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A WORD WITH GEORGEISTS IN THE UNITED STATES

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It is my intention in this contribution to clear away certain mental barriers that infringe on the effective teaching of the philosophy of Henry George and that are largely responsible for its omission and neglect in current economic discussion.

I expect to show that the physiocratic appellation "impôt unique", translated into "single tax", was fully justified at the time of George's writings, that a single tax on land values would at that time have satisfied all the demands of government, and also that today a much broader and more philosophical construction must be placed on George's work. Unless we do this, we place his teachings under a cloud of factual misapprehension of which he was not guilty. Thus some of George's most ardent adherers contribute to the neglect of his philosophy by modern economists.

In the decennial 1876-85, the period of George's original and most important work, our Federal expenditures averaged $257 million yearly. What our state and local expenditures were is not so well on record, but by authority of "Historical Statistics of the United States" and "Statistical Abstract of the United States", from which some of my subsequent figures will be either taken directly or by careful deduction, I find that total local revenues in 1890 were $562 million and on the basis of population I arrive at an approximate figure of $443 million in 1879. I also find that while population rose 58% in the preceding 20 years, real estate values increased 86%, indicating no per capita future diminution in the source of revenue. We thus find a total tax burden of $700 million when "Progress and Poverty" was published.

The determination of the aggregate actual value of land in this period is more difficult.

The national wealth in 1880 (Burchard) is placed at $43,300 million. The land value, including $1,152 million then tax exempt, is reported as $15,525 million. Real estate improvements $11,781 million. (The assessed value of these combined was $13,037 million, or approximately one-half). But after adding $3,030 million of equipment and $6,252 million of other personal property, we lack $6,712 million of reaching Burchard's figure. On the face of things it looks as if the break-down figures were low and that the land value should be increased enough to compensate for the tax-exempt component. Burchard's was a post facto correction of the census figures.

About $380 million may have been collected in taxes on property, about $184 million falling on land, about 1.2% of its value.

Improvement values are regulated by the cost of replacement, market value of land is influenced by taxation. To assess land intelligently, the basic value, as if free from taxation, must be found. This is the capital value on which a tax may be levied, which must not be in excess thereof. This value is influenced by the current return on safely-invested capital.

A good illustration may be found in urban land today where the tax rate is occasionally equal to the current rate of interest on good bonds, say 3%. Under this condition the market value (assuming that an interested purchaser is available) is one-half the basic value. A lot is worth $1,000.00; the tax is $30.00; if the owner sells he can invest the proceeds at 3% in addition to saving the taxes. This indicates that he is willing to give up $60.00 per year to own the lot. If there were no tax he would hold it for a price of $2,000.

The interest rate in 1875-86 moved from 6½ to 5%, say average of 5.75%. The tax is 1.2%, total 6.95%; 6.95 divided by 5.75 equals 1.21; the basic value of the land would be 21% more than the market value or $18,775 million available for a single tax on land values. The total requirements for all government being $700 million, the necessary tax rate would be 3.72% of the basic value or 65% of the then current rate of interest.

Where I have erred in necessary interpolations it has been on the conservative side and I am certain that this rate would produce a greater rather than lesser sum than would have been required. The land valuation set up for the entire country was $310 per capita, and we sense that this was rather low for that period of urban congestion and general speculation.

The war between the States was fought at an average yearly expenditure of $838 million by the Federal government. Who would in 1879 have anticipated a Federal budget in excess of $60 billion and state and local expenditures of $19 billion yearly? Or a Federal payroll, exclusive of postal employees and the armed forces of 1,500,000 and 4,300,000 persons on state and local government payrolls?

Between 1868 and 1878 our population increased 25% and Federal expenditures actually decreased 20%.

Reduction in government expenditure is a good cause. Nearly everybody is for it. Why should a Georgeist break his back for a cause that no one opposes? Does he want to abolish public schools, hospitalization of mental defectives and other essential public services that take the largest part of local revenue? He does want to abolish a million tax collectors.

He should model his program to the conditions under which we live. He would find his teaching simplified and its acceptance improved. He should not dishonor the founder of his philosophy by ascribing impossibilities to it. He should inform himself factually about the conditions that the proposed reform must needs encounter in order that his instruction may carry authority. Consequently, we must now find out what we can about land value i 1952 and explore the potentials and limitations of the reforms.

