

TAX REFORM IN URUGUAY

Remarkable Progress of the Movement in Parliament

There has already been printed in *LAND VALUES* (July, p. 62) a translation of the major part of the Presidential message to the Legislature of the Republic of Uruguay dealing with the reform of the tax system in the Department of Montevideo. We have now received a copy of a Blue Book published by the Minister of Finance containing the President's message, the details of the Bill, the reports of the Commission of the House of Representatives on Taxation, the Debates in the Lower House, and various subsidiary information, statistical and otherwise, to elucidate the effects of the proposed reform.

In South America, as in other parts of the world, the idea of social reform which was discovered and expressed most completely in the works of Henry George, had been adumbrated by independent writers of whom the most important was Andrés Lamas, who more than thirty years ago expressed similar ideas in his book on *THE AGRARIAN LEGISLATION OF RIVADAVIA*. The practical propaganda of work for the reform is, however, due more directly to the disciples of Henry George, of whom the most important is Dr. Felix Vitale, who published under the Greek pseudonym of "Zoydes" a work called *POVERTY AND DISCONTENT*, which gave a most brilliant exposition of the Taxation of Land Values. The volume also contained a translation of *THE CONDITION OF LABOUR*. In 1905 another book by Dr. Felix Vitale appeared called *THE NATIONAL PROBLEM*, and this year there has been published still another by the same author entitled *TOWARDS DEMOCRACY*. It should also be mentioned that Dr. Vitale translated *THE STORY OF MY DICTATORSHIP*. Another important work on the Taxation of Land Values is *THE LAND TAX AND TAX REFORM IN ENGLAND* by Dr. Herrera y Reissig, which appeared first as a series of articles in an important daily paper and was published in book form in 1913.

The first-fruits of this work of propaganda in Uruguay is now apparent in the documents we have before us. The proposed measure for the Taxation of Land Values contains provisions for the substitution of the present taxes on real estate in the Department of Montevideo by a tax on land values alone at the rate of 1 per cent. The Bill contains a familiar list of exemptions, provision for the making of the Valuation on scientific principles and its revision whenever necessary. The taxable value is to be 85 per cent. of the actual value, and the value of buildings is still to be estimated for statistical and other purposes.

The importance of this measure will be realised when it is remembered that the population of the Department of Montevideo is between 450,000 and 500,000, or rather more than one-third of the population of the Republic.

The Report of the Committee on Taxation is a most important document. The Committee point out in the first place that they visited the valuation offices "and there, in the presence of the vast and tedious work of classification, arrangement and valuation of the 10,000 hereditaments of Montevideo completely finished, they were able to be quite certain that everything in the taxation department was perfectly ready for the immediate carrying out of the reform without any kind of impediment." They next refer to the technical superiority of the land value tax, saying that "given the form in which the register of taxable property is kept,

and granting the equity of a tax on land value, the method of levying the tax, regarded in all its details, exhibits an almost ideal perfection on account of the simplicity, rapidity and facility with which all the operations can be carried out." The Committee then proceed to examine in detail (1) the justice, (2) the expediency, and (3) the probable effects on the national finances and economy of the proposed reform. This examination we can only briefly summarise.

Dealing first with the justice of the reform a passage from Leroy-Beaulieu's *Treatise on Finance* is quoted as typical of many other economists, and the Committee commenting on it say:—

"It is natural that to-day both Progressives and Conservatives should think thus, if they take into consideration that private property in land in its origin, in its character, in the evils which it produces, and the social problems whose solution it hinders, is essentially distinct from other kinds of riches. In its origin private property in land was evidently no more than an usurpation, which did not even find in its favour the theory of the first occupation nor of the exertion of labour which is the only justification of all capital."

Later on they say:—

"We have said that land is essentially different from other classes of riches. All capital in effect is consumed in its reproductive functions; it is like a mother who in giving life and breath to her children has to leave in them fragments of her own life. . . . On the other hand, the earth in itself has no value. A vast and fertile plain shut up in the centre of Africa can find no buyers at the lowest price. A small and unfertile plot in the centre of London or New York can be sold for a fortune and this accretion of value is absolutely independent of the will or the action of the owner who can do nothing by himself to create it."

The Committee point to the enormous outlay and exertion which have been made in order to facilitate commerce and to make life sweet and agreeable, and they ask:—

"Whence have come the revenues expended to realise this magnificent work of progress, the fruit of enormous social effort? The revenues, it must be said, come as they have always come from the shoulders of the people who work and produce, in the accustomed form of indirect taxes, tariffs, &c., and a very much smaller portion from the direct taxes. Has it flowed back to those who ought to benefit? No, unfortunately it has not, because of an evil and unscientific distribution of the burden. It is certain that salaries have risen a little and the wages of ordinary workmen a little less in proportion, but they have not risen sufficiently to compensate for the general rise in prices. . . . Land values raised to the most irrational limits by unrestrained speculation which withdraws from circulation large quantities of capital without causing them to be expended on reproductive works such as building and cultivation, have had the logical result of raising rents to an enormous extent, and, apart from other important factors, have been of the first importance in causing the great increase in the cost of living which has afflicted the Republic."

