

Selim N. Tideman
1104 Ashland Ave.
Wilmette, Illinois

November 29, 1960

Dear Mr. Stockman:

I can well appreciate your desire to have me elaborate the subject of large scale acquisition of land and its monopolization by people in the high income brackets and their holding it out of use or in marginal utilization. The paper I presented at the Detroit Conference, in July of this year, and which attracted your interest, was of necessity condensed and did not expand the subject as needs to be done.

I shall first quote statistics on the number of personal income taxpayers and their incomes, the income tax rates reached and the area in which deduction for taxes becomes available. These are derived from table 474, page 379, Statistical Abstract of the United States, 1958 edition, the latest available. The figures are for 1955. I have none later.

The number of taxpayers is quoted on the basis of "Adjusted Gross Income". The taxable income averages 16% less, but previous years show a rate of growth in the number of taxpayers and incomes that indicates the use of the "Adjusted Gross" for 1955 as the Taxable in 1960 to be a conservative approximation. In the previous three years the number of taxpayers in the higher brackets increased by 20% and their incomes by 23%. I will tabulate the data.

*Based on Tax Table					
Adjusted Gross Income Class	Number of Returns	Average Income	Tax bracket of Average Income	Tax on Aver- age Income	Average Taxpayer Retains
50,000 to 99,990					
Married couples	77,563	66,500	65%	30,545	35,955
Single persons			78%	39,400	27,100
100,000 to 199,999					
Married couples	16,889	138,000	78%	82,680	55,320
Single persons			89%	101,160	36,840
200,000 to 499,999					
Married couples	4,009	279,000	89%	205,240	73,760
Single persons			91%	228,710	50,290
500,000 and over					
Married couples	887	1,080,000	91%	929,640	150,360
Single persons			91%	957,620	122,380

Mr. Joe Stockman
Henry George School of Social Science
413 South 10th Street
Philadelphia 47, Pennsylvania

*Taxes paid are less than amounts
calculated but the respective tax
brackets remain reached.

4958

I shall seek to illustrate four conditions in our economy that promote the trend that I have referred to. Taken in conjunction with the maxim that men seek to satisfy their desires (in this case the preservation and increase of their estates) by following the channel of least resistance, I believe that I will be found to be right.

These conditions, applicable to persons with large incomes, are as follows:

1. The impossibility of retaining substantial income in excess of that allowed in the lower income tax brackets.
2. The under assessment of land and deductibility of local taxes from the income tax base.
3. The historic inflationary trend which inevitably will be extended into the future.
4. Growing population and demand for land.

To illustrate, let us take a taxpaying man and wife with a net Taxable Income of \$280,000. The tax is \$205,840 and they retain \$74,160 to spend or invest. They decide to sell enough 4.2% bonds to reduce their income to \$200,000. This calls for the conversion of \$1,900,000 to cash.

But what will they do with the money? Inflation is always eating into the principal. They can buy land. Others in their fix have already done so and put up the price but, population is increasing and over the long period land is inflation proof. But even though taxes on real estate are deductible, they must be paid.

Somebody calls their attention to page 138 in the August 1960 issue of "House and Home", a responsible Time Inc. publication and they find:

Farms and acreage were, in 1957, assessed at 22.2% of market value. Vacant lots at 22.7%. Non-farm homes 31.5%. Business properties 40.8%.

This relationship has deteriorated since 1957 because land prices have increased vastly and assessments have gone up only 10%.

In New York suburban areas, land is assessed at 10% until a house is built on it, when the assessment is tripled. In California, land assessed at \$300 per acre is sold for \$7,000; land assessed at \$350 is sold for \$10,000 and a lot in San Francisco assessed at \$3,800 was sold for \$60,000. The state of California is taxing bread and butter and taxes what is left of incomes after the federal government takes its share. In 1957 this state collected sales and gross receipts taxes in excess of one billion dollars, individual and corporation income taxes 300 million, property taxes, nearly all on improvements, \$108 million.

There is a federal tax of 25% on the profit in a land sale, but if the owner happens to die, the "cost of acquisition" becomes the market price at the time of his death and we have a new base for the profit for the benefit of his heirs.

But, looking at the whole picture, our family decides to buy scattered tracts aggregating 6,400 acres at \$300 per acre, using up the \$1,900,000.

