

ANTICIPATING THE UNEARNED INCREMENT: REMEDIES.

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THE business man in a newly settled country is naturally speculative by reason of the rapidly changing values all around him.¹ In proportion as he foresees these changes and takes advantage of them, he accumulates wealth. According to the nature of his business and his station in life, it may be assumed that he owns more or less real estate in the city of his residence. The prospects are more or less certain that the rapid increase of population in this city will cause his lots to double in value within a brief term of years. He therefore, in assessing their value to him, puts a prospective value upon them, instead of the present value for use.

All the other business men — we are now leaving the professional real-estate speculators out of account — are influenced by the same consideration, which is perfectly natural. For use, Robinson's lots may not be worth more than \$600 to-day, but why should he limit their value to that figure when he may be able to sell them for \$1,200 next year?

The result is that real estate as a whole, in any rapidly growing town, at a given time, is uniformly held at prices far in advance of its value for use; and this proposition is true of Eastern as well as of Western cities, although to a less extent, inasmuch as the speculative element in business is not so prominent in the East. Transactions in real estate in a growing city are therefore unavoidably more or less speculative. A shrewd purchaser may readily pay twice the use value, if he believes in the probability of being able to sell for three times the use value within a year.

¹ The speculative element in American business particularly impressed Mr. Bryce. In his chapter on Wall Street, he says: "There is, even in the eastern cities, where the value of land might be thought to have become stable, a real estate market in which land and houses are dealt in as a matter for pure speculation, with no intention except of holding for a rise within the next few hours or days; while in the new West the price of lands, especially near cities, undergoes fluctuations greater than those of the most unstable stocks in the London market."—"American Commonwealth," Part VI, cap. C.

Now, we will suppose that a purchaser appears who wants a lot for use, which means that he intends to build a house or a block or a factory on his lot, and is not buying simply "for the rise." Nevertheless, he must pay the speculative price instead of the use value, and this is a heavy additional tax on his enterprise at the start. He can recoup himself only by charging higher rents or higher prices for what he sells or produces.

Tenants pay rent according to advantage of situation. Other things being equal, a storekeeper might be willing to pay twice the rent for a certain corner in a city of twenty thousand people that he would for the corresponding corner in a city of ten thousand, since he might reasonably count on twice the business. But if he finds that rents in the ten-thousand city are already on the twenty-thousand basis, he must get even by charging up the extortionate rent to his customers in higher prices and inferior goods, and he will be able to do this because all the other storekeepers are in the same relative situation and avail themselves of the same alternative.

If we stop to analyze this fictitious element in rents in growing towns, we shall find that in many cases it exceeds the total amount of municipal, state, and national taxes, and that, like most indirect taxes, it bears most heavily on those who are the least able to bear it, the laboring and producing classes. It drives into tenement-house squalor myriads of wage-workers who under the proper working of our present economic forces, at the same wage they now receive, might enjoy decent homes. It lowers enormously the possible standard of comfort for all city-dwellers, except the favored few who are its beneficiaries; and in so far as it attacks the general well-being of the mass, it attacks their independence and usefulness as citizens. Remember that we are considering now, not simply the question of giving city land monopolists the "unearned increment" which they are to-day in a position to exact, but the question of allowing them to abuse their opportunity so far as to extort from us to-day the unearned increment which is not due until ten years from now. This is exactly what the craft and cunning of real-

estate speculation in all our growing cities is contriving,— to discount and pocket the unearned increment as far ahead as possible.

I once lived in a rather attractive Western city of seven or eight thousand people. Several years before my arrival the place had been “boomed.” This boom, which lasted for about a year, marked prices of real estate up to a point from which they never afterwards receded to reasonable figures, although it was on the whole a “light case” of boom, not characterized by the virulence with which the craze often attacks small Western cities. Ever since the boom year business had been comparatively dull; still the city continued to grow steadily, just as it had done before the boom folly disturbed the even tenor of its way. But real estate has not, to this day, experienced any further increase in price, since the natural increase for many years to come had been anticipated by the boom.

