

THE SINGLE TAX REVIEW

A Record of the Progress of Single Tax and Tax Reform
Throughout the World.

THE SYSTEM OF LAND TENURE IN THE GERMAN COLONY OF KIAOCHOW.

(For the Review.)

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At the seventh international congress of geographers in Berlin in 1899, the representative of the United States of America, Mr. Poultney Bigelow said: "Kiaochow deserves in a very high degree the widest attention of the general public. Here for the first time the principles of land values taxation are applied in practice. And these much opposed doctrines have been brought into operation under the jurisdiction and authority of the German Empire. This fact has an importance that cannot yet be appreciated. In the whole world—in America, in Australia, in England, and wherever the doctrines of Henry George are understood—the development of this colony is watched with the keenest interest."

It will be seen that from the first the provisions relating to land tenure in Kiaochow have been directly associated with the principles of the German Land Reformers as originated by Henry George. Henry George could refer to the researches of Ricardo and John Stuart Mill, both of whom considered a heavy tax on land values as the best of all taxes, when he, in his famous book, *Progress and Poverty*, laid down the principle that land values should serve to meet the requirements of the community. The German land reformers, who are greatly influenced by the teachings of Henry George, have for more than 20 years been struggling against the evils connected with private land ownership. On 21st March, 1898, the programme of the League of German Land Reformers was formulated as follows: "The object of the League is to ensure that the land, the fundamental factor in national existence, be placed under laws which shall promote its use for industrial and housing purposes, which shall prevent its abuse and which shall secure to the whole people, as far as possible, the increased value not due to the working of the individual owner."

At about the same time that the Land Reform League published this programme was made the first trial of a systematic land policy in the German colony of Kiaochow. It is a strange coincidence that a few days after Henry

George had passed away in America, there began in this new colony the fundamental work for the solution of the questions that had been his life's study, and that the first anniversary after his death, of the birth of this wonderful man, the 2nd September, 1898, was also the anniversary of the Land Ordinance in Kiaochow. But in spite of this remarkable coincidence in time and the striking resemblance in principle, it is certain there was no direct relation between the theoretical demands in Europe and the practical work in the German colony in China.

Kiaochow was occupied on the 14th November, 1897. On this day a proclamation was issued in which every change of ownership of land without official consent was prohibited. The new authorities began very early to buy up land, so that in March, 1898, when the Chinese Government officially consented to the establishment of German rule in Kiaochow, a considerable part of the Protectorate was already the property of the German Government. The principles on which the future land and taxation policies were to be formed were the subject of a memorial composed by the writer of this article in April, 1898. In this document it is stated that the quick and determined action of the Government at the time of occupation had made it possible for the community to participate in the unearned increment of land values that would be created by its progress and activity, and that this state of things ought not to be superceded by selling the land to private companies for purposes of speculation, thus robbing the community of the fruits of its own actions. It then went on to say:

"To keep up the value of land, it will be necessary to bring so much land as is required by actual needs from time to time into the market at public auction. The land shall be sold to the highest bidder. The purpose for which the land is to be used is to be communicated beforehand to the Government which will reserve a certain liberty in assigning the lots. Every subsequent resale of land must, before it can become legal, be communicated to the Government. The seller must report to the Government the price which has been offered to him and which he is willing to accept. The Government has the right of pre-emption at this price in every case. If it does not exercise this right a transfer duty is levied on the transaction and in the case of an increased value a further tax of $33\frac{1}{3}\%$ of the increase in value (after deduction of all capital expenditure set off against the enhanced value) is levied. The Government reserves the right to see the building obligation carried out according to the original propositions and statements as agreed to. Land that has been in the same occupation for a period of 25 years will be subject to valuation and in the event of an increase in land value a tax of $33\frac{1}{3}\%$ on the increase will be levied."

In another paragraph it is stated that:

"The reason for this measure is that the prices offered at the first sales are not normal prices representing the true value of the land. By means of these proposals the Government secures a share in the future unearned increment without invading the rights of private property."

