

CHAPTER XXII

Real Estate Taxation

HOW A CITY CAN SUPPORT ITSELF BY COLLECTING ITS RIGHTFUL EARNINGS AND SOLVE ITS HOUSING AND SLUM PROBLEMS.

The land is the common heritage of the people and all men have natural and equal rights in land. By the term land is meant all natural resources.

Subject to these natural and equal rights in land and to this common ownership, individuals can and must enjoy certain subsidiary rights in land.

These rights properly enjoyed by individuals are:

- 1. The right to secure exclusive occupation of land.*
- 2. The right to the exclusive use of land occupied.*
- 3. The right to the free transfer of land according to the laws of the country.*
- 4. The right to transmit land by inheritance.*

These individual rights do not include:

- 1. The right to use land in a manner contrary to the common good of all, e.g., in such a manner as to destroy or impair the common heritage.*

All men have natural and equal rights in land. Those rights may be exercised in two ways:

- 1. By holding land as individuals and/or*
- 2. Sharing in the common use of the economic rent of land.*

This community created land value can be collected for the use of the community by the same machinery by which taxes are now collected. That is what is meant by the policy of Land Value Taxation. Were this community created land value collected, the many taxes which now penalize industry, thrift and enterprise and stifle production could be abolished.

To deny the validity of common rights in land—in practice if not in theory—is characteristic of that disorder of natural society commonly called Monopolistic Capitalism. To deny the necessity of individual rights is characteristic of modern Communism.

The exercise of both common and individual rights in land is essential to a society based on justice. But the rights of individuals in natural resources are limited by the just rights of the community. Those who begin by denying the existence of common rights in land end by creating a condition of society wherein the exercise of individual rights becomes impossible for the great mass of the people.

—EXCERPTS FROM DECLARATION BY THE INTERNATIONAL UNION FOR LAND VALUE TAXATION AND FREE TRADE MEETING AT SWANWICK, DERBYSHIRE, ENGLAND

WE HAVE touched on the question of land and the landowner in connection with other questions, but taxation of real estate justifies a chapter by itself. Land is the primary factor in production but only because labor and capital are powerless without it, for the landowner *as such* is not a producer.

Too often economists overlook the vital part played by land and the fact that it differs radically from the other two factors in production, labor and capital. The land—the earth as the Creator made it—is totally different from everything else; and, although the source of all wealth, it is not in itself wealth. These points are frequently not understood even by some in high academic circles, and, in two widely-used textbooks on economics, neither rent nor land appears even in the index. We recall the limerick of Professor Harry Gunnison Brown:

A college economist planned
To live without access to land
And would have succeeded
But found that he needed
Food, clothing, and some place to stand.

In everyday language we speak of "real estate," an unfortunate expression, for it includes two radically different elements, land, and improvements such as buildings, growing crops, orchards set out, wells dug, mines developed, and the like. These latter are true capital. They are the product of man's labor on the earth, and they have exchange value; and, since they generally yield a long-time return which is interest, they are capital. The expression "real estate" should have little place in economic reasoning, for it embraces these two contrasting elements, which react entirely differently to economic forces, and Roger Bacon was right when he said, some seven hundred years ago: "The mixture of those things by speech which are by nature divided is the mother of all error." We might as well bracket together in thought and discussion, say, music and locomotives! Note a few of the sharp differences between land and the improvements made upon it.

The land, with its natural attributes, is a gift of the Creator: the building is erected by human labor.

The land is rigidly limited in area and is fixed in position. What we mean by land is often primarily space and location, but we can erect buildings till the end of time, granting that we have the necessary land and the willingness to labor.

The value of land—the fact that it commands a price—is a product of social life, originating in increasing numbers seeking a share in a common heritage, the services of government and the general progress of society. The value of the building, of the orchard which we set out, or of the mine which we open up, is the product of labor, and its cost is measured in labor and drudgery. Robert Louis Stevenson well said: “The cost of a thing is the amount of what I call life which is required to be exchanged for it the price is paid in labor.”

Nearly every piece of land is in a sense unique, differing from all others in natural attributes, location, exposure, climate or in a hundred ways, and, in economic language, land includes all these qualities, including sunshine and even the intangibles of space and location. One definition of land—and not a bad one—is that it includes all the physical universe about us except man himself. It includes natural hidden wealth, the oil deep in the ground, but not the mine which men excavate, or the wells they drill. It includes the wild, natural life of the primeval forests, but not the crops that we cultivate, the animals we raise, or the orchards we set out. In the case of “made land,” redeemed from the sea as in Holland, or swamps filled in and drained, we must first have the space, and that is land, and we must then improve it by our labor. These improvements are capital and earn interest and not rent. If a dam or a pier or a great building has a peculiar value because of location or natural advantages, that special value is an attribute of the site, but the value of what is achieved by man’s labor is capital.

