

CHAPTER X.

ONE TAX ENOUGH.

§ 1. **Adverse statements considered.** Is this one tax enough? Can all the needs of government be supplied by a tax upon ground rent alone?

Ambitious philosophers, on both sides of the Atlantic, have convinced themselves that in no country is economic rent (the annual value of land alone) large enough to pay even the existing taxes. This assumption was first brought forward to serve as an argument in England, with an air of triumph which has seduced American philosophers into reliance upon the same theory. It was asserted by Mr. W. H. Mallock and others, with the utmost confidence, that the whole rental of Great Britain and Ireland would not suffice, within many million pounds, to pay the existing annual taxes, national and local. This assertion was supported by a bristling array of figures, not in round numbers, but with an impressive detail, implying absolute accuracy. We need not imitate this pretended accuracy, but may concede that the average British and Irish taxes, imperial and local, for several years past (excluding, of course, postal and telegraph revenues, etc.) have amounted to about £118,000,000 sterling. Mr. Mallock calls the total rental of land in Great Britain and Ireland £99,000,000.¹

¹*Property and Progress*, p. 214.

Professor William T. Harris improves upon Mr. Mallock, and states the annual rent of all land in Great Britain and Ireland at £65,442,000 (*Forum*, July, 1887).

Mr. George Gunton (*Forum*, March, 1887) presents, with "crushing" confidence, a third and entirely different statement of British and Irish rents, fixing them, with mathematical accuracy, at £131,468,288; being double the estimate of Professor Harris and nearly one third more than that of Mr. Mallock.

It is obvious that all these learned philosophers cannot be right; and therefore it is not surprising to find that all of them are wrong. What *is* surprising is that their errors are so enormous, that they are caused by the use of second-hand authorities, yet could not have been made if even those authorities had been read with ordinary care, and that they prove an entire ignorance of the subject treated.

All of their figures are absurdly erroneous. All of these gentlemen have used tables which *excluded every penny of rent collected in the city of London!* All of them have excluded the value of land in railways, canals, mines, etc. Mr. Mallock further excludes all the rent of Scotland and Ireland. Prof. Harris caps the climax, by excluding the rent of all land not used for farming or similar rural purposes!

When a city population of over 4,000,000 pay no rent, and when houses, railways, canals, gasworks, and mines can hang in the air without earthly support, these statistics may have some value, but not until then.

§2. Mr. Atkinson on Boston rents. Space would fail to enumerate all the professors, doctors of philosophy, editors, and essayists who have followed the same line of argument in America, and have demonstrated, to their own satisfaction, that American ground rents could never

suffice to meet the necessary burdens of taxation. One example will suffice for all; and a quotation from Mr. Edward Atkinson (*Forum*, February, 1889) will cover all that has been said by any one on that side. He says:

"It is also probably an error to suppose that the present rental value of land, taken by itself, including that somewhat indefinite factor, the so-called 'unearned increment,' even if it could all be converted to public use in payment of taxes, would suffice to meet the necessary expenses of government even for state, city, and town purposes. For several years the assessors of the city of Boston, where the present valuation of land is very high, have kept the valuation of land for the purpose of taxation, separate from that of buildings and personal property. The valuation of the city for the year 1888 was \$764,000,000, on which a tax is to be assessed of \$10,000,000 for city, county, and state purposes, at the rate of \$13.50 on each \$1000 worth of property. Land and buildings are assessed nearly if not quite up to the market value. Personal property is reached by the assessors of the city of Boston in larger measure than in any other city in the country. At the average of recent years, the value of land is \$333,000,000; of buildings and improvements, \$230,000,000; of personal property, \$201,000,000. In order to raise \$10,000,000 revenue the tax upon the whole must be \$13.50 on each \$1000. If the assessment were made upon real estate, including land and buildings, the rate would be \$17.75; or, making allowance for abatements, \$18.50. If assessed on land value only, the assessment would be a little over \$33, allowing for abatements about \$35, on each \$1000. It is doubtful if the rental now obtained by the owners of all the land of Boston would more than meet the \$10,000,000 expenses of the state and city, omitting wholly the amount required by the nation. It must be remembered that our national taxes amount to a sum as large, if not larger, than all the state, county, city, and town taxes combined."

A close examination of all figures of this kind would disclose a great undervaluation of land, arising from the universal practice of assessors to rate vacant land held for speculative purposes, much lower than occupied land having precisely similar market value. But we should be so grateful to our opponents for condescending to drop into figures of any kind, as to accept Mr. Atkinson's statistics without troublesome criticism. For these figures, incor-

rect as they are, nevertheless fully suffice to refute the argument which they are brought forward to support.

§ 3. What the critics have overlooked. All critics of this class have overlooked the transparent fact that ground rent already bears a certain proportion of taxation, and that when it is proposed to put all taxes upon rent, the taxes now borne by rent must be deducted from the total amount, before reckoning the amount which would be cast upon rent by such a change in taxation.

They have also overlooked the equally obvious fact that the market price of land is always reduced by the capitalized value of the taxes already upon it. For the price of land being nothing more than the capitalized value of the *net* rent which can be derived from it, that value is invariably as much smaller, in proportion to the value which it would have if untaxed, as the net rent is smaller than the gross rent.

