

THE A B C OF TAXATION

Cloth, \$1.20 Paper, 25c.

A SINGLE TAX HANDBOOK

for 1913

20c.

TAXATION

By C. B. Fillebrown

A. C. McClurg Co., Chicago

Cloth, 50c.

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77 Summer Street, Boston, Mass.

Not a

Single

Tax

FIFTH EDITION

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Published by

C. B. FILLEBROWN

77 Summer Street

Boston

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4-761

NOT A SINGLE TAX

THE proverb "There is nothing sure but Death and Taxes," is at once a recognition of the tendency to change in all human affairs, and a triumphant assertion of Conservatism that there remain at least two immutable things.

But the tooth of time which respects no mortal institution is boldly at work on even this proverb and threatens to remove at least Taxes from the meagre list of things permanent. It is the purpose of this booklet to give some account of this startling phenomenon. With this in view let us lay down and briefly defend the proposition that—

Taxation as a means of meeting the proper expenses of government is oppressive, unjust, inexpedient and unnecessary.

This proposition will strike a good many readers as absurd, but there are few who will not at least recognize the timeliness of the topic and the importance of any contribution to the discussion of a subject which is agitating the whole civilized world. A new and advanced scheme for obtaining public revenue has recently furnished the occasion for a controversy which is today upheaving Great Britain, while the methods, subjects and amounts of taxation are among the pressing problems of every country.

The most obvious question which arises in the mind of any one who reads for the first time the proposition above laid down is this:

"If taxation is unnecessary, what is to take its place? Government and its functions are increasingly expensive. They require a lot of money. Where is it to come from?" The answer may be placed in the form of a second proposition:

Every community, whatever its political name and extent—village, city, state or province or nation—has its own normal, unvarying income, growing with the growth of the community and always adequate to meet necessary governmental expenditure.

To explain: Every community has an indefeasible original right to the land on which it exists, and to all the natural, unmodified properties and advantages of that particular area of the earth's surface. To this land in its natural state, undrained, unfenced, unfertilized, unplanted and unoccupied, including its waters, its contents and its location, every individual in the community (which may consist of any political unit selected) has an equal right, while all the individuals together have a joint right to the value for use which society has conferred upon these natural advantages. This value for use is known as "Land Value," or by the not particularly descriptive but generally adopted name of "Economic Rent."

Briefly defined the land value or economic rent of any piece of ground is the largest annual amount voluntarily offered for the exclusive use of that ground, or of an equivalent parcel, independent of improvements thereon. Every holder or user of land pays economic rent, but he now pays most of it to the wrong party. *Economic rent is always a periodic payment.* The aggregate economic rent of the territory occupied by any political unit is, as has been stated

above, always sufficient, usually more than sufficient, for the legitimate expenses of the government of that unit. Also as above stated, the economic rent belongs to the community, and not to individual landowners. On the other hand, the result of every utilization or enhancement of the natural advantages of land (such as farm profits, the rent and selling value of buildings and other improvements), when accomplished by an individual, belongs wholly to that individual, and should never, and need never, be taken from him by taxation.

One must be careful not to confuse *land-value* with the *price of land*. The price of land is the sum demanded for the transference from one individual to another of the privilege to collect and retain land-value and thus to divert public earnings to private pockets.

UNDER the normal system which this article advocates, the user of land would pay substantially the same economic rent as now, for the reason that economic rent is fixed by the payer and not by the payee; but it would be paid to the credit of the community instead of for the benefit of the individual landowner. And the economic rent is *all* the land user would have to pay; no taxes on industry or personal product and no other forced contribution for governmental purposes. It follows that, under the normal system, the holder of unimproved land would usually contribute more than at present toward the expenses of government, while the holder of well improved property would contribute, in most instances, less than the total of his present taxes.

To illustrate simply, let us suppose a state which has never parted with its natural income but is supported by its own economic

rent. A farmer wishes to take up a tract of government land in this state and offers an economic rent of fifty cents per year per acre in its raw condition. The government (i.e., the community) accepts this rent, subject to readjustment every five years. The farmer then gets his deed without other cost than that of drawing and recording the instrument, or a nominal price of, say, one dollar an acre. He works his new property vigorously, clears, fences, drains and plants it, and puts up his buildings and stocks them. He has no taxes to pay, and at the end of his first five-year period he is making \$10 per acre per year. Will his economic rent for the next five-year period be raised because he has prospered or because he has invested money in buildings and improvements? Not a penny. All the results of his own capital and labor belong to him and not to the community. If the neighborhood has not grown much, and fifty cents an acre is still all that is bid as economic rent for the same kind of raw ground as our farmer originally took, then his rent for the second five years will be the same as the first.