The tax rate in these areas is 4.2% of the assessed valuation. The valuation is \$60 per acre and the tax \$16,000 per year. Deducting this from their income leaves taxable \$184,000 on which the income tax is \$120,720, leaving them, out of the \$200,000, with \$79,280 to spend or invest. When the income was \$280,000 they had \$74,160 left over but now they have to pay the land tax out of the \$79,280, leaving them with only \$63,280 or \$10,880 less than before they disposed of \$1,900,000 of bonds. This is about 1/2 % interest which they gave up, and which could have been kept if the bonds had not been traded for land.

Now, if they will look at page 331, table 418, 1958 Statistical Abstract, they will find that in the wholesale market the purchasing power of the dollar went from 192.3 in 1935 to 85 in 1957, down 6% per year, and in the retail market from 170.4 to 83.2, down 5% per year. Looking back further they find that this rate of depreciation has persisted since the turn of the century.

Of course, they might buy common stocks, but they already have a lot of them and need diversification. They look at that blue chip stock, Texas Gulf Sulphur, that they bought in June 1955 and paid 42-3/4 for, which sold June 1, 1960 for 16-1/2--no they must have diversification. Then there was Olin Mathison Chemical went down 21%, Pennsylvania Railroad down 54%, good old Reading down 64%, all in the same period. This was while prices rose 33% -average stocks. No- they cannot trust all they have to the stock market.

But let us look at the record of land prices! Page 323, Statistical Abstract, quotes the value of all land in the United States. The figures do not pretend to be accurate but it is reasonable to allow the same margin of error for 1900 as for 1955. No land was added to the area of continental United States but the value quoted went from \$26.9 billion to \$176.6 b., an increase of 552% or roughly 10% per year. Now what is the matter with buying land?

On the other hand, with the greatest debt structure in our history, constantly increasing in both the public and private sectors, how can any rational economist assume the arrest of inflation except as a temporary condition while gathering energy for the next performance. And union wages rising each year, setting the pace for prices! So they consummate the deal. But,

Suddenly, we elect a legislature that understands the place of land in our economy, we get honest assessments and make the land tax 5% on the valuation. Theoretically this should cut the market value in two--adding the tax rate currently applied to the current rate of interest to make a new tax rate. We will thereafter have to go behind Robin Hood's barn to find a new tax rate that will reduce the market price of land a further X percent. We push the tax rate up and the market price down till some wise man says, "Stop". How does this bother our investment minded family?

When we slap them they blow up and protest the valuation, and in this they are right, because the land, other things being equal, should now sell for \$150

per acre. In the mean time. they pay the tax, 5% on \$1,900,000 or \$95,000.

This, deducted from a \$200,000 income leaves \$105,000 on which the tax is \$56,390. This leaves \$143,610 and after paying the land tax \$48,610. But they had filed a protest and in due time the court finds that the land cannot now be sold for more than \$150 per acre and they get a refund of \$47,500. If they are honest they report this as income when received, which becomes an exact offset against the tax paid in that subsequent year. The income tax bill will then be based on \$200,000 or \$134,640, leaving \$65,360. In the two years they retain \$113,970 or practically \$57,000 per year, which compares with a retained income before they converted bonds to land of \$74,160, penalty for holding onto 6400 acres of land \$17,160.

We now get a legislature that decides to go after the bulk of the land value in taxes and raises the rate to 20% of market value. The big investor finds that he is not being hurt and subsidizes. Land is getting scarcer but its untaxed capital value when he bought was only, say, \$400 per acre, rental value at 5%, \$20 yearly and, if the community takes \$15, this is about all that can be taken and leave a margin for assessing the value. This leaves one fourth of the capital value or \$100. We are dealing with 6400 acres and the tax becomes \$128,000.

This is deducted from his \$200,000 income and we come out with \$72,000 taxable income tax \$34,120, retained real income \$165,880, and deducting the land tax \$37,880. Compared with retained income of \$74,160 before they sold their bonds they are hurt to the extent of \$36,280 per year.

But let us try to get part of this back. On this land there are a lot of farms. There are buildings and improvements on the farms to a value of \$800,000. We take depreciation of 5% per year, \$40,000 and write this off and save \$23,720. We rent out the farms but after administrative expenses we come out even - if there is a profit it helps out some, but not to complicate the matter we rule that out. But we select the most suitable farm for a summer home, staff it with servants, at a cost of \$32,000 per year for salaries, etc. It is a big farm - we equip it to be our favorite place to live and enjoy life. Properly handled, we may get a deduction for the \$32,000.

Our income tax is wiped out. We still have an income of \$200,000 which after paying \$128,000 land tax leaves us \$72,000 per year to spend or invest. Before we sold our bonds we retained \$74,160.