To illustrate: If the gross rent of a tract of land is \$1000 a year, and it is subject to no taxes, the market value, assuming the usual rate of interest to be 5 per cent. will be \$20,000. But if it is subject to an annual tax of \$200, the net rent being thus reduced by 20 per cent. the price of the land will also be reduced by 20 per cent. to \$16,000. If putting all the taxes upon rent would require a tax upon rent of \$500 a year, this would only mean an addition of \$300 to the tax; because the land was paying \$200 already. But Mr. Mallock, Mr. Atkinson, and similar critics always assume that this change would involve the putting of an additional \$500 on the rent, ignoring the fact that it already pays \$200 of the amount.

§ 4. Fundamental principles. The principles governing these questions can be stated in a few brief propositions.

I. In economic science "rent" means only *ground*

rent, or the price which can be obtained for the use of the land alone, irrespective of improvements.

2. Ground rent, strictly speaking, is the amount paid by the tenant for the use of the land, without any deduction whatever, for taxes or anything else.

3. The market price or value of land, however, is always based upon an estimate of the probable *net* rent, deducting taxes.

4. The market value of a perpetual title to land is equal to the expected net annual rent (deducting taxes), multiplied by the number of years which, multiplied by the current rate of interest, would produce one hundred. Thus, if interest is five per cent., the title is worth twenty years' net rent.

5. The value of such a title, in economic science, is the same, only *not* deducting taxes.

6. The annual value or ground rent of land, in economic science, is on the average equal to the usual rate of interest upon the market value of its perpetual title, with the addition of all taxes annually levied exclusively upon that value.

The strictly scientific method of ascertaining the proportion of ground rent which would be taken by taxation if all taxes were concentrated upon it, would be to add the taxes now borne by rent to the present net rent, and then reckon the proportion of gross taxes to this gross rent. But as the writer made a calculation upon this principle some years ago, and it has apparently been too difficult for these critics to comprehend, a simpler method will now be adopted, more in accordance with the usages of real-estate dealers.

We will ascertain as nearly as possible :

1. The present net ground rent of a few important countries, states, and cities;

2. The entire burden of taxation in these places ;
3. The amount of such taxation now borne by ground rent ;
4. The amount of taxation which would be added to the present taxes on ground rent, if all taxes were collected from them, and which, therefore, is all that would be taken out of the net rents which land-owners now receive ;
5. The proportion of net ground rent now collected by landlords, and remaining in their hands after paying existing taxes, which would be taken by this change in methods of taxation.

In these statistics, we shall take the liberty of generally omitting fractions of a thousand dollars or pounds, counting everything under five hundred as nothing, and everything above five hundred as one thousand. The results will be just as correct as if the usual wearisome details were given ; and the figures will be vastly more intelligible.

§ 5. **Proportion of land values to real estate.** We shall adopt the uniform rule of estimating the value of the bare land at 60 per cent. of the value of all real estate. The substantial correctness of this estimate could be proved by an enormous mass of statistics. It is sufficient, however, to refer to the peculiarly careful and conscientious assessment of Boston, already quoted, as evidence of the fact in cities ; while the analysis of the Massachusetts census, which will presently appear,¹ as well as the investigations of the Pennsylvania Tax Commission, give evidence of the fact in rural districts. The Pennsylvania return, it is true, reduces the average for the whole State to 51½ per cent. But the returns from Philadelphia and other cities are plainly erroneous. They put the value of land in cities other than Pittsburgh at only 34 per

¹ Appendix to Chapter XII.

cent. of real estate.¹ But in Pittsburgh land is reported at 56 per cent. of real estate. Outside of cities, land is reported at about 70 per cent. of real estate. Correcting the error in cities, the average is about 60 per cent. A comparison of assessment returns from Boston, Buffalo, Cincinnati, Cleveland, Minneapolis, and many other cities, demonstrates that the 60 per cent. rule is, to say the least, fully as applicable to cities as it is to improved farms. Inquiry into British land values strongly indicates that they form 63 to 65 per cent. of all real-estate values there; but we may rest upon the minimum of 60 per cent., as being sufficiently near the truth to meet all cases.

It has been already shown that all the stationary property and franchises of railway, telegraph, gas, electric light, pipe line, steam heating, and similar companies are real estate, and that by far the greater part of the value in such concerns is a pure land value. These concerns will, therefore, be so treated, without further explanation. Much more than 60 per cent. of their incomes consists of pure ground rent; but they shall be put upon the same footing with all other real estate. With this allowance the tables hereafter given will err only upon the side of our opponents.

In adopting this general estimate of land values as 60 per cent. of all real estate, the estimate elsewhere of a much lower proportion of such values in farm lands is not forgotten. But that estimate refers only to cultivated farms, which constitute but a small part of the real estate

¹ This error is probably due to the very general division of land ownership, in Philadelphia and Eastern Pennsylvania cities, between pure ground rents and leaseholds. The value of a long lease is often very great; and this is part of economic land value or ground rent. The owner of a building, erected upon leased land, also owns the leasehold; and the usual rise in city land values often makes the leasehold alone worth one fourth to one third of the fee.

values of the United States, or of any state or country. Town lots alone far exceed in value all the farms of the United States; and among them the value of the land alone exceeds 60 per cent. of all real estate values. Uncultivated and unused lands form an enormous part of nominal farm values; and in their case, the pure land or ground-rent value is, of course, 100 per cent. of the whole. An estimate of 60 per cent. for the pure land value of all American real estate, taken together, is extremely moderate. For Great Britain, and still more for Ireland, it is far too low.

