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A BURDENLESS TAX

THE SINGLE TAX TRIPOS

**The Threefold Support Upon Which
the Single Tax Rests**

- A. The Social Origin of Ground Rent.
- B. The Nonshiftability of a Land Tax.
- C. The Ultimate Burdenlessness of a Land Tax.

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A

THE FIRST LEG OF THE SINGLE TAX TRIPOS

THE SOCIAL ORIGIN OF GROUND RENT

GROUND RENT, WHAT LAND IS WORTH ANNUALLY FOR USE, IS A CREATION OF THE COMMUNITY, A SOCIAL PRODUCT—ALL LOCAL TAXES ARE SPENT UPON THOSE THINGS WHICH MAKE AND MAINTAIN GROUND RENT.

I.—Definition of Ground Rent

(1) Ground rent is what land is worth for use—economic rent.

(2) Strictly speaking, the "worth for use" attaches not to the land itself, but to scores of things exterior to the land and through it available for use, so that the following is a fuller description:

Gross ground rent—economic rent—the annual site value of land—what land is worth annually for use—what the land does or would command for use per annum if offered in open market—the annual value of the exclusive use and control of a given area of land, involving the enjoyment of those "rights and privileges thereto pertaining" which are stipulated in every title deed, and which, enumerated specifically, are as follows: right and ease of access to water, health inspection, sewerage, fire protection, police, schools, libraries, museums, parks, playgrounds, steam and electric railway serv-

ice, gas and electric lighting, telegraph and telephone service, subways, ferries, churches, public schools, private schools, colleges, universities, public buildings — utilities which depend for their efficiency and economy on the character of the government; which collectively constitute the economic and social advantages of the land independent of any quality or content of the ground or land itself, and which are due to the presence and activity of population, and are inseparable therefrom, including the benefit of proximity to, and command of, facilities for commerce and communication with the world — an artificial value created primarily through public expenditure of taxes. For the sake of brevity, the substance of this definition may be conveniently expressed as the value of "proximity." It is ordinarily measured by interest on investment plus taxes.

II.—The Nature of Ground Rent

As defined by Mr. Shearman, ground rent is, in its nature, "a tribute which natural laws levy upon every occupant of land as the market price of all the social as well as natural advantages appertaining to that land, including necessarily his just share of the cost of government." It is found operative in every civilized country, automatically collecting "from every citizen an amount almost exactly proportionate to the fair and full market value of the benefits which he derives from the government under which he lives and the society which surrounds him." It is a tribute, "a tax, just, equal, full, fair, paid for full value received." "It is not merely a tax which justice allows; it is one which justice demands. It is not merely one which ought to be collected; it is one which infallibly will be and is collected. It is not merely one which the State ought to see collected; it is one which, in the long run, the State cannot prevent being collected. . . . Seldom has there been a more beautiful illustration of the wise

yet relentless working of natural law than in the proved impossibility of justly collecting any tax other than upon ground rent. It shows that nature makes it impossible to execute justly a statute which is in its nature unjust." This definition of Mr. Shearman's is offered as one difficult to be improved or condensed.

Such, it may be added, is the nature of rent — ground rent — that all the public and private improvements of a community to-day are reflected in the land values of that community. Not only this, but the value of all those ideal public improvements conceived of as being possible under Utopian conditions would be similarly absorbed, as it were, in the ground, would be reflected in its site value. Stand before a big mirror and you will see your image perfectly reflected before you. If you are a man scantily, shabbily clad, so is the image in the glass. The addition of rich and costly attire is imaged in the glass. Load yourself with jewels and fill your hands with gold: in the mirror, true to nature, is the image and likeness of them all. Not more perfectly, nor more literally, is your image reflected in the mirror than are public improvements reflected in the value of the land.

One peculiarity in the nature of ground rent to which we urge your attention is the subtle relation existing between this natural income and the artificial outgo of the public taxes — a relation not unlike that of cause and effect, by which the wise expenditure of the tax contributes, in a manner especially direct, to the element of ground rent.

