

## UNWISE TAXATION AS A BURDEN ON HOUSING

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THE epitaph of one Rebecca Bogess, who died in Folkestone, England, on August 22, 1688, tells of the satisfaction of the deceased with her new "house" where the landlord could never raise the rent, and concludes:

"From chimney-tax this cell is free,  
"To such a house who would not tenant be?"

When England imposed the chimney-tax from which Rebecca could escape only by death, and when, in the reign of William III, a tax was imposed on two or more panes of glass in a window, the lawmakers were doubtless seeking new sources of public revenues rather than methods of preventing the attainment of decent housing by the British people. The intent, however, did not alter the effect: chimneys became fewer, and windows smaller. Healthful, liveable housing was handicapped.

Were it now proposed to revive these ancient English levies, the un-wisdom of so doing would be recognized by all. But we are still taxing chimneys and windows in our American cities. We are also taxing doors and walls and roofs and stairs and the other parts of our homes. We no longer pick on the chimneys or windows for a special tax, but the tax-gatherer levies on the whole building. When a bathroom or a porch is added, up goes the tax—though any suggestion of taxing bathrooms or porches as such would be laughed out of court. It is to be doubted whether we have really progressed very far in this matter of taxation since William III and the seventeenth century.

If in our twentieth century we were to organize a hunting party for a rational system of taxation, our first major decision would be concerned with our land policy. Even assuming that we all sought to organize an ideal state, our theories would doubtless differ as to whether the state or individuals should hold title to land areas not needed for public purposes. In brief, these two points of view would be presented:

1. That the state permanently retain ownership of all land within its borders, and rent sites needed for private use on long-term leaseholds. Such public ownership, according to this view, would permit much more adequate protection against improper land uses than is possible under private control. Moreover, the revenues from ground rents would make local taxes—and perhaps, ultimately, even state and national taxes of any kind—unnecessary.

2. That private property in land has advantages—in human satisfactions, in stimulus to enterprise, and as a factor in civic and social welfare—which make communal ownership, for other than public uses,

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unwise. The emphasis here would be on recently developed techniques in planning and zoning which could prevent much of the exploitation and many of the anti-social uses which have heretofore characterized private land-ownership. And by the simple device of land-value taxation the community-created ground rents could be recaptured for the public treasury.

Under either of these two proposals the handicapping of housing and other private enterprise by unwise taxation could be avoided. Instead of discouraging the building and reconditioning of dwellings, as we traditionally do by a tax falling on land and improvements alike, we would make tax-free that part of real estate created by human labor, and raise public revenues from site values alone.

Can there be any doubt as to the ethical and economic soundness of such a tax system? As I have pointed out elsewhere,<sup>1</sup> there are three main factors in the creation and maintenance of land values:

1. Some land has natural advantages of site, fertility or climate that cause it to be in greater demand than other land. This differential—for which landowners, as such, deserve no credit—is reflected in ground rents or is capitalized into land values.

2. Where population concentrates, the demand for land is greater than for equally advantageous sites where population is sparse. This differential, too—for which landowners as such deserve no credit—is reflected in ground rents or is capitalized into land values.

3. Where governmental services are available—police and fire protection, adequate facilities for public education, recreation, sanitation, and the rest—the demand for land is greater than where such services are not furnished. These community expenditures are likewise reflected in ground rents or capitalized into land values.

For these values, created by nature or the community, no individual has a fundamental and ethical right to collect tribute. Only unquestioned tradition sanctions the community's custom of permitting, as at present, private exploitation, hampered only by a tax system which penalizes individual enterprise. Today, when private initiative would undertake a large-scale housing project, two of the biggest hurdles to be leaped are these present land costs and future real estate taxes. This is so because persons now holding title to the site of such a project are enabled to demand from the prospective developer a price based on the syphoning into private coffers of most of the publicly created values, past and future, arising from the three sources previously mentioned. And the developer, in addition to this penalty, must add to his costs the taxes which will be imposed each year on the buildings he wishes to erect. To stay in business he must pass these costs on to his tenants, or to purchasers if he is building for sale.

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1. *Differential Taxation of Land and Buildings*, a paper presented at the 1937 conference of the National Association of Assessing Officers.

But, assuming that an effective tax system would obviate these handicaps to housing development, it may be asked why such a sweeping experiment should be discussed when a frontier for experimentation no longer exists today? My answer is that we can try the experiment, if we wish, not by gradual penetration into a new wilderness, but by a gradual shift of the incidence of taxation in our existing communities through the so-called graded tax plan.

An important forward step in property taxation was taken by New York State some years ago, in the abolition of the personal property tax. But when property is attached to the land, it is still taxed at the same rate as the land itself. This means, for example, that a portable oil stove in the bedroom escapes taxation, but not so an oil furnace in the cellar. A portable lamp is personal property, but a lighting *fixture* is real estate. A ladder escapes taxation, but a staircase is taxable. A rug on the floor is untaxed, but the floor under the rug or linoleum affixed to the floor is part of the house and therefore taxable. A moveable bookcase or cabinet is personal property, but if built in becomes subject to the tax assessor's ministrations.