However, if any one doubts the correctness of this estimate, he can easily make a calculation, on the basis of those which follow, but reducing land values to 50 per cent. of real estate. He will find that it does not change the general result. Nothing short of a bold estimate of 30 per cent. as the proportion of land values, will suffice to refute the general conclusions here reached. Such an estimate would be absurd.

§ 6. Rents in Great Britain and Ireland. The theory of the insufficiency of Rent to meet Taxes having originated in England, it is as well to begin its refutation with that country, especially as its statistics of income are more full and correct than those of any other country. The returns for 1885 will be used, because they are the latest which have been used in this controversy or which have been made the basis of Mr. Giffen's valuable estimates of British wealth.

The whole amount raised by taxation, national and local, in Great Britain and Ireland for 1885 was £118,341,000.¹

The official returns of the income tax, for 1885,² show

¹ *Statesman's Year Book*, 1888, p. 236.

² *28th Report Internal Revenue Department*.

the following results. For the sake of brevity let us call these "British," instead of "British and Irish" incomes:

British Net Incomes from Real Estate; Returned in 1885.

I. From pure ground rents:

Manors, tithes, fines, etc.	£ 853,000	
Fishing and shooting rights....	572,000	
Market privileges and tolls....	607,000	2,032,000

II. From land and improvements:

Agricultural lands,....	£ 65,442,000
Houses and lots.....	127,050,000
Canals, water-works, mines, iron-works, gasworks, etc...	22,381,000
Railways.....	33,050,000
	<u>£247,923,000</u>

60% of this is..... £148,753,000

Net annual ground rents..... £150,785,000

We must now consider the taxes which have been levied upon land, and which have therefore been deducted from the gross rent before these returns were made. They are as follows:

Land tax.....	£ 1,045,000	
Inhabited house duty.....	1,855,000	
Income tax on rents.....	3,605,000	
Local rates.....	37,846,000	
Tithes.....	<u>4,054,000</u>	£ 48,405,000

Sixty per cent. of this amount, being £29,043,000, must be deducted from the gross amount of taxes, because the landlords bear this already, and receive the £150,785,000 net.

Gross British taxes.....	£118,341,000	
Deduct taxes now paid from... ground rents.....	<u>29,043,000</u>	£ 89,298,000

This is the amount which would be collected from British rents, if all taxes were levied upon them. It is almost

exactly 59 per cent. of British net ground rents, leaving all rent from houses and improvements untaxed. All British and Irish taxes could be paid out of existing rents and yet leave to the landlords a clear income of £61,487,000 (\$300,000,000) per annum, *besides their house rents, etc.*, amounting to at least as much more.

But this is a great understatement of the truth. It makes no account whatever of the constant rise in value of town lots. It assumes the absolute correctness of the returns of rent made by landlords. It assumes that the tax collectors have not lost sight of a single rent or failed to collect a single pound of what was due. It does not reckon the annual value of the palaces and parks of princes, dukes, earls, and other men of wealth, at any figure; because these places bring no actual income, and are not returned at all for income tax. The probability is that, if all such values could be ascertained, all the taxes of Great Britain would not absorb 45 per cent. of the present net value of the bare land.

§ 7. **Rents in the United States.** The census of 1890 estimates the total real "wealth" of the United States at \$65,037,091,197; of which real estate is set down at \$39,544,544,333.¹ But of this, real estate to the real value of \$3,833,335,225 is exempt from taxation; and as there is no use in taxing public property, only to pay the tax out of the public treasury, exempt property may as well be excluded from these calculations.

The *assessed* valuation of property in 1890, which of course has little relation to the *real* value, was:

Real estate.....	\$18,956,556,675
Personal property.....	6,516,616,743
Total.....	\$25,473,173,418

¹ It has been denied that ground rents are real "wealth." But they are always so reckoned in statistics.

Thus it will be seen that real estate constituted $74\frac{1}{2}$ per cent. of all assessed property, and therefore bore that share of *ad valorem* taxes. For convenience, this share may as well be called 75 per cent. The local *ad valorem* taxes amounted to \$470,652,000. Reckoning land values as usual at 60 per cent of real estate, these values bore 60 per cent. of 75 per cent. of all local *ad valorem* taxes. This is exactly 45 per cent., leaving 55 per cent. to be borne by land improvements and personal property. Special taxes, such as licenses, succession taxes, corporation taxes, poll taxes, etc., are not included. But, as a large proportion of what is assessed as personal property is in fact real estate in a disguised form, the probability is that real estate actually bears more than 75 per cent. of all local taxes, of every description.

The valuation of real estate in the census was certainly not made upon any lower estimate of the rate of interest than 5 per cent. as even that would value land at twenty years' purchase. Only a small part of American real estate could be sold then or now at even that rate. Nevertheless, that rate is here accepted. It follows that rent must be reckoned at 5 per cent. on the capitalized value of land, since "land" in law is nothing but a name for a title to ground rents.

On this basis the following results are reached. They are extremely conservative; that is to say, they err on the side opposed to the argument here presented.

True Values of Real Estate, 1890.