BUT suppose that during the second five years something of a boom has set in, and a community is growing up. Land is in demand, and for the lessening area in the hands of the government two dollars per acre is freely offered as economic rent. Now our typical farmer must come up to the market price and pay two dollars an acre for his third five years, irrespective of whether he is making more or less out of his place.

IN this third five years the boom continues, and the community grows so fast that before the close of that period one corner of our friend's farm finds itself near the middle

of a flourishing town. Five acres of it are needed for a public park, and five acres adjoining are wanted to cut up into building lots. As building lots, this part of the land will command a voluntary offer of a hundred dollars per year per acre of economic rent; and this fact establishes the land-value of the adjoining five acres needed for park purposes.

In this situation what shall our farmer do? He has two courses open to him. If he doesn't want to relinquish his land, and can afford to withhold it from further improvement, he can pay the hundred dollars per acre per year of economic rent which these ten acres will now command, and keep his farm intact. If this appears to him too costly a luxury, he can signify his willingness to sell to the town the five acres wanted for the park, and the other five to individual builders. And what price should he get for it? He did not pay the government much for his title deed, but he has worked on this land for fifteen years, and deserves some compensation when he transfers it. By his labor and also, in part, by reason of his clearing, draining and fencing, he has been able to make twelve dollars an acre from this ground, while his economic rent had not until now gone above five dollars an acre. Furthermore, he has built on these parcels a barn and two storehouses. The method of computing the proper selling price under such circumstances would have to be the result of experience, but that price would certainly include the present value of the improvements and probably some lump sum besides, as compensation for loss of farming opportunity. But just as certainly it would *not* include, as it would do under our present conditions, the increased location value which the town itself has created by its own growth and public

works, and which in all justice belongs to the town or community and not to the individual.

THIS principle of economic rent applies to all the users of land, including mining, use of water power, and rights of way over or under its surface. Had this principle always been recognized, and the economic rent always been retained by the community, taxation would never have been heard of. When the economic rent is reclaimed by the community, the need of taxation will disappear.

Let us roughly restate the proposition: All members of the community having a joint right to the income which the social advantages of the land will command, they are all partners in this income. Therefore, when one of their number wishes to take for his private use a parcel of this land, he should buy out his partners, i.e., the rest of the community, by paying regularly into the common treasury the economic rent of that parcel, instead of paying, as at present, the purchase price, i.e., the right to collect the economic rent, in a lump, to some other individual who has no more original right to it than himself.

BUT before this time the reader, unless he has given previous attention to the subject, is full of objections to the above doctrine. "How about the law?" he is asking. "Hasn't a man the right to buy a piece of land as cheaply as he can, to do what he pleases with it, and hold on to it till he gets ready to sell?" The answer is that at present he certainly has this statutory right, which has been so long and so universally recognized that most people suppose it to be not only a legal, but a real or *equitable*

right. A shrewd man, foreseeing the direction of growth of population in a city, for example, can buy a well-located block at a moderate figure from some less far-seeing owner, can let it grow up to weeds, fence it off against all comers and give it no further attention except to pay the very small tax usually imposed upon vacant land. Meantime the increasing community builds up all around it with homes, banks, stores, churches, schools, paving and lighting the streets, giving police and fire protection, etc., and at last comes to need this block so urgently that the owner is fairly begged to sell it, at three or ten or fifty times what it cost him. Quite often the purchaser at this enormous advance is the very community which has through its presence and the expenditure of its taxes created practically the whole value of the land in question!

It was said above that an individual has a statutory *right* to pursue this very common course. That was an error. The statement should have been that he has a statutory *wrong*; for no disinterested person can follow the course of land speculation as almost universally practiced, without feeling its rank injustice.

HOW did so evident a wrong become so firmly established? For a tentative answer to this question we have got to go back to the twilight of history, and this is the way the story is told. Time was when the ruler, either by might or by alleged Divine right, claimed to own not only the land under his jurisdiction, but the people and property thereon. From this ruler the strong and able men of those days obtained feudal rights over certain sections of the royal domain. Their next step was to bargain with the monarch for the "fee simple" or absolute ownership

of their several lands, in return for the grants of which they agreed to pay the expenses of his court and army. Having made this fine trade, and secured their individual land titles, it was not long before the nobles began to cast about for some means of evading their part of the bargain. Being the high financiers of their days and generations, they managed to contrive taxes which could be plausibly and gradually imposed upon the landless, until within a few generations they had succeeded in shifting most of the cost of government on to the plebeians without giving up a foot of land or any considerable part of the income therefrom. The "common people" were deftly loaded with the heavy end of the beam, which they have been carrying ever since; while the arbitrarily created landlords and their successors, down to the present day, have kept their tight hold on the community's natural income.

