

# Our Unsound Tax Laws and Measures for Reform

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**Opposed to any taxation of privately created values, Mr. de Fremery strongly favors reforming our tax laws so that only publicly created land rental value would be taxed. The author joins a list of advocates and forerunners of the Henry George single tax plan which he cites; raises and answers arguments against the taxation of the annual rental value of land; and goes on to specify the many advantages of his proposal. Mr. de Fremery claims that: Henry George's principles have never been refuted; there would be no need for any other taxes so long as Government costs are correlated to this single source of tax revenue; such a tax cannot be shifted; and this offers the best protection for private property and free enterprise.**

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Daniel Webster once said: "*A free government cannot long endure where the tendency of the laws is to concentrate the wealth of the country in the hands of a few, and to render the masses poor and dependent.*" An objective analysis of the tax laws used in most countries will, I believe, lead any fair-minded person to the conclusion that these laws do just that. They tend to concentrate wealth in the hands of a privileged few—taking from those who produce and giving to those who do not.<sup>1</sup>

The basic defect in our tax system is that we allow our local, state, and Federal governments to tax away privately created values while at the same time an enormous amount of publicly created value remains in private hands.

Many are surprised to hear of publicly created value as distinct from privately created values, Victims of unjust taxation all their lives, they are shocked by the suggestion that it is possible to have an essentially burdenless tax system—that there is a natural reservoir of publicly created value, over and above all privately created values, which could pay for all legitimate activities of government. Yet many economists have recognized this fact for more than 200 years. And although we draw to some extent upon this source of revenue, the extent to which we do not is responsible for many of our economic ills today.

The difference between publicly created and privately created values, once seen, is never forgotten. Both result from the competitive bidding within society for the right to consume or use something. But it is of utmost significance that privately created values result from competitive bidding for goods and services produced by man, whereas publicly created values result from competitive bidding for something *no man produced*—the land upon which we live and work and whose value increases as the community in which it is located grows. In the one case men are bidding for goods and services produced by each other as private individuals. In the other

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<sup>1</sup> The same can be said of our banking laws. See the author's "Banking and Monetary Reforms to Preserve Private Enterprise," *The Commercial and Financial Chronicle*, June 7, 1956, p. 13 and "Our Unsound Monetary System and Measures for Reform," *ibid*, Nov. 20, 1958, p. 14.

men are bidding for the important right to use part of the earth's surface. In the one case you have privately created values. In the other you have a publicly created value.

### **Distinguishes Improvements From Land Rental Value**

It is necessary, of course, to distinguish between the publicly created value of a piece of land and the value of improvements made by the landholder. A person may improve his land with his own money and effort by landscaping, planting crops, building a house or factory or other structure. Such improvements are privately created values. And when we speak of the publicly created value of a parcel of land, we are specifically excluding the value of any privately financed improvement in or on it.

As each community grows, both publicly created and privately created values grow with it. Privately created values increase as an expanding population produces more houses, more food, more manufactured products and more services. But this same activity together with the activities of local, state, and Federal governments causes an increase in the value of land over and above the total of all privately created values. For example, before Rockefeller Center could be erected, the bare land- under it had to be leased from its owners. The rent agreed upon for this piece of bare land was \$3J/2 million a year, a sum which is still being paid each year to its titleholders. Bare land in that location is worth that much to those who need to use it. Similar examples of the high rental value of land, apart from any improvements in or on it, can be found in every large city.

The increasing value of land resulting from the growth of each community is in no sense created by the productive effort of each titleholder. The land that is most favorably situated will have the highest value regardless of who holds title to it. Thus a man who contributes nothing to the community in which he lives—*a man who produces nothing and performs no useful service to society*—may, nevertheless, have a steadily increasing income because he holds title to a piece of land in the center of a growing city. The rental value of his land will steadily increase as the community grows. That is what is meant by a publicly created value. It is created by the community as a whole and exists independently of the productive activity of the landholder.