Simple illustrations may help to open the mind to a consideration of whatever may seem novel or strange in the re-statement of a familiar truth. For instance: The cook turns the crank of her coffee mill; the whole coffee that was in the hopper comes out ground coffee, but it is coffee just the same. The Minneapolis miller lets on the water that

turns the crank of his flour mill; the wheat that goes into the hopper comes out flour, wheat in a more subtle form. The people turn the crank of a great tax mill; the taxes that go into the hopper come out ground rent, no tax quality lost, no rent ingredient added.

Or again: The myriad springs and rivulets of the great Mississippi are continuously delivering themselves in one great river to the sea. Suppose that some day you should read in the weather bulletin that nature had decided to suspend the regular return of these waters in clouds and rain and dew to their point of departure. How long would it be before the Mississippi Valley would be as parched and dry as the Desert of Sahara, or the North End of the city of Boston, or the East Side of the city of New York?

Or, more pertinent still, because more vital: The constant round of taxes and ground rent is the blood circulation of the body politic. When the heart throws out the life blood through the arteries, if that blood does not return through the veins, the patient dies—not of heart failure, but from loss of blood. When the public heart charges the arteries of the land with ground rent, if that ground rent does not return, the body politic is prostrated or enervated by loss of blood. The body politic to-day, like a man with a ravenous appetite, is cleaning its plate of all the millions a year that it can earn, and mortgaging the future for nearly as much more, always eating, yet always hungry, and simply because the best part of its millions of dollars' worth of arterial life blood, instead of coming back to the public heart, ebbs rapidly away through severed blood vessels in the private appropriation of ground rent.

These illustrations of the miscarriage of a beneficent provision seem to hint strongly at the true theory of ground rent, as waiting to be naturally developed under a natural law, and as a natural social product.

III.—The Operation of Ground Rent

Critical consideration is invited to Mr. Shearman's statement that the operation of ground rent is to exact from every user of land the natural tribute which he ought to pay in return for the perpetual public and social advantages secured to him by his location, a part of which natural tribute now goes to the State in the form of a tax, and the remainder to the landlord in the form of rent. Objection to monopolies and special privileges is that they participate in the private appropriation of an undue share of this natural tribute, and while recognizing that in the end all quasi-public, as well as all public service, should be at the least practicable cost to the people, it is held that meantime whatever monopoly is enjoyed should be obliged, through taxation, to repay to the public a full and fair equivalent for the privilege conceded to it.

The monopolies and special privileges which should properly share with land values the burden of taxation, may be partially enumerated as follows: the private appropriation of natural resources such as gold, silver, copper, iron, and coal mines, oil fields, and water powers; all franchises of steam and electric railways; all other public franchises, granted to one or several persons incorporated, from which all other people are excluded, and which include all "rights, authority, or permission to construct, maintain, or operate in, under, above, upon, or through any streets, highways, or public places, mains, pipes, tanks, conduits, or wires, with their appurtenances for conducting water, steam, heat, light, power, gas, oil, or other substance, or electricity for telegraphic, telephonic, or other purposes."¹

IV.—The Office of Ground Rent

The true office of ground rent is that of a board of equalization—equalization of taxa-

¹ Quoted from the Ford Franchise Tax Act of New York.

tion, of distribution, and of opportunity. The tendency of an increase in the tax upon ground rent is not only to equalize taxation and distribution, but to equalize the opportunity of access to what is erroneously called the land, which of itself, even in a city, would be of little or no use if it had a perpetual fifty-foot tight board fence around it. In this clear distinction between land and land value, which cannot be too critically noted, may there not be found an explosion of the notion that a man has a right to the private appropriation of ground rent, because his father bought and paid for the land fifty or one hundred years ago?

