

## *Railroads Urged to Relinquish 1800s Land Grant*

The railroad problem in the United States involves much more than the inefficient handling of transportation. There is a growing body of opinion that an historic wrong needs to be righted—the lands granted the railroads in the late 1800's must be returned to the federal government.

From 1850 to 1871 the government granted a number of railroad companies tremendous amounts of land to aid them in providing railroad transportation to and for the Western states. This land grant totalled 187,785,850 acres—or approximately the same land area of the National Forest system—10% of the nation's total continental land area.

Unfortunately over the years, as Robert Mellem so aptly states in his article in the journal *Environmental Action*, most of these "landed companies" have found it extremely profitable to develop these land interests at the expense of their transportation services.

Millions of acres of privately-owned railroad land are within the National Forest system, and in order to consolidate the national park areas to allow for easier handling, a series of exchanges have been going on—not exactly in the public's interest. For example, according to Mr. Mellem, deals are currently being made in Gallatin and Beaverhead National Forests of Montana. Burlington Northern Incorporated is acquiring choice, developable land in the West Fork of the Gallatin River watershed while the Forest Service is gaining primarily steep, high, undevelopable land in return.

The Consolidated Coal Company, a subsidiary of Continental Oil Company, is

## **Fall Semester Marks Big Advance for School**

The Fall semester marks a significant change for the Henry George School, and a vigorous increase in the School's impact on the New York community.

For the first time the School is offering courses in Social Philosophy that investigate George's role in the history of thought and evaluate his philosophical contribution in the context of other ethical positions. The three philosophy courses are taught by two young college professors who were introduced to Georgist thought in a lecture given at Hunter College last year by Barbara

leasing land from Burlington Northern in order to prospect and prepare to strip mine for subbituminous coal in the lovely and fragile Bull Mountains, 30 miles north of Billings, Montana. "The problems of lowered water tables and dried up springs, water, pollution, erosion, non-reclaimability due to poor soil and the death of wildlife," states Mr. Mellem, "threaten to be very severe."

A bill introduced by Senators Metcalf and Mansfield would help rectify this situation by providing that "no railroad holding any title of any kind of lands, other than rights of way, which were received as a grant from the federal government shall discontinue any regularly provided passenger or freight service unless it reconveys to the United States all land rights and titles in the amount of one hundred acres for each mile of service discontinued."

This may be going down the road in the right direction, but it will hardly lead to a solution of the basic problem. For if the corporations and the government are to continue to wheel and deal, neither will the need for conservation be met nor will the public receive the benefits of its share in the nation's natural resources.

Rockefeller. They subsequently became interested in George and in the School, and developed the three courses to present George in the light of the history of philosophy and the various "futures" proposed by thinkers through the ages.

"The Future of American Society" and "Man vs. Society" are taught by Dr. Lester Hoffman, a Harvard graduate formerly at Hunter and now at C. W. Post University. These two courses look to this century's changes in technology and society, and ask whether America can "get it all together" through a synthesis of the thought of philosophers and social scientists.

"Reform, Revolution, Utopia" is presented by Henry Epstein, one of Hunter's most popular and dynamic teachers. This course focusses on the question, "What is a good Society?"—perhaps the most important philosophical enquiry the School could entertain.

Together these courses have over 50 students. According to Mr. Epstein, "this is the brightest, toughest class I've ever had." Not surprisingly, the library is doing a brisk business in social philosophy books.

The other courses in the new "academic" category are proving themselves successful, too:

"The African Experience" is being given to some 35 public school teachers who have already demonstrated their appreciation of this course as devoted not to exotica but to land management and law and traditional systems of thought.

"Economic Policies for America's Cities" is an updated, hard-hitting look at the urban malaise, led by economics' foremost exponent of land-value taxation, Dick Netzer. "The History of Economic Thought" is being given again by

*(continued on next page)*



## George's Terms Clarify Accounting Confusion

*The following article by Roy A. Foulke, retired vice president of Dun & Bradstreet, appeared in the NEWS back in 1949. We think it worth repeating.*

In *The Wealth of Nations*, Adam Smith pointed out, over and over again, that all production is divided into three streams: one in the form of wages to employees, one in the form of rent to landowners, and one in the form of *profits* to suppliers of capital.

