietkasernen" has given rise to a great deal of controversy as to their social value.[1] The enormously rapid growth of speculative building operations in communities scarcely urban has been pointed out by Professor Eberstadt as a social evil. Quoting from a work entitled, "Viel Häuser und Kein Heim," he illustrates his theory that besides its untimeliness, speculative building drives up rather than reduces rents.[2] In the city of Cassel, according to him, a wealthy man bought up some land which would have yielded a good profit at twenty-five marks per square metre, if three-story houses with gardens had been erected thereon. But the landowner had tall tenements put up to yield him a rental from fifty to seventy-five marks per square metre. This resulted in higher rents to the tenants; but because of the oversupply of apartments, many of which remained vacant, the income of the landlord was no higher than if the three-story houses had been built. This violation of the law of supply and demand is illustrated also by the facts in our cities where, in spite of the unsatisfied demand for better dwellings, many apartments stay vacant indefinitely. A significant example of this is furnished by St. Louis. A few years ago it was esti-

[1] The chief contestants have been Dr. R. Eberstadt who holds that the "tenements" are socially injurious as well as the cause of high rent, and Dr. Andreas Voigt, who has defended the erection of these buildings in *Kleinhaus und Mietkaserne.*

Brentano asks: "Woher kommt jene Teuerung der Wohnungen, die sich gerade in den 90er Jahren in steigendem Masse fühlbar gemacht hat? Die Antwort lautet: Es ist die Folge der Wohlorganizierten Terrainspekulation." *Cf. Soziale Zeitfragen* (1904), vol. XVII, p. 7.

[2] Eberstadt, *Die Spekulation im neuzeitlichen Städtebau,* p. 15.

mated that about 11,000 houses and flats in St. Louis, exclusive of stores and offices, were vacant. Nevertheless, rents were said to have been higher there than in Chicago.[1] The reason is probably, as in the instance cited from Eberstadt, that it is to the advantage of the owner who is a speculator[2] to keep the houses vacant rather than to reduce the rent, for by reducing the rent the market or capitalized value of his property is depreciated.

§ 13. A graver charge even than those discussed above is that in urban communities land is kept from its best utilization by owners whose chief interest lies in the value increment which the property will in time realize. That the withholding from market and from improvement of land situated in the heart of a populous city causes unnecessary enhancement of rent is logical. The question is whether there actually are so many such undeveloped sites ripe for building as to cause concern to the community. Full data regarding this point are lacking. Upon an examination of the assessment roll of the downtown section of Chicago — the central business property from the river to Sixteenth Street and the river to Lake Michigan[3] — not counting the property owned and occupied by the railroads, nearly one hundred vacant lots with from twenty-five to two hundred feet frontage each were enumerated by the writer. The number of frame buildings, moreover, of trifling value was considerable, although most of these deteriorated structures were on the outskirts rather than in the center of this section. But taking Chicago as a whole, the proportion of vacant lots would undoubtedly be much greater than in the business center.

Valuable data in regard to vacant land in New York City are reproduced in the following table:[4]

[1] Chicago *Real Estate News* (1909), p. 136.

[2] There are few urban or other landowners who are not speculators, i.e., who do not anticipate an increase in the value of their property.

[3] See *Assessed Value of Property in Chicago*, compiled by Chicago Real Estate Index Company, issue 1908–12.

[4] *Report of Commissioners of Taxes . . . of New York City* (1913), p. 67.

Borough	Total number of parcels		Number of unimproved parcels		Per cent of vacant parcels		Assessd value of vacant parcels	
	1912	1913	1912	1913	1912	1913	1912	1913
Manhattan	96,496	95,654	7,622	8,211	8.0	8.6	$169,793,000	$182,598,890
Bronx	63,047	64,261	32,016	32,849	51.0	51.0	135,496,508	150,940,152
Brooklyn	206,279	211,038	49,144	50,173	23.8	23.8	161,892,217	154,644,027
Queens	126,065	131,382	79,681	82,221	63.2	62.5	142,722,081	142,392,400
Richmond	31,443	32,930	17,531	18,228	55.8	55.5	13,831,037	14,061,716
Total.....	523,330	535,265	185,994	191,742	35.5	35.8	$623,734,843	$644,637,185