The question is: When he bought the land fifty or one hundred years ago, did he buy and pay for the land value of to-day? In 1686 a company having five shares and five stockholders bought a lot of land in Philadelphia for \$5. In 1900 the same company, with its five shares and five stockholders, sold the value of the same land for \$1,000,000. Does it sound reasonable to say that for one pound sterling in 1686 these five men bought and paid for the \$1,000,000 land value of 1900, with its ground rent of \$40,000 a year? Would not such a sale in 1686 of goods to be delivered two hundred and fourteen years later be dealing in futures with a vengeance? True it is that the land sold to-day is the same land bought in 1686. But it is just as true that its value to-day is not the value of the land itself, but is the value of the rights and privileges pertaining thereto, and exterior to the land itself. The demand that enhances land value is not for land itself, but for the command of these same rights and privileges.

Land value being a social creation, and rent being socially maintained, equal access to the rights and privileges pertaining to the land can be promoted by the taxation of ground rent alone, and by this means only. Ground

rent, the natural tax feeder, extracts from the user of land the exact measure of his advantage over other men in his exclusive enjoyment of rights and privileges pertaining to his own location, and the whole tendency of the taxation of ground rent is to equalize participation in these common rights and privileges, by commuting into dollars and cents, which can be divided, those indivisible advantages of location, which can only be enjoyed individually. Whatever of rent goes into the public treasury tends to a fairer distribution of produce in wages earned. Whatever of taxation is transferred from other wealth to ground rent leaves so much more wealth to be distributed in wages.

Again, it is submitted that the true office of ground rent is to offer a communal shoulder suited to bear all the burden of common needs, leaving produce—current wealth—to be distributed, as fast as produced, in wages and interest, the total volume of which will always be increased by the amount of rent appropriated through the taxation of whatever of economic rent there is in special privilege.

Ground rent being a social product, is not its private appropriation a special privilege?

V.—The Cause of Ground Rent

The dimensions, as well as the continuous character of the contribution made by the people to the growth and volume of ground rent, are seldom measured—by many persons hardly suspected. Almost anything else that he owns, except land, a man may appropriate, destroy, tear down, burn down, remove, consume, change in form, wear out. To the land itself he cannot do any of these things. The value of its use is ground rent, an annual value, which is all that the owner of land can consume each year. The land value itself survives, and usually intact. People speak of owning land, because they or their fathers have bought and paid for it.

Ground rent may be said to result from at least three distinct causes, all connected with aggregated social activity:

(1) Public expenditure: All wise public expenditures are direct feeders of ground rent. Streets, lights, water, sewerage, fire and police systems, public schools, libraries, museums, parks and playgrounds, all contribute to enhance the value of land, and a corresponding depreciation would follow the abolition of any of these systems. It follows, therefore, that expenditure for maintaining these services constitutes the maintenance of ground rent, if not in a literal sense, at least in an all-sufficient common sense.

(2) Quasi-public expenditure: In the same way, the expenditure by the municipality or by private corporations for steam and electric railways, gas and electric lights, telegraph and telephone facilities, subways and ferries, contributes to the value of land, at least, to the extent of their actual cost.

(3) Private expenditure: Equally, and by parity of reasoning, private or voluntary social expenditure for churches, private schools, colleges and universities, all private buildings, apartment houses, stores, and office buildings, contributes to ground rent, the annual value of land.

In an enumeration of the causes of ground rent, population is usually the one first named. But a passive population gives little value to land; it is rather the activities consequent upon the character of population that create the value.

It is generally conceded that, as a matter of fact, ground rent is what land is worth annually for use; but it is of far greater importance to understand clearly what is the source of ground rent, and especially to what extent it may be regarded as a social product. Inasmuch as all the contributions representing these activities, so far as enumerated, are from the treasuries of the people, it is correct and

proper to say that ground rent is chiefly and peculiarly a social product.

