



How to Lessen  
The Burden of Taxation  
in Massachusetts

---

ARGUMENT

*By*

JOHN S. CODMAN

BEFORE THE

Special Commission on Taxation

---

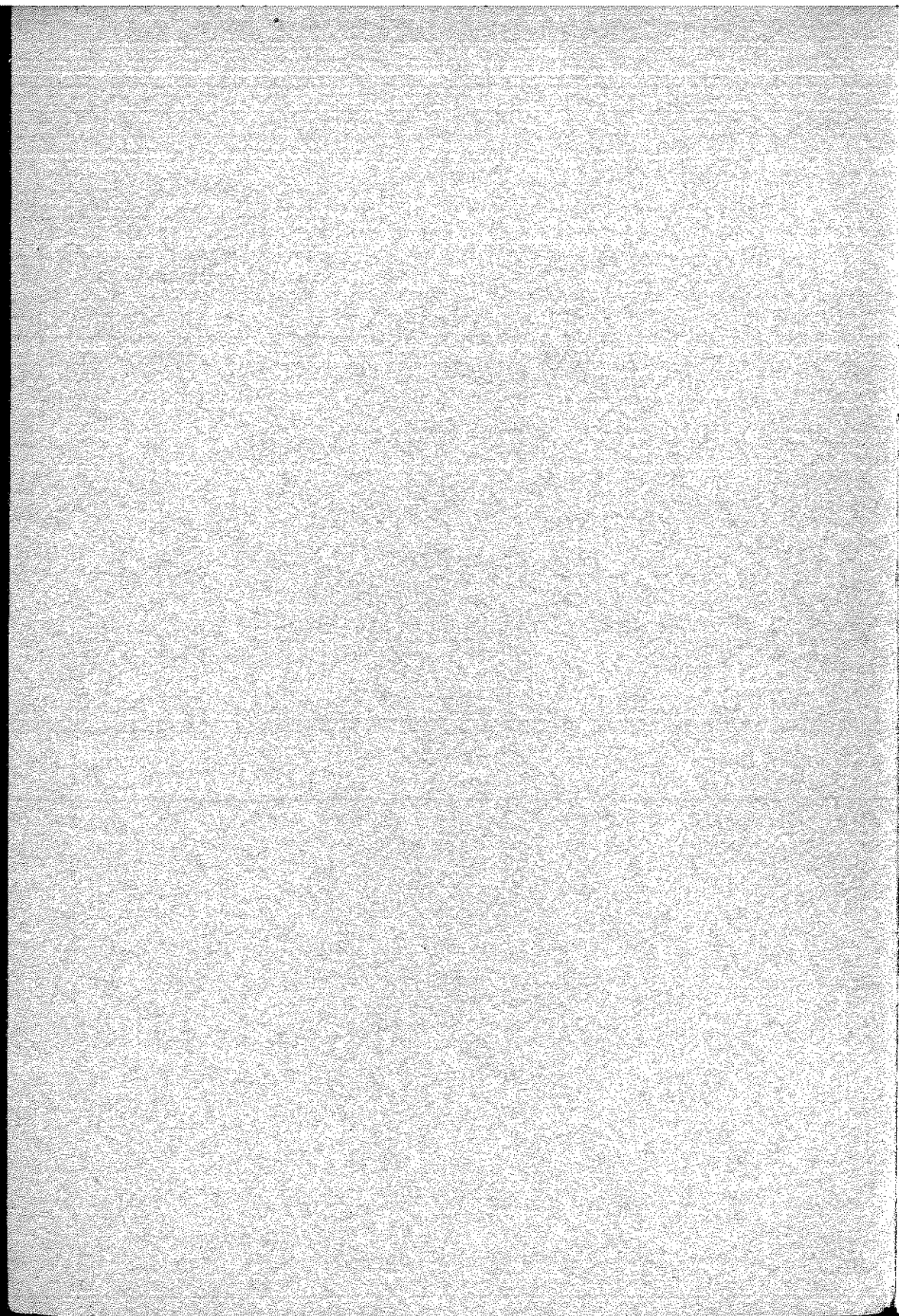
November 10, 1915

---

J. S. CODMAN  
123 High Street, Brookline

7165





J. S. CODMAN  
BEFORE THE  
**Special Commission on Taxation**

\_\_\_\_\_  
November 10, 1915  
\_\_\_\_\_

J. S. CODMAN  
123 High Street, Brookline

7165

Printed by THE CHAPPLE PUBLISHING CO. LTD., Boston



MR. CHAIRMAN AND GENTLEMEN OF THE COMMISSION:

I come before you to advocate the passage of an amendment to the Constitution of the State, striking out the words "proportional and" from the clause in Article IV, Section 1, Chapter 1, Part the Second, which now reads as follows:

"And to impose and levy proportional and reasonable assessments, rates and taxes, upon all the inhabitants of, and persons resident, and estates lying, within the said Commonwealth;"

Such an amendment was passed by the Legislature of last year by an overwhelming majority, and if again passed by the next Legislature, it will then come before the people for ratification in November, 1916.

I shall first endeavor to establish what should be done to lessen the burden of taxation in Massachusetts and shall then point out that the proposed amendment is needed to give the Legislature the power to make the requisite changes in the laws.

**The Burden of Taxation Unduly Heavy**

The ease with which any community carries the burden of taxation depends not by any means altogether on the amount of revenue to be raised, but on the manner in which the taxes are levied, and on the manner in which they are spent. Taxes levied on some classes of property have the effect of restricting trade, curtailing production, and checking the employment of labor, and are therefore a great burden on the Community, while other taxes have no such effect. On the other hand, unwise expenditure of the revenue obtained from taxes decreases the prosperity of the community and makes the burden of taxation more severely felt.

At the present time in Massachusetts the burden of taxation is growing harder and harder to bear, and yet the revenue obtained seems in many places to be entirely inadequate for community needs and results in undue parsimony in carrying out needed improvements, or in the fatal habit of borrowing to pay current expenses.

