Antioch April 14, 1967

Dear Arthur:

I have again reviewed the equations along the lines you suggested Tuesday and I am heartbroken to have to say that they still seem to me to have the same defect: you are building your conclusion into your premise.

You do it when you say: "By definition $E = E_B + tC_B$".

For $E = E_B + tC_B$ is what you are trying to demonstrate: (that rent in the absence of taxes on improvements and personalty will equal present rent plus the amount of the remitted taxes.)

We know this to be so for taxes on land values, because taxes on land values cannot be passed on. You and I suspect it to be so for taxes on improvements despite the fact that these taxes are (or even to the extent that they are) passed on.

But how do we prove it? Not, unfortunately, by merely assuming it!

As I've told you, I think Zangerle had this idea also. (He may have expressed it as "all taxes ultimately come out of rent.") You might want to see how he developed this, if you have access to his book.

If you don't, I do (in Chicago), though I don't think I can borrow it. But I can study it and I will be glad to do this for you if you wish. I have tentatively reserved it for Monday. If you want me to do this, give me a call in time.

I hope your visit to Austin was all the success we both anticipated.

Sincerely,

Weld S. Carter

Dr. Arthur P. Becker
~~XXXX Bolton Hall~~ 2612 East Kenwood Blvd.
~~The University of Wisconsin-Milwaukee~~
Milwaukee 53211

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SPECIAL DELIVERY

125 Oakwood Drive
Antioch, Illinois 60002
April 9, 1967

Dear Arthur:

I have proceeded with great care up to Equation 18 on p. A-10.

There are a few details that I will quibble about with you some day, but which I'll pass here, to get at most important things first.

P. A-5 formula 7 is wrong: $F-F_L$ is positive; $-t_LF_L$ is negative.
$F-F_L = \frac{E}{i} - \frac{E}{t_L+i} = \frac{t_LE}{(ti+i)i}$ ✓ and the following

equation should be $\frac{t_LF_L}{E} = \frac{t_LF_L}{F_L(t_L+i)}$ (not -), I think (you so have it in #15 on p. A-9

P. A-6 I believe these tables hold equally for F_L, F_R and C_L. ✓

P. A-8 Same error in 14 as in 7 (above). ✓

P. A-9 Equation #17 is not derived from anything preceding in this algebraic development; it is what you are settin out to prove. So you may not use it in the subsequent development until you prove it.

At the bottom of the page you say "Then we add the savings by not paying real estate taxes on improvements and personal property to the net income of land and get the capital value of land." How do you know this? We say that taxes on improvements raise prices of improvements by adding to costs and checking supply. Suppose the removal of these taxes simply results in lower prices of improvements by increasing supply?

P. A-10 Then you simply write this foregoing assumption into equation 18. From this point on your development seems to depend on equations 17 and 18, neither of which is proven, but merely assumed. If 17 and 18 are so, then the conclusions follow. But first you must prove them algebraically, or you are guilty of petitio principii.

I believe in the conclusion you are trying to reach, but I want to spare you embarrassment by pointing out that you do not, to me, a most sympathetic reader, prove this.

Let me hear from you, please, promptly, and I will go back at it as soon as you clear this point for me.

Sincerely,

Weld S. Carter

File
Hal
Office

2 letters

Sample

to APB
J.L.M.

cent (5 per cent interest and 1.25 per cent tax rate) equals $12,000. In the other case of an assumed tax rate of 5 per cent, if the property is assessed on a 50 per cent basis, we would have a formula of $750 divided by 7.5 per cent (5 per cent interest and 2.5 per cent "real" tax rate) equals a capital value of $10,000. It will be thus apparent that the capital value depends upon the market rate of money, on the tax rate, on the tax assessment and an assumption of the status quo as to economic conditions and the existing taxable status of all other forms of property.

It is frequently urged that a tax on personal property benefits land owners in general. Whether a spreading of the tax burden on a merchant's stock of merchandise will benefit his landlord is doubtful. As the merchant is required to pay more taxes on his personal property, he is less able to realize a profit and therefore the landlord may secure less. Hence the land becomes worthless, by the imposition of personal property taxes on the merchant or manufacturer. It is equally true if the entire tax is laid on the land that it becomes worth less, all other things being equal. All of which seems to indicate that a tax of any kind finally affects land values.

From the foregoing it is evident to what extent land values are now nationalized. With the tax rate nearly $3.00 per $100 of assessment as in New York City, with profits tending towards 6 per cent for the landlord, we would have the state a full one-third partner. That is to say, the state gets one-third and the owner two-thirds of the profits, except that the gains and losses incident to rising or falling of prices go to the landlord subject only to the national income tax on increments.