From one point of view (that of demand) it may be said that the value of all commodities is a social product. But when we come to consider the other side of the value problem, we find that most other commodities, e.g., houses, increase or decrease at man's will, according to the principle of cost, the value being a resultant of a balancing of social desire against social cost.

With land it is more generally true that the quantity either cannot be increased at all or can be increased only at increasing cost; and hence the practical determinant of the value of land is almost entirely in the social and private activities that make the use of land desirable.

VI.—The Maintenance of Ground Rent

So far as the cost of streets, lights, water, sewerage, fire, police, schools, libraries, museums, parks, play-grounds, steam and electric railways, gas and electric lights, telegraph and telephone companies, subways, ferries, churches, private schools, colleges, universities, public buildings, well appointed houses, stores, and office buildings is what constitutes the cost value of the land, just so far the maintenance of all this public or social service constitutes the maintenance of ground rent.

A simple illustration may help to an appreciation of the absurd absence of a true economy in tax affairs to-day. A landlord owns a factory which requires steam power, and which is useless and worthless without it. Another man owns a steam plant, and furnishes steam to factories at so much per horse power. The man who hires and uses the factory pays factory rent to his landlord, who furnishes the factory, and steam rent to the man who furnishes the steam. He would smile if you should talk to him about paying his steam rent to the landlord who does not furnish it. In

vivid contrast with this sensible performance we may take the case of another landlord who owns a store, requiring public service and convenience, and useless without it. The municipality owns and runs a public service plant, and furnishes public service at a cost of so much per thousand dollars' worth. The man who hires and uses the store pays store rent to his landlord, who furnishes the store, but, by a strange perversion, he pays his public service rent to the same landlord. Should he not pay his public service rent to the public that furnishes it?

Inasmuch as all these contributions to its maintenance, so far as enumerated, are from the treasuries of the people, what can ground rent possibly be, if it is not a social product?

VII.—An Illustration: The Ground Rent of Boston

A dense skepticism and, indeed, a denser ignorance, seem to obtain even in regard to the simple fact that there is such a thing as ground rent, and yet much more in regard to what is the volume of ground rent. It has been questioned whether the ground rent of the city of Boston, for instance, under the single tax, with the accompanying shrinkage in speculative values, would exceed to-day 5 per cent. on the assessed valuation of land, or \$32,000,000. Indications are that the net rent of the land itself might not, but our investigations are directed to ascertaining not the net, but the gross, ground rent, which is net rent plus the taxes.

In a systematic attempt to dispel these clouds of ignorance and skepticism—now to be found in surprisingly high places—and to demonstrate beyond a reasonable doubt about how much gross ground rent there is in the city of Boston, actual sales for the year 1902 and actual rentals have been collected from official sources.

One hundred and twenty pieces of real estate

in various sections of the city are shown to have been sold at prices averaging one-fifth higher than their assessed valuation, indicating that at least in these one hundred and twenty cases the valuations were less than five-sixths of the selling price.

Seven hundred and fifty-one rentals of estates, together with their assessed valuations, averaging \$47,680 each, were also obtained from reliable sources. In the total for these it is found that the net rent is 5 per cent. (4.8), and the gross rent—net rent plus taxes—is 6 per cent. of the assessed valuation.

Based upon this indicated ratio the gross ground rent of Boston is, by a conservative estimate, not less than fifty or fifty-five million dollars.

The valuation of Boston's land in 1887 was	\$322,000,000
The value of the same land in 1907 was	653,000,000

Thus the increase in the valuation of land in twenty years was	\$331,000,000
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Five per cent. on this twenty years' increase of \$331,000,000 would be \$16,650,000, which, added to the \$4,300,000 assessed upon the land in 1887, would be \$20,950,000, as compared with Boston's taxes of \$21,254,000 in 1907.

Those who agree with John Stuart Mill that it would be sound public policy and no injustice to land owners to take for public purposes the future increase in ground rent will be interested to note what an opportunity for putting such a plan in operation in Boston is shown by the above figures to have been lost twenty years ago.