These terms, as used by Adam Smith, carry connotations that are somewhat different from their meaning in our presentday industrial life. In wages to employees is included payments to officers of corporations, to proprietors and to partners for their services, as well as to labor. The payment of rent represents the return to the landowner on the value of the land in its natural state without improvements of any kind, and not the payment of a monthly or yearly sum, which today has generally come to include two payments, economic rent on the value of the land, and a return on capital (i.e. the improvement). Profit, according to Adam Smith, is the return to capital after the payment of all wages and the rent of the land in its natural state has been deducted from production.

Then Smith carefully observed, "When those three different sorts of revenue belong to different persons, they are readily distinguished; but when they belong to the same they are sometimes confounded with one another, at least in common language."

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## Fall Semester...

Dr. Schwartzman, this time to a smaller group for more intense discussion of the issues. All together the Academic Program has over 100 students, vivid illustration that the School has many new things to offer adult education in New York.

Meanwhile, the basic course centered on George's works titled "Reform for our Time," this semester drew almost 300 students, and the set of "practical" courses has over 75 students, for a grand total of almost 500 registered students. This is a large increase over past years' enrollment.

Because of the confusion in the term "profit" as used by Smith in 1776 as the return to capital, and by the general public as the excess of income over cost, Henry George in 1879 decided to substitute the word "interest" in place of the word "profit" as used by Smith to represent return on capital.

It is possible that that substitution in terms—although carefully explained with great clarity—has been the source of steadily increasing confusion in the mind of the pragmatic businessman. The *accounting* profit of business, representing the excess of income over cost, is a heterogeneous mathematical term and has nothing to do with economics.

Few business corporations were in existence in 1879. Not until 1886 did the Supreme Court decide that a corporation was a person in the meaning of the "due process" clause of the Federal Constitution. That decision gave an element of unprecedented security to the existence of the large corporation, which was just becoming a dynamic power in our economic life.

### NO ACCOUNTING FIRMS

In 1879, there was no firm of public accountants in the United States. The first firm of public accountants of consequence was organized in 1883 in New York City. It was not until 1896 that the accounting profession was legally recognized; it was then that New York State first granted certificates of qualification.

From the viewpoint of classical economics, it is understandable that we fail to ascertain reliable figures for aggregate profits (George would say "interest") under the mathematics of accountancy as practiced today. The reason is that the "accounting" profits of corporations, which own land where some of their plants, warehouses or other installations are located, actually encompass economic rent. Moreover, we lack even a faint idea as to what represents rent earned on the value of land in its natural state and what part represents the return on capital invested in a business which includes improvements on the land.

What we run up against today is the confusing reality that "accounting" or the businessman's profit, in addition to being a relative mathematical concept, is not economic profit or, in the words of Henry George, is not "interest."

## Philip H. Cornick

Philip H. Cornick, a member of the Board of Trustees of the Robert Schalkenbach Foundation and a leading student of Henry George, died at the age of 87 on October 24, 1971.

A former member of the research staff of the Institute for Public Administration, Mr. Cornick was frequently on loan from the Institute to government and quasi-government bodies. In the early 1930s he was responsible for a study of the Tennessee Valley Authority that led to many reforms in its administrative practices. He was also active in the work of the Federal Housing Authority.

Before his retirement in 1949 he helped a number of states develop land value taxation codes. He was the author of one of the first authoritative books on urban sprawl, *Premature Subdivision and its Consequences*.

## H. Bronson Cowan

H. Bronson Cowan, former Research Director of the International Research Committee of Real Estate Taxation, non-agenarian and life-long student of Henry George, recently died in Ottawa, Canada.

His book, *A Graphic Summary of Municipal Improvement and Finance as Affected by the Untaxing of Improvements and the Taxation of Land Values*, which was published in 1958, clearly illustrates the beneficial application of the land value tax principle of Henry George in cities, both large and small, in Australia, New Zealand, South Africa, and Western Canada, and serves as a testimony to H. Bronson Cowan's dedication to the principles of Henry George which he helped to implement in his lifetime.

## Philipp Knab

Philipp Knab died at the age of 83 on August 7, 1971 in Hallein, Austria.

Mr. Knab, a devoted student of Henry George, used a Marxist theory of monopoly to explain land rent. He wrote trenchant articles for various newspapers including *The Austrian Economist*; *Reports and Information*: the London newspapers *Land and Liberty* and the daily, *The Press*. One of his papers appeared in a Georg Fromme volume: *Taxes in the Light of Natural Right*.