Now, it is true that when revenue appears to be inadequate, it is often the result of extravagance and inefficiency in administration; but more often this inadequacy is real and indicates an increasing difficulty in securing sufficient revenue for the needs of the community without an undue burden of taxation. In fact, it is now pretty generally recognized that the difficulty in securing sufficient revenue is not wholly, nor even chiefly, due to extravagance and inefficiency in administration, but is the direct result of our unfortunate practice of attempting to levy taxes at the same rate on all property without any regard to the widely differing economic effects resulting.

### **Classification of Property**

What, then, are the economic effects of taxes on various classes of property?

The usual classification of property is into real and personal estate, but for the purposes of discussing the effect of taxation, this is no classification at all, for it classes together things that are radically different.

In the first place, real estate consists of the unimproved land and its natural resources, the gifts of Nature; and in the second place, of buildings and other attachments to land as well as improvements, such as clearing, draining, irrigating, plowing, fertilizing, planting and cultivating, all of which things are the work of mankind.

Personal estate must also be subdivided into tangible personalty, which is real wealth, such as livestock, household goods, machinery, and stock in trade; and intangible personalty, such as stock certificates, bonds, notes and mortgages, which are not wealth at all, but merely pieces of paper representing claims to wealth present or prospective.

### **Evil Effect of Taxes on Improvements and on Personalty**

We have then to consider the effect of taxation on four classes of property, and these are considered in the following order:

1. Tangible personalty.
2. Improvements to land, including buildings.
3. Intangible personalty.
4. Land, exclusive of improvements.

1. Taxes on tangible personalty are always a direct discouragement to the investment of capital in the state, and hence





the assessors and they have no choice but to assess at full value. It is then impossible to enforce the law fully and equitably; yet not to enforce it brings the law into contempt, blunts the public conscience and puts a premium on trickery and fraud.