Since land is limited and each piece unique, land is susceptible of a monopoly in a way quite different from the monopoly of man-made commodities, and, because of special and peculiar qualities, land responds to taxation in a way totally different from the ordinary articles of commerce, and must therefore be considered by itself.

Generally prices are fixed by costs in money, or in life and labor as Stevenson puts it. This is a general rule, but there is an exception. There are some things which cannot be produced today, and therefore there is no stabilizing factor of supply, increasing or shrinking according to demand. How is it with such things as rare postage stamps, a treasured autograph, a real antique, or an “old master”? Such things are priced solely on the basis of rarity and men’s desire for them, with no reference whatever to production costs. If you buy a folio Shakespeare, the very rare autograph of the “signer” Gwinnett, which sold

recently for thirty thousand dollars, or an Eliot Bible, you are not paying for paper and ink; and if you buy a Rembrandt painting, what you pay has no relation to prices of canvas and paint. The price of ordinary commodities on the market is fixed by supply and demand; but, in the case of these rarities, supply is rigidly fixed: demand is the only variable and that alone determines price.

Ordinarily, taxes on commodities, or on their production, are a part of costs and must be covered in price. Otherwise, the producer will be out of pocket and will quit, until demand and production are again balanced, and production can be profitably resumed. Therefore, most taxes are passed on to the consumer in higher prices and finally re-collected from him. They are, of course, inflationary. In the case of such rarities as we have mentioned, and in the case of almost everything which cannot be produced today, it is very different. The seller charges all he can get. He can't hold up prices by shutting down his factory and stopping production, and he can get no more if these rarities are taxed than if untaxed; so *a tax levied on them will not increase the price*. Quite the contrary: with no elasticity of production and supply, to keep things in balance, a tax on such things tends to depress rather than increase the price.

To illustrate the workings of this principle—and it is most important—consider a tax on books. What you pay for such a book as this will cover all costs of production, we hope! If it does not, the publishers will be first out of pocket and then out of business. The price finally paid must cover *all* costs, labor, paper, ink, binding, sales costs, *and taxes*, and it must cover all these components from the very start—from the time the trees are felled in the forest to make the paper, and metals mined and smelted to make the type—and it must cover every tax levied all along the line, and there are literally hundreds of them, and a proportionate share of all of them must be paid by each buyer.

In the case of the rare first edition, it is very different for *production costs are no factor*. If the book, or its ownership, must bear a tax, it becomes less desirable; and, should such books be taxed heavily enough, no one would want to own them. If the tax became prohibitive, all such rarities would find their way either into the trash heap or into tax-exempt public libraries or museums, and the actual market price of these things would shrink enormously, perhaps to zero.

This principle has very vital application in the case of the taxation of what we call real estate. The land, being limited, when taxed commands no great price; in fact, taxation of land, other things being equal, which they generally are not, will probably mean a lower sales price, just as in the case of the rare book. However, the tax on buildings increases their costs, for men will not erect them unless they can get, either at sale or in "rent" (although it is really interest), enough to reimburse them for all costs *including taxes*.

Understanding this, we can see why a tax on the building, or on comparable improvements, must be re-collected from the tenant in what we call his rent, whereas a tax on the site does not increase the charge to the tenant but comes out of the pocket of the landlord finally and positively. It is just as it was with the book. If he cannot reimburse himself for the tax on the building, he will cease to build and perhaps even tear down

FROM SPEECHES OF THE RT. HON. WINSTON CHURCHILL,
PRIME MINISTER OF ENGLAND

Some years ago in London there was a toll-bar on a bridge across the Thames, and all the working people who lived on the south side of the river had to pay a daily toll for going and returning from their work. The spectacle of these poor people thus mulcted of so large a proportion of their earnings appealed to the public conscience, an agitation was set on foot, municipal authorities were roused, and at the cost of the ratepayers the bridge was freed and toll removed. All those people who used the bridge were saved 6d. a week. Within a very short period from that time the rents on the south side of the river were found to have advanced by about 6d. a week, or the amount of the toll which had been remitted.

And a friend of mine was telling me the other day that, in the parish of Southwark, about 350 pounds a year, roughly speaking, was given away in doles of bread by charitable people in connection with one of the churches, and, as a consequence of this, the competition for small houses, but more particularly for single-roomed tenements, is, we are told, so great that rents are considerably higher than in the neighboring district.