Philipp Knab was a holder of the Iron Cross and was quoted as saying: "The Kaiser decorated me with one of the highest honors, but the republic does not thank me for a lifetime of work freely given."



# APPALACHIAN CITIZENS PUSH LAND VALUE LEVY FOR MINES

Efforts are being made by five of Appalachia's most impoverished counties to enforce collection of about \$350,000 a year in property taxes from the coal mining companies.

Six million tons of coal a year are being shipped out of East Tennessee and the counties are getting nothing in return. Thirteen Appalachian citizens, representing the interests of private landowners in these counties, have filed a petition with the State Board of Tax Equalization (headed by the Governor) which asked that coal reserves be assessed on the same basis as that of other property in the area, according to a New York Times report of September 25.

By October 2, the Tennessee State Board of Tax Equalization had declared its determination to see that coal, mineral and timber resources were considered in determining tax assessments of privately owned land. The vice-chairman of the Board said work would begin immediately to develop a formula by which these lands would be assessed not as undeveloped land, but on a more realistic basis.

This is a great step in the direction of fair assessment of privately owned and utilized land. It was hailed by a Vanderbilt University research team as a significant citizen challenge "to the large mining interests that have exploited the resources of the Appalachian region for years [leaving behind] ruined lands and widespread poverty."

But while more equitable taxation will in effect give the community a share in its resources, there is a serious difficulty here. Most of the coal is removed by strip mining. Currently, a strip mining regulatory bill is stymied in the Tennessee legislature largely as a result of efforts by the lobbyists for the coal mining companies. Enforcement of a land value tax might induce the mining companies to hasten their extraction of coal to the detriment of the ecology of Appalachia's terrain.

Thus, if the five counties do not manage to protect their interests with this regulatory bill, their successful efforts to rectify an unjust tax situation will serve to further impoverish their already devastated lands.

## CHAMBER SUPPORTS REFORM

The Urban and Regional Affairs Committee Chamber of Commerce of the United States adopted a resolution supporting Property Tax Reform in February of 1971. A recent conversation with Mr. Owen Kugel of the Chamber disclosed that the policy statement is still in the process of being implemented. This means that outside of mountains of paper work and research, nothing has been done.

The Chamber's position is clear:

"Disincentives that inhibit private enterprise from helping to solve social and economic problems should be eliminated.

"To implement this Chamber policy and give it specific application to encouraging private enterprise to take a more active part in urban development and so lessen the need and pressure for costly subsidies, the Urban and Regional Affairs Committee recommends that the Chamber should take this same strong and unequivocal stand for reforming the administration of the local property tax. Such reform should include shifting the

principal weight of property taxation off the owner-created value of the improvement onto the community-created value of the location, i.e., to what land in that location would be worth if the past and present owners had never done or spent anything to improve it.

"We believe it obvious that heavy taxes on improvements inhibit and often prevent private investment in improvements. Conversely, we believe heavier taxation of location values could put effective pressure on the owners of underused or misused locations to put their property to better use or sell it to someone who will.

"We believe that many businessmen have insufficient understanding of the harm today's widespread misadministration of the property tax may be doing in their communities.

"Therefore, the Urban and Regional Affairs Committee urges that the National Chamber devote all feasible resources to developing and using information materials to inform its membership of the costs and the alternatives to ineffective property tax systems."

## BOOK APPEAL

The School is engaged in the continuing process of enlarging its library and keeping it up to date. This is not only an exacting job, it is an expensive one.

Recent books on economics and social philosophy are always welcome additions. If you have such books and can contribute them, you will not only be aiding future readers by making up-to-date material available, you will be helping to make the school a more interesting and attractive place for students. And, incidentally, you may count these donations among your deductions for income tax purposes.

## Tax Promotes Best Land Use

by Steven Cord

Land value taxation has been characterized as a "tempest in a teapot" in that its economic benefits are said to be minimal, and as "non-ecological" because it would induce too-intensive land use—overbuilding and over-crowding. These two objections contradict each other. True, a heavier tax on land values would make underuse of land more expensive, but on the socio-ecological plane, empty lots, rickety buildings and slums hardly make fine city planning. The heavier tax on land values would encourage optimum use of land as determined by the market — not over-intensive use, but *optimum* use.