Part of the confusion on this phase of property taxation in the minds of law makers and home owners arises from the unfortunate legalistic use of the term "real estate" as meaning either vacant land alone or land and buildings combined. The lawyers and lexicographers have united in one term two entities as dissimilar as oil and water, and tax-makers traditionally follow suit.

Why labor products that happen to be fastened to the land should be taxed at a high rate, while moveable products are taxed at a low rate or not at all, cannot be satisfactorily explained. I am not urging, of course, the taxation of moveable products. Personal property—as such products are generally called—has been found to be so unreliable and inequitable a source of public revenues that the personal property tax in most states is either a farce or a corpse. Taxes on homes, however, continue to be exacted, not from any social or economic necessity, but because homes are anchored to the land and are legally classified as part of real estate. Thus we perpetuate the penalizing of *home* owners and tenants for their thrift and energy. While doing so we present to *land* owners rents or speculative profits which they are able to collect—often from obsolete property—because of holding title to portions of the earth's surface whose value is derived mainly from the expenditures and services of government.

In recent years, however, some experiments have been made with the temporary or partial removal of taxes on improvements. As a means of encouraging owners of sub-standard dwellings to install improvements, the City of New York adopted in 1936 a local law granting property tax exemption for five years upon the value added to existing buildings

by improvements completed before October 1, 1938, provided the improvements did not increase the size of the building. Mayor LaGuardia estimates that renovation work this year may run as high as \$75,000,000, and has announced that he will ask the Legislature at its next session to extend the exemption period.<sup>2</sup>

Similarly, tax exemption has played a major part in the present nationwide movement for slum reclamation, and for the building of large-scale low-rent housing projects with the aid of public funds. By July 1, 1938, 33 states had passed laws permitting local governments to establish housing authorities and engage in public housing enterprises. In all of these states, except Illinois and Montana, local governments are authorized to grant partial or total exemption from the real estate tax to public housing projects—and in some cases to limited-dividend projects financed by private capital.

As a general rule, any tax imposed on buildings and improvements (as distinguished from the land) is paid by the occupant, whether tenant or home-owner. The effect of such taxation on rents is not generally realized. A memorandum addressed to Mayor Fiorello H. LaGuardia of New York by the State Board of Housing on July 6, 1938, stated that "To the typical tenant, tax-exemption on the building saves over \$105 per family per year (\$2.50 to \$3.50 per room per month)." This statement was made as part of a plea by the State Board of Housing for a resumption of the tax-exemption which the city had granted, by authority of the State Housing Law, under a local law which expired on December 31, 1936.<sup>3</sup> The exemption was for twenty years on buildings (not the land) of limited-dividend housing projects built and operated under the supervision of the State Board of Housing. According to the Board's statement to the Mayor:

2. See *Maddock Urges No Taxes on Improvements* (1938) 3 *FREEHOLD* 75 [the monthly magazine of the National Association of Real Estate Boards], (encouragement by the city of Hartford of extensive rehabilitation of run-down properties by granting a five-year tax moratorium on such improvements would be beneficial in providing much-needed employment for workers in the building trades; in stimulating large purchases of materials, to the benefit of producers and dealers; and in providing better housing, without municipal or Federal subsidy, for the tenants who would occupy these properties after improvement); McPherson, *Capilano Estates* (1938) 3 *FREEHOLD* 90, 92 (describing what appears to be a well-planned and highly restricted development now under way on a 4,000-acre site in West Vancouver, known as Capilano Estates): "A point to be particularly stressed is the very favorable tax situation in West Vancouver, where improvements are not assessed, only a land tax being paid. This tax is determined at the rate of 61 mills per annum. To give an example, the tax on property valued at \$5,000 on which a \$15,000 house has been built, would amount to \$305 on the Estates as against \$537 in the City of Vancouver where taxes are based on a 43 mill rate, with an assessment of 50 per cent for improvements. Power, water and telephone rates are the same as in the municipal districts."

3. *MEMORANDUM, STATE BOARD OF HOUSING*, July 6, 1938.

"In the absence of tax-exemption there have been no projects for such new housing in 1937 or 1938, and none are now in sight, unless tax-exemption is restored. It seems clear that enough time has passed to show that capital will not come forward for such projects unless the city resumes its interest in securing the benefits of the State Housing Law for those families which cannot enjoy the benefits of Federally subsidized public housing, but whose housing conditions are almost as bad as those of the lowest income families.

"The numerous inquiries received by the Board show that private capital stands ready to cooperate in a comprehensive housing program by means of limited-dividend housing, if tax-exemption is offered to limited-dividend projects organized under the State Housing Law as in the years 1927-1936."