The fact is that all the taxes above referred to, on buildings and other improvements to land and on all personal property, tangible and intangible, tend to hamper and restrict trade and production, to keep capital and labor idle, and to add to the cost of living. The things we buy are enhanced in price by these taxes to a far greater extent than most of us realize, and if these extra prices had to be paid as taxes so that their amount was apparent to everybody, the people wouldn't put up with them for a day.

But perhaps it will be said, "What are we going to do about it? Taxes are absolutely necessary to carry on the government. Therefore, even if they are burdensome, we must put up with them."

#### **Beneficial Effect of Taxes on Land Exclusive of Improvements**

Before answering that question, it will be well to consider the effect of taxes on the land exclusive of improvements, and when we come to do so, we shall find that there exists a striking difference between the effect of such taxes and the effect of the taxes already mentioned. We shall find that far from discouraging industry and enterprise and restricting trade and production, that taxes on land, exclusive of improvements, levied in proportion to its selling value or price, have just the reverse effect. In this fact lies the solution of the tax problem, and it is necessary, therefore, to establish it with care proportionate to its vital importance.

A tax on a piece of unused or inadequately used land is a direct inducement to the owner, either to utilize his land properly in order to secure an income with which to pay the tax; or, if he is unable or unwilling to utilize his land, the tax is an inducement to sell or rent to someone else who can use it to advantage; and the greater the tax, the greater the inducement. Such a tax, then, encourages the use of land, which means the employment of capital and labor. Further, since this inducement to use, sell or rent is an inducement to all land holders simultaneously, the competition among them tends to eliminate speculative values and hence to open up the land at reasonable prices to those who can make good use of it.

is for a  
state  
such  
not  
very  
expense,  
take his  
at a big  
downers  
interests  
prices

of the land, or nearly one-half the area of the city, was vacant. Nor was this land of little or no value, as perhaps might be supposed.

It has not been the practice to assess vacant land for more than it is worth in the market. In fact, the tendency has been the other way. Nevertheless, the vacant land in Boston in 1913 was assessed for \$57,000,000, a sum greater than the whole assessed land value, occupied and vacant, of the city of Worcester, the next largest city in the state.

In Boston, furthermore, not only is there much valuable land vacant, but there is much very valuable land which is lamentably under-improved. As an example of this, the properties fronting on the north side of Washington Street between Court Avenue and School Street, were assessed on April 1, 1915, as follows: \$3,839,500 on the land and \$311,000 on the buildings. This is a ratio of buildings to land of only 8.1%, and it is of interest to compare this with a well-improved piece of property, such, for example, as the site of the Filene building. Here the land is assessed for \$3,405,700 and the building for \$1,469,300, a ratio of building to land of 43%. This improvement, however, which is incontestably an advantage not only to the city but also to the land holders in the vicinity, is nevertheless penalized by a tax of over \$25,700 on the building; and the total tax on the property is nearly \$21,700 in excess of the total tax on the other properties referred to, although the latter represent an opportunity worth \$433,800 more as measured by the land assessment.

More impressive still are the figures for Greater New York, where the assessors report that in 1914 the absolutely unimproved land was worth \$618,000,000, equal to 85% of the whole taxable value of the land of Boston. When it is remembered that similar conditions exist in all the other large cities of the country, it will be appreciated that the value of the urban land which at present lies unused, must run into the billions of dollars. Labor and capital are deprived of a vast opportunity under such conditions, and such conditions can exist only when, as a result of too low a tax rate on land value, the owners of land find it to their advantage neither to use the land themselves, nor to sell or rent to others except at prohibitive prices.

### **The Obvious Remedy**

If, then, taxes on land values could be higher with positive advantage to the community, while taxes on personal property

and improvements to land are distinctly detrimental to the interests of the community, is it not obvious that in order to lessen the burden of taxation, the taxes on personal property and improvements should be reduced and the deficiency in revenue made up by an increased tax on land values? In fact, is it not only a question of how far the increase of taxes on land values can be carried with advantage? Can these taxes, for example, be advantageously increased to the extent of permitting the complete abolition of the burdensome taxes on personal property and improvements?