All goes back to the land, and the landowner, who, in many cases, in most cases, is a worthy person utterly unconscious of the character of the methods by which he is enriched, is enabled with resistless strength to absorb to himself a share of almost every public and every private benefit, however important or however pitiful those benefits may be.

to cut the tax bill, but for the use of land he is already charging all that he can get, and the tenant will pay no more whatever may be the taxes.

This may not be clear at first, but think it over and you will accept it, as do practically all economists. The principle is well illustrated in a very practical way by the renting of space in parking lots. The owner charges all the traffic will bear, and this is determined by congestion in the streets, parking regulations, the number of cars, location, and a hundred considerations, but not by taxes on the lot, and, if these are increased, the charge cannot be correspondingly raised, for it is already "all the traffic will bear." The owner of the lot has the choice of three courses. He may be content with his diminished returns, or he may build upon it, or sell.

These differences in the nature of what the tenant pays, for the use of the house and for the use of the land on which it stands, explain the expression "economic rent" or "ground rent," by which is meant what is paid for the use of the site, excluding what is paid for occupancy of the building. Strictly speaking, only this ground rent is true rent, for the earnings of a building, which is capital, are interest.

It is evident that taxes levied on site and on building have very different effects, and this is one reason why it is folly to bracket the two elements together in the expression "real estate." Yet we do it constantly; and, in most of our cities, what we call real estate taxes are the major source of revenue, levied in ignorance of this important principle.

In recent years there has been some growth in understanding of the significance of these two elements, and we generally have, in the cities at least, a separate assessment of site values and of improvement values. However, we commonly tax them both at the same rate and in the same way, although in some states and in some cities they are beginning to see the wisdom of discrimination. It is sometimes argued that whether we tax the site or the building, the landlord must re-collect the entire tax bill from the tenant, but this simply is not true. Since the tax on the building is passed on to the tenant, it is directly inflationary and increases his "rent" bill, whereas the tax on the site rather than the house has no such effect. Therefore, it is to the common interest to tax the site rather than the house, for this will mean lower "rents." It is wisdom, particularly in cities, to levy the entire tax, which we call a real estate tax, upon land values alone, freeing the buildings entirely.

Such a change would practically amount to the collection of ground rent for the support of government and would make possible the abolition of true taxation in very large part, for the collection of ground rent is a very different thing from a tax. The argument for the change is that this ground rent, in theory, really belongs to the community and should be returned to the people through the services of government. When any such proposal as this is made, we immediately hear a hullabaloo about confiscating land, robbing the landlord, and socializing the land, but these expressions show failure to grasp the proposal and its significance. With this collection of ground rent would go the untaxing of all improvements on the land, the house you build, the mine you develop, the well you drill, the orchard you plant. These things would be tax free, and justly so, for they are the product of individual labor. On the contrary, the fact that land will command rent is due entirely to society at large, the pressure of population, the growth of numbers, the services of government, and the advance of civilization, and therefore may be taken with perfect justice. It is not truly a tax, for a tax is an arbitrary exaction for the support of government: *it is payment for services and benefits conferred by all the people.*

Since all wealth comes from the land, whatever is taken for the support of government must be raised by a levy either on land values—and that is ground rent—or a levy on what is done with or to the land, the buildings erected, grading and excavating, the crops and trees planted. The landowner simply cannot escape, and *he will fare far better if the ground rent is taken by the state than if he is taxed on the use to which he puts the land.* Were the entire ground rent taken *in lieu of taxes*, it would reduce the sales price of land, possibly almost wipe it out, but it would increase tremendously the use-value of land, the benefit which results from ownership, tenure, occupation and use. Therefore, the landowner, if a land-user, would gain far more than he would lose. This argument we will elaborate a little further, as we go on.

Look at it in another light. The building, the orchard, or field crop planted, the shrubbery around the house, the well dug or the mine discovered, opened up and developed—these things are all the product of individual personal life and labor, paid for by human effort either mental or physical. By every standard of right and fair play they belong to the man who produced them, by toil of either brawn or brain. It is therefore unjust to deprive him of their value, in whole or in part, through

taxation. Such confiscation can be excused only under the gravest conditions when the welfare, or perhaps the very existence of all, demands the sacrifice not only of property but of life itself.