Real estate, taxed as such ¹	\$35,711,209,000
Railways.....	8,685,407,000
Mines and quarries.....	1,291,291,000
Telegraphs and canals, far more than	312,093,000
Total.....	\$46,000,000,000
Land Values, 60 per cent. of this.....	\$27,600,000,000

¹ Real estate worth over \$3,800,000,000 is exempt from all taxation.

Ground Rental and Taxes in the U. S.

Rent, at 5 % on \$27,600,000,000.....		\$1,380,000,000
National expenses.....	\$357,889,000	
Local taxes	470,652,000	
	<u>\$828,541,000</u>	
Deduct 45 % of local taxes, already laid on rent.....	211,793,000	
Taxation on present net rents, if all other taxes are repealed.....		<u>616,147,000</u>
Surplus rent.....		\$763,252,000

Thus all national and local taxes, if collected exclusively from ground rents, would absorb only 44½ per cent. of those rents, leaving to the owners of the bare land a clear annual rent of \$763,252,000, *besides the absolutely untaxed income from all buildings and improvements upon their land.*

The above estimate of ground rents is very far below the reality. It does not include one dollar for the enormous value of oil wells, gas wells, pipe lines, the street privileges of gas, electric light, steam heating or water companies and other land privileges not expressly enumerated.

§ 8. Rents in Pennsylvania. Owing to a very remarkable example of public spirit, the State of Pennsylvania affords an opportunity for an inquiry of this kind, unequalled in any other State. A Revenue Commission has been formed by associations of private citizens, representing all interests, which has pursued a line of thorough investigation for several years past. Although its work is still incomplete and some of its statistics (as already pointed out) are plainly erroneous, they have been prepared in the best of faith and with unusual care; while their errors are easily found and readily corrected.

In round numbers the Commission estimates the entire

wealth of Pennsylvania, in 1892, at a true value of \$9,692,000,000. Of this, \$1,250,000,000 are reported as "moneyed capital." This is an obvious error, in a computation of real wealth. Moneyed capital cannot mean anything else than debts and credits. Whatever it adds at one end of the total wealth must be taken off at the other, as previously explained in this book. Deducting this item there remains real "wealth" (reckoning land values as part of wealth) to the amount of \$8,500,000,000. On the basis of a full report of fire insurance in the State, the Commission estimates that \$5,000,000,000 of this amount is of an insurable nature, that is, the value of buildings and chattels. This leaves the value of the bare land (which is the only thing incapable of being destroyed by insurable risks) at about \$3,500,000,000, or a trifle more than 41 per cent. of the value of all wealth. Now this result, which is reached without any reference to the national census, and by a process utterly different from that which led to the conclusions given above, as to the United States at large, is nevertheless in perfect harmony with those conclusions. The estimated value of the land of the United States, given above, was 42 per cent. of all "wealth." The estimate of land values in Pennsylvania is over 41 per cent.

The entire local taxation of Pennsylvania in 1892 was \$49,383,906. Of this there was levied upon real estate, in various forms, \$36,000,000, as follows:

Taxes on "real estate".....	\$32,645,631
" " railways.....	2,146,331
" " other land-owning corporations:	
about \$1,200,000, say.....	1,208,038
	<u>\$36,000,000</u>

Sixty per cent. of this is \$21,600,000; and this was the amount borne by the land values of Pennsylvania in 1892.

The proportion of federal taxation which would have fallen upon Pennsylvania, had federal taxes been direct, and levied in proportion to population, as required by the Constitution, was less than \$30,000,000. But if levied in proportion to land values alone, it would be about \$36,000,000. These figures furnish all materials necessary to determine the effect upon Pennsylvania land-owners of a concentration of taxes upon ground rents.

PENNSYLVANIA.

Ground Rents and Taxes of 1892.

Rent, at 5 % on \$3,500,000,000.....		\$175,000,000
Federal taxes.....	\$36,000,000	
Local taxes.....	49,384,000	
	<u>\$85,384,000</u>	
Deduct 60 % of real-estate taxes, already paid	21,600,000	
Taxation on present net rents, if all other taxes are repealed.....		<u>63,784,000</u>
Surplus rent.....		\$111,216,000

Thus all national and local taxes, if collected only from ground rents, would absorb less than 36 per cent. of those rents in Pennsylvania, leaving to the land-owners a clear income of over \$111,000,000 per annum, besides the untaxed income from their buildings and other improvements.

It will be noticed that a much smaller proportion of ground rent seems to be required for the payment of all taxes in Pennsylvania, than in the United States at large. This apparent discrepancy is due to the fact that the valuation of real estate, made by the Pennsylvania Commission, was 25 per cent. higher than the census valuation of 1890.

If the census estimates should be accepted with reference to Pennsylvania, as in other cases, the result would be as follows:

PENNSYLVANIA.

Ground Rents in 1890: Taxes in 1892.

Land values, per census 1890, \$2,810,000,000	
Rent at 5%.....	\$140,500,000
Federal taxes.....	\$36,000,000
Local taxes.....	49,384,000
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	\$85,384,000
Deduct taxes falling on ground rents in 1892	21,600,000
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Taxation on net rents of 1892, if all other taxes were repealed.....	63,784,000
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Surplus rent.....	\$76,716,000

On the basis of the census estimates of value, therefore, the concentration of all taxes upon ground rents would absorb about 45½ per cent. of Pennsylvania net rents. This, it will be seen, is nearly the same proportion of rent which would appear, from the census, to be subject to absorption by such taxation, if applied to the United States as a whole.