Can we, in other words, do away with all those taxes which have heretofore been looked upon as a necessary evil and secure all the necessary revenue by a tax on the value of land exclusive of improvements, the only tax which is not detrimental to the community, but, on the contrary, is absolutely necessary for its development and prosperity?

### True Nature of a Title to Land

Now we cannot answer these questions satisfactorily unless we first see clearly just what is the true nature of a title to land and the true nature of a tax upon its selling value. That a title to land is very different in its nature from other property is obvious if we merely consider that a tax upon it has the widely different economic effect already described. This difference lies in the fact that land is the gift of Nature and the source of all wealth, while other tangible property is wealth produced from the land by the labor of mankind.

A title to a particular tract of land, then, is not wealth, but the opportunity to produce wealth, and it is a privilege conferred by the community on an individual, granting him this opportunity to the exclusion of all other persons. It follows that the tax levied by the community on the value of this title is in the nature of rent for the privilege conferred. This fact being ascertained, it at once becomes apparent why the levying of a tax on land value is beneficial to the community while other taxes are detrimental. The tax on land value is payment for an opportunity, and as such, encourages the use of the opportunity; but a tax on other property is a tax on wealth, the product of labor, and as such discourages the use of opportunity. A tax upon land value, therefore, fosters enterprise and industry. A tax on other property tends to stifle enterprise and industry.



If the tax on land value is in truth but rent for a privilege, it is clear that the rent charged, if not the full value of the privilege, should be at least sufficient to prevent the holding of land for speculative purposes, and to obviate the necessity of taxing the products of labor. No such tax on land values, however, is as yet levied in Massachusetts. In every city and town the tax on the land is very much less than the rental value, and consequently could be greatly increased with decided advantage to every community.

#### **Tax on Land Now Much Less Than Rental Value**

To see that this is so, let us consider what determines the price at which title to land will sell. It is determined by the "net rent," which is simply the difference between the actual rental value of the land and the tax to be paid. In other words, "net rent" is the difference between the annual value of the opportunity which the landowner holds and the sum he has to pay the community for the privilege of holding it. This "net rent" capitalized at the current rate of interest fixes the price.

For example, if a piece of land has a market value of \$10,000, the net rent, assuming 5% as the current rate of interest, will be \$500. If we assume a tax rate of \$25 in a \$1,000, which is a very high rate in this state, then the tax on this ten-thousand-dollar title is \$250. It follows that the actual rental value of this land is the sum of the net rent \$500 and the tax \$250, or \$750; and the tax of \$250, it appears, is only one-third of this actual rental value.

In other words, even with a tax rate of \$25 in \$1,000, which rate is only \$1 less than the highest rate in the state, only one-third of the actual rental value of the land goes to the community, and the remaining two-thirds go into the pockets of the landowner. It would certainly seem reasonable to reverse this proportion, at the very least, letting the community take two-thirds of the rental value in taxes and leaving one-third for the owner; and if this were done, there is probably not a town in the state which would not be able to abolish completely all the other taxes.

#### **Effect of Change on Different Classes of People**

Nor does it follow that the great gain which would result to the community through this change would be made at the

expense of any class or of any individuals in the community. In the first place, all those who owned no land, the great majority, would gain directly from the abolition of the taxes on personal property, and indirectly from the greater prosperity of the community resulting from the removal of burdens from industry, enterprise and thrift, from the reduction of the cost of living, and from the greater opportunities offered labor and capital.

In the second place, land owners, holding land assessed for less than the value of other property held by them, would gain directly not only from the abolition of taxes on personal property, but also from the abolition of taxes on buildings and other improvements to land, besides gaining indirectly from the general prosperity just as would those without land.

