

## CHAPTER IX

### THE TAX AS A SOCIAL REFORM (CONCLUDED)

§ 1. THE growth of cities in the nineteenth century has given rise to numerous social problems, among which there is none more vital than the housing problem. It is unnecessary to point out that shelter constitutes one of the indispensable conditions of existence, nor that land is requisite for the provision of dwelling places. The latter fact shows the relation between housing and land values, for any influences that affect the value of land in any community will be reflected in the housing system of that community. Shelter, it need scarcely be pointed out, means more than protection from the physical elements; it implies all that we to-day regard as essential for the physical, moral and intellectual development of the individual. The home is the basis of the "sacred" family relationships, of physical efficiency, of sociability, of profitable leisure, and of character unfolding.

Social workers especially are well aware how the economic, moral, and social welfare of the greater part of the urban population, if not of the entire population, is affected by the housing facilities. We need only reflect that from twenty to thirty per cent of the income of the major portion of urban dwellers is expended for rent, and that the industrial development of a community, moreover, is dependent upon the accessibility to suitable locations, to understand how the economic interests of the population are rooted in the housing problem. How the social well-being of a community is hampered by such evils as congestion and overcrowding within the home, insanitary buildings, dark and poorly ventilated rooms, the lack of open spaces, has recently been shown in numerous trea-



tises, in the reports of commissions and congresses, and in various hygienic and social exhibits.<sup>1</sup> It has been well established by statistical reports that health is greatly undermined and the death-rate enhanced by insanitation and overcrowding. The high death rate of infants has been attributed to these causes.<sup>2</sup> "It was the opinion of physicians who appeared before the commission that if the occupancy of the dark rooms now legally occupied is permitted, we shall continue to have in the city about 28,000 new cases of consumption, and 10,000 deaths from consumption every year."<sup>3</sup> When we consider that sickness means unemployment and means greater expenditure for medical treatment, the seriousness of the housing problem becomes more obvious. Of no less vital importance are the moral influences of insanitary, improper home conditions. It is claimed that the lack of suitable surroundings in and about the home where the child may play is responsible for much of the delinquency found in large cities. Crime too has been traced to a lack of proper home conditions. This was recognized by the eminent jurist, Liszt, who is credited with saying,<sup>4</sup> "A reasonable reform in housing is worth more than a dozen penal laws." Another grave evil due to overcrowding is the violation of the recognized standards of decency. In short as Damaschke puts it, "Schlafstellenunwesen, Prostitution, Alkoholmissbrauch, Zunehmen des jugendlichen Verbrech-

<sup>1</sup> To mention a few: The Ninth International Housing Congress held in Vienna (1910); the Tenement House Commission of New York (1900); the New York Commission on Congestion (1910); Housing Exhibits in Chicago and New York (1913); Hygienic Exhibit in Dresden, etc. See *The Tenement House Problem*, ed. by R. W. DeForest and L. Veiller.

<sup>2</sup> Dr. Meinert, a physician of Dresden is quoted as saying: "Wir suchen den Feind wo er sich nicht befindet. . . . Die Frage der hohen Säuglingssterblichkeit ist im wesentlichen eine Wohnungsfrage." quoted from Mangoldt, *Die Städtische Bodenfrage*, p. 392. See *Eighth Special Report of the United States Commissioner of Labor* (1895), p. 79, where the high death-rate in cities is attributed to housing conditions.

<sup>3</sup> *Findings of the New York City Commission on Congestion* (1910).

<sup>4</sup> Damaschke, *Bodenreform* (1912), p. 76.



ertums — das alles ist in seinem engen Zusammenhang mit Wohnungsnot und Wohnungselend heute in allen ernstesten Kreisen bekannt!"<sup>1</sup>

§ 2. If these be some of the serious effects of bad housing upon health and social efficiency, we must ask where and why this evil has arisen. The "slum" constitutes to-day a definite section of most of the populous cities, but displays its worst features in London, Dublin, and in about half a dozen cities in the United States. The housing problem is, however, by no means limited to these cities. We may affirm that not only urban but also rural communities suffer from insanitary dwellings. In Berlin and the other German cities, for example, you look in vain for districts resembling Whitechapel, or the East Side (New York), yet investigations in German cities, some scarcely urban, have revealed startling conditions of overcrowding. A large percentage of families occupied but one or two rooms, while many homes were found in which more than six persons were living in a single room.<sup>2</sup> According to reports and statistics conditions are not better in English cities. To give a few examples: In Glasgow 100,000 persons, or one-fifth of the whole population, are reported as living in one-room dwellings. In Liverpool thousands of basements and alley houses in dilapidated and intolerable condition, without air and sun, are utilized as homes.<sup>3</sup> As regards overcrowding, conditions are nowhere comparable to those in Berlin and New York. In both cities the "skyscraper" predominates. But while it is claimed that three-fourths of the population of New York live in tenements, we find that of all the houses in Berlin 93.79 per cent are occupied by tenants, 2.57 per cent by proprietors, and 3.64 per cent by

<sup>1</sup> Mangoldt, *op. cit.*, pp. 396-97.

<sup>2</sup> Damaschke, *op. cit.*, p. 69. Cf. also Eberstadt, *Handbuch des Wohnungswesens*, *passim*.

<sup>3</sup> Fuchs, *Zur Wohnungsfrage*, pp. 118-19.



servants. The extent of congestion in Berlin is furthermore proved by the following fact: In London there were found to be 7.93 persons to a building site, in Berlin, 76.9 persons.<sup>1</sup>

§ 3 The causes of these intolerable conditions are chiefly economic and social. Few cities have originally been laid out deliberately. For the most part their growth has been haphazard. Building permits and sanitation laws were later developments.<sup>2</sup> Contractors and owners had houses constructed without regard to artistic design, or uniform height, but after their own sweet will and with the sole purpose of personal gain. It is this *laissez-faire* policy which is responsible in part for the "slum" conditions.

A more fundamental cause is the economic factor as it touches the tenant. If we study the population of the "slum," we find that the south European immigrant predominates.<sup>3</sup> We know that his standard of living is much lower than that of the country to which he emigrates, such as the United States or England, and that his intention in leaving his native country is to earn and save as much money as possible, often with a view to returning to his native country. Hence we should expect him to settle where rent is the lowest. And so he does. If, now we inquire where rent is lowest, we find that it is generally in the oldest part of the city, which on account of social changes and of the industrial development has been abandoned by

<sup>1</sup> Pohle, *Die Wohnungsfrage*, vol. 1, pp. 37, 43. The prevalence of tenements is not always a sign of insanitation, but the congestion and construction of the cheaper dwellings tend to make them insanitary as well as to destroy the privacy of home life, and to hinder home-ownership.

<sup>2</sup> For New York the sanitation law of 1882 related to tenements and lodging houses. A similar law was passed for London in 1891. Cf. *Eighth Special Report of the Commissioner of Labor* (1895), chapter II.