Some six years after the boom in question I had occasion to inquire the price of a small cottage which was for sale, situated about a mile from the business centre of the town. If the town had really been built up over the whole area within a mile from its business centre, it would have contained something like seventy thousand people, but at least nine-tenths of the land within this area was vacant, and likely to remain vacant for years. The price of the cottage and lot was \$1,500, which was considered cheap. It was the sort of dwelling that would come within the means of a mechanic or clerk with an income of from \$700 to \$1,000. The agent admitted that the little five-roomed house and accessories could not have cost more than \$1,100, which left a supposed value for the lot of \$400, or at least ten times its value for any legitimate use at that distance from the centre of the town. This was also about the price, as I ascertained, of vacant lots, similarly situated, in that vicinity. Now, it is calculated that a landlord in this city, where interest rates are high, may reasonably demand every year fifteen per cent of his property investment in the form of rent, in order to recoup himself for his fixed charges of taxes, insurance, repairs, and depreciation. It may be urged that none of the fixed charges, ex-

cept taxes, properly fall upon the land alone. We will therefore admit that the landlord might be content with a return of eight per cent on his land investment in this case. On such a basis the perpetual annual charge on this \$400 lot to any tenant who occupied it would be \$32. At the risk of shocking my real-estate friends, I make the assertion that the use value of this lot is not now more than \$75, and that if all the city lots together were put up at auction it would not bring even that price. This means that there is \$325 of water in the valuation of the lot. An eight-per-cent annual charge on this water amounts to \$26, which is a pretty heavy tax for a wage-earner of moderate income to pay in order that a professional real-estate operator may skim the cream of the unearned increment and make a "good thing" out of an "addition." And it is none the less an extortion because it has probably never occurred to the tenant himself to complain of it. This particular form of exploiting the poor and middle classes is so universal that the average victim of high rent has never imagined any other possible system.

And it must be noted that the \$26 is by no means the end of the tax. For all the tradesmen who pay extortionate rent-tribute for the benefit of the unearned-increment anticipators, must charge our tenant higher prices for the necessities of life in order to make themselves even. Every time that he buys a bag of flour or a yard of calico, every time that he has a prescription filled for his sick child or replenishes his coal cellar, it is probable that he pays a further installment of this most subtle and insidious of all indirect taxes.

This explains why living in our American cities is so very much dearer than in the country. The expense of living ought not to be so much greater in centres of population, where production is specialized and distribution is effected with the least cost. Our western American comes east and is surprised at the cheapness of living in a stationary New-England town. The greater part of the cheapness arises from the fact that real-estate values are on a normal basis, since it is not expected that the town will grow appreciably larger, and there is therefore no inducement for unearned-increment anticipators to exploit the municipal site.

It is an experience common to humanity to be obliged to pay for the sins and errors of the past, but the denizens of our growing American cities must pay heavy penalties for presuming to live in them, on account of something which may happen in the future. It is not only that the unearned increment, which the people themselves have created by establishing a centre of population, goes into the pockets of speculators. If that were all, the case would not be so deplorable. But the speculators are not satisfied with taking possession of the unearned increment accruing from the present size of a town; they insist upon discounting the future, and greedily grasp at the unearned increment ten or twenty years ahead, — an increment, in fact, which may never materialize at all. Their efforts are crowned with success in a growing town, because the possession of land in a given place is a natural monopoly, and those who have it can hold up those who want it.

Suppose now that the man appears who wants it for use, — the capitalist who desires to erect a business block or an apartment-house. This is exactly the individual for whom the speculative bandits have been lying in wait. For such a purpose requires a particularly eligible site. The speculative element in the cost price of the site is therefore very prominent. How does the capitalist defend his pocket? The most approved expedient, in order to make the most of the forced investment of capital in a site, the valuation of which has been absurdly watered, is to erect a towering and unsightly edifice, as cheaply constructed as possible. There it stands, a monument of grotesque ugliness, with its mask of mongrel architecture fronting the street, and its huge slice of dreary brick wall, equally visible, bounding another side. The effect is very likely heightened by contrast with the adjacent half-block, occupied by one-story shanties because the owner holds it for a still higher price.