So long as the state taxes the capital value, regardless of tax rate, there will remain a capital value. For, as the capital value results from a capitalization of the profit remaining after deducting taxes, a capital value will always ensue unless the entire rent is taken.

Single taxers of California recently recognized that speculation would always ensue so long as the state would not absorb the entire rent. Hence they proposed an amendment to the state's constitution, not to tax land at a different rate from other

umphed over socialism so far as the land is concerned. The man who owns land wants to feel that he has no superior over him. He recognizes that he has to pay taxes and does not complain about that; nor does he generally complain because they are working toward a limitation of holding—400 acres as a maximum holding of the best land. But he does want to know that whatever land he has is his.' "

The foregoing sets forth the political difficulties if the economic rent is entirely absorbed and taken by the state, which our most prominent single taxers contend for as the principal and ideal purpose of their propaganda.

It is not so certain, however, that the entire economic rent would be taken so far as the present tax burden in the United States is concerned. It must be remembered that land enjoys all social, economic and political benefits. It is the barometer of civilization. If this country has continued peace, land value increases and becomes stabilized. Indeed only enduring and permanent income may be capitalized. When society is well organized into self-sufficient and contented units, the ownership of land enjoys higher values. When economies are effected in government, when the country enjoys cheap transportation, cheap gas, cheap electricity, proximity to markets, better police, fire protection, cheap telephone and telegraph systems, in short, when there is greater economy and efficiency in public as well as in private life—this will all tend to increase land values.

John B. Sharpe in his "The New Political Economy" sets forth this principle in the following:

> "I would have you see also, that all those efforts for social amelioration, so excellent in themselves, such as the promotion of temperance, the purification of politics, greater efficiency in moral and religious instruction, the heightening of the civic sense and the political judgment, every aspiration indeed for what is high and better, every impulse towards what is good and noble that finds organized expression in society, serves but to increase the rental value of land without increasing the wages of labor. Imagine if you please, a community in which all the citizens were honest, temperate and industrious; in which vice and indolence and immorality were no longer to be found! Would it not be deemed a most desirable place to live, and would not many persons eagerly seek homes in such a community in order that they might enjoy the peace and security and all the good influences that would abound? But what would be the economic effect of all this? Is it not clear that it would find expression in increased rent, that those who owned the land in such a community would charge a premium for the use of it? Manifestly they would. And since this increased price would have to be paid by the laborer out of his earnings, it becomes apparent that the economic effect of such reforms is not to increase wages, lighten toil and mitigate want, but to increase the value of land."

Professor Richard T. Ely says in his "Costs and Income in Land Utilization:"

> "It was long ago observed by Cicero that peace and tranquility increases the selling value of land. . . . The moral character of the population is seen in thrift, self-control, foresight, also in land values. . . . Increasing wealth though it may not increase the demand for land, may add to the selling value of land, other things being equal, because it makes the waiting for future incomes easier.

So the benefits of a better and cheaper taxation system would undoubtedly result in higher benefits and rewards in the use of land. Present economic rents would therefore increase rather than diminish. It is easily understood that communities realizing, say one-third of their taxes from land, one-third from buildings and one-third from personal property, would under single tax enjoy in the use of land a greater benefit with the last two tax burdens lifted. These other taxes would be capitalized into greater land values. Likewise the national import, income and internal revenues and consumption taxes—immunity therefrom would involve relief, immediately increasing the value of the residuary legatee, namely, land values. This would mean increased rents to be paid by the user. Only thus in greater economic, commercial and industrial activity could be expected an off-set to the effacing of present land values, now low because industry and capital is hampered by exhausting tax burdens. Where the burden is now greatest, land values are most depressed. The

release of such industry and capital in localities where the burden is now greatest would involve the greatest increase of land values. In the battle of higher rates versus greater economic benefits, land values might still be sufficient to retain their present expression of value, the capital value. Any absorption of the economic rent short of entire confiscation would still result in speculation of land ownership. If no value is left, if the entire economic rent is absorbed, the administration of the resultant tax system based on rentals which the merchant or home owner "could afford to pay" would be fraught with dire and devastating consequences, comparable only with the late Russian socialistic debacle.