With reference to the above table it is evident that there are relatively fewer vacant lots in Manhattan than in the other boroughs. In Manhattan, where property is so enormously high, rents so excessive, and the tax rate on improved and unimproved land alike so heavy, it is less profitable to keep land vacant than in Queens, where 62.5 per cent is unimproved.[1] The demand for dwellings is also less in the latter borough; perhaps much of the land is not yet ripe for building purposes in Queens. Nevertheless, the enormous value of this vacant land, over 142 million dollars in Queens alone, is significant. When it is considered that in all the boroughs about 645 millions represent speculative values, since the vacant property does not yield any annual income, the problem as to the regulation of private ownership of land in New York City is seen to be a serious one.[2] Moreover, the number of vacant parcels enumerated by the tax assessors does not include land with deteriorated and almost valueless improvements upon it.[3]

During the Lloyd George Budget agitation, the discussions with regard to undeveloped land revealed the conditions in Great Britain. For example, it was said that one-fifth of the land within the boundaries of the County of London lay vacant; that in Edinburgh 2000 acres of un-

[1] According to the report of the tax commissioners, vacant parcels were frequently acreage plots in the suburbs, so that the actual area vacant is greater than indicated in the table. See *Report* (1913), p. 64.

[2] The serious consequences of keeping land out of use and underdeveloped is recognized by the President of the Allied Real Estate Interests, Allan Robinson, as appears from the following exhortation to the 'real estate ground hog': "But the owner of underimproved property has a responsibility to the community in the same way that the owner of unimproved has. . . . Inertia and hoggishness on the part of real estate owners underlie the Single Tax menace. . . . With the removal of the causes which have brought about the Single Tax agitation and a changed point of view on the part of real estate owners and brokers as to the duties of land ownership, the Socialistic campaign aimed against real estate will die of its own weight." (*Real Estate Magazine*, October, 1913, p. 63.)

[3] "Every parcel which contains any improvement, however slight, is counted as improved." *Report of Commissioners of Taxes of New York City* (1913), p. 64.

used land excluding parks and gardens were kept unused, "until a clear feu-duty of £160 per acre per annum can be obtained." [1] It was estimated in 1892 that in Manchester the total area of vacant land (excluding gardens, roads, and other land unsuitable for building purposes) was 4200 acres. In Birmingham, out of 13,477 acres, 3500 were unbuilt upon. It was shown that in Bradford the density in some sections was 301 persons to the acre, although the average density was only 21; and that of 10,776 acres of the land in that city, 4512 acres available for building were still vacant. Indeed, two-fifths of the entire population of England and Wales, it is claimed, are crowded on about one eight-hundredth part of the total area of the country, another two-fifths occupy a little more than one two-hundred-and-fiftieth part, and the remainder are scattered over the rest of the land.

There is, however, more reason for the withholding of land from use in European countries than in the United States. In England unimproved land is not taxable under the rating system, and the land is largely inherited. In this country, to hold vacant or undeveloped land involves the payment of taxes and special assessments as well as the foregoing for a long time of the return on the capital invested. Real estate authorities confirm this opinion. "Where assessed valuation and taxes are both high, there is no money to be made in holding vacant land for an indefinite period. Every lot which is worth say $3000 and which is unimproved has annual charges against it of at least $200, not to speak of assessments. This charge is so heavy that it usually counterbalances the increase in value. Money made in vacant land accrues to purchasers who are shrewd or lucky enough to buy at just the right moment,

[1] Chomley and Outhwaite, *Land Values Taxation in Theory and Practice*, pp. 73 *ff*. In the Town Council it was said that Edinburgh contained 3000 acres rated at agricultural value. *Cf. The Budget, the Land and the People* (1909), pp. 68 *ff*.

and who capture a quick profit." [1] Or, as another one puts it: [2] "Unless a lot doubles in value every five years, its value will not keep pace with taxes, special assessments and interest." In cities, therefore, as in New York, where an earnest attempt is made to assess landed property at its full value and where the tax rate is considerable, speculation in vacant land is probably less prevalent than in other cities. Nor must it be thought that such speculation is always profitable.[3] Concerning vacant land that bears an *urban* value, so much may be said in conclusion: either the land is not yet ripe for building, or if ripe for building it is deliberately withheld from utilization. In both cases the purpose is speculative, but it is only in the latter that the practice is reprehensible. And yet the following consideration deserves attention. In a large, congested city, where land values are high but stable,[4] and taxes high, the ordinary investor will more likely find it profitable to build upon his land, if only to cover its annual cost. This holds true even of the land owned by the thirteen millionaire families quoted as the landed monopolists of Manhattan. For of the 205 or more millions of land value owned by them, less than ten millions comprise vacant land.[5] To be sure this does not take into account the *underdeveloped* land held by them.