The fifty-five millions are, we submit, the "income" in very truth earned by the city and people of Boston—created by their actual labor and actual expenditure. Under the single tax Boston would pay all its current expenses out of this legitimate \$55,000,000 in-

the relation between the property owner and lien holder; neither has any bearing upon the relations between owner and tenant. "Tax" is simply the name of that part of the gross ground rent which is taken by the State in taxation, the other part going to the owner; the ratio these two parts bear to one another has no effect upon the gross rent figure, which is always the sum of these two parts, viz, net rent plus tax. The greater the tax, the smaller the net rent to the owner, and vice versa. Ground rent is, as a rule, "all the traffic will bear"; that is, the owner gets all he can for use of his land, whether the tax be light or heavy. Putting more tax upon land will not make it worth any more for use, will not increase the desire for it by competitors for its tenancy, will not increase its market value.

To illustrate, let us consider the case of a piece of land for which the landowner gets \$1,000 rent from the man who uses it.

First: The owner, let us say, pays over to the city in taxes \$100 of this \$1,000 rent. Is there any indication that this \$100 tax has any influence in fixing the present rent at \$1,000?

Second: Let us suppose that next year the city decides to take another \$100 of the \$1,000 rent in taxes. Could the owner then add the \$200 tax to the tenant's rent, making it \$1,200?

Third: Let us suppose that the following year the tax is increased by another \$100 and so on, by an annual increase, until, for extreme illustration, the tax is \$1,000, an amount equal to the entire rent; would such a condition make it possible for the owner to raise his tenant's land rent to \$2,000?

These questions would seem to answer themselves in the negative, and thus bring us to a fair conclusion in the matter.

"The weight of authority upon such a question is worthy of attention, although by no

means decisive. Now, while a few respectable and sincere students of economic science hold to the doctrine of transferability of the ground-rent tax to the tenants, no one will dispute that an overwhelming weight of authority both in numbers and in reputation, scout that doctrine as absurd. Not only the entire school of Ricardo and Mill, but also nine-tenths or more of other economic writers make it a fundamental doctrine of their science that such a tax never can be transferred to tenants."—*Thomas G. Shearman*, "*Natural Taxation*," pp. 129-132.

C

THE THIRD LEG OF THE SINGLE TAX TRIPOS

THE ULTIMATE BURDENLESSNESS OF A LAND TAX

EVERY LANDOWNER IS EXEMPT FROM TAXATION ON HIS INVESTMENT, TO THE EXTENT OF THE TAX TO WHICH HIS LAND WAS SUBJECT AT TIME OF HIS PURCHASE, AND THEREFORE, PRACTICALLY SPEAKING, NEARLY ALL LAND IS TO-DAY OWNED FREE OF ANY TAX BURDEN

The purpose of the following illustration is to make clear by means of iteration and re-iteration two facts, viz:

Fact I. The land owner of to-day who has purchased since the present tax was imposed escapes taxation upon his investment.

Fact II. The burden of a land tax cannot be made to survive a change of ownership.

The illustration is intended to show the effect in a normal or advancing community of mortgage interest and taxes upon the market value and cost to the user of a lot of land and a house respectively having equal purchase and rental value, and each subject to the same mortgage interest and taxes.

First: The Land

Proposition 1.—Let it be supposed that you want a piece of urban land that is worth \$300 a year to you for use. You can afford to pay \$300 a year and no more, and it can be had at an annual cost of \$300 a year.

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Let us then proceed to acquire this piece of land, exercising diligence and caution to profit by each step in the transaction.

(a) At the very outset the question arises, what is the thing for which you are proposing to pay \$300? Surely it is not the soil itself, because it is a question of a building site, which could be had out in the country for little or nothing. It is not merely the area upon which to dig a hole in the ground, wall it about, and erect a building, for the same space can be had elsewhere for a song. In short, it is not the earth's surface; it is not the inherent capabilities of the soil; it is not light and air, or other bounties of nature resident in that lot of land; it is not natural resources of which you are thinking as worth to you \$300 a year.