§ 9. **Rents in Connecticut.** The State of Connecticut having been cited by some advocates of the personal property tax, as an example of the insufficiency of ground rents to support the whole burden of taxation, let us examine its record.

It appears, by the report of the Special Commission on Taxation, in 1887, that the local taxes of Connecticut then amounted to about \$6,600,000, that the average tax rate was 1¼ per cent., but railways were separately assessed and taxed exactly 1 per cent. The assessed value of real estate was \$251,000,000; of which land values, at the usual

rate of 60 per cent., would amount to \$150,000,000. Railway property within the State was known to be worth, at regular market prices, \$62,000,000; and it was assessed at its full value, the tax being made low on account of the known undervaluation of all other property. The land value in railways, at 60 per cent., amounted to \$37,000,000.

The census of 1890 gives the following returns of the true market value of real estate in Connecticut.

CONNECTICUT.

True Values of Real Estate, 1890:

Real estate, returned as such.....	\$543,421,891
Railways.....	54,550,504
Mines and quarries.....	3,108,787
Canals, telegraphs, etc. ¹	14,753,310
	<u>\$615,834,492</u>

Sixty per cent. of this for land values amounts to \$369,500,000. We can now calculate

Connecticut Ground Rents, 1890; and Taxes, 1887.

Net ground rent, at 5 % on \$369,500,000.....	\$18,475,000
Federal taxes, apportioned on basis of rents	\$4,800,000
Local taxes.....	6,600,000
	<u>\$11,400,000</u>
Deduct taxes already laid on ordinary land values:	
\$150,000,000 at 1 7/8 %.....	\$2,812,500
Do. on railways at 1%.....	370,000.....
	<u>3,182,500</u>
Taxation on present net rents, if all other taxes are repealed.....	8,217,500
Surplus rents.....	<u>\$10,257,500</u>

¹ This item includes shipping. But as gasworks and other immensely valuable franchises on land are not included, this item is not too large.

The concentration of all taxes upon the ground rents of Connecticut, therefore, would not absorb more than 44½ per cent. of those net rents, leaving to the land-owners a clear income of over \$10,000,000 per annum, besides all their income from buildings and improvements.

§ 10. **Rents in Boston.** For the purposes of solving the problem submitted by Mr. Edward Atkinson, concerning the city of Boston, let us accept his figures, although they are not brought quite up to the date of 1890, and certainly understate the value of land.

His figures are given for 1888, and are as follows :

Land, assessed value.....	\$333,000,000
Buildings, " ".....	230,000,000
Personal property ".....	201,000,000

The whole amount of State and local taxes in Boston, in 1888, is given by Mr. Atkinson at \$10,000,000 per annum; and he estimates the national taxes at "a sum as large, if not larger than all the State, county, city, and town taxes combined." But in this he is much mistaken. For many years local taxation has exceeded national taxation; and, as we have already shown, the State and local taxes assessed upon property by its value, *exclusive* of licenses, succession taxes and many others, exceeded, in 1890, the whole amount of national expenditures by about \$113,000,000. In 1888 a direct tax of \$300,000,000 would have amply sufficed to cover all the expenditures of the federal government, pensions included.

Apportioned according to population, as the Constitution requires, Boston's share of such a direct tax would have been \$2,100,000.¹ Apportioned according to the value of land, either with or without improvements, Boston's share of such a direct tax would have been much

¹ Population, 1890: United States, 62,622,000; Boston, 446,000.

less than \$4,500,000. The latter figure may be accepted, not only as affording stronger support to Mr. Atkinson's theory, but also as based upon just principles, in accordance with which it may be assumed that the Federal Constitution would be amended, whenever strictly direct taxation is adopted.

It may be assumed with entire certainty, in this case, as in others, that the assessors' estimate of the value of real estate was based upon the theory that it was renting for at least 5 per cent. per annum, net, on its capital value: for it is incredible that the assessors should have valued land at more than twenty times its annual rent. The annual rental value of the bare land of Boston in 1888 was therefore at least 5 per cent. on \$333,000,000; that is to say, \$16,650,000. The tax rate was \$13.50 per \$1000, or \$4,500,000 on the bare land.

On this basis, and giving the benefit of every doubt in favor of Mr. Atkinson's views, the following conclusions are reached:

Boston Ground Rents and Taxes in 1888.

Ground rent, at 5 % of \$333,000,000	\$16,650,000
Federal taxes.....	\$4,500,000
Local taxes.....	10,000,000
	14,500,000
Deduct taxes on land values already paid.....	4,500,000
Taxation on present net rents, if all other taxes are repealed.....	10,000,000
Surplus rent.....	\$6,650,000

Thus all national and local taxes, if concentrated upon the ground rents actually found and assessed by the assessors of Boston, would absorb barely 60 per cent. of those rents, leaving to Boston land-owners a clear income

of over \$6,650,000 per annum, besides the untaxed income from buildings and other improvements.

§ 11. **Omissions from Boston rents.** Thus far it has been assumed that the figures of Boston assessors, upon which Mr. Atkinson relies, correctly represent the market value of all Boston land.