The land will increase in basic value, the tax will increase and so will the deductions. The higher the tax bracket the more effective the deduction. This circumstance will wipe out the penalty for holding the land, no matter what the land tax is, for 887 taxpayers whose average income is \$866,640 per year.

There is no place they can put their money to get any returns and no other safe inflation hedge.

But, you say, our people have lost two thirds of their original investment. If they were to sell, they would only get \$640,000 for their land.

They did not sell but now, with a tax of 20% on the market value of land, the bulk of vacant land has reverted to the community. A developer must buy from the community and look forward to paying the land tax. Our family, sitting practically tax free on its acreage can offer a 999 year lease at a rental lower than the tax would be on similar land and continue to pay the land tax. The developer is in a much lower income tax bracket and the difference can be traded on.

I realize that this whole illustration is fancyful. I have stretched it to the extreme of its possibilities and beyond its probability, but my object is to draw attention, first to the multiple inducements for great wealth to acquire and monopolize our land and next to the effect of tax deductibility on the operation of incentive taxation. Our hypothetical investor could rent out his land for farming although a great city needed it for housing or a great industry for expansion. There would be no pressure to put the land to its greatest use, no matter how high the tax rate was if his income was large enough to absorb it. Our hypothetical speculator could have sold out before he was caught in reduction of land prices and come back in when they had reached bottom. He could accumulate wealth as a tax broker.

But you perhaps will say - some people do - abolish the income tax!

I have spent years in personal observation and study of the relation of the land value component of our capital structure, the structure that returns income in exchange for investment. I am familiar with this phase of the investment picture in most lines of business and I have consulted what statistics are available, though confessedly, these do not always correspond to common sense observation. But when using statistics to compare one thing with another, it is reasonable to assign an approximately equal value to the error in one to the error in the other.

I have come to the conclusion that the investment of capital in land as compared with investment in the whole of enterprise does not exceed the following proportions:

Housing	25%
Trade	25%
Industry	20%
Exchange, banking etc.	30%
*Farming	30%

Investment exclusive of land includes buildings, industrial equipment and inventory and other things not so important but too numerous to mention, to say nothing of liquid funds. On the whole, the land value will not exceed 25%.

*It becomes necessary, without interruption to our line of thought, to explain this item. Take a 100 acre farm, the average size in U.S.A. Say it is worth \$30,000. Offset the cost of converting the prairie or the forest into farm land, drain it, fence it, build a barn, a machinery shed, a chicken house and last of all a family home - what is left of \$30,000 ?

What is the annual income from invested capital in the United States? Our income tax figures give a fairly accurate picture and including the professions it does not exceed \$100 billion before taxes. Our taxes to all levels of government are about \$110 B. What is retained by business is approximately equal to taxes paid out of wages and salaries, all forms of taxation included. This is simplification but not oversimplification. Where are we going to get the revenue if we abolish the income tax? The land tax could pay the ordinary expenses of good local government and services if efficiently managed but the federal and state governments would have to get along as they do now.

There remains this hope: If we were to succeed in getting the land tax adopted as a measure of justice, or we might say as a method of incentive taxation, the education necessary to accomplish this result might also spread to the federal level and make possible legislation to cancel out the deductibility of the tax, or of real estate taxes as a whole.

An alternative would be to level out the income tax rates, but this nation is under mass rule and it is going to be very difficult to shift the existing structure to increase the contribution of the masses to the federal budget. The latter is substantial now. Sixty-two percent comes from taxable incomes of \$10,000 or less, 25% from 5,000 or less, and only 20% from incomes in the 50% bracket or over.

This study is presented, not as a deterrent or intended as a discouragement to those who are seeking a just adjustment in our system of land tenure. Far from it. If we are to make any contribution to saving the world from communism we must understand this question. In the major areas of the world, land is the only source of wealth and the exploitation of the people by land monopolists, foreign or indigenous, is the source of the peoples' misery. Industrialization and all conventional measures are futile until the land is made accessible to the people to derive their own living from it, without any penalty to a landlord.

In our country the population is not yet pressing on the physical supply of land. The wonderful progress made in transportation and communication facilities has held monopoly prices on urban land in check, but we are just coming into the period of speculative excess, in such land in particular, as derives its desirability and value from extensive public improvements. Under the inducements that I have sought to illustrate in this contribution, this excess of speculation is bound to extend over the country and cover land in general, wherever it is above the margin of profitable utilization.

Selim N. Tideman

Copies sent to others interested in the subject.