The State Board of Housing maintains that the loss of revenue to the city under its proposal is largely theoretical, and that the benefits would be substantial:

"When projects are put on empty land, the city suffers no real loss. On the other hand, when projects replace slums, increased land assessments more than balance the revenue lost on the old buildings, and the lost revenue is further offset by the relief from other community burdens of policing, health, inspections, etc. Also, the new projects enhance the value and the assessments in the neighborhood. They reverse downward trends of values and stimulate the erection of new taxable buildings nearby."<sup>4</sup>

Such pleas as these make a strong case for lightening the tax burden on public housing projects and on publicly regulated private projects. They call, however, for a form of special privilege which, in the writer's opinion, can be justified only as an emergency measure. If partial tax exemption to encourage rehabilitation is desirable, why reject it as a permanent and effective means for securing better housing for the rest of the people? It seems certain that such tax-exemption would greatly stimulate the building of large-scale housing projects, and make possible the operation of such projects at rents substantially lower than could otherwise be achieved. Why not then recast our entire real estate tax system so as gradually to free buildings and improvements of all kinds from taxation, and thus give private initiative a better opportunity than it has ever had to provide adequate housing without special subsidy? Not only would such a system of local taxation relieve new construction from a burden which is a major handicap to such construction; it would also

4. *Ibid.* For federally aided housing projects, the United States Housing Authority considers local tax exemption (or a low "service charge" by the municipality in lieu of the much higher nominal taxes) to be essential. UNITED STATES HOUSING AUTHORITY, BULL. NO. 6 ON POLICY AND PROCEDURE (1938).

help greatly to solve that other major handicap to adequate housing—high land costs.<sup>5</sup>

#### LAND PRICES, LAND VALUES, AND TAX RATES

The price of any particular piece of land is based in the main on a capitalization of the income which the buyer or seller anticipates the property will yield in excess of taxes. To illustrate the dependence of the value of land on its net rent, Professor Harry Gunnison Brown<sup>6</sup> assumes a piece of land which is expected to yield to the owner a site rent of \$8,000 per year for an indefinite future, less annual taxes of \$3,000. This net rent of \$5,000, if the current rate of interest is 5 per cent, makes the land worth \$100,000. If the tax on the land were reduced to \$2,000, the net rent of the land would become \$6,000. Then the land would be worth that sum of which \$6,000 (and not \$5,000) is 5 per cent. This would make the land value \$120,000, instead of \$100,000. Suppose, however, the land tax, instead of being reduced by \$1,000 were increased by that amount. The net rent would then become \$4,000, and its capitalized value \$80,000.

These figures assume the decrease or increase in the land tax to be made without affecting other taxes. If, however, we were to shift onto the land most or all the tax now levied on improvements, the result would be not only a reduction in land costs, but a simultaneous lowering of the operating costs of buildings. In other words, in providing the public revenues of any city, the less we tax land the *less* is the pressure on owners of vacant or poorly improved land to sell or use the land for housing projects. The less we tax improvements, on the other hand, the *greater* is the inducement to erect new homes or improve old ones.

Such a shift in the incidence of the real estate tax would make it much easier for both public and private initiative to assemble land for new housing developments. The public benefits would be great and lasting.

5. Among eminent proponents of the system of taxation herein advocated is Lawson Purdy, who served from 1907 to 1917 as President of the Department of Taxes and Assessments of the City of New York. Speaking on the Art of Assessing before the National Association of Assessing Officers, at its annual meeting in New York in October, 1937, Mr. Purdy said:

"The more you assess buildings, the heavier is the burden upon those who own them, upon those who live in them, on the average. The higher you assess land, the easier it is to acquire it, the less is the burden upon him who wants to build, and less is the danger that it will be held out of use when it ought to be used."

Also see, *OUR CITIES: THEIR ROLE IN THE NATIONAL ECONOMY* (1937) 76 [report of The National Resources Committee.] ("State and local authorities should consider the reduction of the rate of taxation on buildings and the corresponding increase of such rates on land, in order to lower the tax burden on home owners and the occupants of low-rent houses, and to stimulate rehabilitation of blighted areas and slums.").

6. *THE ECONOMIC BASIS OF TAX REFORM* (1932) 117.

The immediate sufferers would be some of the present landowners—but most of them would be gainers, too. If property is adequately improved with a well-built home or a modern apartment house, the assessed value of the building is usually considerably higher than that of the land on which it stands; so that the tax shift would lower the levies on the building of such an owner much more than it would increase the levies on his land.<sup>7</sup>

Let us assume that real estate in an imaginary Hometown is now assessed, at present fair market prices, at \$80,000,000 each on land and improvements; and that the tax rate is \$2.70 per \$100. This means an annual revenue of \$2,160,000 each on land and improvements—a total real estate tax of \$4,320,000. Let us figure also on raising the same total revenue from the same property by a graded tax whose rate on improvements, by a series of shifts, has become only one-tenth that on land values. Obviously, the selling price of land, because of its substantially higher tax rate, would decrease. Concurrently the actual utility of the land for development would increase substantially. This would be so, both because of the lower price at which a builder could then acquire land, and because his building when erected would be subject to an exceedingly low tax rate.

If, however, we were to use this lower selling price of land as our tax base, the tax rate percentage of the land *price* (as contrasted to the land *value*) would become almost astronomically high. The best procedure<sup>8</sup> would seem to be to value the land for assessment purposes as though it were tax-free—just as buildings are now valued as though tax-free. This figure—which we may term the economic value of the land—may be determined initially by adding to the present assessed or market value the annual amount of the tax capitalized at the going rate of interest. For Hometown, if we assume a 5 per cent interest rate, the land tax capitalized amounts to \$43,200,000, which added to the \$80,000,000 present land value assessment establishes the full economic land value of the city at \$123,200,000. It would be on this valuation that the land-value tax would be applied. An alternative method, after the graded tax plan had become

7. It is believed by some that if the shift in the tax from buildings to land were made gradually over a period of years, the resulting stimulus to business and building would tend, in the early years, to raise land prices enough to offset the effect of the slightly increased land tax. This seems to have been the case in Pittsburgh where, during the 10-year period of the increasing application of the graded tax plan, land value assessments increased from \$481,057,710 in 1914 to \$530,730,600 in 1924, and are now \$552,691,800. See Fairchild, *How the Graded Tax Plan Works in Pittsburgh* (1938) 53 (No. 11) AM. CITY 75.