This concession has been made for the sake of argument; but it is utterly unjustifiable. No assessors in any city, however faithful in the performance of their duty, ever appraised land at its full market value, or anywhere near it. If the Boston assessors have appraised land at even 80 per cent. of its fair value, they have done their duty more faithfully than any other assessors in the United States. It may be said, however, that assessors never will do better, and therefore that in estimating the burden of taxation under the proposed system we must be content to value land on the basis of the best known assessments. The answer to this is, that we are not now seeking to know what will be the *apparent* burden of taxation upon ground rents, when this system goes into effect, but are inquiring what would be the real, *bona fide* burden thus imposed. And in order to judge of this we must calculate upon the basis of actual values, and not of mere assessed values.

But it is not necessary to enter into this question just now. Even accepting the official assessment, these figures show upon their face that the assessors have omitted from their estimate of land values in Boston some items of immense importance. Where is there any account made of the privileges conferred over and under Boston streets, upon railway, telegraph, telephone, gas, electric light, steam heating companies, etc.? So far as these corporations actually own, in their own names and of record, offices and buildings, over which they have exclusive control,

like any other private land-owner, such property is assessed, but only at the same rate per square foot as other private land. But not one dollar of the value of the franchises of any of these corporations, or of the privileges which they have over and under Boston streets, is included in the assessors' estimate of land value. This will appear even more clearly upon examination of the assessors' annual reports. Such franchises and privileges are never assessed under the head of "land" in any State of the Union.

No doubt the Boston assessors and Mr. Atkinson were astonished at the suggestion, made some years ago, that all these franchises and privileges come within the definition of "land"; but they certainly do, both under the principles of economic science and under the plain terms of American law. They are "hereditaments,"¹ which form a part of "land," under both Massachusetts² and New York law³; although exempted from taxation by statute in New York, and by the "dead hand" of Chief Justice Shaw in Massachusetts.⁴ Applying this principle to railroad, telegraph, gas, and other corporate privileges, in or over the streets of Boston, there can be no doubt that the land values appertaining to these franchises would be eagerly bid for at \$3,000,000 per annum. The whole

¹ Smith v. New York, 68 N. Y., 552.

² Rev. Stat. ch. 3, § 7.

³ 1 Rev. Stat., 750.

⁴ This famous judge, although undoubtedly honest, made some of the worst decisions in favor of corporations, which can be found in judicial history. He invented the theory under which masters are exempted from liability to servants for the negligence of co-servants. And he declared the roadbed of all railroads to be exempt from taxation, *because* the roads are permitted to acquire land under the power of "eminent domain" as for a public use (*Worcester v. Western R. R. Co.*, 4 Metc., 564). The courts of New York, and probably of every other State, have treated this amazing doctrine as hardly worthy of discussion.

of this large sum is entirely omitted from the official estimate of ground rents in Boston; and, therefore, at twenty years' purchase, the land of Boston has been undervalued to the extent of \$60,000,000.

This estimate is confirmed by the census of 1890, which shows that the real values of real estate, including these franchises, were nearly 30 per cent. higher than the assessed values in Massachusetts. The official figures for Boston alone are not at present accessible; but there is every reason for believing that the undervaluation there was as great at least as in the rest of the State, since Boston has more valuable franchises than any other part of the State. In view of these facts let us revise the foregoing table, on the basis of an addition of only 25 per cent. instead of 30.

Boston Ground Rents and Taxes, 1888.

Corrected by reference to Census.

Ground rent, assessed as such.....	\$16,650,000	
Correction of under-assessment per census.....	4,162,000	\$20,812,000
Federal taxes.....	\$ 4,500,000	
Local taxes.....	10,000,000	
	<u>\$14,500,000</u>	
Deduct taxes on land values already paid.....	4,500,000	
Taxation on present net rents, if all other taxes are repealed.....		10,000,000
Surplus rents.....		<u>\$10,812,000</u>

The concentration of all taxation upon ground rents, in Boston, would not, therefore, absorb as much as 48 per cent. of those rents.

§ 12. Summary. All the foregoing calculations have been made without any preconceived theory as to the proportion which taxation would probably bear to rent,

and without any anticipation that there would be much uniformity in the results obtained from such widely separated and widely different communities. Let us now compare these results, reckoning the British pound at \$4.85.

	Net Ground Rent Less Present Tax.	Additional Tax.	Proportion Taken by Tax.
Great Britain.....	\$ 731,307,000	\$433,095,000	59 %
United States.....	1,380,000,000	616,748,000	44½ %
Pennsylvania.....	140,500,000	63,784,000	45½ %
Connecticut.....	18,475,000	8,217,000	44½ %
Boston.....	20,812,000	10,000,000	48 %

The uniformity of result, where the figures are based upon the same census, as in the United States at large, Pennsylvania, and Connecticut, is remarkable.

In Great Britain the estimate of ground rent does not allow a dollar for the value of vacant land or unoccupied houses, parks or pleasure grounds. The magnificent estate of Chatsworth is rated at only \$3000 per annum. An addition of one third to the values included above would be far below the truth. With such an addition, the proportion of taxes to British rents would be reduced below 44½ per cent.

All attainable statistics thus point to the conclusion that the entire cost of the most expensive and even extravagant governments in civilized countries could be placed upon ground rents, without taking in taxation even half of the present net income of land-owners from that source alone.