By discouraging urban sprawl, land value taxation would make more land available in the most desirable areas and thereby mitigate too-intensive use. Moreover, by reducing the land rent relative to the cost of improvements, it would lessen the need for intensive use. It would no longer be necessary to overcrowd simply to obtain an income from the building consistent with the land value.

Furthermore, the tax would encourage the construction of low-income housing on inexpensive land, again thwarting the tendency to overcrowd. Finally, although the "natural zoning" effects of land value taxation would reduce the necessity for government intervention, local zoning power could always be used to prevent overbuilding and to protect the social interest.



## N Z STUDY SHOWS TAX SHIFT RESULTS

What happens when property is taxed on the basis of an "annual value" assessment relying on the yearly rental that can be obtained for land and improvement, or on the basis of "capital value" whereby the criterion of assessment is the presumed selling price for land and building, or on the basis of "unimproved value" which is the raw land evaluation?

Some answers to this question can be found in a study by the Valuation Department of New Zealand showing the results of the alternate systems applied to sections of the city of Wellington.

The report is part of a continuing survey based on computer readouts of property taxation experience. It warns that this data from the assessment rolls of April 1, 1965 has already been outdated by events. By way of explanation, the report states, "as buildings are erected, land subdivided, urban motorways claim property, and legislation is passed amending existing rating [taxing] law, there will be altered distribution of rates whatever the system."

Despite these disclaimers, some of the findings are worth noting.

For example: the study reports that land that does not need intensive capital investment for the use to which it is being put "would pay considerably less taxes under the capital value or the annual value system." Obviously, it would not get off as easily if taxes were to be paid on assessments based on unimproved value.

If the ratio of capital to unimproved value is less than 3:1, the tax would be smaller under the capital value system and probably the annual value system than under the unimproved value assessment. This would seem to be an obvious conclusion. But the report adds that there are many sites with relatively low capital investment that are capable of earning

above average rents, and these would not necessarily benefit under an annual value system.

Older single unit dwellings generally would pay less under a capital value system, whereas they are not materially affected by the annual value system as contrasted with unimproved land valuation. Newer homes, however, pay higher taxes under the two alternative systems.

Shifting from unimproved land assessment to a capital value would not increase taxes for suburban shopping centers, but their levies would go up under an annual value system. For center city commercial properties the shift would cause a smaller decrease in taxes under the annual value than under the capital value system. Similarly, industrial properties would carry a heavier burden under the alternative systems.

These findings would seem to support widespread opinions as to the effects of land value taxation, although the report cautions that assessment and tax "rating in a dynamic community is a continuous study and conclusions reached at one point in time must be amended as the situation dictates" and each municipality is a specialized study, indicating that conclusions drawn in one place may not apply to another.

## India's Land War

Landlordism, long a sore spot in the political economy of the subcontinent, has reached something of a low point in a dispute that is tying up land and condemning more Indians to starvation.

In Pachampettai, India, one third of the cultivable land, where three rice crops a year used to be harvested, is lying fallow while landlords and tenants battle.

Twenty tenant families have been cultivating this land for generations. But they have been evicted from their rice paddies and no crop has been planted for the past 18 months.

All the land will remain uncultivated until the issues of ownership, wages, limitations on holdings, and presumably politics have been threshed out in the courts. So far, most of the cases have been going against the tenants because the landlords have the money to hire the best and most influential counsel. The tenants, on the other hand, are compelled to work as casual labor not only for their keep but to pay lawyer's fees.

"Tears of blood flow from our eyes when we see our fields lying parched and untended," the wife of an evicted farmer is quoted as saying in a New York Times dispatch.

## CITY TO PUNISH COMMUTERS

New York's Mayor Lindsay has somberly stated that the 600,000 commuters who come into Fun City to work each day have a stake in the city. By virtue of this reasoning, his Honor says, they should be taxed for the use of the city. Contrariwise, the city has an enormous stake in these 600,000 commuters. It is the commuters who contribute a large part of the location values of property in the city. Without them, the value of these locations would be seriously lessened inasmuch as activity would decline and demand for land would be reduced as a consequence.

It is certainly no fault of the commuter that the city persists in its archaic pursuit of taxing the labor products of people rather than the land value the community creates.

It is embarrassingly obvious that taxing commuters, who help create the city's land values, will induce these people to look to their own localities for employment. This is self-defeating. Conversely, if the land value were taxed, more commuters would be encouraged to come into the city, heightening the value of the land, enhancing the amount of the tax and promoting true growth.

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