8. The fact, of course, is recognized that the procedure suggested would encounter legislative and perhaps constitutional barriers. But such hurdles would be neither permanent nor insurmountable if the public interest should be found to demand their removal.

effective, would be to assume the economic value of any parcel of land to be the capitalization of its (tax-free) ground rental value.

Now, to determine the tax rate at a 10 to 1 ratio on land and improvements, we find the land-value tax by dividing our total real estate tax of \$4,320,000 by \$131,200,000—which is the land-value assessment of \$123,200,000 plus \$8,000,000 (one-tenth the above-mentioned building-value assessment of \$80,000,000). This gives us a tax rate per \$100 of \$3.29+ on land values, and one-tenth that rate, or \$0.329+, on building values, in order to raise our total levy of \$4,320,000.

Let us now consider what would happen to land prices in Hometown, and to the taxes on home and apartment house owners. Prior to the application of the graded tax plan, the land rent of the city was 7.7 per cent (5 per cent interest rate plus 2.7 per cent tax rate) of the selling value of \$80,000,000. This amounted to \$6,160,000 before taxation. After the graded tax plan had become fully effective, the land-value tax of 3.29+ per cent on the \$123,200,000 base would yield some \$4,050,000. There would be left to landowners, as such, \$2,110,000 of land rent, which capitalized at 5 per cent would indicate a selling price of \$42,200,000 as compared with the present price of \$80,000,000. In round figures, therefore, the graded tax plan, on its ultimate 10 to 1 basis, would reduce the selling price of land about one-half; but, as previously pointed out, the real *value* of land for socially useful purposes would be enhanced. And there would be a substantial saving in taxes on well-developed residence property.<sup>9</sup>

9. These savings have been worked out by Walter Fairchild and H. C. Maguire, of the Graded Tax Committee of New York, as follows:

AVERAGE EXISTING SMALL-HOME TAXES REDUCED 60 PER CENT  
Today — Assessment,      \$5,000 building  
                                  1,000 land

|                   |  |               |
|-------------------|--|---------------|
| Total             | \$6,000 @ 2.70 per cent .....          | Tax, \$162.00 |
| Under Graded Tax, | \$5,000 building @ .329 per cent ..... | \$16.45       |
|                   | 1,500 land @ 3.29 per cent .....       | 49.35         |
|                   |  | 65.80         |
|                   | Yearly tax saving .....                | \$96.20       |

MODERN MULTIPLE-HOUSING TAXES REDUCED NEARLY 54 PER CENT  
Today — Assessment,      \$ 800,000 building  
                                  200,000 land

|                   |   |               |
|-------------------|---|---------------|
|                   | \$1,000,000 @ 2.70 per cent .....         | Tax, \$27,000 |
| Under Graded Tax, | \$ 800,000 building @ .329 per cent ..... | \$2,632       |
|                   | 300,000 land @ 3.29 per cent .....        | 9,870         |
|                   |   | 12,502        |
|                   | Yearly tax saving .....                   | \$14,498      |

Land Cost—If built after graded tax is in effect, land would cost \$100,000 instead of \$200,000, which at 5 per cent interest rate would mean an additional annual saving of \$5,000.

The writer is aware, of course, that the relationship of real estate values and prices to interest and tax rates is not as definite and stable as the foregoing calculations assume. The fluctuations in buyers' markets and sellers' markets is considerable. But it is believed that the discouragement to land gambling under a scientific system of real estate taxation would materially reduce such fluctuations and help in maintaining and stabilizing sound values and rational urban development.

#### OBJECTIONS TO THE GRADED TAX PLAN

There is, of course, nothing new in the idea of conserving for the community not only a small part, but substantially all, of the values created by the community. It did not originate in America and with Henry George. Rather it evolved through the thinking of Adam Smith, Turgot, Ricardo, John Stuart Mill, Herbert Spencer, and others. But under the name of Single Tax it has had world-wide discussion since George's *Progress and Poverty* appeared more than half a century ago. Though gaining some acceptance here and there, the spread of land-value taxation throughout the world, and in the United States in particular, has been stumbling and slow. Partial explanation may be found in:

1. The gambling instinct in human nature, which impels many persons to prefer a remote stake in a large profit to a more certain but less speculative share in community benefits.
2. The legal and business concept of "real estate" which ignores the vital distinction in economics between land and improvements. Not only is there failure to realize the fundamentally opposite effects of taxation on these two elements in real estate; but the high-grade developer or building owner identifies his interests, as a rule, with those of the land speculator to the extent of permitting the attitude of real estate organizations in matters affecting public policy to be dominated too largely by their parasitical fringe.
3. Lack of public understanding of the incidence of taxation—of the fact that where a tax ultimately falls may be fully as important to society as how much revenue the tax provides.
4. The insistence by most followers of Henry George on the singleness of the Single Tax, instead of also approving—for the present, at least—other forms of progressive or non-regressive taxation, such as individual income and inheritance taxes; the desire of many tax reformers to achieve their ideals in one mighty bound, instead of by gradual steps, and the fact that single taxers have too often confused the issue by over-emphasis or moralistic claims, with the inference that all landowners are robbers and enemies of society. These attitudes tend to alienate many who might otherwise support gradual and rational reforms in tax methods.
5. The too general tendency, at the other extreme, to slap the label "Single Taxer" on all advocates of increased revenues from land values,

and thus to prejudice any objective consideration of reform in real estate taxation. To assume that all who favor greater dependence on the "benefits received" principle of taxation are opposed to any reliance on the "ability to pay" principle is, of course, most unfair.

6. Failure to differentiate clearly between land *values* and land *prices* as factors in social and economic welfare. Under our present system of real estate taxation, land prices may greatly exceed land values—to the detriment both of the individual who would build a small home and of the developer who would construct, either for sale or for rent, a group of houses or a large multi-family dwelling. To provide steadily increasing values at gradually decreasing prices has been demonstrated by the automobile industry to be sound business procedure. Why should it be assumed by business men that steadily rising land prices—as contrasted to land values—are in the public interest?

7. The fear that current sanctions of land titles will be unjustly upset—a fear that takes root in an older generation's blind regard for the sanctity of titles, notwithstanding the devious and questionable routes by which they may have descended to present owners of record.

There is the story of a legal transaction involving the title to a parcel of land in Louisiana, for which a New Orleans lawyer rendered an opinion tracing the title back to 1803. The firm of New York attorneys handling the matter wrote to New Orleans saying, in effect, that the opinion rendered was all very well as far as it went, but that the title to the property prior to 1803 had not been satisfactorily covered. The New Orleans attorney is alleged to have replied as follows:

"I am in receipt of your favor of the fifth inst. inquiring as to the state of the title of this property prior to the year 1803.

"Please be advised that in the year 1803 the United States of America acquired the Territory of Louisiana from the Republic of France by purchase; the Republic of France had in turn acquired title from the Spanish Crown by conquest, the Spanish Crown having originally acquired title by virtue of the discoveries of one Christopher Columbus, a Genoese sailor, who had been duly authorized to embark upon his voyage of discovery by Isabella, Queen of Spain; Isabella, before granting such authority, had obtained the sanction of His Holiness, the Pope; the Pope is the Vicar on earth of Jesus Christ; Jesus Christ is the son and heir-apparent of God; God made Louisiana."

But to recognize the sanctity of land titles does not mean that we must accept as unqualified the right of a landowner either to ignore the public interest in the use or misuse of his property, or to retain all of the values which public expenditures have given to that property. A newer generation would prefer to re-examine some of our traditional theories of property rights, if by so doing the land could be utilized for the benefit

of the greatest number of people. In addition, the effect of the graded tax plan upon titles to improved properties would concededly be slight.

More specifically, opponents of the graded tax plan, in advocating lower rather than higher taxes on land values, frequently point to the large amount of land now tax-delinquent, and express the fear that in the period of readjustment many owners would abandon vacant lands that they had purchased for speculation, thus increasing tax delinquency, tax lien foreclosures, city ownership of land, and the amount of assessed valuation withdrawn from the tax base.

As against this cry of despair, we have the rapidly growing belief among students of land-use problems that states and their subdivisions would benefit greatly by bringing a larger percentage of their land into public ownership. This opinion holds that increased public ownership of urban and suburban land would make possible more adequate planning and zoning control on such land than experience has shown to be generally attainable under prevailing conditions. Communities would have land available for low-rent housing, recreational areas, allotment gardens, town forests, parking spaces, public buildings, and other municipal improvements. If acquired at reasonable prices, publicly owned land would conserve for the public some of the land-value increments which will result from future population increases and public expenditures. A pool of public land, available for lease for private use, would help to combat land gambling and to minimize cyclical extremes in building activities by leveling off the peaks and filling in the valleys.<sup>10</sup>

Another reason for apprehension cited against the graded tax plan is the probability that, after the period of adjustment, vacant-land values would be so cheap that a new orgy of speculation might result. The fact that irrational speculation *might* persist under a new tax system is not a conclusive argument against tax reform. The cure for speculative over-building is to be found, in part, in much more effective subdivision control and more drastic zoning provisions against land overcrowding than most of our cities have heretofore had. Moreover, although land prices would be low under the graded tax plan, tax rates on unimproved or inadequately improved property would be too high to make speculation in land attractive except for prompt and profitable development.

Still another argument against the graded tax plan is that, however bad speculation in vacant lots may be, it is by no means as serious a matter in the economic pattern of our cities as speculation in building construction. Building speculation, it is pointed out, inevitably encourages large numbers of people to buy homes which they cannot afford to carry except in boom times and to buy mortgage bonds secured by structures that are not needed and cannot return a profit except in boom times.