Summing up this part of the argument the Committee say:—

"The injustice of the present system of taxation is very obvious. It penalises capital which makes improvements, which carries out works, which erects mansions, which beautifies the city, which employs labour and stimulates production and fertilises the

earth. On the other hand it is kind to unproductive lands, giving a premium to the idle and privileged class which keeps the earth uncultivated hoping for the value which accrues from the efforts of all, which is of advantage to itself alone and to the prejudice of all.

In order to redress these great injustices and to open the way for the solution of national problems still unsolved it is happily not necessary to disturb the social order, to ignore the rights of any class, or to expropriate the earth which will continue as private property under all the guarantees which our laws accord. It is sufficient to carry out that which science and experience counsel; it is sufficient to take for the state in the form of a tax on the value of land, and that in a very moderate form, part of that value which is social in character, raising the tax on real estate, which now falls on the land and the improvements, from the land alone."

Coming now to the expediency of the reform the Committee say:—

"In regard to our country not only can it be said that it is sufficiently prepared owing to the valuation of real property which has been made and owing to the economic forces at work, but that it is particularly well prepared and, to use a very expressive phrase, that it is really 'ripe' for the reform."

Dealing with the effects of the reform the Committee say:—

"Science as well as experience allows us to perceive this as absolute truth: the tax on land values cannot possibly be shifted, and not only can it not be shifted but it is practically the only tax which always and in every case falls directly on the taxpayer and is never shifted in any case on to the consumer or to the rest of the population."

After outlining very clearly the general effects of the tax the Committee go on to point out its effect on the great estates:—

"But the land tax has still greater advantages since it will strike at the heart of the great estates which are at all times an evil, but particularly in modern times, and which are in this country a disgrace that up till now was almost irreparable. . . . It is elementary that a tax which falls with the same severity on uncultivated land as on cultivated land (i.e. on the value of the land and not on the improvements made by cultivation, on the olive trees or on the vines) will produce this result: in the first place it will compel the proprietors of vacant lands to cultivate them or to allow others to cultivate them, which will produce an appreciable increase in the amount of land on offer and a decrease in the rents which the farmer will pay; the sub-division of the great estates will bring large extensions of cultivation and as a consequence, of production, with a consequent reduction in the cost of living and a general increase of wealth which will not wholly go this time into the insatiable strong-boxes of the landlords."

The Report of the Committee concludes with a comparative summary of the two systems which expresses in concise and epigrammatic language the difference between the system of taxing improvements and the system of taxing land values; and although recommending certain modifications in the Bill the Committee gives the principle of taxing land values only its most hearty and unanimous support.

The modifications in the Bill suggested by the Committee and adopted by the Minister of Finance are two.

(1) On all properties within the Department of Montevideo but outside certain specified boundaries of the City of Montevideo, the owners may secure the repayment of the difference between the tax on the land value at the new rate of 10 per 1000 and the tax on the total value at the old rate of 6½ per 1000 provided that the land is actually being developed up to a certain specified standard. (2) Plots of not more than 500 square metres which are being bought on instalments by workers who possess no other property will pay at the rate of 10 per 1000, but the difference of 3½ per 1000 above the old rate will be cancelled so long as they are not built on, owing to the price not having been completely paid up.

We do not know that in any part of the world there has been an official report so strongly endorsing the Taxation of Land Values as this one, unless it be the Report of our own Select Committee of the House of Commons on the Land Values (Scotland) Bill. Considerations of space prevent us from dealing with the rest of this Blue Book, except to say that the defence of his proposals by the Minister of Finance, Sr. Pedro Cosío, in the debates in the Chamber of Deputies on three separate days, was masterly and shows a complete understanding of the question in all its bearings.

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SIGNS OF PROGRESS IN THE STATES

The Democratic State Convention of Washington, on July 18th, declared for the Recall of Judges and for making efficient the present Initiative and Referendum provision. It also declares for "The immediate survey and taxation of the millions of acres of unsurveyed lands now in this state in the hands of great corporations and others." It further denounces the present tax system as antiquated and demands a change that "will empower the people to enact a revenue system that will be in harmony with changed economic conditions."—THE SQUARE DEAL, Toronto.

Fine idea, that of British Columbia, to confiscate the lands of German capitalists and farm them out to German refugees and prisoners who may be able to reach them—upon terms of settlement and citizenship. It will be interesting to note if the seed will German-ate.—THE STAR, San Francisco.

Earth gets its price for what earth gives us:

The beggar is taxed for a corner to die in,

The priest has his fee who comes and shrives us,

We bargain for the graves we lie in;

At the devil's booth are all things sold,

Each ounce of dross costs its ounce of gold.

—JAMES RUSSELL LOWELL