On the other hand, it might seem at first sight that the holders of a relatively large amount of unimproved land would be losers from the change, having to pay larger taxes which, in turn, would adversely affect the market price of their land. Such persons, however, would be sure to own some other property on which their taxes would be abolished; they would share in the general increase of prosperity, and further, they could at any time make improvements without an added tax for doing so. What is, perhaps, less obvious, the growth of business resulting from the abolition of restrictive taxes would bring an increased demand for land, tending to raise land prices, thus tending to offset the effect of the increased tax on the land itself. In fact, this growth of business might so greatly increase the demand for land in the communities first abolishing restrictive taxes that the effect of the increased tax levy on the land itself might be more than offset, and hence the price of land be actually increased and speculation intensified.

### The Results in Vancouver

A remarkable example of this last effect is the experience of the city of Vancouver. In 1896 that city practically cut the tax rate on improvements in two, by exempting one-half their value from taxation, and ultimately in 1910 it abolished the tax on improvements altogether. Instead, however, of the land owners being the losers by this plan, they have received according to L. D. Taylor, Vancouver's mayor, "greater benefits than even the builders and building owners themselves, for while the tax on improvements has been abolished, the land tax has not been increased."

The fact is that the land tax in Vancouver has proved to be the solution of the local tax problem, but the levy on land values is still much too low for the best economic results, and in consequence Vancouver has not been able to escape a speculative inflation of land prices followed by collapse with the usual accompaniment of industrial distress. What Vancouver should do now is to increase the tax rate on land values, step by step, until finally the tax is so high that it will no longer pay to hold valuable land except to utilize it. In this way speculation in the needs of the people will cease, and, at the same time, the city will obtain a much larger revenue than ever before and will be able to carry out many municipal improvements which today are impossible except by borrowing.

#### **What Massachusetts Should Do**

Here in Massachusetts we should follow a similar course. We should by a series of steps increase the taxes on land values and at the same time decrease the taxes on improvements and on personal property, continuing the process until all taxes on improvements and personal property are abolished, and the taxes on land values have been increased to such a point that it will no longer pay to own valuable land except to make use of it.

#### **Effect of Public Expenditure on the Value of Property**

We can look at this question from still another angle and again reach the conclusion that a tax on land values only will yield the necessary revenue with the least possible burden on the people. We can secure this point of view best by asking ourselves the question: "What effect does the expenditure of revenue obtained from taxes have upon the market value of different kinds of property?" We are all aware that if the city or town revenue is spent for fire or police protection, and for improved transportation, educational and recreation facilities, that the city or town becomes more desirable to live or work in, population increases and in consequence the real estate values increase. But, on the other hand, we often fail to realize that this increase in real estate value is merely an increase in the value of the land resulting from the increased advantage of its location, and is not an increase in the value of the buildings or other improvements that are upon the land. No amount of expenditure for city improvements can increase the market

value of a building, or other improvement, above what it would cost to reproduce it, and the same thing is true of an automobile, a piano, or a machine in a factory. Neither can such expenditure increase the value of intangible property, such as a bond or a stock certificate, except in so far as it may represent land in the community.

Land values, on the other hand, are, generally speaking, rising rapidly all over the United States as the result of the activities of the people, the expenditure of their taxes, and because of the steady growth of population. These increases are simply stupendous in the cities, and they accrue, not to the people as a whole who created them, but to those few who own the titles to the land. Not until the huge rentals on the land have been earned and paid to these few landowners can any profits be secured by the employers of labor who are thus discouraged and restricted in business. Thus opportunities for labor are also restricted and laborers competing among themselves for jobs crowd wages down to the minimum.

Since, then, land is the only property which is increased in value as the result of public activity and expenditure, it would seem to follow, even without recourse to the preceding or any other argument, that this is the only form of property which should be taxed to furnish the revenue.

#### The Constitutional Requirement an Obstacle to Reform

Turning now to the question of the proposed constitutional amendment, the Supreme Court has, with absolute finality, so interpreted the word "proportional" as to render unconstitutional any law which fails to tax all classes of property (except some special exemptions) at the same rate. Hence it is not now permissible to reduce the tax rate on improvements and personal property unless at the same time the tax rate on land is also reduced. Nor is it now permissible to increase the tax rate on land unless at the same time the tax rate on improvements and on personal property is also increased.