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10. See Cornick and Buttenheim, *Land Reserves for American Cities* (1938) 14 J. LAND AND PUB. UTILITY Eco. 254.

My answer to this objection is that one of the major premises on which the case for land-value taxation<sup>11</sup> rests is that the substantial lessening or total removal of taxation on improvements would stimulate and maintain housing construction at a high level, thus giving steady employment to the building industry and providing much cheaper and more adequate housing accommodations than heretofore for families of low income. These ends are so desirable that I should prefer to run the risk of occasional over-building (which we should have to learn how to control), as far preferable to our chronic unemployment and under-building of low-rent housing (which we apparently cannot prevent under our present system). Over-building is due chiefly to the hope of profit from increase in land-value. That profit would not exist if the tax took the increase. Thus hope for speculative gain would dwindle, and housing would increasingly become a service rather than a gambling enterprise.<sup>12</sup>

Those who question the wisdom of the graded tax point out, furthermore, that such a tax would bear very heavily upon those middling-old high-grade residential districts which are characterized by high land value and large outmoded mansions. It is stated, also, that the graded tax would tend to break the backs of tenement property owners, whether or not they keep their buildings in good condition; for properties of this character generally have high land value, whereas the value of the buildings has gradually been written down.

As to "breaking the backs" of certain classes of property owners, candor compels recognition of the fact that no great social or economic reform can be brought about without some temporary hardship to minorities who are out of step with modern needs. During the period of readjustment to the new tax system, land prices, assessments and rents would, I am confident, gradually find levels which would bring an adequate return—

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11. Although I have used, throughout this paper, the generally accepted term *land-value taxation*, there is much to be said for adopting the term *site-value taxation* as more accurately applicable to urban areas.

12. Prior to the publication in 1938, by the Harvard University Press, of *Urban Blight and Slums*, taxation was a subject wholly ignored or inadequately treated by authors of books on housing and city planning. In this able study Mabel L. Walker, Executive Secretary of the Tax Policy League, devotes five excellent chapters to the relation of taxation to the problem of slums and blighted areas. The author recognizes, of course, the fundamental difference, both socially and economically, between the effect of a tax falling on land values and of one levied on buildings. Among other authorities quoted by Dr. Walker is Professor Edwin R. A. Seligman, of Columbia University, who joined with Jesse Isidor Straus in the following statement in the 1932 Report of the New York State Commission for the Revision of the Tax Laws: "Considering specific groups of property owners, it has been argued that heavy real estate taxes discourage home ownership . . . This overlooks the fact that a heavy tax on land, by keeping its capital value low, makes it more accessible of purchase by those of small means. Were taxes lowered, land values would rise, and many prospective home owners would be discouraged from purchasing because of the large initial sums involved."

more certain, but less speculative than at present—to real estate owners and developers rendering a real service to the community. Those whose building values had already been "gradually written down" might not continue to earn large returns on their original investments—but where there has been a writing down, or earnings ample for such amortization, would any fundamental hardship be involved?

A timid and halting approach to land-value taxation has taken place in two Pennsylvania cities—Pittsburgh and Scranton—under a legislative act which provided for a gradual shift of a part of the real estate tax for municipal purposes by lowering the rate on improvements and increasing that on land values. Unfortunately, however, the law made no provision for any further shift after the 50 per cent stage had been reached, should local public sentiment then favor such extension of the method. The differential applies, moreover, to city taxes only and not to county or school taxes. It is to be hoped that Pittsburgh and Scranton may secure future legislative authorization for an extension of this experiment to all three tax levies, and with a further gradual shift in the incidence of the tax until the rate on improvements, instead of being, as at present, one-half that on land values, becomes one-fifth or one-tenth of the land value rate.<sup>13</sup>

In British Columbia is to be found the most widespread approach to land-value taxation for municipal revenues yet undertaken in North America. Of the twenty-three municipalities of that province having over 4,000 population, three levy no tax on improvements; six tax improvements on 25 per cent or less of their assessed value; five range from 30 to 45 per cent of such value; seven impose taxes on 50 per cent of improvement values; and only two at more than 50 per cent, the maximum being 65 per cent. In these municipalities land values are assessed at \$205,266,754, and improvements at \$294,617,804.<sup>14</sup>

Other indications of a growing interest in the land-value taxation idea are to be found in California,<sup>15</sup> where the issue was on the 1938 ballot,

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13. For a more detailed discussion of the experience of Pittsburgh and Scranton, see Buttenheim, *Differential Taxation of Land and Buildings* (1938) 10 MUNICIPAL FINANCE 30.