<sup>3</sup> In St. Louis, for example, the poorest district was inhabited by Jews, who constituted 28.4 per cent; by Italians, who constituted 27.5 per cent; and by negroes who formed 15.7 per cent of the whole number of residents. The Poles were 13.1 per cent and other various nationalities 15.3 per cent. *Report of the Housing Committee of the Civic League of St. Louis* (1908), p. 84.



the native population for uptown residential sections. Here, where encroachments of all kinds are tolerated and where houses have become unfit for habitation, the immigrant makes his abode. If these insanitary structures are condemned by the building inspector, they are superseded by tenements. The large capital invested in these new structures and the great demand for houses in the "slum" district, cause rents to rise above the level in the suburbs or on the periphery of the town. Then the immigrant is compelled to take in more lodgers, to resort to the most insanitary, ill-equipped houses (unless the law condemns them all), and to make dwelling-places out of basements, garrets, and dilapidated rear houses. Viewed from another standpoint the low wages of the immigrant may be said to be responsible for the congested and otherwise insanitary conditions. It will be remembered that it is in the "slums" where the sweat shops are to be found. In those sweated industries the insufficient wage forces a lower standard of existence upon the worker.

Added to the economic is the social factor. The concentration of population is generally within the industrial center, where the workmen may be near their places of employment. This section corresponds to the oldest and most undesirable part for residential purposes. Now, when once settled, clannishness, that great social force, tends to keep the persons of one nationality and family together. The strength of this factor of sociability and family ties in engendering the "slum" district is seen in the unwillingness of tenement dwellers to move to cheaper and at the same time more desirable quarters in the city. That racial and social forces are responsible in part for the "slums" is further made evident by the fact that only where immigration has gathered a large number of foreigners does a Whitechapel or an East Side make its appearance.

§ 4. In view of these conditions it may well be asked, is



it the high rent which creates a lower standard of living among the immigrants, or is it the immigrant and his clannishness that raise rent? The relation between them is reciprocal. As Hurd says, the cause of rent for residences is social as well as economic.<sup>1</sup> It will be agreed that not only in the slums but in the city as a whole rent and land value tend to increase with the growth of population, that is with the increase in the demand for houses. On the other hand, for the reasons already given, the congestion per acre, the overcrowding per room, and resultant evils are not likely to be relieved much by the development of transportation facilities or by other methods of extending the available residential area. The seriousness of these conditions in our largest cities can scarcely be exaggerated. How, then, shall the urban housing problem be solved?

Obviously, a reduction in rent will not only afford relief to the poorer classes materially, socially, and even ethically, but, together with legislation regulating building operations and stricter laws of sanitation, may help to eliminate the slums. Before discussing the possibility of lower rents, it is necessary to point out the inefficacy of building regulations when unaccompanied by rent reductions.

That building and sanitation laws are the first steps toward the solution of the housing problem cannot be questioned. No government, in modern opinion, should permit the individual, even if he so desires, to occupy a dwelling that falls below the recognized standard of sanitation, comfort and decency. Adequate regulations limiting the height and area to be covered by the building, requiring the installation of sanitary appliances, fixing the minimum width of staircases, the height of ceilings, the size of rooms and windows, and so forth, should not only be enacted, but should be strictly enforced by the building inspectors. Indeed, it might be expedient for all cities to follow the

<sup>1</sup> *Principles of City Land Values*, pp. 77-78.



lead of German communities in promoting the "city beautiful" as well as the city hygienic. "German cities have taught us a valuable lesson in the matter of laying out suburbs. Improvement plans are furnished by the municipality, and architects are invited to compete in presenting designs. After it has been decided that a certain district shall be opened up, a jury is appointed to assess damages, terms are made with private owners, and the architect furnishing the most acceptable scheme is awarded the prize." <sup>1</sup>

What, however, must be the effect of such legislation? Evidently the enhancement of rent because of the increase in the cost of construction. Such has been the result in German cities.<sup>2</sup> Indeed, the increased overcrowding there is attributable to the high rents which expensive buildings and improvements tend to create. To keep rents down recourse will be had by those of a lower standard of living especially to increase the number of lodgers. In short, "the poorer classes want cheap houses, must have them; they understand what a saving of a sixpence a week in the rent means, but they do not understand yet the advantages of concrete foundations, properly jointed drain pipes or wash down water-closets. They do not mind taking a few lodgers into an already well-filled house, because they understand the advantages of a few shillings a week, but they do not understand that each inhabitant of a sleeping-room should have at least 500 cubic feet of air space."<sup>3</sup> Thus the method of solving the housing problem by restrictive building regulations may be rejected as futile.

In considering the possibility of reducing rents to relieve congestion, we may begin by analyzing the factors that enter into the determination of rent. And it will be con-

<sup>1</sup> *Eighth Special Report of the U.S. Commissioner of Labor* (1895), p. 93.

<sup>2</sup> Pohle, "Die Wohnungsfrage" in *Handbuch der Politik*, vol. II, pp. 522, 524.

<sup>3</sup> Thompson, *The Housing Handbook*, p. 173.



venient to classify these factors under ground rent and building rent. Ground rents are affected by the population, by transportation facilities, by the industrial development, including the kinds of industries carried on, by the system of land tenure and speculation, by racial ties and other social considerations. Some of these tend towards a reduction, others towards an advance in rentals. Friction from offsetting and opposing influences may therefore be expected. Thus, the tendency of improved facilities of transit to draw the population to the periphery of the town would be offset by the clannishness which has drawn the foreigners to a particular neighborhood, generally in the center of the town. The elements entering into building rents are chiefly the various expenses of operation, determined by the conditions of the labor market, especially in the building trades, the available capital for building, the cost of materials, taxes, condition of the mortgage loan market, etc. Under frictional influences may be classed the immobility of invested capital, the leasehold and contract system, and above all the strong force of custom. Relief of congestion through a reduction of rents may be of two kinds, reduced congestion per unit of ground space, e.g., per acre, and per room.

Viewing the housing problem thus from the economic standpoint, its relation to the tax on land value becomes clear. For the tax may be expected to affect a number of the elements enumerated which make up rent. We have now to examine the possible results on housing of the land tax, as they have been deduced theoretically by the adherents of the tax on the one hand, and the adversaries on the other.

§ 5. First, on the part of the advocates it is claimed that the land tax would affect congestion in the following manner: First, as the tax would make it expensive to keep property unoccupied, vacant land would be forced into the market. As a consequence, secondly, the market price of



land would tend to be reduced and land values would become more stable. This result would also follow, thirdly, when the lure of the value increment is in part removed; that is, speculation would be curtailed, and overcapitalization discouraged. Fourthly, the incentive to improvement would be created both by the high carrying charges on unimproved land, and by the untaxing of buildings. The latter would attract more capital into the building trades and would result in a larger number of available houses. Fifthly, the remission of the tax on buildings would benefit, not the builder (except indirectly), but the tenant, upon whom the tax ultimately falls.