### **Stresses Basic Differences**

The problems we have in taxation today result primarily from our failure to take advantage of this basic difference between the publicly created value of land and privately created values of goods and services. We quite foolishly allow taxes- to fall indiscriminately on both publicly created and privately created values. Privately created values should be sacredly protected as private property *free of all taxes* so as to encourage the maximum production of wealth. On the other hand the publicly created rental value of land—which no individual can rightfully claim as his alone because the public as a whole created it—should be looked upon as legitimate public property that, ideally, ought to be recovered by the community through taxation and used for public purposes. To the extent this is done a just revenue is derived that make it unnecessary to levy taxes on privately created values.

Years of experience by assessors throughout the United States and in many other parts of the world have demonstrated that the publicly created value of land is readily separable from the value of private property in improvements. But if, in some cases, it is difficult to distinguish between publicly created and privately created values – between what is right – fully public property and what is rightfully private property—it is still inexcusable not to make the effort to do so. We cannot make secure to the individual what belongs to him until we make secure to the public what belongs to it. We cannot preserve a system of private property unless we make all levels of government draw revenue solely from what is legitimately public property.

### **Depicts Disadvantages of Present Tax System**

Consider the disastrous consequences of not securing public revenue from the proper source:

(1) By failing to make full use of the publicly created value of land for public purposes, we have forced local, state, and Federal governments to obtain more and more revenue from privately created values. That means sales taxes, income taxes, taxes on our homes, factories, machinery, cigarettes, gasoline and all the other sources from which governments try to raise revenue today. Such taxes discourage the production of wealth and add to inflationary forces by increasing costs of production.

(2) By allowing a large part of the publicly created rental value of land to be privately pocketed, we encourage speculation in land. Vast amounts of excellent land in both city and country lie either underdeveloped or completely idle, the taxes being too low to induce the holders to put it to better use or sell it to those who will. The - enormously inflated prices of land today are due to this cause and stand as a major roadblock to the construction industry. Thus, the June 1958 issue of *House & Home* (leading magazine for the construction industry) editorialized as follows:

"It is just plain not true that land for home building is getting scarce. What is true is that land speculators are making land scarce by holding millions of acres off the market to get higher prices (or pricing those acres out of today's market, which is the same thing in different words) . . .

"The one best way to stop land price inflation and perhaps squeeze out some of the past inflation is to get together and fight to put more of the tax load on land and less of the tax load on improvements. This shift might make it too costly for speculators to hold good home sites idle hoping to squeeze us for still higher prices later on.

"Higher taxes on land would hurt no one but the land speculators. Higher taxes on land would permit lower taxes on houses and other improvements. Higher taxes on land are the only taxes that would stimulate production instead of discouraging it.

"Our industry has to live closer to the land speculator than any other industry. We have a closer view of the harm land speculation is doing to our economy, so we should be first to tell the tax planners and the tax collectors that higher land taxes are the one way to raise more revenue without hurting anyone except our public enemy No. 1."

Of course, the real culprit - our real public enemy - is not the land speculator but rather the tax system that encourages speculation in land. The public as a whole is responsible for its own misfortune by not insisting that the publicly created value of land be used as the source of public revenue.

(3) When we deprive our citizens of the full reward for their productive activities by levying taxes on the things they buy, the homes they build and the money they earn, a growing number of them will be unable to afford decent housing. Slums are the inevitable result. By taking taxes off income, sales and houses and putting them on publicly created value of land, lower income groups will be more able to afford decent housing and slumlords will be obliged to erect decent housing in order to pay their taxes.

(4) When governments have the power - as they do today - to tax privately created values and spend the money on public improvements that add value to nearby land, it is inevitable that powerful lobbies representing these landholders will exert pressure to pass pork barrel legislation. On the state and Federal levels these lobbies strive to increase government spending for highways, dams, schools, etc., because no state or Federal revenue comes from taxes on land. Locally these lobbies are encouraged in holding down property taxes which fall on their lands while boosting sales taxes and any other taxes that will substitute for taxes on their landholdings. The result is an inherent tendency for the state and Federal governments to spend themselves into bankruptcy while local governments claim they are impoverished.

(5) The combination of the above factors results in a natural tendency toward a loss of local responsibility and a growing dependence of local governments on central government - a trend that threatens the survival of the free institutions as our forefathers knew them.