If private ownership of land, as its champions maintain, is defensible as a necessary condition of civilization up to a certain degree of development, then its right of continuance as an institution rests wholly on its continued usefulness to society, and wherever such usefulness is shown to have been

transformed into positive harm, there we may rightfully assume that the time has come for its abolition. There is no more certain indication that the institution of private ownership of land has outlived its usefulness in cities than the fact that it is associated more and more with tendencies which are distinctly reactionary as regards the social and economic welfare of city-dwellers.

Let us apply this test, for the sake of illustration, to a single one of these tendencies to which allusion has already been made.

A good many years ago Mr. Emerson asked: "Is not the selfish and even cruel aspect which belongs to our great mechanical works, to mills, railways, and machinery, the effect of the mercenary impulses which these works obey?" If Emerson were writing to-day he would include in his list of bad examples the "sky-scraping" apartment-houses which have sprung up like rank weeds in New York, Chicago, and St. Louis within the last decade. If the apartment-house as now constructed were indicative of any form of social amelioration, of any tendency to establish a true neighborhood or social unit among those who congregate under the same roof, — if it were leading the way, for instance, to co-operative housekeeping, — there would be some excuse for it. But it is not perceptibly associated with any such tendency. And does anyone suppose that, from actual economic necessity, dwelling-houses are built fifteen stories high in modern cities? On the contrary, this phase of urban development is the more anomalous when it is considered that the natural tendency of modern cities is to spread over a large area. It is no longer necessary, as in ancient and mediæval cities, that the houses of the residence quarters should be closely massed together in order to be included within walled protection from probable enemies. Furthermore, facilities of street transportation by cable and trolley, constantly improving in cheapness and convenience, together with the popularization of the bicycle as a means of locomotion, make it more practicable than ever before to reduce the density of city populations. Business men, clerks, mechanics, even day laborers, may reside several miles from their daily toil with positive advantage.

The construction of the Babel-tower office building, structurally of doubtful security, æsthetically an abomination, is equally anomalous and indefensible in a modern city. With such time- and distance-annihilators as the telephone, the district telegraph, the stock-ticker, the pneumatic tube; with all our latter-day devices for simplifying and accelerating the transaction of business, it is downright imbecility to assume that it is necessary to confine the business centre of a modern town to a single narrow quarter, and to concentrate and huddle that centre to such an unprecedented extreme that its streets become sunless cañons.

A modern city whose development had never been cramped or distorted by land speculation, would expand continuously and symmetrically from a central nucleus; it would not straggle here and there, with its site pock-marked in one place by a block of vacant and wholly unimproved ground, and pimpled in another by the monumental hideousness of a many-storied apartment-house. It would have wide streets, plenty of parks, or breathing-spaces, even in the poorest parts, with buildings nowhere so high as to prevent the admission of sunlight to the streets, or so thickly grouped as to be unwholesome for human habitation. Its citizens would no more permit a ragged skyline than our present city-dwellers permit deviation from a uniform street-line.

What, then, is to be the remedy? Shall we apply the Single Tax of Mr. Henry George to this festering evil of private appropriation of the unearned increment years before it falls due? Much is to be said in favor of the Single Tax on ground sites, as a basis of municipal tax reform. The abuses which are incident to the present systems of municipal taxation are so great, the gap between the use value and the speculative value of city land is so wide, and constitutes such a convenient breeding-ground for unequal and iniquitous assessments, that the experiment of the Single Tax could hardly result more scandalously than the actual working of the present system in such a city, for instance, as Chicago. It must, however, be admitted that the Single Tax would tend to perpetuate the dangerous power of assessors, and perhaps subject their virtue to even greater temptations than the present sys-

tem. With the corrupt conditions at present generally prevailing in our municipalities, it is not easy to see how an equitable imposition of the Single Tax on land is to be assured.