In the platform of the United Committee for the Tax on Land Values in England it is stated,<sup>1</sup> "If urban and suburban land were taxed on its true unimproved value, irrespective of the use to which it happens to be put or not to be put; the iron girdle of land monopoly which now confines every large town and industrial center, every village, and every hamlet, would be broken through, and we should have more and cheaper dwelling houses, shops, offices, warehouses, and factories."

The reasoning by which the above deduction was derived needs no further elucidation. It is noteworthy, however, that the argument rests merely on the expediency of the tax on capital value *versus* that on rental value. Disregarding the assumption of monopoly in urban land, many will agree that the English rating system on annual value tends to encourage the withholding of land from use.<sup>2</sup> The passage quoted above, though it contains a grain of truth, is far too sweeping. Obviously, the degree to which the tax will be effective, even if the salutary influence be

<sup>1</sup> *Third Annual Report*, p. 64.

<sup>2</sup> "Lawson Purdy, the chairman of the Department of Taxes and Assessments for New York, expressed the opinion that were rates levied on actual capital value in London as in New York, nearly all Regent Street would be pulled down and a large part of the Strand." Chomley and Outhwaite, *op. cit.*, p. 78.



admitted, will depend upon the rate of tax, the prospects of its being increased, the amount of available vacant and undeveloped land, the counteracting forces, e.g., the increase in population, local improvements, and all other conditions that enter into building rents.

With regard to the stimulation of building operations the following passages are illustrative of the trend of thought: "Yet another argument which may be adduced in favor of the rating of site values, is that in consequence of urban land coming more freely into the market and building enterprises being stimulated, rent would be materially relieved; and this relief would come where rent is now at its maximum, i.e., in our large industrial centers. . . . Every opportunity given to the freer growth of the city in the suburbs will tend to reduce this congestion at the center."<sup>1</sup>

This quotation refers to the first method of creating an impetus to building, namely, by making the holding of vacant land "for a rise" unprofitable. In the following passage emphasis is laid on the effect of the untaxing of buildings:<sup>2</sup> "Again, we should be freeing buildings from the burden of rates. By levying rates on buildings, we make buildings dearer, and the inevitable consequence is that fewer are built. Under our present system of rating, builders cannot afford to build, because occupiers cannot afford to occupy so many or such good houses as they could if buildings were not liable to be rated. If we cease to levy rates on the value of buildings, we shall remove the first of the two main causes of the dearness and scarcity of houses."

Here, too, whatever truth the above claims may contain, they are vitiated by too general assumptions. For instance, they take it for granted that the demand for houses is

<sup>1</sup> Alden and Hayward, *Housing*, p. 94.

<sup>2</sup> Quoted by Thompson (*op. cit.*, p. 264) from a leaflet issued by the Liberal Publication Department.



elastic, that there are no limits to the available capital for building purposes, that mortgage loans will remain unaffected, that the effect of the overbuilding stimulus will not increase the cost of labor and materials, etc. To be sure, when these frictional forces are pointed out to the proponents of the tax they defend their position by more general statements. For example, they maintain that where rent consumes more than one-fifth of a family's income, crowding is the inevitable result. The reduction in rental, through the greater number of available dwellings would increase the demand for newer, larger accommodations, and would enable some of the large "lodging" population to establish homes of their own. As to the question of available capital, they point to the present excessive tax on buildings in comparison with that on other forms of capital. They urge further that under the present system of taxation, the cost of building is prohibitive except to meet the urgent demand for housing. That the effect on mortgage loans should be wholesome is deduced from the doctrine of capitalization. The value of the land under the tax would not fall below the capitalized net rental, either accruing or prospective. Land and buildings would, therefore, be safer securities than to-day, when the tendency is to overcapitalize the value of the land. With these important doctrines of the defenders before us, we shall next epitomize the arguments of the opponents of the tax system.

§ 6. The chief criticism of the theories concerning the consequences of the tax on land value, namely, that the numerous and offsetting elements that compose rents are lost sight of, as well as the frictional forces at work in social phenomena, gives the clue to the contentions of the opposition. First, consider the questions of vacant land and speculation. The prevalence of vacant land ripe for building is denied by some, while others even hold that building operations depend upon this speculative feature



in realty holdings.<sup>1</sup> So long as there is a large number of vacant houses, it cannot be said that land is held vacant for speculative purposes; especially does this apply where the tax rates are high. The land must sometimes be kept in an unimproved or underimproved condition because of the possibility of change in the character of the neighborhood, and for other sound reasons. The validity of this position, however, cannot be decided theoretically. And yet, in studying the facts, the difficulty arises of fixing the standards of underdeveloped and appropriately improved land. These terms will probably have different meanings in different localities and countries, and the prevalence of such underdevelopment will probably vary from place to place.

Secondly, granting that the imposition of the tax will cause a decline in land value, and that it will induce the owner to build upon his land, might not this incentive and the untaxing of buildings lead to a more intensive use of the land? The dangers of an overutilization of the land from the standpoint of the housing problem are generally admitted. Not the congestion per room, but the greater congestion per acre is threatened thereby. If the improvement of the suburban districts only were stimulated by the tax, a general reduction of congestion in the city would be conceivable. But it is reasonable to expect that the more expensive the land, i.e., in the heart of the city, the greater would be the incentive to improve it. It is feared, therefore, that an overdevelopment might ensue, that the skyscraper would become more prevalent than the need of the community would warrant. The possibility of compact building, moreover, carries with it the utilization of the now available open spaces and even of garden space. The adherents of the new system admit the gravity of the charge with respect to lofty and compact building; they are less ready to admit the deleterious effect on garden space. To

<sup>1</sup> Cf. *supra*, chapter VII, § 5.



the first charge answer is usually made, that the intensive utilization of the land is a tendency which will continue irrespective of the tax. Indeed, the trend toward compact building may have been caused and furthered by the withholding of land from use. To overcome the dangers to good housing, the government will be compelled sooner or later to restrict and control building operations according to a well-laid-out town-planning scheme. It would seem, therefore, that legislation, at least restricting the height of buildings, would have to precede the introduction of the tax.

On the other hand, by opening up the suburbs, and by relieving the tenant in the center of the city, the necessity for tall buildings would be removed and the tendency toward more intensive utilization would be checked. Logically, it might even be reasoned that with the greater competition for tenants, the desires of the dwellers would be consulted in building more than at present. Furthermore, every one is aware that houses with gardens and open spaces are more desirable and valuable; and if the owner is looking forward to an increase in the value of his property in the future, he will prefer to keep it in a more desirable condition, fronting on a lawn or open space. It should be remembered, moreover, that the decline in the value of the land is expected to enable and encourage more persons to own their homes, especially in the suburbs. It is likewise expected that the reduced value of land will counteract the movement towards the more intensive use of the site.