§ 14. Another evil which speculation in land is known to foster concerns the investor. Of course it will be said that speculation of any kind is a game in which the investor

[1] Chicago *Real Estate News*, April, 1912, p. 53.

[2] Reed, *Science of Real Estate and Mortgage Investment*, p. 77. See also *Practical Real Estate Methods*, p. 242.

[3] "They do not hear of the thousands of unsuccessful prospectors or the many thousand proprietors of vacant property who wait for years for an improvement in values and finally see their profits disappear in interest charges and taxes." *Real Estate and Builders' Guide*, March 16, 1912, p. 540.

[4] Not constant, but in the sense of steadily increasing.

[5] From a statement by the Society to Lower Rents and Reduce Taxes on Homes.

consciously takes a risk, and must bear his losses. In land speculation, however, it is not a mistaken judgment in the investment so much as the system of mortgage which most often ruins him. The heavy indebtedness incurred by the purchaser results often in foreclosure, by which the mortgagee profits by more than the value of the mortgage. According to Professor Eberstadt,[1] six and one-half thousand million of the seven and one-half thousand million marks, the estimated value of the occupied land in Greater Berlin, were mortgaged. The general phenomenon of indebtedness and land speculation is described as follows by Professor Adolf Wagner:[2] "The factors which enter into this tendency are the fluctuations in the current rate of interest and of the rent. With the fall in the rate of interest and with the increase in rent, the capitalized value of land tends to rise. This induces the people, even with borrowed money, to invest in land. If the market price continues to rise as expected, the realization of profits is sought by continuing the sales, and this by means of more borrowed capital. The gratifying terms of credit which the banks offer at such times only draw more men on to such transactions. Then the market value changes, a higher rate of interest ensues, and, in consequence of the improved transportation facilities, the rent falls, tending further to decrease land values. The value of the land no longer covers the capital invested, there ensues a crisis in real estate, and mortgages falling due, the land is sold at auction, and once more the moneyed interests profit from the transactions." Occurrences of enormous gains in this country which have accrued to individuals as a result of such foreclosures could be readily cited. One example must here suffice. Mr. Hurd[3] tells of a piece of land 89 feet by 99 feet in Denver, Colo.,

[1] *Op. cit.*, pp. 54, 207. Land speculators are called by him "Prekaristen, die von der Gnade unserer Institutionen leben."

[2] *Grundlegung* der *Politischen Oekonomie* (1894), Pt. II, p. 389. (Translated freely from the German.)

[3] *Principles of City Land Values*, p. 131.

which had been bought on a tax title many years ago for $500. In 1890 it was leased for $14,000 annual net ground rent for a period of ninety-nine years. That made the land value $280,000 capitalized at five per cent. Every front foot of ground was thus worth $3150. A nine-story building was erected upon it in 1890 costing $325,000. In 1894 the net rents were about $17,500. The leasehold was mortgaged for about $75,000, and when the rent dropped, the building was surrendered to the mortgagee and then to the ground-owner, who thus acquired the building and the land, worth together $330,000, for an original outlay of $500.

Such losses, however, are attributable to miscalculations and short-sightedness such as appear in all speculation. Speculation in land cannot be condemned on account of this evil alone. And yet, when, as in Germany, mortgage indebtedness has proved a means of exploiting the farmer or peasant class, and a means also of concentrating farm land in the hands of the few, speculation in land which facilitates and creates indebtedness among the less wary owners should be subject to regulation.[1]

§ 15. Conclusions: Land speculation may prove socially injurious in four ways: (1) by preventing the best utilization of agricultural, mineral, and forest land; (2) by keeping land ripe for building out of use; (3) by controlling building operations; (4) by overcapitalizing the land.

It is evident that agricultural land no longer offers such a fertile field for speculative operations as formerly. The immense wealth amassed by individuals as a result of the generous land grants and speculative operations will not be duplicated anywhere soon, but should serve as a lesson to statesmen in their land policies of the future. Even yet, however, when this country has been almost all appropriated, agricultural land speculation in the United States has not ceased. Thus the hope of reclaiming some of our

[1] *Cf.* Buchenberger, *Grundzüge der deutschen Agrarpolitik* (1897), pp. 73 *ff.*

western prairies by means of irrigation has given rise to more speculation, resulting in the appreciation of from one hundred per cent to one thousand per cent in the value of some of our western farm land. Sites unsalable at $2 per acre ten or twelve years ago now command $10 to $15 per acre.[1] In general, nevertheless, it cannot be claimed that speculation has led to monopolization in agricultural land. For particular countries and localities, however, the appropriation and withholding of vacant land may entail social losses. The following illustration from Australia will show how this can happen:[2] "In every one of these colonies millions of acres of the richest agricultural land, with ample rainfall and near to markets and ports of shipment are used for mere grazing purposes. As a consequence most of the farmers were forced to settle on poorer land, farther from markets and ports, and where the rainfall is less abundant. Land fit only for grazing is thus used for agriculture, while the land fittest for agriculture is used for grazing only."