The objection that the first buyers run a great risk and are entitled to any increased land value as a reward is treated in an appendix to this memorandum, dated August, 1898, in the following manner:

"It is my opinion that every business man runs a risk if he settles down in a new place. But against this stands the fact that land in Kiaochow is obtainable on very liberal terms. If the value of the land does not increase the Government takes nothing, but if there is an increase in consequence of conditions over which the owner has no control—always provided that the owners' expenses are to be deducted from any increase—and which can only be ascribed to the development of the surrounding conditions due to the activities of the community or government, then the government must take its share in the increased value. A just distribution would be to divide the increase equally between the government and the private owners, and it must be considered a concession from the Government to the owners, that it only claims a third part and leaves two thirds to the owners. Leaving to the owners two-thirds of the increased value is not a hindrance but an encouragement to private activity. Just as little as we wish that the Chinese peasants, the original owners, should reap the benefits due exclusively to the activity of the German Empire, ought we to tolerate that the landowner who buys the land at a dead bargain, should reap exclusively the benefit of the increased value. By the proposed unearned increment tax it is intended to strike a just balance in the most equitable and least oppressive way."

Most of these statements afterwards appeared in the official white-book. They are based on the knowledge of certain abuses that have manifested themselves in places on the Chinese coast inhabited by Europeans, as in other countries with a rapidly growing commerce, which abuses have their origin in the cession of land to private speculators. Shortly before the occupation of Kiaochow several new places in China had been opened to foreign commerce by virtue of the treaty of peace between Japan and China in 1895. There it was conspicuous that before the settlements were mapped out, most of the land was in the hands of a few speculators. These landowners, chiefly living in Europe, have very little sympathy with the needs of the population in the Settlements, so long as they do not affect their own profits, and it is a permanent object of complaint in a place like Shanghai, for instance, whose development and growth suffer in many ways under the oppression of these rent receivers.

Such experience inspired the idea of a different system of land tenure in the new colony. In discussing the Land Ordinance of Kiaochow the direct and indirect taxation of unearned increment in land values is often held up as the central item, but if this point, which is only a link in the chain, is taken separately, the social importance of the whole scheme will not be understood.

The basis of this scheme is that right to purchase land in any instance is vested in the Government. The land ordinance states that the Government shall purchase all the land of the colony from the Chinese proprietors at a fixed price according to the value of the land at the time of the occupation. By virtue of the Act the Government has secured the right of expropriation,

though generally the land has been sold to the Government voluntarily. But the interest of the government is confined to acquiring land that is required for the erection of urban buildings and for all other than agricultural purposes. In this respect it has provided by its purchases sufficient for a long way into the future, but it is nevertheless under the obligation to continually increase its property. This obligation resulting from the land ordinance is to be considered as one of the foundations of the system of land tenure.

The government after having secured a monopoly of the land had to solve the question: What is to be done with the land? How is it to be disposed of? Are there means and ways of avoiding the well known abuses and evils after once the land has been ceded to private ownership? It should be borne in mind that the use of land for building purposes in urban districts is controlled generally by special regulations as to the laying out of a town, such regulations being, of course, subject to alterations as requirements arise. Now for all suburban territories provisions exist according to which land required for institutions serving public or charitable purposes or economic undertakings can be placed by the government at the disposal of those wanting it without further formalities. This facility has very often been resorted to and land has been obtained for different industrial and other enterprises of public interest, such as railways, factories, wharves and missions.

