A Better Way

by James Clarkson, Naples, Fla.

Since time began, the control of civilizations were achieved through systems of land tenures which required the performance of some service in return for the allocation of land, to that establishment in power. The Roman precarium was a temporary grant of land made by an owner to a tenant in return for service. Land granted in this way was called a "fief". The provinces outside Italy were ruled by a Roman Governor who collected the taxes as recounted in the Bible by St. Luke, "and it came to pass in those days, that there went out a decree from Caesar Augustus, that all the world should be taxed."

The Roman Empire's demise can be directly attributed to the masses of the people at the bottom of the pyramid who received little benefits for the wealth that they created, ultimately revolting by withdrawing their labor and support to its continued existence. As recounted in the most recent July 1997 issue of National Geographic Magazine, commenting on the Roman Empire and the causes for its downfall: "In Rome tax evasion became such an art form among the rich that the farmers and peasants, particularly in Italy, were bled white to maintain the revenue flow." Nevertheless, even after the Roman downfall, those successors in power, paradoxically, adopted the same system for their own survival and in order to insure their continued control of the land they conquered, set up a system of primitive feudal land tenures.

Brevity will not permit me to tell you of the step by step development of the feudal system as we understand it today. Suffice it to say, that in its refinement, the continued "ace in the hole", was the control and distribution of the land. When William was crowned King of England in 1066, he immediately distributed the land of the conquered, rewarding his friends, and punishing his foes. The land of those who fought against the conqueror was seized and divided among his followers and himself. No land was to be held in absolute ownership. Every landlord would hold directly or indirectly to the king. It is for this reason that feudalism involved not only proprietorship of the soil but also of the inhabitants living on it. Political power could only be maintained by control of the population and by attaching the population to the soil and thus making them part and parcel of the land on which they resided. This created a species of slavery as a means for sustaining the political power of the sovereign. In this way the people in the various lands could be controlled by the lords above them.

While a person was merely a tenant to those above him, he was lord to those below him and accordingly was termed "meanse" or "middle lord". Thus, land held by one tenant of a superior was known as a "feud", "fief", or a "fee"—the term being derived from "feudum", and was contra-distinguished from "alodial" land (land which was possessed by a man in his own right, not incident of another and without any obligation of rent or services.)

King William had to solve the problem of holding the English in subjugation while keeping a check on his Norman followers. In the case of the English, he continued the practice of seizing the lands of those who resisted his authority and turning them over to Norman lords, each of whom had to furnish a contingent of soldiers in proportion to the size of his land grant. Secondly, William secured every district he conquered with a castle garrisoned with his own men.

From that date to this time, there has been no change in the land ownership system except by its surreptitious refinement. Any reforms that were made were the result of a constant whittling away of the obligation of tenure to the government.

While it is still true today that there is no absolute ownership of land, the amount of the tenure, or as we call it land rent or land value taxation, due the government has been considerably diminished.

To my knowledge there is no "alodial" land in the United States and when this country was founded it was created by charters granted to certain persons and organizations for the development of the new land. The first colonial charters for the settlements of North America were granted to the Plymouth Company and to the Virginia Company. They were joint stock companies composed of "knights, gentlemen, merchants and other adventures as stockholders". They were in effect colonizing companies, and the ownership or profit from the sale of the land was one of the purposes of their organization.

The charters provided that the king was to grant land to any person recommended by the council of each colony on its petition. The only reservation as to the land use was the usual provision, in those days that five percent of the gold and silver recovered from the land be reserved to the king. Although the colony land system was essentially English, attempts to introduce the feudal system of land tenure to the American colonies largely resulted in failure and quit rents demanded of settlers were ignored.

Nevertheless, as finally determined by the states, land was granted to holders from the state and upon the owner's demise or failure to pay taxes to the lord escheated to the government. The law which applied to the ownership of land remained essentially the same as that evolved from the common law, which was based on the feudal system.

An estate in free simple is the entire interest and property in land by the tenant to himself and his heirs forever. The word "fee" was originally used in the sense of "feud", referring to land which was held of a feudal superior in contra-distinction to land held "alodially".

The grants to the colonial proprietors were in free and common socage, the services reserved consisting either of a nominal rent, inferior services or only of the incident of fealty marking the feudal relation. After the revolution, the feudal position of paramount lord passed to the state with the other sovereign rights. There is really not much difference today.