Try a formula, for example. Let it be assumed that the economic rent of a tract of land today is $750. The tax rate is $2.50 per $100 and the market rate of money is 5 per cent and the assessment at 100 per cent. It has been shown elsewhere herein that under existing economic conditions the value would be $10,000. The formula would be—$750 is 7.5 per cent of what number? Let us also assume that there is raised in the community from the building on the premises $750 in taxes and from the merchant on his stock of goods also $750 and from the latter two a national tax of $2250. Now as this $3750 tax ($1500 local and $2250 national) is released, the land ownership would profit and land values increase. How much, nobody knows. If, however, the $3750 would inure to the benefit of land ownership only to the extent of 50 per cent of the released tax, a capitalization of the economic rent at 5 per cent would result in a largely increased value. To the former economic rent of $750, add $1875 (½ of $1500 local tax and $2250 federal tax) making $2325 economic rent. The formula then would be $2325 divided by 20 per cent (5 per cent interest and 15 per cent tax rate) equals $11,625. In other words, the land has not depreciated, if economic rent appreciates by one-half of the liberated tax. If it will appreciate by only one-quarter of the liberated tax, a capital value of $8435 will still remain. It is highly probable that the capital value would increase by more than the liberated tax.

While the above illustrations are applied to a single parcel, the proportion of various taxes will hold true to the combined

values of a city, where the rates are approximately proportionate. It will make a greater or less difference to property highly or poorly improved as between owners. The more highly a property is improved, the greater it would profit. In the case of vacant land, it is believed that it would soon be improved at least by a "taxpayer" as a $15 tax rate on $100 of assessment would soon eat up the capital value. There would thus be two major and counteracting movements, a higher tax rate consuming the capital value and, on the other hand, better economic conditions tending towards increased rentals, resulting in higher capital values.

As to residential property, it probably would become a drug on the market. Vacant land paying $15 per $100 of assessed value would soon eat itself up, so that large quantities of such land would be thrown upon the market. Only that in use would pay rent. It is possible that the effect of such large quantities of vacant land would so reduce the value of adjacent or business property as to reduce the capital value of the property much below the estimates noted.

The above presentation of single tax administrative conditions may be somewhat crude. It is subject to certain modifications as to whether it applies to a locality only or whether the tax is state-wide or nation-wide; whether there is free trade with foreign countries; whether capital between nations is thoroughly liquid and whether immigration of labor is restricted.

The doctrine herein presented that all taxes tend to depress land values and conversely that a liberation therefrom will tend to increase them is not as novel as it appears. As early as 1692, the noted English philosopher, John Locke, wrote:

> "It is in vain, in a Country whose great fund is Land, to hope to lay the public charge of the government on anything else, there at last it will terminate. The merchant (do what you can) will not bear it; the laborer cannot, and therefore the land-owner must; and whether it were best to do it, by laying it directly where it will last settle, or by letting it come to him by the sinking of his rents, which when they are once fallen, every one knows are not easily raised again, let him consider."

In 1734 Jacob Vanderlint contended that the abolition of

existing taxes would inure to the land owner by increasing its value. He urged that:

> "Prices of commodities, when freed from taxation, either will remain the same or will fall. If they remain the same—assuming also that there has been no change in the money supply—the cost of production will decrease, because of the abolition of the tax on the producers. The difference between cost and price, however, is rent. Hence, the only result will be to increase the rent of the landowner. On the other hand, if the prices fall, demand will increase. But, since all commodities, in last resort, come from the land, this increased demand means higher rent. Thus, from either point of view, remission of taxes redounds to the welfare of the landlord. In other words, the burden of all taxes is on the land."
>
> Vanderlint accordingly proposed a single tax on land, as at once far cheaper and far better than the existing complicated and inconvenient taxes, which after all, in his opinion, finally fall on land.

The immediate effect of certain taxes is perfectly plain. It is plain that:

1—A tax on the farmer's product depresses the value of his farm;

2—A tax on the merchandise of merchants and the product of manufacturers depresses the value of the land occupied;

3—A tax on a mortgage depresses the value of lands;

4—A tax on money depresses land values in general;

5—A tax on a residence depresses the value of the site;

6—A tax on stocks and bonds depresses the value of the underlying securities;

7—A tax on public utilities affects the value of sites served by them.

But it is not so easy to observe the direct effect of a particular sales tax on real estate in general. And yet a tax on sales of a merchant, or obversely, on the expenditures of the buyer, raises the prices in general, reducing the consumer's purchasing power, sterilizes commerce and industry and thus reduces the rental paying power of the tenant, which rental paying

power is the barometer and controls the rental which a landlord may demand and which is capitalizable into land values.

There are many points of uncertainty and confusion in a field hitherto little developed. It is hoped that a stimulus will be offered for a wider and more intensive discussion of the economic and administrative effects of a single tax on land values.