A great difficulty was at first experienced in housing the unskilled Chinese laborers or coolies who came into the protectorate in crowds. The example of other settlements along the Chinese coast, notably that of the English colony of Hong Kong, had made it clear that it was impossible to compel the Chinese laboring population to be housed according to the European standard and to acquiesce in the sanitary arrangements necessitated by it. The less such a primitive people are disturbed in their usual mode of living the easier it is to maintain order and authority among them. When in 1894, Hong Kong was afflicted by the Plague that broke out in Southern China, millions of dollars had to be spent in buying and levelling the affected Chinese quarter, and it has not yet been possible to rid the colony of this evil. This was the chief reason for trying in Kiaochow, to a certain extent, the leasehold system. At the boundaries of the city vacant ground is granted to applicants on which to build primitive Chinese houses, for a small annual payment, that can, as circumstances require, always be changed. Such ground can be retaken without any compensation for improvements in case of any infectious diseases of a dangerous character breaking out and necessitating this step for the safety of the whole population. The present price is about 5 marks (about five shillings) for a thousand square feet, i. e., a building lot. The regulations issued for this purpose on the 10th November, 1899, are among the earliest, if they are not the first indeed, that recognise the leasehold system in German territory. This system has many advantages if it is applied to land for simple and inexpensive buildings as are in use among the Chinese working people. It leads to a certain temporary style of building, as we see in England, where no perpetual

leases are granted. In spite of its manifold advantages the system, therefore, was not applied to that part of the area that is reserved for city building purposes.

For this part of the city area special provisions have been promulgated which bear out, in a practical and systematic way, a new principle of land tenure. The Land Ordinance provides that the increment of land values, inasmuch as it is not due to the labor and expenditure of the owner, but arises out of the enterprise and prosperity of the whole community, shall not fall to the individual, but being a product of the co-operation of all, shall benefit all. The means devised for this end in the Land Ordinance are the following:

1. The selling of land at public auction as full individual property with the right of reselling.

2. The land value tax of 6% of the capital value. This tax seems comparatively high, but in reality is not so, as it is in reciprocal relation to the whole of the system of land tenure, the intention of which, and one can say today the success of which, has been to keep down the price of land. The land value tax in Kiaochow, in spite of its apparently high rate works out at a lower rate than the combined land and rent taxes in the other European settlements on the Chinese coast. It cannot be doubted that in years to come land values will rise and that then the revenue from the land value tax will rise too. And surely it is not desirable that they should remain stagnant, for it is an economic truth that increased land value always accompanies sound progress. What had to be prevented right from the beginning and what so far has been prevented in fact is the sharp rise in land values caused exclusively or principally by speculative manipulations.

3. The direct and indirect taxation of unearned increment at the rate of $33\frac{1}{3}\%$, levied at every change of ownership or on owners of land not brought into the market periodically every 25 years. It is deserving of notice that the discrimination between increment that has been caused by the capital expenditure of the owner, and therefore remains free from taxation, and increment that is brought about by general circumstances, has been made here for the first time in contrast to the taxation policy pursued until then in the German Empire. Following the precedent of the Kiaochow Land Ordinance the tax on unearned increment that is levied at every change of ownership is generally called an indirect tax on unearned increment, whilst the direct unearned increment tax is understood to be the tax that is levied in certain regular periods, as for instance in Kiaochow every 25 years, on the unearned increment during this period.

4. The right of pre-emption in the case of re-sales. By reserving this right the Government is able to discover the actual selling prices.

5. The obligation of improving the land coupled with an increasing land value tax in cases where the land is not put to proper use. The respite granted for improving is generally three years. If after this term a plot of land sold by the Government in the urban districts remains unused the tax is increased by three per cent. and so on after every three years until the maximum of 24%

is reached after 24 years. This law has been established in order to prevent land being kept idle to the detriment of the community and it corresponds somewhat to a similar law existing for the same purpose in Australia and New Zealand.

From the foregoing it is obvious that the Kiaochow Land Ordinance is not to be taken as a series of unconnected provisions, but as a methodical and thoroughly worked out system. Theoretical considerations have played no part; the only purpose being to meet certain practical requirements. It was therefore necessary to solve the problem in the most expedient and simple manner suited to local conditions. As the law now stands, different conditions of land tenure obtain in the colony, either for the indigenous Chinese who cultivates his inherited plot of land, or for the manufacturer who outside of the urban districts establishes an enterprise than can realize profits only in years to come, or for the Chinese workman who has still to be accustomed to order and sanitary requirements, or for the settler who is to live in the precincts of the town and enjoy all the conveniences and luxuries of a modern city. But though adapting themselves to the manifold needs and requirements of a highly developed colony, all the different provisions of the land ordinance serve the same purpose, viz: that the land shall not be a means of enriching individuals, but that the value that is added to it by the progress of the community shall revert to its source.