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In a number of the states all tenures are abolished either by constitutional provision by statute or by judicial decision, with the abolition of tenures the “Statute of Quia Emptores” (because the purchasers) is impliedly repealed. The effect of this statute was twofold: (1) To facilitate the alienation of fee-simple estates; and (2) to put an end to the creation of any new manors, i.e., tenancies in fee simple of a subject. The abolition of tenures would make such a statute meaningless. In other states, however, where tenure exists this statute is probably in force, with the possible exception of Pennsylvania and South Carolina, but all tenure must be directly of the state.

With that historical background let us apply the economics of today in an attempt to “kill two birds with one stone”. What are the two birds? One would be the elimination of most poverty and at the same time the implementation of a better property tax system. What I am suggesting is Land Value Taxation, or putting it into economic terms, appropriating to a larger degree the rent for the use of land.

Webster’s dictionary defines economics as “the science that deals with the production, distribution, and consumption of wealth”. This article is not to be a lesson on the different economic systems; for that I refer you to the book entitled “The Basic Teachings of the Great Economists” by J.W. McConnell. This is one of the best treatises on the subject. I will, however, attempt to explain in the most simple terms the basis for all of the ramifications of the production and distribution of wealth.

Put in its simplest terms, the three factors of production of wealth are land, labor, and capital. The return for the use of land is rent. The return for the use of labor is wages. The return for the use of capital is interest. Of those three, only one is unearned and that is the return for the use of land, or as most economists refer to it as the “unearned increment”. If it is unearned, and it is, rent derived from land, nature’s legacy, defined as all of the material universe exclusive of man and his products; why not use it for the operation of government? Many have criticized the idea as theory when it is not. It is already made a part of the property tax used by municipalities throughout the United States. Others have said it is wonderful but not practical or impossible to be applied today.

Yet, in the State of Pennsylvania over eighteen cities have adopted a two-rate tax system whereby land is taxed at a greater rate than buildings. While in the Michigan Legislature, I led a study committee to Pittsburgh, where the Golden Triangle is located, as an example of its practical application. Incidentally, when I became Mayor of Southfield, I named the Southeast corner of the city the “Golden Triangle.” While the Committee recommended legislation enabling cities in Michigan to adopt a two-rate system, knowledge, it is yet to be adopted.

Why not use the rent for the use of land? You do not have to do any thing for it while you have to work for wages and have to save your wages for capital to get interest. Why then do we justify a system that permits the land owner to keep the increase in the value of land, or the rent for its use, created by nature and society. This article will attempt to answer that question.

Land tenures were abolished and in substitute therefore other forms of revenue for the government were invented, such as the income tax which fell on all three factors of production. Its onerous provisions against labor are accepted by some upon the spurious argument of ability to pay based upon how much one earns without consideration of its source.

While Henry George was primarily known for his so-called “Single Tax”, the taking of all of the unearned increment (land rent) for the operation of all of the government, the merit for its partial use is valid today. We have some Land Value Taxation today in the form of our property tax. Unfortunately, because it is combined with the improvements on the land, the average taxpayer cannot easily distinguish between the two except where he owns land only. In Southfield, however, the tax bills carry the assessed value on buildings and land separately, for the taxpayer’s edification.

It comes to me as no great surprise to find many of those so-called pundit economists who advocate the income tax, to be sizable landowners themselves. No treatise on the subject of wealth misses making the point that it is real estate that gets millions and makes millionaires.

I cannot quarrel with this, nor with the precepts of those who take advantage of this counter-productive system. I would be hypocritical and much worse, if I did not admit that I have invested in land in Southfield and as a result thereof profited, to a small degree, from those investments. For instance, a house came up for sale on Southfield Road just north of Ten Mile Road, and I convinced my law partners to join with me in its purchase. I knew that Southfield Road would be widened to four lanes and increase its value. We purchased the property with $3,000 down on a land contract for $18,000. Just over six months later we sold it for $32,000. All of the profit was from the increase in the value of the land.

It took some courage to practice what I preached, but once after the first experiment in this adventure, I was forever hooked and consequently found myself rationalizing my action by espousing the merit of Land Value Taxation and thereby justifying my investment in land as a means to prove my point. The practical aspect of this is easily understood when in the talks that I give, and have given, across the nation and in Canada, I could more easily for the question that implied that my advocating of land value taxation was but “sour grapes” for my failure to have benefited from the system.

This argument has now been abated, as I said before, by my own participation in the system, a system that is so entrenched that we look at our politicians with grandeur as they make magnuminosous overtures of helping the minorities and the poverty stricken, with other people’s tax money. Oh, how ironic, that they have missed the first who spoke of “Progress and
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Poverty", but in his answer, Henry George so eloquently championed individual capitalism and a system of free enterprise, without poverty!