14. FINANCIAL STATISTICS AND OUTSTANDING OBLIGATIONS OF BRITISH COLUMBIA MUNICIPALITIES, YEAR ENDED 1937 (1938).

15. At the November election this year the citizens of California rejected, by a substantial majority, a constitutional amendment for land-value taxation which was put on the ballot under the initiative provisions of the state constitution. The defeated amendment would have provided for the gradual abolition of taxation on improvements and tangible personal property, whether for state or local purposes, the reduction to be made in ten annual installments of 10 per cent each. This shift in the incidence of the property tax was to be preceded by an immediate exemption of \$1,000 in the assessed value of owner-occupied homes. The amendment, as submitted, further provided for the abolition, on and after July 1, 1939, of taxes on retail sales and on automobiles and trucks, and that "except for police or regulatory purposes no tax, license fee, or excise

Michigan,<sup>16</sup> New Jersey<sup>17</sup> and New York.<sup>18</sup>

Lacking any demonstrations in the United States (other than a few tiny "enclaves of economic rent") of the complete abolition of taxation on real estate improvements, we must travel abroad for testimony as to

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shall hereafter be levied or imposed upon the privilege of selling, storing, using, or consuming tangible personal property or which is based upon or directly or indirectly measured by the value of tangible personal property or improvements." The taxes which would have been preserved included the gasoline tax and existing license taxes or fees, corporation taxes, inheritance taxes and income taxes. Severance taxes were also specifically permitted.

16. In Michigan the Tax Relief Association is advocating a constitutional amendment whose purpose is "to provide for the gradual abolition of all forms of taxation and for the substitution therefor of the collection for public purposes of the socially created rental value of land." *Tax Relief Is Possible* (1938) (Pamphlet of the Tax Relief Association of Michigan) 31. As tentatively drafted, this amendment would prevent the imposition in that state of any new forms of taxation, and would eliminate present taxes in the following order:

| <i>Year</i> | <i>Tax Eliminated</i>                              |
|-------------|--|
| 1943        | 20 per cent of the tax on improvements             |
| 1944        | Taxes on tangible and intangible personal property |
| 1945        | 20 per cent of the tax on improvements             |
| 1946        | Part of the general sales tax                      |
| 1947        | 20 per cent of the tax on improvements             |
| 1948        | Rest of the general sales tax                      |
| 1949        | 20 per cent of the tax on improvements             |
| 1950        | Gasoline tax                                       |
| 1951        | Final 20 per cent of the tax on improvements       |

To provide the revenues needed by the state and local governments to offset these tax eliminations, there would be a gradually increasing reliance on taxation based on the annual rental value of land and natural resources.

17. A bill approved by the New Jersey Assembly at its 1938 session, but which died in a Senate Committee, would have permitted local option in taxation to the extent of allowing any municipality in that state to reduce, at the rate of 20 per cent annually, its taxes on improvements and tangible personal property, and to shift these taxes onto land values, this shift to continue until all taxes on improvements and tangible personal property had been abolished in that municipality. Assembly Bill No. 160.

18. Among recommendations submitted to the New York State Constitutional Convention of 1938 by the Citizens' Union of the City of New York (but not adopted by the Convention) is one which urged that the constitution specifically permit lower tax rates on improvements than on land. "This," says the Citizens' Union, "would encourage the proper use of land and tend to prevent its being held out of use for speculation."

Another interesting proposal comes from New York City where, on July 5, 1938, a bill [No. 315, C. No. 296] was introduced in the City Council by Councilmen Belous and Quinn, under the terms of which:

"Beginning in the second half of the year 1939 and thereafter, the Council shall fix such tax rates on the assessed valuations of land and improvements thereon respectively as to cause, as nearly as possible, 90 percentum of the total amount to be raised by taxation upon real estate to be raised by the tax on land values, and the remaining 10 percentum to be raised by the tax on improvements."

While favorable action is not to be expected, the very *introduction* of such a measure in the City Council of America's metropolis is significant.

the economic and social results of this method of taxation. For the last twenty-three years New Westminster, B. C., has imposed no taxes on improvements, but has depended on land-value taxation for its local revenues. As to the results, Mayor Hume writes:<sup>19</sup>

"Since this system has been in vogue, the city of New Westminster has reaped considerable benefit by way of increased population and additional number of property owners residing in the municipality . . . This city is believed to have the largest percentage of individually owned, unmortgaged homes of any city on the continent. It now has the largest invested capital per person of any city in the Dominion of Canada, and this capital investment is not in inflated speculative land value but rather in factories, machinery, stores and goods.

"Population and industry have boomed, but land speculation has been buried. It is now unprofitable for real estate dealers to withhold sites from prospective buyers. The average citizen is now loud in his praise of the existing system, which reduces the cost of land and does not penalize improvements. Land can be purchased from the municipality at reasonable rates. There is therefore but a small percentage of non-productive property in the city and a small proportion of property reverting to the city for non-payment of taxes. The protection of the interests of the rate-payers has meant more business for the lumbermen, paint dealers, furniture factories and all building trades . . .

"The real estate dealers in New Westminster have played the role of home builders rather than gamblers. Abolition of taxes on labor products has assisted in inducing a normal community development and a thoroughly diffused prosperity as well as a widely felt sense of economic security and freedom."

Australia and New Zealand also have some outstanding examples of municipal revenues derived from land values alone. Results in the city of Sydney and surrounding metropolitan municipal areas are described by Alderman J. R. Firth:<sup>20</sup>

"The effect of the abolition of taxation on buildings, and the raising of all taxation from land values, has enabled Sydney, with a popu-

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19. *How Taxes in Two Canadian Cities Help the Small Home Owner* (1935) 50 (No. 3) AM. CITY 44.