There is another alternative, which at first blush seems more radical than Mr. George's famous remedy, but which at least has the advantage of having been partially tested and of being already in successful operation. This is municipal ownership of the site, or of such a portion of it as to limit and control private speculation in it. In consideration of the great evils from which our city-dwellers suffer on account of the system of private ownership in city land, it will not be difficult to maintain that the municipality would be justified in acquiring the fee simple to its site;—that this site should really be, in every sense of the word, the *town* site, held by the municipal corporation in perpetuity for the benefit of the whole people, and no more to be alienated than the people's streets or parks. The ground sites would then be rented by the municipality at regular intervals, at public auction and to the highest bidder. The leases would be of sufficient duration to induce building and improvement on the part of the lessor, the value of such improvements to be appraised at the expiration of the lease and returned to the lessor. We already have an illustration of the practical working of this system on a large scale.

By a legislative enactment passed in 1870, the city of New York was authorized to establish a Department of Docks, and to issue bonds for the acquisition of dock and wharf property from private owners, and for the improvement of the same. Under the operations of this act the city is now the owner of a large part of the docks, and in time will acquire them all. Up to April 30, 1895, over twenty-six millions of dollars of dock bonds had been issued by the city for the purpose of acquiring and improving dock property. The rentals received by the city for docks and slips amounted for the fiscal year ending on that day to nearly two millions of dollars, while the expense of running the department, including repairs but exclusive of new construction work, was in round numbers only \$265,000.¹

¹ See Annual Report of the New York Dock Department for year ending April 30, 1896.

The public piers of New York are leased for terms of years, sometimes at public sale, sometimes by resolution of the Board. The lessees usually erect the buildings and make the improvements which the nature of their particular business requires. At the expiration of the term of lease the pier is put up for lease again. If the lease is not renewed to the same party, the former lessee has the appraised value of his improvements returned to him. The ordinary term of lease is ten years.

As to the practical working of the New York Dock Department, it must be noted in the first place that for nearly the whole of its quarter-century existence it has been under the domination of the predatory Tammany machine. Nevertheless, Mr. A. C. Bernheim, in a carefully prepared magazine article, says: "The result is gratifying, even though millions may have been lost by official negligence or corruption."¹

The comparatively successful experience of New York City with her Dock Department, under unfavorable conditions, would seem to indicate that municipal ownership of a large area of the municipal site may be established upon such a basis that the minimum of opportunity shall be given to city officials for maladministration. Their duties in this connection, for the most part, need be only discretionary, and the performance of these duties can be made so public that it would be difficult to make an opening for corrupt practices.

A striking example of land municipalization is to be found in the great English town of Birmingham. About twenty years ago, the City Council, under the leadership of Mr. Joseph Chamberlain, matured a plan for the condemnation, demolition, and improvement of ninety acres of slums in the heart of the city. "The chief monument of this undertaking is Corporation Street, Birmingham's finest public thoroughfare and business avenue, splendidly built up with new and solid structures that will become the property of the municipality when the seventy-five-year ground leases expire."² That is to say, the municipality acquired this por-

¹ *Century* for May, 1896.

² "Municipal Government in Great Britain," by Albert Shaw, p. 180.

tion of its site by condemnation proceedings, and then leased the lots fronting on the new street to individuals, who were not only willing to erect splendid buildings upon it at their own expense, but also to face the contingency that at the expiration of their leases the buildings would become the property of the city, without any compensation whatever to the lessees. This is in accordance with English usage, but it would seem better policy for the municipality to make the term of lease much shorter, and upon its expiration to allow the lessee the value of his improvements, as appraised, following the practice of the New York Dock Department. In this connection it is interesting to note the experience of the famous Randall estate, also in New York. This estate consists of about twenty-one acres of land, between Fourth and Fifth Avenues, and bounded on the south by Waverly Place. It was left in trust, nearly one hundred years ago, for the building and maintenance of a Sailors' Home, and was at that time simply a farm in the country. It was long ago solidly built over, mostly under twenty-one-year leases. No absolute right of renewal was granted to a lessee who had erected a building, but at the expiration of the lease the value of the ground rent and of the building were separately appraised by disinterested arbitrators, and the trustees had the option of taking over the building at the appraised valuation, or of granting a new lease to the builder at an annual ground rent amounting to five per cent on the newly appraised valuation of the lot. On such terms plenty of people were found in New York who were willing to erect buildings on leased land, and a very fine class of buildings too.