### **Criticizes Educational System That Ignores Henry George**

The peculiar nature of land value and its suitability as a source of public revenue has been recognized by many economists during the past 200 years. Adam Smith distinguished between ground rent and ordinary rent for use of improvements. He said ground rent was a superior source of public revenue because taxes obtained from this source had no harmful effect on enterprise. John Stuart Mill referred to the rising value of land resulting from the growth of a community as an "unearned increment" if allowed to remain in the hands of landholders.

During the last half of the 19th Century, several scholars - each independently of the others - discovered this natural source of government revenue - this fund of publicly created value that makes it possible to have a burdenless tax system. But the man who did more than any other before him to clarify the distinctive nature of land value and who thereby incurred the wrath of powerful landholding interests was the United States economist and social philosopher Henry George. No man in the last 100 years has received more abuse and been so grossly misrepresented. Yet he succeeded in winning the acclaim of statesmen, philosophers, economists and leading citizens all over the world.

Henry George was a man of intense faith. He firmly believed in a moral order and in the beneficence of natural laws. He saw clearly that the value of land is the natural source of public revenue because not only is it a publicly created value over and above all privately created values *but it grows as the need for public revenue grows*. And he realized the awful truth that because the value of land grows as each community grows, a blight will fall on any community in direct proportion to its refusal to obey natural law by obtaining its revenue from this source. He saw that to the extent publicly created values are privately pocketed, a relatively few landlords become wealthy while the vast majority of people are kept relatively poor under a crushing burden of direct and indirect taxes on their productive activity. He saw that if a government robs the people of the fruit of their efforts while at the same time giving a favored few values to which they are not entitled, the moral fiber of both groups will be destroyed. The basic principles so ably espoused by Henry George have been endorsed by Leo Tolstoy, Woodrow Wilson, David Lloyd George, Henry Ford, John Dewey, Albert Einstein, Winston Churchill, Theodore Roosevelt, Albert Jay Nock, Rabbi Stephen S. Wise, Sun Yat Sen, Louis D. Brandeis, Clarence Darrow, Irving Fisher, John R. Commons, Samuel Gompers, and many others. But the sad fact is that few high school or college graduates have heard either of him or of the clear and just principles he sought to popularize – *principles which have never been refuted*. Commenting on this neglect, Tolstoy said:

"The chief weapon against the teaching of Henry George was that which is always used against irrefutable and self-evident truths. This method, which is still being applied in relation to George, was that of hushing up."

### **Economists' Views Yesterday And Currently**

Largely as a result of Henry George's influence on economic thought, the American Economic Association had a round table discussion of the land value taxation at its annual meeting in 1907. The final canvass of opinion showed that an overwhelming majority of those present agreed on the soundness of the following three propositions:

- (1) The site value of land is a creation of the community, not a creation of the landholder.
- (2) A tax levied on the site value of the land cannot be shifted nor recovered from the tenant by raising his rent.
- (3) A tax levied on the site value of land is burdenless. The community, in taxing site value, is merely recovering a value it has created.

That was over fifty years ago. Recently, Dr. Glenn E. Hoover, past President of the Pacific Coast Economic Association, observed that most economists today maintain the same position.

Many prominent statesmen during and after Henry George's life recognized the validity of his teaching. Notable among these were Winston Churchill and Theodore Roosevelt. Mr. Churchill gave two brilliant speeches attacking land monopoly - one in the House of Commons, the other in Edinburgh. In the Edinburgh speech, Churchill said:

"I hope you will understand that, when I speak of the land monopolist, I am dealing more with the process than with the individual landowner. I have no wish to hold any class up to public disapprobation. I do not think that the man who makes money by unearned increment in land is morally a worse man than anyone else who gathers his profit where he finds it in this hard world under the law and according to common usage. It is not the individual I attack, it is the system. It is not the man who is bad; it is the law which is bad. It is not the man who is blameworthy for doing what the law allows and what other men do; it is the State which should be blameworthy were it not to endeavor to reform the law and correct the practice. We do not want to punish the landlord. We want to alter the law."