It is true that the people have just ratified a constitutional amendment which in a measure avoids the difficulty just mentioned, since it permits the exemption of any class of property from taxation under the general property tax, provided such property is taxed on income instead of on market value; and further, it does not insist that the income tax rate which is



adopted shall correspond in degree to the rate of taxation provided under the general property tax. Practically, however, there is only one class of property, namely intangible personalty, which can obtain a less degree of taxation as the result of this amendment.

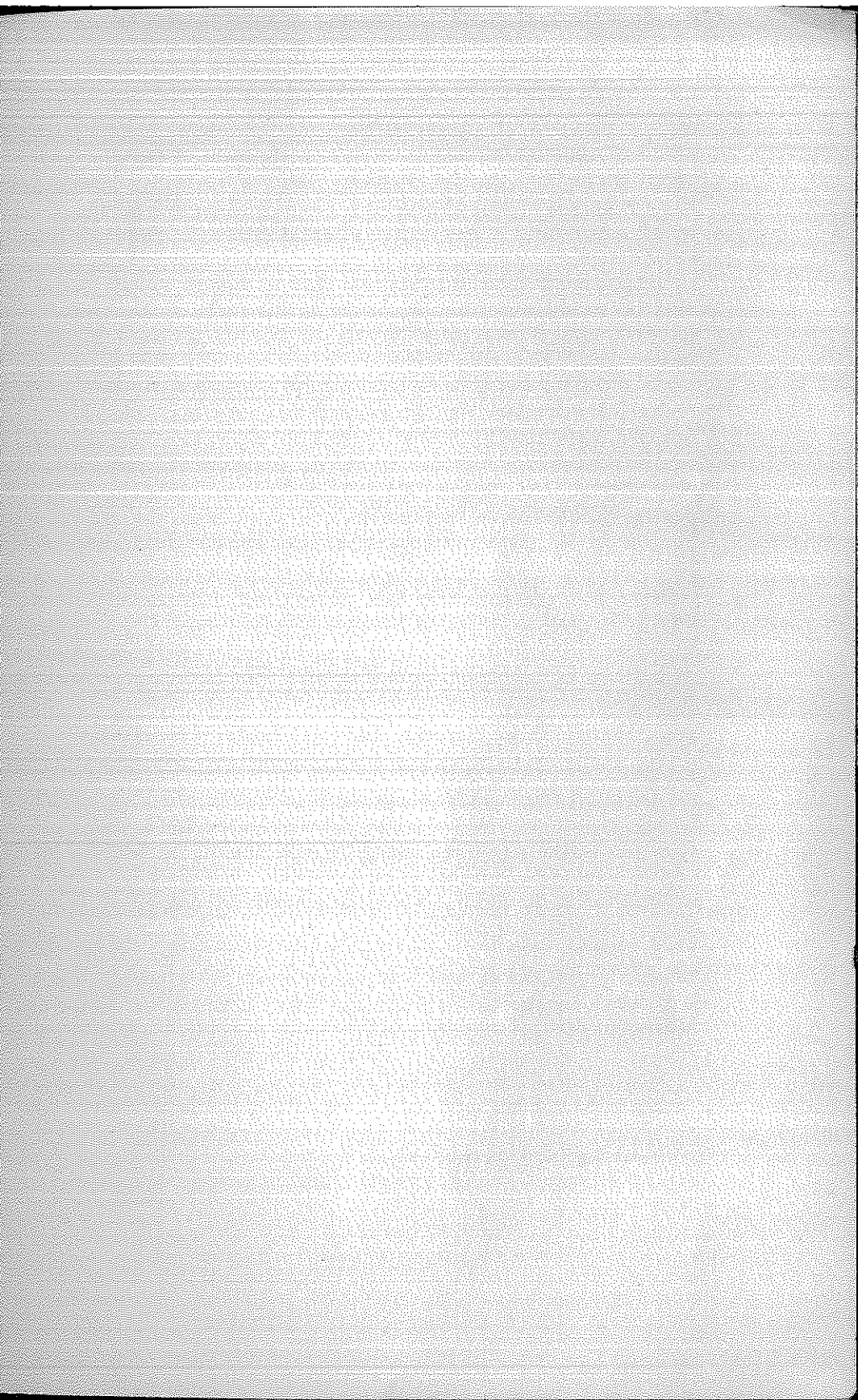
The income from intangibles, that is, bonds, stocks, notes, etc., is readily ascertainable, being in the form of dividends or interest, and it can consequently be readily assessed for the income tax. The same is not true, however, of other property. Land and improvements to land can be assessed separately with reasonable accuracy for the general property tax because this tax is on capital value, but it is doubtful if any practical scheme can be devised for segregating the income from the two classes of property; and, unless this can be done, no difference in the degree of taxation is permissible.