(b) But what you are going to pay for is the accompanying and incidental use of a great many expensive things outside of the piece of land, things which you will need and must have, which you cannot afford to provide at your own expense, but for the use of which you can afford to pay in proportion as you use them. It is these outside things, available by their proximity, for which you are called upon to pay \$300 a year. To enumerate again, specifically, they are, in a town or city lot, right and ease of access to water, health inspection, sewerage, fire protection, police, schools, libraries, museums, parks, play-grounds, steam and electric railway service, gas and electric lighting, telegraph and telephone service, subways, ferries, churches, public schools, private schools, colleges, universities, public buildings—utilities which depend for their efficiency and economy on the character of the government; which collectively constitute the economic and social advantages of the land; and which are due to the presence and activity of population, and are inseparable therefrom, including the benefit of proximity to and command of facilities for

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commerce and communication with the world — an artificial value created primarily through public expenditure of taxes. In practice, the term "land" is erroneously made to include destructible elements which require constant replenishment; but these form no part of this economic advantage of situation or site value.

(c) In other words, you are to pay \$300 a year for the value of what the law calls the "rights and privileges thereto pertaining," specified in every deed of land conveyance. This \$300 is ground rent, "what the land is worth for use."

Proposition 2.— Assuming this piece of land to be free from all charges and incumbrances, and assuming the current rate of interest to be 5 per cent. per annum, you would purchase the lot for \$6,000, because interest upon that sum would amount to the stipulated \$300 a year. But if, on the contrary, the lot bears a mortgage of \$2,000, upon which the annual interest charge is \$100, then the lot will cost you \$4,000.

(a) The mortgage interest charge of \$100 reduces the selling price of the land by the amount of the mortgage, \$2,000, and you will buy the land, not at \$6,000, but at \$4,000, the value of the equity remaining after mortgage interest has been paid.

(b) By purchasing title you will assume the mortgage and will pay the mortgage interest, \$100, but that \$100 will not come out of your \$200, the net income from your investment of \$4,000; it will come out of the gross income, the ground rent, \$300. It is a part of, and not an addition to, the ground rent. You will pay the interest, but you will not bear it, because you will have bought yourself clear of the burden.

(c) The lot will thus cost you annually for use, interest on your purchase price (\$4,000 at 5 per cent.) \$200, plus mortgage interest (\$2,000 at 5 per cent.) \$100, equal in all to \$300, all that the land is worth for use, use

being the only relation of land to man with which economics has reasonable concern.

Proposition 3.— But, besides being subject to a mortgage of \$2,000, assume further that this lot of land is subject also to an old tax¹ of \$100, which charge the purchaser must also assume. You will then purchase the land not at \$4,000, but at \$2,000.

(a) As already seen, the mortgage interest charge of \$100 reduces the selling price of the land by the amount of the mortgage, \$2,000. It is equally true that the tax charge of \$100 reduces it by the same amount, \$2,000; the mortgage and the tax together therefore reduce it by \$4,000; and you will buy the land at \$2,000, the value of the equity which remains after both mortgage interest and tax have been paid. This \$2,000 is the capitalization of the annual value of the lot to you after all charges have been met.

(b) In purchasing you will assume both mortgage interest and tax and will pay them, but you will pay them out of the gross income of \$300, and not out of the net income of \$100 from your investment of \$2,000. Therefore no part of the \$2,000 which you pay for the equity will be taken from you in taxation, either as principal or interest.

(c) The lot of land will thus cost you for use: interest on your purchase price (\$2,000 at 5 per cent.), \$100; plus mortgage interest (\$2,000 at 5 per cent.), \$100; plus taxes, \$100; and these together aggregate \$300, what the land is worth for use, the same as before.