President Johnson's charitable advice and the Kennedys' good intentions and all others of those prominent national politicians with landed estates, living off the lands and returns of their property, at the expense of the impoverished, cannot cure this counterproductive system by federal subsidies! Of all of the examples of the exploitation of land is the oil industry. President Bush, while an Easterner, came to Midland, Texas and formed an independent oil company named Zapata. After making sufficient money he went into politics, and you know the rest of the story. His relationship with the Persian Gulf oil countries and their importance to the oil industries made it no surprise when he acted with alacrity in sending our troops to defend Kuwait when Iraq invaded this rich oil country. Oil was the name of the game, not a war for democracy. Since 1985 Iraq has been the largest purchaser of arms, much of it from the United States, to be later used against us.

The Pulitzer Price winning book, by Daniel Yergin, "The Prize", spelled out the epic quest for oil, money, and power, chapter and verse better than any book I have ever read on this subject. He cited David Ricardo, who pointed out that "rents" were something different from normal profits, which set the ground work for the nationalization of the oil by Mexico, Venezuela, and the Persian Gulf countries. Oil was one of nature's legacies derived from the land. Its geological presence had nothing to do with the character or doings of the people who happened to reside above it, or the nature of the particular political regime that held sway over the region in which it was found. Rent was the difference between what it cost to bring it out of the ground, refine it, and market it.

At this point one must keep in mind that the law recognizes two diametrically and opposite bases for title to land and personal property. Title to personal property is traced back to creation, while title to land is based on force. It is preposterous to reconcile the two, yet we do. If you have a big enough army, it is "OK" to take title to land by force, as was done by the British, French, Dutch, and Spanish in this country. Since time began, and right up until today, wars are being fought over title to land.

The guaranteed annual income and other nostrums so prolific today will not, and cannot, cure the plight of the cities. True, they are accomplishing the upgrading of some of the minority races by affirmative action laws so that they can be part of the system. The economic level of the minorities will, undoubtedly, be benefited, but the bottom percentage of the impoverished will still remain the same.

To say that we have solved our problems by the creation of a system necessitating a guaranteed annual income for all of those unable to work or unable to find jobs, is but an hallucinatory device dreamed up by those liberal politicians financed into office by their, and their supporters, ownership of land created by God for all, but reserved to themselves under the system. They play their role of magnanimity in spreading around wealth obtained by an income tax with deductions not available to laborors.

At the last United States Conference of Mayors I attended in Chicago in 1968, almost the last visages of local home rule was lost to federal dominance. Almost all were federally related resolutions and one, in particular, went so far as to openly advocate the passage of all necessary income tax legislation to support the socialistic programs that the good-intentioned mayors passed as the solutions for the urban crisis now upon us.

It is hoped by this former mayor and now retired judge, that Southfield can remain a glimmer of light in the blackness of federal dominance. While Southfield's tax bills still carry separately the assessments on land and buildings, subsequent administrations have done nothing further to change to a two-rate tax system. I hope that future administrations will adopt the two-rate tax system which will not destroy the individual or the products of his initiative and labor. We need a better property tax system that will not penalize a person for building a better building or home.

Now, some of you will say to yourselves, "What is Land Value Taxation?" Is this a semantic circumvention for what we already know as our property tax in the State of Michigan? Yes, I suppose that you could say that what we tried to do in Southfield, when I was Mayor, was to follow the law as it was already written. What we did was to place the same appraised value on the land that had been placed on improvements. This corrected the inequality that existed before where land had been under-appraised for as much as one thousand percent. As a result, ninety percent of the home owners' taxes were reduced. The definition of anything today is a matter of degree. In Southfield, we did not have one hundred percent land value taxation, but we did have a lot more than any other community in Michigan. Because of the efforts of the former Assessor and my policies, while then Mayor, we emphasized the appraisal of land values and its taxation rather than the emphasizing of taxation on buildings. Whether that is true today is doubtful.

I would then perhaps, in a sense, describe Southfield as but one drop of intellectual and experimental rain. True, the economic pedants refused to recognize the validity of the tax reform practiced by Southfield as a form of Land Value Taxation but only compliance with the existing law, then why was it not followed until my administration?

"What is it for me?" I have often been asked this question by people after explaining my reasons for supporting land value taxation. In fact, I have had more problems answering this question than any other.

To say that Land Value Taxation would help to make a better world in which to live, that it would give my continued on page 7
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children an opportunity to enjoy a better life, or that it would bring about the ultimate goal of all people of a lasting peace and prosperity, is all too simple. Nevertheless, it is just these simple answers that altruistically motivate man. To deny this is to deny the nature of man. It is the simplicity of Land Value Taxation itself that causes so many people to question the validity of its application. This is especially true of those economists who desire to make simple solutions esoteric.