Nor is it possible to ascertain the income from tangible personal property, that is, from machinery, materials for manufacture, livestock, or household goods, and consequently it is not permissible, under the existing constitutional requirement, to reduce the degree of taxation on this class of property unless that on land is reduced to an equal extent.

#### **Only Partial Relief Possible Through Recent Amendment**

Since then the recent amendment in its practical effect does not permit a degree of taxation less than that on the land, except for one other class of property, namely, intangibles; and since it is far more important that the rate should be reduced on improvements and on tangibles, it appears that this amendment, although of some public as well as private advantage, is nevertheless entirely inadequate.

It follows that the amendment proposed, which omits the words "proportional and," is essential if the General Court is to have the power to make the reforms which the State of Massachusetts so urgently needs.



Will you be good enough after reading it yourself, to lend it to one of your friends to read; get it back from him and lend it to another friend; and so on until you have gone the round of as many of your acquaintances as you can think of. I feel sure that though all who read it may not at once confess to complete conversion to single-tax principles, none will be in exactly the same condition of mind after reading it as before.

Thanking you in anticipation for your assistance in giving the pamphlet as wide a circulation as is within your power, and as it certainly deserves,

I am

Yours truly,

Alex Mackendrick, Secretary.

P. S. The cost of printing and mailing this pamphlet is being defrayed by private subscription. If you wish to contribute towards this cost to the extent of say fifty cents or a dollar, such a contribution will be welcome.

"We would simply take for the community what belongs to the community, the value that attaches to land by the growth of the community; leave sacredly to the individual all that belongs to the individual."—*Henry George*.



LEWIS J. JOHNSON  
PRESIDENT

HENRY D. NUNN  
FIRST VICE-PRESIDENT

WILLIAM L. GARRISON, JR.  
SECOND VICE-PRESIDENT

# MASSACHUSETTS SINGLE TAX LEAGUE, INC.

ROBERT E. BLAKESLEE  
TREASURER

ALEX. MACKENDRICK  
SECRETARY

JOHN R. NICHOLS  
FIELD SECRETARY

CHARLES A. BARRY  
REGISTRAR

## HEADQUARTERS

ROOM 529, 120 BOYLSTON STREET

### OFFICE HOURS

DAILY, EXCEPT SATURDAY, 2 TO 5 P.M.  
SATURDAY, 10 TO 12 A.M. FRIDAY, 7.30 TO 9 P.M.

## THE SINGLE TAX MEANS

THE UNTAXING OF BUSINESS

THE UNTAXING OF LABOR

THE UNTAXING OF  
AGRICULTURE

THE UNTAXING OF HOMES

INCREASING THE TAX ON SITE  
VALUES

BOSTON, MASS. Feb. 25, 1916.

Dear Fellow Member,

In the name of the Executive Committee, I earnestly beg that you will carefully read the pamphlet I now send you.

Mr. Codman is probably known to you as one of our most active speakers, and one whose judgment in matters relating to taxation in its effects upon commerce and industry, entitle him to respect. We have thought it wise to have his address to the Committee on Taxation printed, and our wish now is to have it