Thirdly, the efficacy of the tax to promote building operations has also been questioned on various grounds. We are familiar with the theory that the curtailment of speculation, i.e., the reduction in prospective value increment, will tend to discourage building.<sup>1</sup> Another reason given to

<sup>1</sup> The untaxing of buildings would not necessarily relieve the owners who occupy their homes. The effect would depend upon the relative values of the building and site.



deny that a building "boom" will ensue is that the demand for houses is inelastic, that overbuilding could not go on indefinitely. While, therefore, a decrease in rent might have the effect of temporarily stimulating the erection of new buildings, and of providing larger and better accommodations, the tendency would check itself. For, granted that modern types of buildings will tend to supersede the older and inappropriate structures, and that the latter will be torn down, the increased cost of constructing the new buildings will check the overbuilding trend. Moreover, the incentive for capital to be employed in building, which will at first ensue, will be checked when the rate of profit in that industry becomes the current rate in other industries. But, say the adherents, even these assumptions insure a decided improvement in housing conditions.

Fourthly, with respect to the doctrine that the remission of the tax on buildings would redound to the benefit of the tenant in the shape of reduced rents, no account is taken of the friction that may be expected to develop in the readjustment. Aside from the reputed immobility of the population, aside from custom which largely determines the possible expenditure for rent, aside from existing leaseholds, the tax on land value may itself set in motion various forces to enhance rents. Most important is the assertion that owners of improved property count upon the prospective increments in land value to counterbalance the deterioration of the building. Thus rents are assumed to be lower than if the owner had to provide a depreciation fund. With the heavier tax on land value, such a reserve fund would be necessitated, adding to the building cost. This would result in higher rents. Again, by the decline in land value, property would no longer be worth as much as security for mortgage loans. Moreover, since the mortgagee takes the prospective increment into account in making the loan, the effect of the tax would be either to reduce



the amount of available capital for building, or to raise the interest rate,<sup>1</sup> in which cases rents would tend upward. These arguments assume, however, that building operations are a distinctive industry dependent upon land-ownership and land speculation. We have already pointed out how the widespread leasehold system in itself seems to contradict this theory.<sup>2</sup>

Lastly, in a dynamic society, further friction might be expected to arise to counteract the movement toward reduced rents. Assume the reduction of rent in one community, and would there not be an influx of outsiders to take advantage of the reduction? Moreover, the normal increase in population in a progressive community and the rise in the cost of materials and labor, if the stimulation in building becomes general, would tend to check the alleviating influences of the tax.

§ 7. Turning from the theoretical discussion of the effect of the tax on housing, we ask what are the facts? Our study has demonstrated the futility of attempting to determine precisely the influences of the tax in the presence of so many interacting social forces. Whether attributable to the fact that the growth of the community has offset the forces set in motion by the tax, or that the tax rate has been too slight to affect market values, or that the actual results of the tax on land and of the remission of the tax on improvements have not conformed with theory, the reports of the officials and the statistics for certain communities where the tax is in operation show that rent cannot have been materially affected by the tax.

On the other hand, the available data do reveal an activity in building operations in the Australian and Cana-

<sup>1</sup> A rather ingenious theory with respect to the effect on mortgage loans was propounded at the public hearings of the New York Committee on Taxation. The lower land value would mean less capital loaned on mortgages, with the result of a larger amount of available capital for building operations at a lower rate of interest.

<sup>2</sup> *Supra*, chapter VII, § 5.



dian municipalities which is generally attributed in part to the exemption of improvements. There was no evidence of overbuilding in Australasia; in Canada, on the other hand, the excess in vacant buildings in some of the towns in recent years has been charged to the operation of the tax. Whether this condition of overbuilding existed during the land "boom" period, when newcomers in some cities had to resort to tents for shelter,<sup>1</sup> has not been established. Nor is it possible to determine the effectiveness of the tax on value increment to influence notably the land market and building operations from the stagnant conditions in both fields after the imposition of the taxes in England and Germany. In the latter country, the unfavorable market conditions, traceable, however, to the general depression for which the tax legislation was not responsible, played a considerable rôle in the amendment of the law. The English duties on land value were likewise ineffective in preventing the temporary slump in the building trades of London in 1911, and failed to relieve the serious housing conditions there.<sup>2</sup> But, in judging the tax, aside from the unfavorable effect of the general industrial depression, it must be borne in mind that the stimulation of building in the case of the tax on value increment could not be expected to be the same as in the case of a general untaxing of buildings. While the influence of the tax on building operations is not traceable in the extraordinary increase in structures in western Canada before the depression, the general agreement among the Canadian builders themselves, as to the efficacy of the tax in stimulating building seems to substantiate the generally accepted theory, rather than that which holds that the tax will interfere with building operations.

Difficult as it is to assert any positive effect of the tax on housing conditions, it is more difficult to discover its

<sup>1</sup> Cf. Haig, *Exemption of Improvements from Taxation in Canada and the United States*, p. 273.

<sup>2</sup> See *supra*, chap. v, pp. 248 ff.



effect on speculation in land. We know that speculation is still rampant in the countries under the system of land-value taxation. And in the circumstances existing in western Canada, it would seem that the tax was introduced in part to further the speculators' interests.<sup>1</sup> In Australasia, the state land taxes, except in New Zealand, are not heavy. But in the latter colony, evidence of the disintegration of the large holdings exists, and the cause is generally found in the high graduated and absentee rates. On this question also, our conclusions in the absence of positive proof, must be qualified. We may assume that a tax levied on a commodity on the basis of its capital value will tend to discourage dealings in that commodity. Also that a tax on land, as is generally conceded, tends to encourage its utilization. Thus it would seem that the realty tax on capital value in American cities has made the withholding of land "for a rise" less profitable than in England. It follows, even, that were the tax high enough, as high as the transfer duties in Paris,<sup>2</sup> for example, realty operations would be greatly subdued. But where land rises rapidly in value, speculation will continue to thrive, irrespective of the tax. So much may therefore be assumed: since anything which lessens the anticipated income from a commodity will generally decrease the desirability of that commodity for speculative purposes, a discriminatory tax on land will put a damper on realty transactions and speculation. The degree of suppression will depend on the rate of tax and the trend of land-value increments.

§ 8. In the preceding chapter it was found that specula-

<sup>1</sup> Cf. *supra*, chapter vi, § 5.

<sup>2</sup> In Paris there is a tax of six per cent on the transfer of the deed and three and one-fourth per cent for other expenses, making a reduction of nine and one-fourth per cent of the value on every transfer. Of course the expectation even of an increase in tax rate suffices to give speculation in land a set-back. Cf. *Reports on City Real Estate Values*, compiled by Seattle Real Estate Association (1907). Cf. also *Congrès International de la Propriété Foncière* (1900), p. 109.



tion in land had its function in society under private ownership, but like other social privileges it was capable of abuse. The time arrives when the government is called upon, or compelled, to check the abuses of social institutions. The proposals and the legislation already employed to remedy the evils arising from landed property are many, but chiefly ameliorative. The most radical proposal is the public appropriation of the land. The question of the expediency of land nationalization is, moreover, closely allied to that of the tax on land value. For the underlying motives of both proposals, as social reforms, are essentially the same. Without entering into the theoretical inquiry of the justice of private *versus* social property in land, the facts and arguments for and against the practicability of public appropriation will throw light upon the social expediency of the tax on land value.