We find that urban values have gone down precipitately since 1930, when

Manhattan Island land and buildings were appraised at $16.2 billion as against $7.7 billion in 1940, increasing to 11 billion in 1950.

Let us look at land values as they appear today.

We may omit farm values. Take out desert ranches, creek bottoms and gravel hills, wood lots and water holes and we get about 5,500,000 farms averaging 100 acres each. worth $100.00 per acre (1950) including all fixed improvements. These figures are obtained from the most careful interpolation applied to 1945 statistics, the latest available, and the application of recent trends.

Average age of improvements is 40 years. Ninety per cent have electricity, 1,400,000 have complete plumbing and hot water, 937,000 cold water only. Colored small farms with worthless improvements are 600,000. Only 20% of farms are more than one mile from an all-weather road. The average house is one of five rooms but about 700,000 farms have two houses.

This average farm has 80 acres of crop land, part time in fallow, and 20 acres of permanent pasture.

Take improvements at 50% or less of replacement cost:

House	$3,000
2-Story Barn, 2,000 sq. ft foundation	4,000
Other buildings, silo, corn crib, well . . .	1,500
Fences and drainage	1,500
	$10,000

Remember that the true land value is the value as nature left it, subject to accretion of social value. When man first pulled a stump or put plow into land he added capital value, not land value. But careful inventory of the average farm cannot discover any land value.

Truly, there are $400 per acre farms in Ohio, Illinois and Iowa. But these farmers are prosperous and their improvements are also more valuable. A surplus of land value will be found here but it is not significant in the over-all national picture.

There is land made valuable by investment in irrigation and drainage works. Such land should pay rent to the source of these investments.

It should be evident that the assessment of farm land value exclusively for rural government poses a special problem not to be solved academically.

For urban land I wish to use Chicago and Cook County, Illinois, to draw my examples because I have been able to make a study there. Chicago is a prairie city and is a cross section of the United States.

In presenting values, I will as in the foregoing, use current dollars because assessments are made and taxes paid in current dollars.

The following is from a study made by the Chicago Title and Trust Company for the City of Chicago, not including the remainder of Cook County:

Year	Million Dollars Land Value	Population	Dollars Per Capita
1879	250	500,000	500
1892	1,500	1,200,000	1,250
1897	1,000	1,500,000	666
1920	2,000	2,700,000	740
1926	5,000	3,100,000	1,615
1933	2,000	3,400,000	590
1951	2,000	3,600,000	555

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The 1933 figure is by Homer Hoyt. For 1951 it is the Board of Assessors plus the state equalization addition of 41% and my own of $37\frac{1}{2}$%.

The following table is derived directly from the County Assessor's summary for Cook County in million dollars, 1951. The population of Cook County is approximately 4,500,000.

	Assessment Plus 41% State Equalization	Adjusted to Market value	Per Capita (Dollars)
Land Value	1,970	2,772	615
Improvements	3,740	7,718	1,715
	5,710	10,490	2,330

The market value adjustment is the result of the analysis of more than 100 samples of property recently sold or offered for sale. The data examined gave location, dimensions of the lot and the taxes on the property. I segregated the land value on the basis of Olcott's Blue Book, regarded by professional real estate men as authoritative. A confefence with a member of the Assessor's staff gave me the basic coefficients to use in converting assessments to market values and these coefficients worked out very well in my samples. The results showed that some classification was necessary and to illustrate my deductions the following table is prepared. While the 1951 tax rate is 3.272 per hundred of assessed and equalized valuation, in this table is worked out the rate that would obtain if the assessed valuation were equal to the market value of the properties. It also gives the average land value component in each classification of real estate, for entire Cook County.

Classification	Million Dollars Total Value	Actual Tax %	Percent Land Value	Million Dollars Land Value
Apartments	2,580	2.00	13.06	346
Houses	3,300	1.20	20	660
Commercial	2,100	2.00	36	756
Industrial, R.R. and Utilities	2,000	2.00	25	500
Vacant	510	2.60	100	510
Total	10,490			2,772

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Railroads and utilities are included by necessity, though we know nothing of their market value.

To claim accuracy for the classification would be presumptuous. A large margin lies between classifications and no accurate data is available. The sample data added to a broad knowledge of the City was applied and the figures work out in factual balance.

Vacant land is segregated in the Assessor's summary.

If the tax rate in the table is worked into the several classifications, it will be found that the result will be revenue of $186,500,000, which is equal to 3.272 applied to the assessed valuation of $5,710,000,000.