(d) It follows then that, under the present system, assuming free competition, the selling value of land is an untaxed value, and land owners who invest to-day are exempt from taxation — not indeed upon their land, but upon its annual net or income value to them, or, in other words, upon their investment.

¹ By the term "old tax" is intended the tax in force at time of last purchase; by "new tax" one imposed since last change of ownership.

The gross value is a taxed value. The net value is an untaxed value.

(e) As this exemption of the present owner holds true to-day, so it will be true in future of each new purchaser subsequently to the imposition of any new tax. It is in the very nature of things that the burden of a land tax cannot be made to survive a change of ownership.

(f) This is equally true of a bond, but it is assumed that a tax levy should be not upon intangible stocks and bonds legally conceived as property, but only upon tangible goods and estates. It is, to be sure, just as true that a man who builds a house to rent pays no tax on his investment, but for a different reason. The tax, in that case, is shifted upon the user in increased house rent, except so far as, by discouraging building, it is reflected in lower wages for building. But an old tax upon the land is a burden neither upon present owner nor user. The tax on land is "absorbed," that on the house is "shifted."¹

(g) We cannot too soon or too rigidly fix in mind the fact that this ground rent of \$300 is the governing factor in the situation;² that it is a tax laid not by the State but by nature, which every man must pay for the use of land, either to a private owner as rent, or to the State as a tax, or to both. No statute or ordinance can increase or reduce, exempt from, or abolish the payment of this "economic rent," or ground rent, to somebody. Its amount is neither fixed nor affected by the tax that is put upon it, whether large or small. Taxing it cannot increase it; cannot decrease it; cannot abolish it. Its amount may always be calcu-

¹ Landlords who own and let both land and tenement houses, apartment houses, and business blocks thereon, escape the burden of the tax on their land, and at the same time shift upon their tenants the building tax, thus avoiding all share in the tax burden.

² This is indeed the point from which the whole discussion proceeds.

lated by this simple formula: ground rent equals interest on purchase price, plus interest on any mortgage, plus taxes.

Proposition 4.—Neither a tax upon ground rent, nor the ground rent itself, adds anything to the cost of land for use.

(a) Economic rent, ground rent, measures the value of all public, quasi-public, and social service. If the whole ground rent is not a burden, but merely an equivalent for social values received, neither can interest and taxes, two of the parts of which ground rent in our illustration is composed, be a burden upon the user. A tax upon rent comes out of rent, which, as has been explained, is the natural tax that every user has to pay to some one, and hence it subtracts nothing from wages and adds nothing to the cost of living.

Proposition 5.—You cannot pay \$6,000 for the land and in addition pay either the mortgage interest of \$100 or the tax of \$100, because that would make land cost you \$400 per annum which by our assumption is worth only \$300.

(a) The tax upon land cannot be added to the ground rent—which is kept at its maximum by market demand—but is a part of, and must come out of, ground rent. If it could be added, that fact would itself indicate that the ground rent was \$400 instead of \$300, which is contrary to supposition. Land worth only \$300 a year cannot be made worth \$400 a year by putting a tax of \$100 upon it.

(b) Let it not be forgotten that ground rent, in the sense in which the word is used, is the same homogeneous thing, one and indivisible, the world over—what land is worth for use. It is rent—or use value—not cost of construction or cost of production—that fixes the price of land. Economic rent is the initial and governing factor from which all calculations must proceed.

Second: The House

Proposition 6.—The lot having been acquired, let it be supposed that you are in need of a house, and that such a house as you want would cost to build \$6,000, or, in interest, \$300 a year, the same as the annual cost of the land.

(a) You will observe at once that the problem of the house is quite different from that of the land. The cost of acquiring land depends primarily upon its rent. Conversely, the rent of a house depends primarily upon its cost. Builders will not build houses unless they can get interest on the cost of construction. Competition among builders will not allow one builder normally to get more than interest on cost of construction.