Enough has been said about the practice of keeping land vacant or partially utilized in the heart of large cities. It will be noted that several factors determine the extent and effect of this kind of speculation. While high carrying charges and taxation on capital value make the withholding of land unprofitable, they do not foster its best utilization. Nevertheless, the conditions of congestion are so various in this country, that there are comparatively few cities where the withholding of urban land is as yet a social menace. Only a careful study of the housing problem could decide in each case the harmful effect of uncontrolled building operations.

Although on the whole our American cities may be said to suffer from the *laissez-faire* housing system that prevails, attention must also be called to a species of controlled

[1] Chicago, *Real Estate News* (1910), p. 106.
[2] Hirsch, *Democracy versus Socialism*, p. 131.

building to be equally deprecated. We refer to the laying-out of towns by "development" companies. Gary, Indiana, is an illustration. The Gary Land Company not only graded, laid out, and subdivided the land and undertook the house building, but to this day it withholds the deed of sale from the purchasers of the lots until they shall have complied with the agreement to build within a certain time and on plans approved by the company.[1] However praiseworthy the intentions of certain of such undertakings, abuses of the power which such operations involve can easily be imagined.[2]

Overcapitalization of land, though a common phenomenon, varies in degree and extent. It is commonly known that suburban land is largely in the hands of speculators. Land near cities, the normal value of which for farming is from $50 to $100 per acre, and for gardening from $300 to $1000, may be held at $500 to $5000 per acre by speculators, who estimate values in accordance with the anticipated earnings of the land when it shall have secured the expected utilization.[3] As to the evil of inflated values, it would seem that this would affect only the less shrewd investor, who when values declined to the actual earning capacity of the land might be ruined. From his standpoint we might see nothing unusual in land speculation as compared with speculation in general. But just as over-

[1] Chicago *Real Estate News*, 1912, pp. 141–42.

[2] An interesting example in point is the Pullman City experiment. Mr. Pullman had erected, not only the dwellings for his workmen, but a library, hotel, church, etc. The latter remained vacant for some time, because there was no denomination large enough to pay the required rental. The arbitrary control which the Pullman Company might have exercised over the residents can easily be imagined. Indeed, the possibility of misusing the powers which the company had over the living conditions of its employees led to the decision of the court in 1899 requiring the Pullman Car Company to dispose of all its real estate holdings not used in the industry. *Cf. Report of the Commissioners of the State Bureaus of Labor Statistics on the Industrial, Social and Economic Conditions of Pullman, Ill.* (1884), p. 12; also Carwardine, *The Pullman Strike* (1894), p. 20.

[3] *Cf.* Hurd, *Principles of City Land Values*, p. 133.

capitalization in other industries indirectly may enhance prices; so to a greater degree as concerns dwellings, the choice of which involves so many factors besides rental, rents may very likely be affected. To take, for example, the value of land in Chicago; are we to believe that the landlords who bought their property on the 1889 basis, to which we are told the value of real estate is only now approaching, have been on the whole recipients of less than the expected interest on their investment until the present? Or, in spite of the law of competition,[1] did the landlord in many cases not find ample excuse for charging a higher rental because he had overpaid?

On the whole, therefore, as we contemplate the importance of the commodity which is made the object of speculative operations, when we consider that the speculator is guided by the possibilities of greatest gain to himself, a motive not always in accord with social welfare, when we recall that the problems of suitable housing and of the conservation of natural resources are involved, speculation in land is not an unmixed good.[2] On the other hand, considering that the complete suppression of speculation involves practically the abolition of private property, and considering the difficulties in the way of such abolition, even if found expedient, this solution is problematical. Government restriction, however, has been, and will undoubtedly continue to be employed in checking the abuses of speculation in land as they arise, and when and where they become a menace to the public welfare. The efficacy and expediency of the land tax in suppressing speculation will be considered in connection with the housing problem.

[1] The frictional forces that prevent the operation of this law will be discussed in the following chapter.

[2] The fact that in some countries, e.g., England, Germany, many municipalities have been compelled to purchase land and to undertake the building of houses for the working classes is a sign of the inadequacy of the present system of realty operations. *Cf. infra*, chapter IX, § 10.