The landlords, being also the lawmakers, have seen to it that their tenure of this easy money should not be disturbed, but on the contrary have so buttressed it with centuries of legislation, precedents, and judicial decisions, that any proposition to hark back to the terms of the original bargain, whereby the owners of the land agreed to pay the expenses of the government, is now denounced as anarchy and sacrilege.

LAPSE of time, however, never can transform wrong into right, nor can a buyer acquire any better title than the seller possessed. The economic rent belongs to the community, which can and will begin to reclaim it as soon as the voters thoroughly awake to the facts and the right and wrong of the matter, which are not hard to grasp when the subject is presented in its simplest form.

An illustration has already been given of the case of a piece of farm land. Let us take an example in a large city. Let us take a corner lot centrally located in New York City, the title to which lot is held by, say, Mr. John William Rhinelastor. This lot was a part of an old Dutch farm, and is an heirloom. It did not cost the present owner anything, nor his father nor his grandfather. There is a little old building on it, which has always been rented at a figure ten times as large as the taxes imposed, so that the owner has been handsomely subsidized each year for storing his title-deeds during a period of the city's growth in which the increase in population and the expenditure of public money in that neighborhood have raised the value of this corner location to, say, two hundred times its early value.

About now, Mr. Rhinelastor decides that he will go abroad to live, and can't be bothered with this piece of property. But knowing that the pressure of population is sure to increase and that the expenditure of public money to the benefit of this land must continue, he will not sell it. So he gives a twenty-one year lease to the corner for, say, \$20,000 a year net, with a privilege to the lessee of renewals at advancing figures. The lessee agrees to pay all taxes.

Now what is this net \$20,000 a year, which will be regularly remitted to Mr. Rhinelastor, in Europe or wherever he may be, given in payment for? Not for the old building—the first thing the lessee does is to pull it down. Not for the land itself—it is all rock, which has got to be blasted out as a part of its improvement. It is clearly paid for a location or site value, which the community, and the community only, has built up, and paid for. In other words, the present \$20,000 rental, and the larger one which

that location will command in later years, is strictly a community product, and as such belongs to the community and not to Mr. Rhinelastor.

That the latter has no good right to it is at once evident when we remember that "When one man gets something for nothing somebody else has got to give something for nothing." Here are \$20,000 that some men and women have got to work to earn every year to hand over to a man who does not render, and does not feel any obligation to render, one dollar's worth of public or private service in return. Such is the wild travesty of justice which we call law. It is not comical only because it is frankly tragic in its social results.

Now suppose this \$20,000 and all the rest of this same community product—i.e., the site or location rent of its ground—were paid every year to its rightful owner, the treasurer of New York City, what would become of taxation, with its inseparable retinue, Fraud, Educated Evasion or Perjury, Inequality, and an all-pervading public sense of injustice?

A high authority on municipal taxation estimates the present economic rent of the land embraced in the City of New York at from \$250,000,000 to \$300,000,000. Assuming the lesser of these figures and adding the receipts from licenses, fees and fines, New York City should receive, of *her own income*, enough to pay all her own legitimate bills, to make her proper contributions to county, state and Federal revenues and build a new subway or its equivalent every year. And this with nobody paying a dollar of taxes, or, if we except the fines, a dollar that he was not ready and glad to pay for his own advantage.

We repeat, this is not taxation; but for the

sake of those who cannot grasp the idea of public revenue without taxation, let us state the matter in their own language. Think of a tax which both assesses itself and collects itself, which burdens no one, which is paid voluntarily, and only by those who do so for their own profit or other advantage. Compare this with our present system of taxes, which every one despises, which can be collected in full only from the very scrupulous and from the helpless, from trust funds of widows and orphans, or from estates which lie naked before the tax gatherer on the records of court; a system which drives men of property from state to state and town to town in flight from the assessor, and well-nigh forces many worthy citizens to practices of evasion which must make it hard for them to look into their own mirrors during the season for "Correction of Assessments"; and there can be but one verdict upon such comparison. But again the voice of the objector is heard, possibly to this effect: "This plan may be all right for the community, but how about poor Mr. Rhinelastor?"