Perhaps more practical reasons can be understood better, especially by those of us who have finally reached a point in our lives where we are earning substantial incomes and are faced with the income tax conundrum. It seems to me that in searching for the solution of the taxation problem, we are faced with a selection of alternatives. Trial and error alone would lead a person to pick anything other than a tax based on income with its demagoguery, its bureaucracy, its inquisitorial procedures and, last but not least, its monumental cost of collection.

It is now more a rule, rather than an exception, for those with earning power above the poverty level, to find themselves paying exorbitant sums to have their income tax return prepared for filing. Those with earning power above that level, in the middle class bracket, could pay hundreds of dollars for this service, and others who are in an even higher bracket, could pay thousands of dollars for the preparation of their income tax forms. The recent proposed flat rate tax would help in this regard depending on what deductions would be permitted. Bear in mind, that in order for an income tax to be successful for operating the government, it must collect sufficient funds from our major wage earning population. This means, much to the humiliation of the people who advocate its cause, that, primarily, the income tax must fall on the people in the lower income brackets. While each individual tax is small in amount, enough numbers in this bracket would generate the necessary income. Some people in the high income brackets must pay astronomical amounts in income taxes, but most of them have learned how to avoid the income tax by properly investing their money which enables them to take write-offs against profits, while at the same time allowing themselves the benefit of a tidy cash flow.

In the July 21, 1997 issue of Newsweek, an article describing the proposed new tax reform bill pointed out that the tax loopholes, about 300 provisions, are so complex that it will force ordinary folks to line up outside H&R Block offices to receive meager tax benefits they barely understand. There has to be a better way!

Remember that the name of the game is cash flow—not how much profit you are making!

Let me give you an example. I purchased a cement block building that was at least 20 years old and which was about 20' by 40' in size. The building had no basement, only rudimentary gas heat and well water. This property I knew would become very, very valuable land and from which there would ultimately be realized a very high speculative profit. While this property was ripening in value, the building was being rented for $250 per month, net. In other words, all that I furnished was the building. The tenants, in addition to their rent, would have to provide their own heat and electricity incidental to the operation of their business at their own cost. I determined the value of the building to be approximately $40,000 and for income tax purposes, I would take a fast write-off. In other words, the building would be depreciated to a value of zero over a period of ten years. By way of simplification, if I took off $4,000 per year, I would have the privilege of subtracting that from any profits from the rental of the building that I might make. This, incidentally, amounted to a sizable loss every year so that while I actually gained in dollars in my pocket, for income tax purposes I would write off a loss against other income that I received during the year. This example is a very limited explanation of the advantages of the income tax structure that real estate investment can have that is not available to the wage earner. By the way, that same property became what is now known as Applegate Square Shopping Center which made for me a sizable profit. Almost every day one can pick up the newspaper and read where either a corporation or an individual made millions but paid little or no income taxes.

Now, may I also say that I, for one, do not object to anyone who makes his fortune as a result of the application of labor and capital, increasing the sum total of the wealth produced so that all of us can live a better life. I do, however, object to those who through the monopolization of and ownership of the land are allowed to retain this unearned increment at the expense and deprivation of the producer.

Let’s ask ourselves what are the other alternatives. If we were to analyze this we would find there are only two. First, the tax on labor and its derivatives such as the income tax as already mentioned, sales tax, franchise taxes, and taxes on capital which after all is nothing but stored up wages, or secondly a tax on land values.

My choice, notwithstanding my own personal investment in speculative land from which I will derive some unearned increment, is Land Value Taxation.

How could this be achieved when the entire history of mankind has been steeped in the traditional concept? If we are to rule at all by any form of government, it would have to be based on a system that would protect or insure property rights in land to individuals? Modernization of the property tax could be a beginning. Ownership of the land would not be disturbed. For starters, a two-rate tax system could be employed by taxing land at a higher rate than improvements. This was done in Pittsburgh and some thirteen other cities in Pennsylvania. States that have adopted two-rate tax enabling legislation are New York, Maryland, and Washington, D.C. Other countries adopting this system have been Australia, New Zealand, the Republic of South Africa, and Denmark.

Obviously, the Jubilee as related in the Bible for the redistribution of the

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land was not the answer, nor is the answer today. I categorically and unequivocally renounce the position that the answer lies with Karl Marx’s solution, the government ownership of all three factors of production — land, labor, and capital. It’s simpler than that! As Henry George pointed out so eloquently and so much better than any of the classical economists, the solution is to simply reserve to the government the unearned increment for the benefit of the community which created it.