The land-owning reader may be impatient and indignant with this cold statement of a result which, as he will think, means ruin to him. But he must remember that this chapter is devoted to the single inquiry: "Is Rent enough to meet Taxes?" leaving other questions for

future consideration. In a later part of this book, those other questions will be fairly met and dealt with.

Anticipating, however, for a moment, one of those important questions, let it be observed that no allowance has been made, in the foregoing figures, for the undeniable fact that the land-owning class own not merely the land but also all the buildings and improvements upon land, besides a vastly larger share of personal property than any other class of the community. Under the present system, *all* these things are taxed. Under a system of natural taxation, *none* of them would be taxed, except the value of the land alone. It will presently be shown that the benefits conferred upon nine tenths of the land-owning class, by the release of all their other property, earnings and expenses from taxation, would be enormous. But that does not find its proper place in this chapter, which has to do with no other inquiry than the sufficiency of ground rents to supply government revenue.

§ 13. **Ground rents in rural districts.** Having analyzed the cases of large cities and large states, fully settled and highly civilized, and found that a moderate tax on their ground rent is sufficient for all their needs, there remain for consideration villages, small towns, and half settled states or territories on the border of civilization.

It is said, with great confidence, that the land of these communities is of no value, and therefore that a tax upon this no-value land could not support government in these districts. Of course, if the assertion is true the argument is conclusive. But the assertion is not true; and the argument would apply only to a very limited district, even if it were based upon truth.

No one lives permanently, within the real dominion of any government, on land which has no value. Robinson

Crusoe, living alone, occupied land which was of great utility to him; although it could not produce economic "value" (that is, value in exchange) until some one else came upon the island. But, until then, he had no government. When Friday landed, Robinson formed a government of one; and economic rent or land value began. The price which Friday was glad to pay, for permission to live on the island, was his rent; and that rent was, as we all know, amply sufficient to defray all the expenses of government. Wherever any government exists it necessarily, in the very nature of things, assumes the ownership of all land within its limits; and ground rent at once begins. Between the government and the citizen any land, however poor, has a market value. The citizen who inflexibly insists that it has not is invited to emigrate, and is forced to give place to some one who has a different opinion.

Although it is ideally conceivable that a state of things might exist in which land might have no exchangeable value, as between private individuals, no one has ever known that state of things to exist, where even a hundred people live in civilized community together; and such a state of things, as between any government and any person receiving any benefit from that government upon land permanently appropriated by him, is inconceivable.

§ 14. **Ground rents always exceed cost of government.** Nor can the average annual cost of necessary government for any community ever be greater than the average annual value of its land. To say that it can, is a contradiction in terms. How can any government be *necessary*, which costs more than the privilege of living under it is worth? And what is the cost of the privilege of living in any particular place, except the ground rent of that place? It makes no difference

how you assess the price of the privilege. A landlord can, if he chooses, fix his asking price for rent upon a computation of his tenant's personal property. If the price thus fixed is less than the market value of the land, the tenant will gladly pay it, and bless the stars which gave him a fool for a landlord. If it is more, the tenant will move away, and the landlord will get nothing. The state can do no more. No one will pay more taxes than the privilege of residing within the jurisdiction of the state is worth. If any one pays less, he is better off than people who live in another place and pay full value. This difference is so much natural rent; which he puts into his own pocket or is compelled to pay to a private landlord.

Ground rent, therefore, is invariably sufficient to meet all the expenses of necessary government. But as government never exists where society does not exist, and as society offers many advantages in addition to the mere benefits of government, the privilege of living in society is worth much more than the mere cost of government. This privilege is dependent upon the privilege of living within a tract of land in which society exists. Outside of such land, there is other land, with no society and no government. The difference between the value or no-value of the right to live in solitude and the value of the right to live in society is so much economic rent.

Rent, therefore, will at all times, in all places and in all circumstances, exceed the entire cost of necessary government.

§ 15. **Proper distribution of government cost.** But a great central government finds it for the advantage of the whole nation to maintain much more complex and expensive government in places like Alaska, Wyoming, and Arizona, than is really needed for the small number of people actually residing there. It therefore maintains

territorial governments, at the expense of the more advanced States; not because Arizona needs so much government, but because New York, Chicago, and St. Louis need to have new countries developed faster than the residents of those territories need for their own benefit.

So great cities need costly roads through little villages, which would otherwise be satisfied with mule tracks. Roads ought to be a State charge; and it is now seen that the failure to treat them as such has been a disastrous mistake. The consequence of leaving roads to be managed by local authorities has been that not one road in a hundred, throughout the United States, is properly laid out or respectably maintained. The governor of Pennsylvania, several years ago, called attention to this notorious fact and suggested that roads ought to be taken under the control of the State. This example has been followed by the governors of New York, New Jersey, and other States.

The administration of justice should not be left to the control or the charge of small towns. Court houses and jails ought to be, at the very least, a county charge, if not furnished at the expense and under the supervision of the State. The State cannot afford to tolerate injustice within the limits of any township; and while it may be that all these matters can be judiciously left to the control of large districts, like a county, it is not desirable that they should be intrusted to the control of each little township for itself. Consequently, the expense of court houses and jails should be provided and their management should be controlled by counties, if not by the whole State. The State of New York is properly taking all lunatic asylums under its own charge.