Municipal Ownership vs. Municipal Control, — this is the great municipal issue of the present. Heretofore an attempted municipal control of semi-public corporations has been considered more compatible with American political ideas. But nearly all the efforts on the part of our municipalities to efficiently control the powerful and unscrupulous corporations which steal and exploit municipal franchises have proved such lamentable failures that the drift of public opinion at the present time is certainly toward municipal ownership. The results of municipal ownership and manage-

ment of gas, electric lighting, and waterworks, even under untoward conditions of city government for spoils, have on the whole been such as to fully justify the movement in that direction. The points in the controversy, on the respective sides, are well stated in the papers by Mr. Richardson of Philadelphia and Mr. Loomis of Buffalo, read at the last Conference for Good City Government at Baltimore. In the interesting discussion which followed the reading of these papers, Mr. Richardson said :

We have had for nearly forty years in Philadelphia the complete power by the City Councils and the city government to control the street railways. They had the power under the original ordinance, before a rail was laid in the city, to take the property of every company that was thereafter allowed to lay its tracks, at cost. With that power they could certainly have controlled it, so far as legal power is concerned ; but as a matter of fact the companies have controlled the city, and control the City Councils to-day.

Now Mr. George's Single Tax, as well as all other tax reforms which aim to recover from city land, for the people, the unearned increment which the people themselves have created, is to be classified as a species of municipal control. Would it be treated with any more consideration by conscienceless millionaires and corporations who have permanent corruption funds for tax-assessors, than previous attempts at municipal control ? On the other hand, would not municipal ownership of the city site tend to do away with the bribery of tax officials, in proportion as the class of city landholders became extinct, just as, under the system of municipal ownership and operation of public franchises, bribery abates in proportion as there are fewer companies to do the bribing ?

Of course it is not practicable to put the system of municipal site-ownership in full operation in our old cities. The amount required to condemn and appropriate the site of New York City, for instance, would appall the imagination of the boldest reformer. But that is no reason why a beginning should not be made, the same as the New York Dock Department made a beginning. Wherever the slums are condemned and demolished, as they are sure to be, and wherever the land is not needed for parks, let the city hold and lease the cleared area, under conditions such as will insure its being rebuilt on

in a proper manner. Let the municipality be given authority, under carefully guarded provisions, to acquire additional areas, as favorable opportunity occurs, say after an extensive fire in the business or tenement-house districts, where the abuses of unearned-increment anticipation are found in their most malignant form.

But, however hopeless this problem may appear in our older cities, it need not be permitted to arise at all in the new cities which are still to be founded by the thousands in this city-building country. It is only necessary to apply the principle of land-municipalization at the start. In the far West, town-sites are still being carved out of land which is comparatively worthless until society has conferred a value upon it. How easy it would be for the infant municipality to hold its town-site intact, for the common benefit of all its people, present and to come, the same as the square reserved for the court-house and the block set aside for the school! How much baneful and demoralizing gambling in real estate would be forestalled, how many disastrous booms averted! As the new town grew populous and wealthy, the unearned increment from the municipal lots would construct the sewers, grade and pave the streets, uniform the police, and educate the children. There could be no unearned-increment anticipators in that city, and the maintenance of normal ground rents would reduce the cost of living and production to an extent quite astounding. It is probable that in such a city the line of life for the average man would approach much more nearly to the theoretical curve of ease, — the condition of greatest reward for least effort.

And that, after all, is only what we have a right to expect from a centre of human society.