Proposition 7.—If such a house were free of tax, but mortgaged for \$2,000, it would cost you to buy only \$4,000, and it would cost you to use, as in case of the land, interest on purchase price (\$4,000 at 5 per cent.) \$200, plus interest on mortgage (\$2,000 at 5 per cent.) \$100, making \$300 as before.

(a) The mortgage upon a house, like that upon land, will add nothing to the cost of the house for use.

Proposition 8.—But you find that such a house is subject also to a tax of \$100, which you will have to pay in addition to the above \$300, interest on purchase and mortgage, making the house cost you for use altogether \$400, instead of \$300 a year, or \$100 more on account of the tax.

(a) Unlike the tax upon land, the tax of \$100 upon the house cannot come out of the \$300 rent (house rent or interest) except indirectly through its effect upon wages as before mentioned, because house rent cannot normally be less than interest on the actual cost of building the house; it must instead be paid by the user of the house, over and above his interest, making his house rent, the annual cost of his house for use, \$400 instead of \$300.

(b) To repeat: a house rent, otherwise \$300, is increased to \$400 by a tax of \$100 on the house. In contrast with this, you may either take off a present tax of \$100 from the land, or you may increase that tax to \$200, and in neither case will the cost of the land to the user be affected. Take off the \$100 tax from the house, and the cost of the house to the user will be reduced from \$400 to \$300 a year; of land and house together, from \$700 to \$600.

Proposition 9.—The moral of this illustration is that you get for use annually \$300 worth of land for \$300, and a house costing \$300 for \$400. In other words, a tax upon land is a part of, is included in, and comes out of, ground rent, and is no burden to the user: while a tax upon a house is a clear addition to house rent, and comes principally out of the user of the house.

To recapitulate: (1) It has been shown that a house tax of \$100 that has been regularly levied takes in taxation \$100 a year of the user's income.

(2) It has been shown that a land tax of \$100 takes in taxation no part of the income of the user or present owner, provided that he purchased the land after the tax was imposed.

The beauty of this illustration is that (in a classification which excludes duplication by certificates or mere legal evidences of property, like stocks, bonds, etc., and includes only actual tangible property) while land stands as always for everything except the products of labor, a house is here made to stand as the representative of any and all products of individual labor, that is, for everything except land, and the illustration thus becomes all inclusive.

If you have had the patience to follow it understandingly you may rest assured that you have mastered a basic principle of taxation, and have solved one of the most perplexing problems of political economy.

Professor Seligman at Saratoga in 1890 made the following statement:

"It is apparent that the value of the land will fall in exact proportion to the increase of the tax, until when the tax equals the entire rent the value of the land will be zero. During these successive stages, however, the new purchasers lose nothing. The diminished rent will still yield them the same rate of interest as before, because of the diminished capital value on which the interest is computed."

Prof. F. Spencer Baldwin in an editorial in the Boston *Transcript*, March 16, 1900, said:

"The broad basis of this tripos of the Single Tax will doubtless withstand assaults. Since the ground rent of land is a social product, it is just to take at least enough of it in taxation to meet the expenses of government. Such a tax, furthermore, cannot be shifted from the land-owners to other classes in the community, but must be paid wholly and finally by them. It is, moreover, just that they should be taxed especially in this fashion; because in most cases they have bought their land tax-free under the operation of the principle that the selling value of land is an untaxed value and a land tax cannot survive a change of ownership. This three-fold support of the Single Tax is the stoutest that has been erected by any champion of the policy. Any one who will take the pains to study the economic principles involved, and their application, must concede the substantial validity of the arguments."

Among the other authorities on this point are Sir Robert Giffen, "Essays in Finance," First Series, p. 242. Mill, "Principles of Political Economy," Vol. II, Book V, Chapter II, Section 6. Bastable, "Public Finance" (1903), p. 440. Thomas N. Carver, *Yale Review*, November 1896.

THE END

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