This article is an attempt to explain the application of Land Value Taxation in the City of Southfield. In order to understand Southfield, I have tried the semantic approach by explaining each word by referents. For too long a time I have felt that in the field of economics, the so-called “experts” have been playing a game of words without explanation of meaning. Today, more than ever before, because we think with words, it is important that we understand their meaning and do not become mired down in the morass of technical jargon to the point where we cannot adopt fresh ideas regarding solutions for the betterment of our cities. I have tried to keep it simple; tax the unearned increment.

Why, then, do you ask if Land Value Taxation is such a good idea has it not been adopted? Is it some kind of territorial imperative syndrome resting in greed? From the dawn of humankind, the quest for land has been the salient theme of recorded history. Nations and empires have fought to expand their domains. The Chinese created a huge land empire in the East in the centuries before Christ. Then came The Great Khans from Mongolia followed by Alexander the Great who did the same thing. The Middle East with the Israelis in claiming the promised land, the Canaanites, Hittites, Babylonians, Egyptians, Assyrians and the Persians, the Gauls, the Vikings, and the Roman empire, to name a few more, all fought to obtain more land than they could use.

Then came the colonial empires of the British, French, Spanish, and Dutch, basing their title to the land in India, Africa, and America based on discovery and force. In more modern times the Germans under Hitler, the Russians under Stalin, and the Japanese went to war to conquer other nations to obtain more and more land.

Today the method is more insidious. It is called market economy where land is included as the same as capital and so there is no longer any unearned rent. Calling land “capital” does not make it so, even if you invest in stock of a corporation if the profits are wholly or in part obtained from land. No matter what you pay for anything from an entity that it is not entitled to own, it should not legitimize its ownership, although I realize that the present law and practice today makes it lawful. I am convinced that to change the present system will take more time than I can imagine or estimate or else the happening of a miracle similar to the destruction of the Berlin wall.

Take, for example, while still Mayor, I gave a speech in front of the Northwestern Reality Association in which I alluded to certain land in Southfield where enormous profits could be made from the unearned increment by their purchase and resale. My comments were an attempt to prove the wisdom of changing the tax system. After the speech several brokers who I hoped would applaud the idea of Land Value Taxation came up to me; instead they asked me where could they find the land so that they could benefit by its speculative purchase.

Will this innate desire in humans to get something for nothing rather than working for it perpetuate the justification for the private appropriation of the unearned increment? I agree with Ayn Rand that the profit motive makes a better world by the resultant increase in wealth and that it is not wrong to be selfish. But wait a minute; that does not mean we should condone the right to steal what nature and society created.

Take this analogy. Bill is living on Mars; the planet is drying up. He looks through his telescope and sees Earth, a green lush planet. So he gets in his rocket ship and flies to Earth where he and his family decides to land in Manhattan, a fertile piece of land with a good sea port. Jack, still on Mars, decides to do the same thing except he lands in New Jersey, a garden spot across from New York. Bill meets him when he lands and welcomes him to the new world. “You and your family will end our loneliness; however, you will have to pay me for New Jersey, as I took title to all of Earth by right of discovery.” Jack was dumbfounded and said to Bill, “Until I came here it was not worth anything to you.” Bill replied, “That’s right, but I took title to this property and while you created its value it is now mine.”

This narrative, while fiction, actually took place in the founding of America under the colonial system. The Dutch took New York and England took New Jersey. The rest of America was divided between them, Spain, and France.

I am not an idealist. If we have lived under the present system since the beginning of recorded history, to change it can only be done by one step at a time. That first step must be through municipal property tax modernization. Any change more radical than that will be met with resistance too difficult to overcome. I only hope that as I have been, that I will continue to be, a part of this “Great Adventure” in trying to explain to others the justification for the partial application of Land Value Taxation, not only in Southfield, but in all cities and governmental entities throughout the world.

In conclusion, our choices are to keep the status quo or adopt a two-rate tax systems as renaissance to the ultimate implementation of total Land Value Taxation for a BETTER WAY.

Editor’s note: The above paper was prepared in July 1997 by James Clarkson to use in the educational effort of Southfield mayoral candidate Barbara Talley, with whom he met personally in August. Attorney James Clarkson served in the Michigan state legislatures and as Southfield, Mich. Mayor in the late 1960s, after which he was elected a Judge. He is now in semi-retirement in Naples, Florida and Port Carling, Ontario.