Of the advocates of public ownership, there are those who, like the Single Taxers,<sup>1</sup> favor the nationalization of all the land; others who, like Professor Adolf Wagner,<sup>2</sup> have pointed out the need of the municipalization of urban land, not of the rural landed estates; others again, a more numerous class, who urge public ownership only of the natural resources, mines and forests for conservation purposes. In examining the reasons advanced in defense of these positions the threefold classification of land of the preceding chapter will be of assistance. For it is evident that, if the conclusions with regard to the trend of value of the several kinds of land are valid, public ownership may be less expedient in one case than in another.

<sup>1</sup> Of the noted economists who favored nationalization John Stuart Mill and Léon Walras (see *Éléments D'Economie Politique*) have exerted a great influence. The latter has even more persistently and tenaciously defended the proposal for the Single Tax.

<sup>2</sup> How far Professor Wagner would go with regard to restricting the private ownership of urban land is not certain. Cf. his *Grundlegung*, vol. II, p. 470 ff., as well as his speech on "Finanz- und Steuerfragen," in *Schriften der Gesellschaft für Soziale Reform* (1904), Heft 15, pp. 28 ff.



§ 9. From the standpoint of the appreciation of land value no reason exists, generally speaking, for the public appropriation of agricultural lands, which are characterized by decrements and fluctuating value, rather than by increments. Nevertheless, large land holdings prevent the best utilization of the land and tend to impoverish the peasant.<sup>1</sup> The data showing the extent and significance of this concentration of land lend weight to the argument.

The experience of Australasia<sup>2</sup> with absenteeism and large landed estates is not peculiar. The conditions in most European countries (France and part of Germany excepted) are similar. The concentration of land holdings in England is notorious. From statistics of England and Wales in 1872-73,<sup>3</sup> it has been shown that 4917 owners (.5 per cent of the whole number) occupied each from 1000 to 10,000 acres, altogether 42.3 per cent of the whole area, and 21.8 per cent of the product. Of the whole area of England and Wales (London not included) 10,207 persons owned two-thirds; of 18,950,000 acres in Scotland, one person owned 1,376,000, while 1700 persons possessed nine-tenths of the whole area. In Ireland, 1942 persons ("these owners cannot even be counted among the inhabitants, for they are mostly absentee landlords!") owned out of the 20,160,000 acres, two-thirds of the whole.<sup>4</sup> "Two-thirds of England, nine-tenths of Ireland, and nineteen-twentieths of Scotland," says Mulhall,<sup>5</sup> "are held in own-

<sup>1</sup> See Sering, "Die Innere Kolonisation in Östlichen Deutschland," in *Schriften des Vereins für Socialpolitik*, vol. LVI, pp. 26 ff.

<sup>2</sup> See *supra*, chapters II and III.

<sup>3</sup> Wagner, *Grundlegung* (1894), vol. II, p. 371: "Die colossale Concentrirung riesiger Grundstückscomplexe und Grundrentenbezüge in wenigen Händen lässt sich aber bestimmt nachweisen. . . . In Deutschland und England ist der ländliche Kleinbesitzerstand von der Staatsgewalt den grossen Grundherren preisgegeben worden." Then follows a description of the condition, the superseding of the small farmers, and that lawfully, by the big landed proprietors. See *ibid.*, p. 374.

<sup>4</sup> *Ibid.*

<sup>5</sup> Mulhall, *Industries and Wealth of Nations*, p. 64.



ership by a small group of persons." The following more recent statistics show clearly the concentration of English land in the hands of comparatively few individuals. Thus, while in France, of the 7,200,000 of the population engaged in agriculture, 1,638,000 were owners of land; in the United Kingdom out of an agricultural population of 2,530,000 only 19,275 were land owners.<sup>1</sup> But the difference in the size of the estates is equally noteworthy; in France the average estate was 56 acres, in the United Kingdom it was 3003 acres.

In Austria-Hungary the two largest landholders were said to be the Crown and the Rothschild family, the latter owning eight times as much as the royal family.<sup>2</sup> The following data appeared in "Vorwärts,"<sup>3</sup> the Socialist German daily: Fifty-two per cent of all the landlords owned somewhat less than three-fifths of the land in Hungary, while only .09 per cent of the proprietors owned 31.19 per cent, nearly one-third of the land. Or take Bohemia as an illustration of the concentration of the land. Here sixteen persons were said to own ten per cent of all the land.<sup>4</sup>

Serious as this charge against private land ownership is, it is highly questionable whether from the standpoint of production state ownership would be advantageous. To utilize rural land most efficiently private ownership is regarded as essential. It is an undisputed fact that where the cultivator is the owner under the existing system, the state of husbandry is most favorable. Whether under a

<sup>1</sup> These figures exclude estates of less than twelve acres. (Mulhall, *Industries and Wealth of Nations*, p. 115.) If, however, the small holdings from one to twelve acres are included, the total number of holdings in Great Britain owned by their occupiers was, in 1911, 60,217 or 11.73 per cent of all the holdings. "Since 1888 there has been an almost uninterrupted decline in the proportion of the acreage owned by the occupiers." *Agricultural Statistics* (Cd. 6021), 1911, pp. 9-10.

<sup>2</sup> Flürscheim, *Einzigiger Rettungsweg*, pp. 78, 161.

<sup>3</sup> April 11, 1909. The data were obtained from a current edition of *Jahrhundert* in Budapest.

<sup>4</sup> Flürscheim, *op. cit.*



leasing system by the state a sufficiently secure tenure could be assured the tenant to induce him to invest the same amount of capital as if he owned in fee simple is a matter of speculation. Not only from the standpoint of production, but also from that of administration state ownership would be a precarious undertaking. Added to these considerations the method of appropriation must be inquired into. The impossibility of purchasing all the land leaves only one course clear, namely confiscation, a measure justified in extreme exigencies only. In judging of the expediency of the nationalization of the soil, therefore, the evils of absenteeism, of large holdings, of peasant exploitation and pauperization in some countries must be weighed on the one hand; on the other, the responsibility that ownership would impose upon the state, the efficiency of public versus individual enterprise, the security of tenure under private ownership, the trend of depreciating and fluctuating agricultural values, and the revolutionary, confiscatory means to be employed. Nor must it be forgotten (1) that the concentration of agricultural holdings is characteristic only of certain countries,<sup>1</sup> and (2) that other legislative action has been proposed to disintegrate the large estates.<sup>2</sup>

The effectiveness of the tax on land value to overcome the deficiencies of private landownership, will depend chiefly upon the vigor with which the screw is tightened. The low tax rate which now prevails has had little effect in disintegrating large estates, for the expectation of a future value increment conduces to the payment of the

<sup>1</sup> In the United States about five-sixths of the farm land is in private hands. In forty-eight per cent of our area the size of farm holdings is increasing, in the remaining fifty-two per cent the size is either decreasing or there is no appreciable change. The tendency toward the increase in size of holdings is more pronounced in the newly settled western states. *Report of the U. S. National Conservation Commission*, vol. 1, p. 84.