That the object of the system has been realized is emphatically confirmed in the official White-Book on Kiaochow for 1906. It characterises the development of conditions in the following words:

"The share of the Government of 33 $\frac{1}{3}$ % in the unearned increment, realized at the sales of land in private hands has not yet been of any considerable amount. This is principally due to the fact that changes of ownership of land are, on the whole, comparatively few, because people willing to buy can still get the needed land in sufficient quantities from the Government. So far it can be affirmed that the land policy of the Government has accomplished the end and aim before it, that is, to prevent an unwholesome speculation in land and to keep a sufficient area of land as the property of the community, in order to supply, eventually, the growing needs of the settlers without artificially enhancing the value of the land."

In no instance has the administration made a free gift of the land to the first comer. The fact that the area of Kiaochow was ceded by China to the German Empire in March, 1898, in order to establish a commercial settlement, caused at once an enormous increase in the value of the land; and a further increase was foreseen to be certain with the execution of the contemplated railway and harbor facilities. The Government bought the land from the Chinese peasants at the prices ruling before the time of the occupation, whilst the prices realized at the first auction were in keeping with the expenditure and intentions of the Government for the future development of the settlement. The Government, of one mind in this case with the body of the inhabitants of the colony, all of whom are benefited, has not fared badly with this policy.

In the before mentioned White-Book of 1906, the fact is emphasized that while the proceeds of the unearned increment tax have until now been very small, a boom in land has been prevented also, and the real purpose in introducing the unearned increment tax (this was the claim made in the memorial of 1898) was accomplished if the tax had never, indeed, been levied. The real object of the provisions was not so much to fill the treasury of the Government as to prevent abuses in dealing with land. The Land Ordinance of Kiaochow, therefore, is not to be considered as a purely revenue producing policy; its true character is social rather than financial; it results in a policy that, besides applying the Single Tax system upon land value, aims at a practical solution of the highly important question of town extension. It deals with the urban land question fully, and this question is solved in the way that the Government buys up all the land that may be used for urban purposes to dispose of it to settlers under such conditions as will safeguard the welfare of the community in the future. The extension of the city is therefore carried out by the Government and regulated by law.

It is of this that the German Land Reformers have availed themselves in pointing to the example of Kiaochow to further their cause. One does not even need to accept the general proposition, established at Kiaochow, and at least not yet disproved, that all speculation ought to be considered as evil, in order to admit, nevertheless, that apart from speculation guided by far seeing economic principles, opening up vast tracts of land to use, there is another kind of speculation, which without involving the owning of real estate, profits by a reckless system of hypothecal credit. Such speculation strives to enhance the price of land, and as land is necessary for all housing purposes it causes higher rents. But higher rents mean increased hours of labor or a lowered standard of living, and often both.

The movement of the industrious and working classes against the owners of the soil which has been established in different forms in different countries, though they all aim at the same end, is no longer to be hindered. It turns from the city, with the house famine and housing misery, to the country and attacks the accumulation of landed property in the hands of the few, which is injuring and hampering economic development.

TAX THE IDLE POWER.

It is pointed out by State Engineer Lewis that the tax levied on new electric power enterprises by the state is retarding development. He recommends a license on new and old alike. If the state levies a tax upon horsepower claimed and monopolized, regardless of whether utilized or not, it can call it a license or not; the result will be the same. To license what is used, and to allow millions of horsepower to be tied up by speculators without any revenue paid to the people, is just what has been done with every other kind of natural resource of Oregon by past boodlers. Tax the horsepower claimed according to its value. The water powers of Oregon belong to the people.—Portland (Oregon) *Labor Press*.