In reality the landowner would not suffer so much from the restoration of the public revenue as might at first appear. For one thing, whereas he is now taxed, at least in theory, not only on land, but on buildings, cash, bonds, and all other personal property, and perhaps on his income as well, he would then have no taxes at all to pay. Furthermore the economic rent is not the full measure of the possible earning capacity of the land, but will always be less than the offerer expects to make out of its use. Again, while it must be firmly insisted upon that the economic rent is the rightful property of the community and not of the landowner, the community would probably never take it all. Communal ownership of land is not desirable,

even if it were practicable. Individual ownership and management are best, and it is not at all improper for the community to allow the owner something for caring for the land to which he holds title, and for collecting and transmitting to the treasury the economic rent. But—and right here is one of the prime advantages of the abolition of taxation—Mr. Rhinelastor, in order to get a satisfactory return from his land, must improve it. Unless he is satisfied with a small income from it, to wit, the proportion of the economic rent which the community chooses to leave in his hands, he must put upon his land the best building the location will warrant. The rents of this building will be his in their entirety, not one dollar of them being taken from him by taxation. If he is not prepared or not willing to do this he would probably find it more profitable, before he leaves the country, to sell the land to some one of the many persons who are eager to build upon it. It will always be salable, although not by any means at present figures.

Now imagine for a moment the effect upon the appearance of a city and upon the comfort of its population which would result from the change of fiscal policy which this article proposes. At present, a tempting premium is placed upon keeping land unimproved or inadequately improved, while a heavy penalty is imposed upon improvement. Most land appreciates constantly. All buildings depreciate from the moment of completion. Yet the building is taxed equally with the land.

What incentive does such a system offer the speculative landowner to put up a commodious, well-lighted modern structure in place of the old ruin which now pays him so well? The old one cannot depreciate much more, and while paying a trifling tax because

of its physical worthlessness, he is thereby enabled to collect and pocket the economic rent of the ground, which the community is continually rendering more valuable. The new building would absorb a large amount of capital, would begin to run down even before it could be occupied, and would be taxed to the limit. Why then is not the landlord justified in letting well enough alone, enjoying the growing economic rent, and waiting till he can get a fancy price for the right to collect it?

But reverse the conditions. Reclaim for the community its natural income, making it expensive either to keep needed land vacant or to withhold it from those ready and willing to improve it to the full extent of its possibilities. Does it require severe intellectual effort to foresee the results? Better and better houses, apartments, tenements, offices and stores, more employment for labor in all enterprises now held back by the shadow of the tax-gatherer, an end of all tax-lying, tax-evasion and tax-injustice, and withal, a public revenue adequate to all real public needs. What a contrast to the existing plan of pouring public money into the laps of individual landowners to their own moral disadvantage and that of their children, as well as the economic disadvantage of their neighbors, while constantly cudgeling the civic brains, straining the public credit, impoverishing widows and orphans, and increasing the exactions from every citizen and corporation that can be caught, in the effort to raise more and more money to bestow upon the same beneficiaries.

IF the reader has followed thus far, he is perhaps ready to inquire why, if the abolition of taxation is so desirable and so feasible, it should not be put into effect

nearer the time when the things that are the community's will be rendered to it, and the things which are the individual's will be left in his unmolested possession. The watchword of our friends the Georgeites is "A Single Tax." The true slogan is "Not a Single Tax"; and the triumph of the cause behind that slogan would cut more of the taproots of poverty, vice and social unrest than any other progressive step which is a legislative possibility.

BOTTOM FACTS

1. Land, being neither portable nor consumable, cannot properly be said to have a capital value.
2. The only value of land is its variable annual value for use.
3. This value does not reside in the land. It comes with the people, goes with the people, belongs to the people. The land of a permanently abandoned city or farm would have no value.
4. The community alone creates and owns this value which is periodic, continuous and can in no case be reduced to a lump sum.
5. The collection of this value by the community is not in the nature of taxation.
6. The habit of buying and selling the privilege of appropriating this value by individuals is vicious and anti-social because —
 - 1st — It robs the community of its one just revenue.
 - 2nd — It destroys equality of individual opportunity.
7. This vicious habit is the sole cause of taxes.
8. Abandon this habit and we need have Not a Single Tax.

SEVEN PAMPHLETS

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ECONOMISTS

THE PROFESSORS AND THE
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