<sup>2</sup> Cf. in England, the Small Holdings and Allotments Acts; in Germany, the colonization laws (*Ansiedelungspolitik*).



tax rather than to relinquishment of the holding. But if made too discriminatory, the same objections apply as to public appropriation and confiscation with which it may become identical. To be most effective, the tax should be levied (1) according to a progressive scale of rates to strike hardest at the large and absentee landlord, (2) with a minimum exemption embracing most of the land under cultivation, and (3) by the state or central authority, that alone should retain the power to use the tax as a weapon of social reform. Thus far only New Zealand has found it expedient to apply the weapon vigorously. But at all events, by the levy of the wild land, the increment and graduated taxes, the government shares the value increment without imposing a very great burden upon the large holder, while exempting the small owner and cultivator altogether.

For local revenue, the expediency of a tax on land value in rural districts will depend upon other conditions. Levied in conjunction with the state or county rate, the imposition may put an extra burden upon the rural district, while it relieves the owners of urban property. For local purposes, on the other hand, with local autonomy, or with apportionment according to expenditure,<sup>1</sup> the tax on land value, provided it is sufficiently productive, would be a decided improvement over the present widely current general property tax, which taxes stock and agricultural implements. The exemption of all improvements, such as buildings, would occasion but a slight increase in rate because their value is small in comparison with that of the land. An additional rate on vacant and absentee holdings, as is practiced in Canadian rural municipalities, might in some cases more than recompense the loss in revenue through the exemption of improvements.

§ 10. In so far as professional land speculation is combined with speculative building operations, and in so far as

<sup>1</sup> Cf. Purdy, *Local Option in Taxation*, pp. 18-19.



speculative, overcapitalized values may, though indirectly, drive up rent (especially likely because so many factors enter into the choice of dwellings), the expediency of checking speculation in urban land may become urgent. But these abuses of private property rights have played only minor rôles in producing the acute housing problem which it is sought to solve. It is not to be wondered that the improvement in housing considered "as part of the great work of national regeneration with a view to secure the health, safeguard the pockets, and raise the housing standard of the working classes,"<sup>1</sup> should be regarded by many as dependent primarily upon government control of building operations and ownership of the land. The advantages of municipal land ownership have been enumerated as follows:<sup>2</sup>

(1) More economical grouping of buildings instead of the odd and scattered houses of the "jerry builder" would ensue.

(2) Non-speculative land values would cheapen building sites.

(3) Buildings on a large scale erected by the municipality would reduce the expenses of construction.

(4) Or, if the land were leased to companies of working men or builders, and capital advanced to them by the public loan association at low rates of interest, a saving would result.

(5) The municipality would be satisfied with a smaller profit than the individual owner.

(6) The management of a large number of dwellings would reduce expenses.

(7) Capital could be borrowed at lower rates of interest.

<sup>1</sup> Thompson, *The Housing Handbook*, p. 151.

<sup>2</sup> *Ibid.* Mr. Thompson was not considering the municipalization of all the land, but the housing experiments undertaken by certain English cities. Cf. also, "Report of the Land Enquiry Committee," *The Land* (1914), vol. II, pp. 103 ff.



It will be noted that this assumes the municipality to be not only the landowner, but the contractor, builder, and loan agency as well. In view of the radical change which is here involved, we may ask to what extent the above advantages of municipalization may be expected to materialize. In the absence of any experience with municipal land ownership as a whole, it may nevertheless be of value to review the results of minor municipal housing operations. Germany and England furnish examples. The "Bodenpolitik" of German towns<sup>1</sup> is rapidly spreading. Many building experiments on town land have been tried. In Ulm, for example, where the government owns a large portion of the land, houses have been erected at public expense and the property sold to private individuals under restrictions, e.g., the government retaining the right to repurchase the property under certain conditions (Wiederkaufsrecht). Frankfurt a. M. and Leipzig, on the other hand, find it expedient to lease their land for building for a term of years, after which the property reverts to the cities (Erbbaurecht). Freiburg i. B. and Zürich, on the other hand, have experimented with the erection of houses on their town land which they rent directly to the occupiers.<sup>2</sup> As these undertakings have been in operation but a short time, and are of small scope, i.e., only a small percentage of the population have been accommodated, the evidences of success are inconclusive. According to Dr. Pohle<sup>3</sup> only a small proportion of the inhabitants have availed themselves of these houses and, generally speaking, no material reduction in rental has ensued.

Similar motives, the betterment of the housing conditions of the working classes, actuated the passage of the English Housing Acts of 1890 and 1900. Part III of the amended Act provides for the compulsory purchase by the

<sup>1</sup> See *supra*, chapter IV, § 8.

<sup>2</sup> Pohle, "Die Wohnungsfrage," in *Handbuch der Politik*, vol. II, p. 522.

<sup>3</sup> *Ibid.* See also his *Wohnungsfrage*.



local authority of land in the outskirts of the town to be built upon in any one of the following ways: <sup>1</sup>

(1) By the council.

(2) By leasing the land to companies, or builders, or to working men for the erection of workmen's dwellings; or

(3) By "any company employing workmen, or established for constructing or improving workmen's dwellings; or by any private person or persons entitled to a free-hold estate in land or to lease for an unexpired period of fifty-eight years who may borrow from the Public Works Loan Commissioners at low rates of interest for not more than forty years, half the amount required to erect dwellings for the working classes, and may supply water or gas to the tenants free of charge or on favorable terms."

Many local authorities have already taken advantage of the provisions of this Act, among which are London, Glasgow, Liverpool, and Manchester.<sup>2</sup> The following summarizes the "commercial" success of "sixteen municipal housing schemes involving a capital outlay of about £1,300,000":<sup>3</sup> "They show a gross return of about 6½ per cent, and a profit of about 3½ per cent. . . . In eight cases the profits have been more than sufficient, not only to pay interest on the capital outlay, but also to provide the whole of the sinking fund contributions. In nine cases the profits have been more than sufficient to pay interest on

<sup>1</sup> Thompson, *op. cit.*, p. 35.

<sup>2</sup> Under the amended Act of 1909, the supply of working-class dwellings by local authority and the purchase of land compulsorily have been greatly stimulated, as is shown from the subjoined data (*Report of the Land Enquiry Committee*, vol. II, p. 215):—

HOUSES AND TENEMENTS BUILT BY THE LOCAL AUTHORITIES IN  
ENGLAND AND WALES, 1890-1913

<i>Years</i>	<i>Houses</i>	<i>Tenements</i>	<i>Lodging-houses</i>
1890-1899	822	772	3
1900-1909	3594	1955	3
1910-1913	4867	197	..

<sup>3</sup> Thompson, *op. cit.*, p. 171.



capital, but have only provided part of the sinking fund. In only three cases, Liverpool (blocks) and Manchester (blocks and tenements), have the profits been insufficient to pay all the interest on capital. When it is remembered that the workmen tenants of those dwellings contribute £21,157 a year to the rates and taxes, and over £10,000 a year to a sinking fund for the purpose of buying property for the community at large, it must readily be admitted that more reasonable financial arrangements ought to be supported by Parliament so as to enable the rents to be reduced."