But government must be supported, although not such excessive government as we have today, often transgressing constitutional warrant and costing ruinously. However, even reasonable government, assuring protection and supplying the conveniences of civilized living, costs plenty and must be provided. If we are not to confiscate the products of personal labor, in part or in whole, how shall we finance it? The answer is simple: collect ground rents, a fair and reasonable payment for whatever share of our common patrimony from the Creator we hold for private benefit and advantage. Applying this to our common needs, through that great cooperative, mutual enterprise which we call government, it will be returned in service to all.

Remember too that the *value* of land, which is the origin of true rent, is the product of society, government and the common life, and the only way we can free what is justly private property from the confiscation which we call taxation, is to collect for common use, this income created by all.

When any such proposal is advanced, we immediately hear two cries: it is the doctrine of Henry George, or it is the "single tax," but the wise student will not be prejudiced by any tag or label but will weigh each proposition on its merits and determine its wisdom or its folly accordingly. The proposal is consistent with the teaching of Henry George, often described as the "single tax," but the proposition to collect ground rent, instead of levying taxes on use and improvements, is no more the fullness of George's philosophy, or the "single tax," than moderation in the use of alcoholic beverages is prohibition.

To George's basic thesis we give allegiance, but he did use some unfortunate expressions, and made some serious slips. He talked about "making land common property" and "destroying property in land," but taking these phrases out of context gives as false an impression as does the quotation by the atheist of a phrase, which he said proves that the Bible taught atheism, quoting, "The fool hath said in his heart there is no God," but leaving out the first part of the sentence!

The program of George is sometimes confused in the public mind with proposals to nationalize land, which means taking it, by seizure or by purchase, and then redistributing it to all the people, or letting the government become the universal landlord leasing it out. Any such proposal is folly. Seizure is frequently

advocated as an answer to the land problem, especially in other countries of which we know nothing and where our own interests are not at stake. There could be no greater mistake, and there is no element that the writer knows, more opposed to any such idea than those who understand the teaching of Henry George. George himself says: "I have never advocated the taking of land by the state or the holding of land by the state."

The program of seizure has been frequently advocated in Italy, Egypt, Mexico, Japan, Korea, and in many other lands, but the writer has seen its baneful influence in one or two places, notably in Mexico, where seizing the huge plantations and dividing them among the peons, who formerly worked them, has brought disaster. Many of these lands, notably in the State of Vera Cruz, are adapted to peculiar forms of agriculture, such as the growing of sugar cane and of cordage crops, and these things must be grown on a big scale to be profitable.

Were the Georgist program in force in these districts, it would result in a vastly increased public revenue, for the ground rent on some of this very fertile land would be tremendous; and, with the relief of a heavy tax burden, there would be a great increase in the growing of these crops. The expensive machinery would all be tax free, higher wages would be paid the peons who do the work, and there would be greater profits for everyone. As it is, under a plan of seizure, they have virtually killed the growing of these highly profitable crops, and many peons are now practicing on their individual holdings small scale farming operations, often far from profitable.

There are some minor fallacies in George's teachings. We question his stand on some money questions and repudiate his plea for the socialization of public ownership of the utilities. George also maintained that progress acts like a wedge, lifting the more fortunate to a higher standard of living and forcing the poor lower and lower. This we question. It may sometimes act that way, but it seems that today the tendency is to despoil the prosperous and well-to-do and to enrich the poor, the thriftless, and the lazy. His proposal is generally known as the "single tax," because George, perhaps injudiciously, suggested that all taxation other than collection of ground rent should be abolished; but the phrase, the "single tax," has been dropped by many who are most familiar with George and his teachings. The writer, however, does believe that the transfer of the burden of taxation—if we so like to call it—would accomplish a great deal; and, coupled with a return to constitutional limitations on the powers

of the federal government, would make most of our taxes unnecessary. It is the first and most necessary step in tax reform, and essential to the abandonment of our present Marxian idea of taxation "according to ability to pay."

QUESTIONS

What are the two constituents of real estate? Are buildings and sites different: (1) in origin, (2) in the factors giving them sales value, (3) in capability of expansion, (4) in lending themselves to a "monopoly" ownership which cannot be broken by increased production?

Do you believe that the earth and its natural attributes were created for the benefit of one group or class so that they may exploit the dispossessed?

Is it necessary to respect titles and tenure of land, in order to protect the worker in values which he creates by building, grading, digging, planting, etc.?

Could the exploitation of those who have no ownership in the earth be compensated for justly by collecting all ground rents, and returning them to all the people in the services of government, granting corresponding decrease in taxes on labor and its products?

Why is a tax on buildings "passed on" and re-collected from the tenants?

Why is not the tax on sites "passed on" and re-collected from tenants?