Let us now find out how much revenue the full land values with complete exemption for improvements would produce. First basic land value must be determined. To simplify, we will take the average rate at which the market value of land is now taxed, approximately 1.78%. Were it not for the income tax that leaves net income from capital a variable quantity, the problem would be simple, but assume interest to be 3%. Call tax rate "T", interest "I", current value "C" and the basic land value will be $\frac{T + I}{I}$ X C or, in the case of $1,000 market value the basicvalue will be $1,593.

Thus we multiply $2,772 million by 1.593 and obtain taxable value of $4,400 million for land, to which all real estqte taxes would be shifted. This calls for a rate of 4.24 on the theoretical basic value and will unquestionably wipe out the market value completely.

Taken in this form, it will be seen that the general real estate tax will be the only one liquidated. The state does not participate in the income from this tax and it is reasonable to suppose that the city and county would do well on it if rent control were eliminated.

Controlled rents are about 40% of what has to be obtained to support investment in new buildings (not under control), and this holds down both building and land values.

Thus we have a demonstration of the feasibility of shifting present real estate taxes to land value and also of the folly of discussing any further extension of land value taxation at this time.

Georgeists should have clearly in their own minds and make clear to others the factual limitations to their proposal. They should recognize historic developments since the time of Henry George. They should not place his great message in behalf of human freedom in the shadow of impracticability.

There are also auxiliary difficulties that must be cleared before a mere shift of assessment will have any meaning. We must have legal provision for prompt foreclosure and forfeiture for taxes. Much of the vacant land in Cook County is so far in arrears that the cost of clearing it is greater than the price of adjacent land, and the legal difficulties are considerable.

Persons in the 87½ percent income bracket will be able to hold land as a hedge against inflation at a cost of one-eighth of whatever the tax may be. A strong movement in this direction is now originating from this source. The fact that all local taxes are deductible from taxable income creates an artificial and varying relationship that violates the deductions made in earlier paragraphs to the extent that they become worthless theory unless the Federal government, in recognition of efforts by the states to achieve a balanced revenue system, will abolish deductions for taxes on land value.

Thus the present situation resolves itself into opposing tendencies, viz.:

<u>Favorable</u>

A substantial tax on land value making it expensive to hold land out of use.

<u>Unfavorable</u>

Lack of effective means for making tax delinquent land available for use.
An income tax structure that singles out land as presenting a most desirable medium for big money to hedge against inflation and may well make such good land unavailable.

Neither general, nor concentrated land values have advanced as was reasonably expected seventy years ago. When foot power, whether by man or horse, was the only means of local transportation and the telephone and even the bicycle were in their infancy; when producers were outbidding each other for sites that would reduce distance between locations of productive activity, and for home sites close to location of work; when a farm only a few miles from a railroad station, to say nothing of distance to schools and social advantages carried a heavy handicap; who at that period could foresee the advance that has been made in communications and consequent influence on land values.

Today we have electric rail transportation over surface, elevated and subway lines; motor buses on rubber tires over streets and highways; forty million private automobiles and trucks; electric transmission of power to industry and remote farms; farm land being converted to great shopping centers where parking space is the greatest attraction for customers; telephone, radio and television available to modest homes and the cinema furnishing means of amusement in our villages. Space rather than contiguity has become desirable. Until our population begins to press on the available area, the cost of land, subject to existing taxes, is not a serious problem, even though it violates the freedom that we should seek. It is our existing tax on land values and our freedom of trade between the states of our resourceful country that more than anything else have made us the most productive of nations with the most general distribution of the resulting wealth of any country on the earth.

The important problem of today is the extension of this freedom to other areas of the world, where because of pressure of population the land question is even more important and requires radical treatment. In most of these areas the people, in starvation and ignorance, are ready to sacrifice their unhappy lives to destroy their exploiters, combination landlords and usurers. They care not about the means and understand little of the alternatives offered. The little people of the earth are rising and the communists make them feel their oats.

What is our mission in the world ? To put the landlords back on their estates and their tenants back into slavery? Cannot we develop a philosophy and a program to offer these people that will give them freedom and the right to enjoy the fruits of their labor? Can we, if we do not ourselves understand what such a system requires? Do we understand even what freedom of trade means to us, and how can we explain it while maintaining our exterior tariff walls? If we cannot, all our efforts in this field may be fruitless and communism will rule the world.

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