When the dilapidated, insanitary housing conditions of a city become as threatening as in Glasgow and London, for example, unless other remedies can be found, the municipality<sup>1</sup> may be compelled to resort to public building operations, just as cities now operate other public utilities. In that case, however, the European experience tends to show that the anticipated economies of government ownership must be waived, for commercially speaking, such undertakings have seldom been remunerative.<sup>2</sup> With all the savings in the expenses of construction, the municipal building enterprises not only have not yielded a profit so high as that of the private landlords, but they have not even been instrumental in lowering the rental.<sup>3</sup> What they have accomplished is, nevertheless, of great importance, namely, the improvement of the standard of housing.

It must be admitted, however, that such partial experi-

<sup>1</sup> In the opinion of certain members of the National Housing Association the slums in English cities "while similar to those of Philadelphia and Baltimore are not as bad as the worst in the American cities." *The Survey*, October 31, 1914, p. 108.

<sup>2</sup> *Ibid.*

<sup>3</sup> Thomsson, *op. cit.*, p. 178. It may well be that the financial failure of public building operations is due to the present policy, which provides for the purchase of condemned or other property. The purchase price of the land is in many cases exorbitant and this may make impossible an average return on the capital invested. Cf. *Report of the Land Enquiry Committee*, vol. II, pp. 242 ff.



ments in municipal housing as have been attempted in Germany and England are far from conclusive evidence of the effect of total municipalization of land on rent and land value. Were this extreme reform practicable, it is readily conceivable how the public appropriation of land value might benefit the urban tenants, not alone in the better utilization of the land, so as to relieve the congestion of population, but also by expending the enormous value increment of urban property which now accrues to private individuals for public utilities and improvements. The question resolves itself into one of practicability.

What does the municipalization of the land involve? There are only two ways in which the community could get possession, first, acquisition by purchase, or secondly, confiscation. The first would unquestionably burden the community with a debt too enormous to contemplate, so that compensation for town land, except for new, recently settled communities, is not feasible. As for the second means, the confiscation of urban property, not only would it inflict a severe loss upon a single class of the population, but such a revolutionary measure would bring other consequences that might disrupt the entire social system. Moreover, society at present and for a long time to come will not tolerate such a course; nor should it be advocated in view of the present conceptions of justice and equality, except in the direst need of the state. For a long time to come, therefore, less drastic and more practicable measures must be found to help solve the urban problem which must be admitted to be grave and urgent.

From the tax on land value, however, little is to be hoped in the way of a solution of the housing problem, except as the supply of accommodations may be affected.<sup>1</sup>

<sup>1</sup> One of the causes of the acute shortage of houses in England was, according to the Land Enquiry Committee (see *Report*, vol. II, p. 87), the increased attractiveness of alternative investments. "New house property, then, is decidedly less attractive as an investment than it was a few years ago." Might not the untaxing of buildings remedy this?



Furthermore, the expediency of checking speculation in urban land by means of a tax might be doubted, if it were not for another consideration.

We have seen the inevitable upward trend of the value of land in progressive cities. This tendency even public ownership cannot prevent, except in so far as the un-systematic, wasteful use of land under private ownership and the screwing up of speculative values might cease. But it has been asked, why should the increments due to social influences accrue to private individuals? The need for social and recreational centers, for parks and play grounds, and other public utilities is increasing and these in turn tend to increase the value of land. Why not set aside these socially created values to meet the increasing public expenditures? If the argument is advanced from the standpoint of right or justice, the counter-argument is equally valid, namely, that other value increments are socially created and should be likewise appropriated for the benefit of the whole community. From the standpoint of expediency, however, in view of the foregoing reasons for reform, an additional tax on land, which would give the community a share in the increments accruing from land, is winning adherents.<sup>1</sup>

§ 11. In the case of agricultural land we saw that government ownership of the land was not expedient; in the case of urban realty, the expediency of the *method* of municipalization was questionable. Now, we ask, does the need of conservation of natural resources necessitate their appropriation by the state? The need of conservation in the face of the wasting character of these resources has already been discussed.<sup>2</sup> The reports of the commissions on conservation all agree that most nations have not acted

<sup>1</sup> Cf. Seligman, in *Proceedings of National Tax Association* (1914), p. 191.

<sup>2</sup> *Supra*, chapter VIII, § 9. Cf. also *Summary of the Commissioner of Corporations on the Lumber Industry* (February 13, 1911), part I.



very expediently in disposing of their forest and mineral land. The following data show the percentage of forest area under government ownership: <sup>1</sup>

Great Britain.....	2.2	per cent
Italy.....	4.0	“ “
France.....	12.0	“ “
United States (national and state).....	18.9	“ “
Norway.....	28.5	“ “
Germany { imperial 31.9 crown 1.8 municipal 16.1 } .....	49.8	“ “
Finland.....	61.2	“ “
Spain.....	84.0	“ “
Russia.....	87.3	“ “

Recognizing the need of conserving at least the existent forest land, for “forests exercise an influence on the water supply, on agriculture and on the general health of the people,”<sup>2</sup> there is a general movement in European countries to add to the public forest reservations by purchase. Since 1870 France has not only made no sale of forest land, but has each year consigned more land to forestry. France has spent nearly 200,000,000 francs in reforesting dunes and devastated mountain sides. Germany likewise spent, in the years 1867–95, over 22,000,000 marks in increasing her forest domain.<sup>3</sup> This policy is now being followed by Austria and Italy. The United States has only recently been aroused to the problem of conservation. Yet in this country, “in timber lands the tendency toward consolidation is strong and has gone far toward placing control of such lands in a few hands. It appears that the monopoly is partly in the interest of economy in logging, milling and manufacturing, but chiefly speculative.”<sup>4</sup> The wastefulness of our forestry system has already been pointed out.<sup>5</sup>

The policy with regard to mines is not different. While the German States and France find it profitable not only to

<sup>1</sup> *Report of the National Conservation Commission* (1909), vol. II, pp. 280, 345.

<sup>2</sup> *Ibid.*, p. 281.

<sup>3</sup> Adams, *Science of Finance*, pp. 244–45.

<sup>4</sup> *Report of the National Conservation Commission* (1909), vol. I, p. 85.