Churchill never retracted any of these statements. Quite to the contrary, they were verified and confirmed by the inclusion in a volume, "Liberalism and the Social Problem," which he later made public. In the preface to that work he wrote:

"The opinions and arguments are unaltered and hereby confirmed, and I press them earnestly and insistently upon the public."

Taunted recently in the House of Commons with once having "sung the land song," he retorted "I shall sing it again."

Theodore Roosevelt, in a speech delivered Aug. 6, 1912, showed his grasp of the subject:

"Alaska should be developed at once, but in the interest of the actual settler. The government should keep the fee of all of the coal fields and allow them to be operated by leases, with the condition in the lease that nonuse shall operate as a forfeit. Moreover it would be well in Alaska to try a system of land taxation which will, so far as possible, remove all the burdens from those who actually use the land, whether for building or for agricultural purposes, and will operate against any man who holds the land for speculation or derives on income from it based, not on his own exertions, but on the increase in value due to activities not his own."

"Why," one may ask, "hasn't the world made better use of sound tax principles if economists and leading statesmen have recognized their validity?"

Local governments in the United States—through the property tax—have made some use of land value as a source of revenue. But there has been a great change since World War I. The percentage of total public revenues coming from land has / steadily declined since that time – partly because of the burdensomeness of that part Of the property tax that falls on improvements and personal property, and partly because of the enormous political influence of landed interests which always look to the state and Federal governments or to local non-property taxes for substitute funds that should be raised by local taxes on the rental value of land.

### **Countries That Are Taxing Land**

Some areas of the world, notably Australia, New Zealand, and Denmark, have made good use of sound tax principles by perfecting the property tax. Instead of allowing this tax to fall on both land and improvements, they have removed, or are in the process of removing, all taxes on improvements and putting the full, burden of this tax on land, where it belongs. The resulting stimulus to the construction industry is always apparent. Higher taxes on land induce land speculators to sell their idle holdings, thus making land available to builders. The removal of taxes from buildings obviously encourages construction.

But although these countries have made progress in the right direction by removing taxes on improvements, they still have a long way to go. There are still many taxes falling: on privately created values while an enormous amount of publicly created land value remains in private hands. *The high price of bare land is proof of this fact.*

Progress in the direction of a completely sound revenue system will follow readily once the public thoroughly understands the subject. The reason the public doesn't understand taxation is that the basic principles have been woefully misrepresented by powerful privileged interests. For example, it is claimed these principles threaten our system of private property. Exactly the opposite is true. These principles assert an absolute, unqualified property right in all that a man's enterprise, ingenuity and exertion enable him to produce. If you build a house or raise a herd of cattle, or work for a weekly pay check, it should be yours completely and absolutely. Your ownership should not be required to meet any conditions imposed by a tax collector. There should be no income tax, no corporation tax, no tax on building's or machinery, no tax on trade, no sales tax. As Henry George puts it:

"Instead of weakening and confusing the idea of property, I would surround it with stronger sanctions. Instead of lessening the incentive to the production of wealth, I would make it more powerful by making the reward more certain. . . . No matter how many millions any man can get by methods which do not involve the robbery of others – they are his; let him have them."

### **Taxed Property Is Not Private Property**

Another bogeyman is the question of who would own the land if all revenue came from land values. Here again some have become confused over the meaning of private property. To the extent that property is taxed, it ceases to be private. What a man creates or earns can be considered as truly private property only if it is his to do with as he sees fit—free of any taxes levied upon it. *Private property must therefore be understood as property that is not subject to taxation.* Since taxes should fall solely on publicly created land values, it is correct to say that land should not be classified as private property in this sense: But bear in mind we do not have this kind of private property in land today, nor do we have private property in anything! Taxes fall on our land, our homes, our incomes, our purchases, our inheritances. That's just what we should object to. Public revenue should come solely from the publicly created value of land. We should hold as private property, *tax free*, all privately created values. How else can we encourage the production of wealth? ! Let our land – which should be looked upon as our common heritage—continue to be privately held, but require each landholder to pay into the public

treasury the publicly created rental value of the land he holds. Justice demands no less. Then, and then only, will it be possible to protect privately created values by freeing them of taxes.