20. See WALLIS, *SAFEGUARD PRODUCTIVE CAPITAL* (1935) 302, Appendix. For an example from South Africa, see MAUD, *CITY GOVERNMENT: THE JOHANNESBURG EXPERIMENT* (1938). In evaluating Johannesburg's experience with land-value taxation the author says: "Johannesburg will not easily be induced to return to the practice of levying a flat rate on the value of site and improvements combined. But the question remains whether she would not be wise to profit from the experience of Durban and consider the imposition of a differential rate. Thereby owners would be taxed at a low rate in respect of improvements, instead of not at all, and at a much higher rate in respect of site-values."

lation of a million and a half, to occupy an area about the same as the city of London, which has practically six times our population.

"In my own municipality of Strathfield, in Sydney, we allow only five houses to the acre, which means that, roughly speaking, each house occupies an amount of fifty feet frontage by one hundred and fifty feet depth . . . Of course, in our best residential suburbs, there are tens of thousands of houses, only one or two to the acre.

"Any suggestion to go back to the old system of taxing buildings would not even be calmly discussed in this city. Public opinion is overwhelmingly in favor of the present system."

#### CONCLUSION

The search for a rational tax system must harmonize two major governmental objectives—the production of ample public revenues and the promotion of permanent public welfare. Our present method of taxation seems particularly deficient in the second essential, at least in regard to the task of providing cheap and decent housing for the mass of the people. Suggestions for reform are therefore not amiss.

As allegedly preferable to the usual American system of assessing real estate on an *ad valorem* or capital value basis and taxing land and improvements at equal rates, the British system of "rating" property on an income or annual use basis is urged from time to time by real estate boards and others. Careful study by tax experts indicates, however, that all is not so well with the British system of real estate taxation as some of its proponents would have us believe.<sup>21</sup> One such student points

21. Testimony is not lacking from England as to dissatisfaction with established methods of assessing and taxing real estate. The governing body of England's metropolis—the London County Council—and some 230 other local government bodies throughout England, Scotland and Wales have adopted resolutions urging Parliament to authorize lower tax burdens on goods and buildings and higher rates on the ground rental value of both improved and vacant sites. "Site value," says the London County Council in a 1936 report, "is the measure of the commercial, social and industrial advantages attaching to a site, which arise from the existence of the community and from community services provided out of the public purse. It is a value which has not occasioned any cost of production to the owner; and consequently the rating of site values is, in effect, a means of securing to the public a value which it has itself created." LONDON COUNTY COUNCIL, RATING OF SITE VALUES, (1936) Report No. 3202, p. 17.

Parliament refused the request, but the London County Council has determined not to let the matter drop. At its meeting on July 26, 1938, the Council adopted, by a vote of 83 to 44, another report of its Finance Committee on the rating of site values. This proposes that Parliament empower the administrative county of London to levy, in addition to the present real estate tax, a yearly rate of 2 shillings to the pound (that is, 10 per cent) on the *annual* site value of land. The report suggests that as and when it is deemed desirable to increase the rate of this proposed land-value tax, the question of further legislation should then be considered, and that future increases should be applied gradually over a period of years in order to ease the burden. LONDON COUNTY COUNCIL, RATING OF SITE VALUES, (1938) Report No. 3373, p. 2.

out two grave and insurmountable defects in "income" as a basis of assessment: (1) the fact that it puts a premium upon holding land idle and upon retention of obsolete buildings, and (2) that it is in its higher ranges in reality a peculiarly pernicious tax on room space. A tax rate based upon *income* from real property thus would only aid in the perpetuation of poverty.<sup>22</sup>

"The very property now most insistent on a change of assessment procedure, viz., the most highly improved, would lose most under the English system, which is based not only on assessment of the rental of improved property, but also on exemption of agricultural, unimproved property, improved but unoccupied property, and in part manufacturing. In other words, vacant lands, poorly developed lands, and unoccupied improved property are unburdened in whole or in part, resulting in highly developed lands being additionally burdened. Valuable land withheld from use contributed nothing on its value towards public expenditure. Other valuable sites occupied by obsolete or tumble-down buildings contribute little."<sup>23</sup>

Discrimination between land and improvements as bases of taxation would seem to be the first wholesome revision necessary to the solution of our American problem. Shifting the larger or entire burden on to land would lower the price of land, stimulate building construction, and secure to the government communally created values. The change to a system of land value taxation, however, should be made gradually, at an increased rate of not more than 10 per cent annually, to avoid any sudden drastic upset of investments. At the 50 per cent mark, the plan can be reconsidered in the light of its accomplishments and then extended only if of proven benefit. In any event, the graded tax plan should be but one segment of a triple tax base which includes levies on incomes and inheritances, for both the "ability to pay" and "benefits received" are sound fundamentals of taxation. Taxes derived from land value could be used for municipal and county revenues, while the other two sources could be tapped to defray state and national expenditures. But not until the fundamentals of a graded tax system are adopted will it become possible, except by tremendous government subsidies, to achieve decent housing for the "lower third" of the American people.

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22. Griffith, *Real Estate Assessments: Capital or Income Bases* (1936) 3 TAX POLICY 2.

23. Zangerle, *Assessing Real Estate on Its Income* (1936) 8 (No. 3) MUNICIPAL FINANCE.