<sup>5</sup> *Supra*, chapter VIII, § 9.



own but also to operate the mines, England and the United States have disposed of most of their mineral land. Moreover, the tendency of concentration in mine holdings is evident in this country. Especially is this true of the iron mines which is explained by the greater economy of large operations. In oil lands this tendency toward concentration is said to be apparently slight, while in coal lands it is intermediate.<sup>1</sup>

Now that these important resources have been disposed of by the government, the question of the expediency of repurchasing them arises. To devote a certain sum annually to the repurchase of natural resources as the European countries are doing, is a far different matter than either purchasing or confiscating all the land. Moreover, the operation of mines and forests is different from agricultural production. Especially is this true of forests. The forests under state management in Germany are said to yield considerably greater returns than those under private ownership;<sup>2</sup> the protection against waste and fires can be better undertaken by publicly trained officials than by the absentee speculator. But while the nature of forest cultivation permits of public ownership, the efficiency of government operation of the mines as compared with private enterprise is doubtful. Yet a few government-owned mines operated whenever the private monopolist unwarrantably raises the price of the mineral, or always operated in competition with the privately owned mines, might be highly advantageous to the consumer. Again we say, unless a sufficient amount of government control can be exercised to prevent the enormous waste and to break up the monopoly (the tendency toward the monopoly of natural resources is well established<sup>3</sup>), public ownership through the policy of repurchase might be found expedient and feasible.

<sup>1</sup> *Report of the National Conservation Commission*, vol. I, pp. 84-85.

<sup>2</sup> *Ibid.*, vol. II, p. 388.

<sup>3</sup> *Cf. Summary of Report . . . on Lumber Industry (1911)*, vol. I, pp. 5-8.



In the case of forest and mineral land, the taxing authority must be governed by other considerations than the withholding of the land from use. To promote the conservation of forests, the levy should be such as to encourage reforestation, at the same time that it prevents a combination of owners of timber land from limiting and controlling the supply with the purpose of keeping prices high. A heavy annual tax on the value of the land only will not tend to encourage forest reserves; and yet, if assessed by expert valuers and uniformly, it would be an improvement over the present system which taxes the value of the trees under haphazard estimates of value. According to an authority on forest taxation, Professor Fairchild,<sup>1</sup> the best tax is one based on the yield at the time the trees are cut. This he thinks will encourage the growth of forests, although his discussion discloses numerous difficulties which the proposal involves. Some states, it must be noted, have even subsidized the owners of forests in the interest of conservation, instead of taxing them. Which, then, is the most expedient method? There seems to be one system, which without injury to the lumber industry in any way, and while aiding the conservation of forests, would yet secure to the state a share of the landowner's profits. That method is the taxation of the value increment at the time of transfer of the property. This is on the supposition that the value of the deforested land itself would show an increment over the purchase price.<sup>1</sup> Taxation, however, will not

<sup>1</sup> *Report of the National Conservation Commission* (1909), vol. II, pp. 615 ff. See also *Proceedings of the Sixth Conference on State and Local Taxation*, pp. 371-93.

<sup>1</sup> The supposition is, however, borne out as a fact in the *Summary of the Report on the Lumber Industry*, Pt. I, p. 37: "After all the timber has been cut from the great private holdings the value of the land alone will be enormous. Much of this cut-over land may be best adapted for new growth, in which case there may be a continuing concentration of timber ownership. A large part of the land, however, may be exceedingly valuable for agricultural purposes."

The system of assessment and collection of the tax could be modeled



solve the question of forest conservation. Only by the efforts of the federal government in getting control of a sufficient area on which to grow forests as the European nations are doing, and in this way to compete with the private holders of forest land can we hope that the concentration and private control of timber land will be broken.

The case is somewhat different with mineral land. The value of the mine, as of all land, depends upon a variety of social causes; but it also depends upon the amount and quality of the minerals it contains. Mines are for the most part exhaustible, and the expense of mining increases the deeper the veins are. For this reason the capital value of mines is determined with difficulty. Because of this peculiarity the new English duty calculates the capital value of mines by capitalizing the rental on the basis of twelve and a half years instead of at twenty or more as in the case of other land. Nevertheless, an approximately accurate valuation could be made of a working mine by following the method of rental payments. In England it is customary for the most part to lease the mine to an *entrepreneur* who pays a "dead rent" for a certain amount of minerals brought to the surface, and a royalty for the excess over that quantity, allowing also for shortages. According to Professor Marshall,<sup>1</sup> "the royalty itself on a ton of coal, when accurately adjusted represents that diminution in the value of the mine, regarded as a source of wealth in the future, which is caused by taking the ton out of nature's storehouse." Granted that the economic rent could be thus computed, this value could be found only when the mine was being worked. To levy a tax on the value of mines, therefore, some plan like the English duty must be devised.<sup>2</sup> But a tax will not assure the conservation of this

after the English value-increment duty. In case of a corporation, for example, the payment could be made every fifteen or more years.

<sup>1</sup> *Principles of Economics* (6th ed.), p. 439.

<sup>2</sup> Cf. *supra*, chapter v, §§ 10, 11.



class of land. To prevent the monopolization and waste of mines, the opinion is current, only public ownership can be effective enough.

§ 12. Having shown the inadequacy of the tax on land value seriously to check speculation, reduce rents, and ameliorate housing conditions, it is needless to dwell long on the further social benefits which have been loudly proclaimed. Thus, the tax it was claimed would affect industry and the general distribution of wealth. For the exemption of improvements would encourage building operations, and this stimulation in building would promote not only the building trade, but other industries as well. Not only would the employment of capital be aided by the remission of the tax on improvements, but labor too would experience a "boom"; the wages of building employees would tend to rise, the demand for other commodities would be enhanced, production in general would be stimulated, leading to a cheapening of many commodities, whereby the laborer as consumer would again benefit.<sup>1</sup> In this way the simple reform of taxing the value of land would have within itself the possibility of materially influencing the distribution of wealth, not only diverting some of the value increment, now accruing to the landlord, to the relief of the public budget, but uplifting the working class through better housing, cheaper rents, higher wages, lower prices.

Judging from our study, these hopes appear vain, on the whole. The reason, perhaps, for the failure of the tax to become a reform of wide-reaching influence lies in the harmless nature of the change. It is unreasonable to expect that a two or even three per cent tax on the value of land, or that

<sup>1</sup> *The United Committee for the Tax on Land Values, Third Report*, p. 64: "By the transfer of the burden of taxation on to Land Values production would be increased and the price of commodities lowered; the conditions of labor of all kinds would be improved; wages would be higher and employment more regular, and the foundation would be laid of equitable relations between man and man."



the remission of such a rate on improvements would, in our complex social system of interacting forces, bring forth the millenium. Nevertheless, as a fiscal measure, its influence towards reform, its tendency to check speculation in land, to relieve congestion, to appropriate some of the value increment for public purposes, and thus to relieve the burden to some extent from industry, outweigh the charge of discrimination against the landowning class, involved in the proposal to put a higher tax on them than they had anticipated at the time of their investment.<sup>1</sup> Not as a panacea, then, for all social evils and economic maladjustment, although its influence may be beneficial with regard to these, but as a tax must the expediency of the tax on land value be determined.

<sup>1</sup> "I have never been able to understand," says Seligman, "why a man who has invested in land should be exposed to the danger of having a part of his property taken away from him? When he invested his money in land it was on the basis of the accepted policy of social justice, that private property in land was to be treated like private property in other things." (*The Survey*, March 7, 1914, p. 700.) A student of the changes that have recently taken place in the policy of legislation should no longer wonder that the *accepted policy of social justice* is not permanent. The end, which is in this case social welfare, justifies the means.