### **Sees It Lessening Government Power**

The question • is sometimes asked: Doesn't land value taxation place too much ' power in the hands of government? No. It has the opposite effect. Modern governments are dangerous because we have given them the power to take privately created values away from us. When we allow our governments to deprive us of the fruits of our labors, we impair our ability to fend for ourselves. Many of us are forced to become wards of the state. The only effective way to limit the power of government and to make certain it remains our servant is to deny it the power to deprive a man of the fruit of his effort. We should compel all levels of government to live within their legitimate income, the publicly created value of land, the amount people are willing to pay for exclusive use of the land they hold. Governments are not entitled to more than this. And it is particularly wrong for any government to deprive any citizen of privately created values which is now being done on a grand scale as long as a single dollar of publicly created value remains in private hands.

Curiously enough, the reverse of the above question is sometimes used in an argument against sound tax reform. It is claimed that the proposed system of taxation would weaken the government unduly and place it in the embarrassing position of being unable to make both ends meet. There are several answers to this. First, if our governments no longer took from us the values we create as ' individuals, we would no longer have to be taken care of by our government to the extent we are today. Second, when we secure public revenue from the proper source, we have less "pork barrel" legislation. Landholders become watchdogs of the public purse rather than pressure groups asking for more spending for highways, dams, and irrigation projects that will increase the value of their landholdings without their having to pay for it. Third, when taxes are removed from improvements or other privately created values, the demand for land naturally increases. People will pay more for the exclusive use of land which they can improve without being taxed for the improvement. Thus the public revenue from land values rises as other taxes are removed.

It may still be argued, however, that our various levels of government may want more income than they can get from the annual rental value of land. Maybe they will. But that is no excuse for allowing them 'to- leave a large part of their legitimate revenue in private hands today. If, after our tax system is put on a sound basis, our governments still do not have sufficient revenue to make both ends meet, then there is reason to believe we should cut down the size of our government. We must resist the attempt of governments to confiscate privately created values. There is no other way to respect the right to private property—the foundation of our free enterprise system.

### **Claims Landowner Would Be Freer Than He Is Today**

Another Common misunderstanding is that somehow a thorough going system of land value taxation would mean that the government rather than private individuals would have the power



to allocate sites as a consequence of which we would all be subservient to the government. But that is not the case. It would still be up to the market place to determine the use to which land is put. There would still be a free market in land. Titles to land would still be exchanged –but at greatly reduced prices. Each landholder would be just as free as he is today to put his land to its best use. As a matter of fact, he would be much more free than he is today because the amount of taxes he pays will be independent of the improvements he puts on his land. He will no longer be taxed for improving his land.

Some landholders misjudge the effect of tax reform. They don't realize how much they stand to gain from a sound tax system. The higher taxes we would pay on the land we hold would be more than offset by the elimination of taxes on improvements and personal property, of income and sales taxes, and the huge burden of indirect taxes hidden in the price of goods and services purchased. The only sufferers from this reform will be the relatively few speculators in underdeveloped land or those whose income comes primarily from ground rent rather than from the rendering of a useful service to society. Surely it should not be difficult for those who wish to preserve our free enterprise system to decide whether or not we should continue protecting the special interests of this small segment of the population at the expense of everyone who is engaged in useful productive activity. Surely we have the wisdom to stop this senseless taxation of privately created values when there is an ample supply of publicly created value that can be used to support our local, state, and Federal governments.

Another stumbling block that prevents some people from accepting sound tax reform is their belief that if taxes on the value of land are increased, a landholder who has invested in land so as to have the privilege of pocketing funds obtained by leasing the land to others should be compensated by the government when he loses this privilege. But why should anybody be compensated just because the government changes its source of revenue? Was anybody compensated when the income tax was put into effect? Of course not. The whole idea of compensation is absurd. All taxation, no matter where it falls, involves the confiscation of value. No matter where the government gets its revenue, confiscation of value takes place. The government takes values that are privately held and puts them to use for public purposes. It is absurd, therefore, to compensate the landholder just because taxes on the publicly created value of his land are increased. As a matter of fact, if anybody deserves compensation, it is all those who have been robbed of % their privately created values under the existing tax system, not those who have been permitted/to pocket the publicly created value of land all these years. But if we are wise, we will not try to correct past injustices. We will simply insist that justice be done from now on.