For similar reasons schools should be maintained at the expense and under the control of large districts. It is no more for the interest of the State of New York to

permit ignorance to prevail in the woods of Hamilton and Ulster, than it is for the interest of the United States to allow robbery to flourish unchecked in Arizona. This is not a mere question of financial ability. There are many townships which have abundant means to provide for the proper education of their children, which, nevertheless, have but little interest in seeing the work done, and the residents of which are in fact so isolated from the rest of the world that they have no idea how such work should be done. This principle is partially recognized in New York. Public schools are supported by State appropriations; although they are not controlled by the State as fully as they should be.

The expenses of government will in the future more and more tend to centralization in counties, if not in States. Of course it will never do for the State to pay the bills, where it does not control the outlay. Whatever roads, courts, jails, or schools are paid for by the State should be controlled by the State; otherwise townships which would receive all the benefit of expenditure would feel no direct interest in diminishing its burden.

§ 16. Rent sufficient, when burdens just. Now, no one seriously maintains that the ground rent of any county in the thickly settled parts of the United States is not amply sufficient to defray all the expenses of government properly chargeable to that county, exclusive of federal taxes; and no one can successfully claim that any State east of the Mississippi River is so poor that its ground rent would not suffice to defray all its own government expenses, as well as the proportion of federal taxation which would fall upon it under the existing Federal Constitution, which apportions such taxes according to population, instead of according to wealth. It may be claimed that some of the very new and thinly settled States could not bear the burden of federal taxation on

that basis, in addition to their own expenses, without trenching upon something besides ground rent ; although, for the reasons above stated, even this is highly improbable. It is quite certain that when taxation is adjusted, as it must finally be, in proportion to the ground rent of every State and county, the cost of government will not exceed, nor even equal, the amount of such rent in any county of the United States. When the burden of maintaining government is apportioned, as it also must be, between States, counties, cities, townships, and villages, in such manner as to relieve the smaller divisions from burdens which do not properly belong to them, there will no longer be any question in the mind of any reasonable man as to the sufficiency of ground rent, in every corner of the United States, to bear all the expenses of government, and yet to leave a generous margin.¹

¹ The statements in the text can be illustrated by reference to the appropriations for town purposes, made by several farming towns of small population in Massachusetts in the spring of 1895. With each town is given the population in 1890, number of acres assessed, and appropriations, including highways, paupers, etc., and schools.

Berkshire County.

Town.	Acres.	Popula- tion.	High- ways.	Schools.	Paupers, etc.	Total Ap- propria- tions.
Alford	7,172	297	\$ 400	\$ 600		\$1,075
Egremont	11,107	845	1,000	1,000		3,060
Hinsdale	13,745	1,739	1,800	4,025	\$1,100	9,840
Lanesboro'	17,332	1,018	1,190	1,700	1,000	7,020
Savoy	19,917	569	1,000	700		2,500
Tyringham	10,845	412	800	950		2,715
Richmond	11,321	796	1,500	2,050	700	5,725
Clarksburg	7,749	884	1,000	1,500		3,000

Hampden County.

Chester	21,588	1,295	2,400	2,000	1,400	9,339
Hampden	11,752	831	750	1,825	600	3,960
Holland	7,120	201	400	200	100	1,050
Montgomery	8,586	266	700	600	200	1,915

Hampshire County.

Westhampton	15,282	477	1,000	1,150	500	3,100
Total		9,660	\$13,940	\$18,300	\$5,600	\$54,299

These statistics are taken from the *Springfield Republican*. They all tell

To state the case again in another form, the whole matter can be summed up by saying that it is impossible that any government can be *necessary*, which costs more than the ground rent of the district which is called upon to pay for it; since that rent will always represent, to the fullest extent, not only all that such government is reasonably worth to the inhabitants of that district, but also the full market value of all other advantages which they derive from human society, as it actually exists among them. Any pretended taxation which takes more from the people than this is extortion, not genuine taxation.

the same story. Highways (including bridges), schools, and paupers account for two thirds to three fourths of all local expenses in these little townships.

Taken altogether, highways cost 26%, schools 34%, and paupers 10% of all town expenses; making 70% of the whole expended for purposes which ought to be provided for by State taxation, and kept under State control. In New York schools and paupers are already provided for by a general tax, and highways soon will be.

Observe the large area and small population of most of these towns, especially Alford, Savoy, Tyringham, Holland, Montgomery, and Westhampton, which are devoted almost exclusively to farming, and where there are 130 to 190 acres for each family. Is it reasonable to cast the whole expense of highways through this large territory on such a sparse population? Can we wonder that country roads are bad?

Of course a State tax would be levied on these towns, as well as upon others. But they would pay only according to the proportion which the value of their ground rents bore to those of the entire State. Their gross taxes would be reduced by at least 50 per cent.

That this result would follow, is conclusively shown by the experience of New York. While all counties are taxed, for State purposes, in proportion to the value of their real estate alone, the State repays to every one of the farming counties (being 40 out of the entire 60), *for school purposes alone*, more than the whole county contribution to the State tax. And, in addition, the State provides for all their paupers and insane free of county charge.

The adoption of a natural and rational system of local taxation, combined with a proper distribution of expenses, would thus relieve the farming population in Massachusetts from one half of their present burdens. It may be safely assumed that it would have the same effect in other commercial or manufacturing States.