### **Finds Single Tax to Be Most Equitable**

Another variation of the above argument is' the claim that it would be wrong to obtain all public revenue from landholders when a large number of citizens have no land. But those who have no land are paying ground rent to those who do. In other words landless people provide landholders with the money to pay taxes falling on their land. And if we bear in mind the essential difference between publicly created and privately created values, we are forced to the conclusion that taxes on the publicly created rental value of land are the only taxes that are absolutely equitable to all

citizens. This is so because the annual rental value of land, being a publicly created value, legitimately belongs to all, share and share alike. Theoretically, our government should recover the total rental value of land – our common heritage—and divide it equally among all citizens. But since our governments need revenue and we wish to avoid having taxes levied on privately created values, it makes sense for each citizen to assign to his local government his equal share of this public value. By so doing he contributes the same as every other citizen to the cost of government. Certainly there is no other source of revenue as equitable as this.

### **Denies Tax Can Be Shifted**

At the opposite extreme of the claim that land value taxation is wrong because landholders would be the only ones paying taxes is the claim that landholders would be paying no taxes at all. It is claimed that they would merely raise their rents in proportion to the increase in taxes falling on their lands. But this is one thing all reputable -economists agree can not be done. If site A (land only) in the heart of a city is worth \$1,000 per month to whoever uses it, while site B (land only) on the outskirts of the city is worth only \$100.00 per month, then site A is worth only \$900.00 more per month than is site B. A change in the amount of taxes falling on these two landholders cannot affect the relative value of these sites. Suppose, for example, that an attempt were made to get \$2,000 and \$200.00 per month respectively for these two sites just because each landholder were required to pay taxes of \$1,000 and \$100.00 respectively to the city. Obviously, the tenants in site A would move to lower cost land. Site A is not worth \$1,800 more per month than site B. If it were, the landholder would be getting it in today's market.

Although a tax on land values affects the price of land, it cannot affect its rental value. There is no disagreement among professional economists on this point.

### **Explains Mechanics of Tax Collection**

The question naturally arises: How should Federal, state, and local governments obtain the rental value of land? The practical answer is that we should return to the constitutional provision that requires our Federal government to apportion direct land taxes among the states according to their respective populations. The states, in turn, should obtain this revenue and the revenue for their own support by apportionment among their counties, in the way Nebraska, Texas, Montana, and a number of other states still do. The counties, as agents of the states, should collect their revenue, and the revenue needed by state and Federal governments, from the rental value of their lands, using existing property tax collection machinery. These changes would reverse the trend of the last 50 years. Instead of lower levels of government becoming increasingly dependent upon higher levels of government for aid, thereby losing their independence, the higher levels of government would return to dependence upon the lower. That is as it should be if we wish to preserve our liberties.

Some may claim, "It's too late to change the rules of the game." But if a person has a clear understanding of the disastrous effect that some of the existing rules are having upon us—he will realize the wisdom of making the rules sounder so as to protect each person's right to enjoy the fruits of his efforts. The first barrier to the spread of Communism is a tax system that

differentiates between publicly created and, privately created values. Then and only then can all privately created values be treated as private property, secure in private hands, immune from confiscation by tax collectors.

In his book, "Constructive Taxation for Free Enterprise," Judge John R. Fuchs stated the issue clearly as follows:

"There can be no hope of peace and order in society without a clear recognition of what is public and what is private property. The soundness of the very foundation of society depends upon this. . . . We must distinguish between what is Mine, Thine, and Ours."

Almost two thousand years ago, a famous teacher of Nazareth stated the same basic principle when he said: "*Render unto Caesar that which is Caesar's.*" Truly, there is nothing new under the sun. We may have a new set of faces. But our problems are the same. We cannot escape the consequences of our immoral acts. We cannot hope to achieve the kind of life our Creator intended for us until we provide ourselves with a sound and just method of raising public revenue, and a sound monetary system.