

Why Not Boston?

by MITCHELL S. LURIO

IT may seem like a pipe dream to maintain that Boston can be rejuvenated by means of a simple change in its tax structure. But a good idea is not necessarily embraced because it is a good idea. It is easier to get a bad law passed that benefits a few at the expense of the many than it is to get a good law passed that benefits the many at the expense of the few.

The Pittsburgh (tax) Plan is not widely known but that is no evidence of its unsoundness. In the early 1900's Pittsburgh had a most inequitable real estate tax law. Real estate was divided into three classifications: urban, rural and agricultural. The rural tax rate was two-thirds of the urban rate—and the agricultural rate was one-half the urban rate—and agricultural assessments were very low. This encouraged land speculation and created an artificial shortage when the time was ripe for use.

One group, followers of Henry George, came up with a positive program, namely to cut the tax rate on buildings and push up the rate on land values, so as to yield the same total amount of revenue. With the help of a progressive mayor, William A. Magee and many others, a law to that effect was passed in 1913. The building tax rate was reduced to 90 per cent of the land tax rate, and every three years, the percentage went down by 10 per cent until in 1925 it reached 50 per cent.

The new law also provided for the repeal of all personal property taxes. This helped to bring business into Pittsburgh. In Boston too, many have suggested the elimination of personal

property taxes, but no source of revenue is easily relinquished.

The present real estate tax in Pittsburgh is \$37 per thousand on the land and \$18.50 per thousand on buildings. In addition there is a school tax of \$16 per thousand on both land and buildings. The real estate tax brings in \$33,000,000, and the school tax brings another \$16,000,000 (1959), making a total of \$49,000,000. Pittsburgh is almost as large as Boston, yet our rate is \$101.20 per thousand on both land and buildings, to yield \$135,000,000, so you can see that Boston's budget is outrageously high as compared with Pittsburgh.

Let me give you a few examples of Boston's assessments, as they are today and as they might be under the Pittsburgh Plan. Because of the high price of government in Boston and the distorted assessments, the examples chosen will not show up as they would if assessments were more equitable and the amount to be raised were not so excessive.

All the buildings in Boston are assessed at 1.7 times the assessed value of all of the land of Boston. I refer to taxable real estate only. Another way of putting it is to say that the land values are 36.5 per cent of the building values. In 1929, land values were just about equal to building values—the ratio was one to one.

Does it not seem surprising that in Boston the buildings and improvements are not even worth twice the land values as assessed? Should not a decent and proper building on an appropriate lot be worth at least several times the value of the lot?

If overnight (and I do not recommend the change overnight) Boston were to introduce the Pittsburgh Plan, making the rate on land twice the rate on buildings while still bringing in the same amount of revenue, the rate on buildings would have to be \$74 a thousand, and on land \$128 a thousand. In that event, the owner of vacant land would have to pay 46 per cent more than he is paying today. The owner of a building assessed at the same figures as the land would have to pay 10 per cent more than he is paying today. If the building was assessed at twice the amount of the land, the tax would be 2.3 per cent less than it is today; if three times, $8\frac{1}{2}$ per cent less; if five times, 15 per cent less. It is a surprising fact—to me at least, to learn that some very fine buildings downtown are assessed at less than the land or slightly more than the land, and I can only conclude that the assessments are violently out of line. In order to make the point, however, I'm going to select a couple of dramatic and extreme examples where the buildings are actually assessed at many times the land assessment. The New England Telephone Company building on Franklin Street is assessed for \$14,468,000 and the land for \$1,532,000. The ratio of building assessment to land assessment is 9%, which is certainly unusual. The present tax is \$1,619,000. Under the proposed rates, the tax would be \$1,297,000.

The Second Bank-State Trust Building on Franklin and Federal Streets is worth a little less than twice the land, which seems very peculiar because the building is one of the newer and better buildings. On the proposed basis there would be a small saving. The Chamber of Commerce building, certainly an excellent improvement, is assessed so little more than $1\frac{1}{2}$ the land that the tax on the proposed rates would be higher than it is today. The

United Shoe Machinery Company building on 140-152 Federal Street is assessed for $3\frac{1}{2}$ times the land assessment and would save quite a bit more under the proposed rates. So should the owner of every modern or properly renovated building.

Under proper assessing procedures, I am sure you will agree with me that a good building, on an appropriate lot, should, even after depreciation, if well-maintained, continue to be worth several times the land value. Let me now give you the most extreme example of all. If the land for the Prudential development cost five million dollars and the improvements are to cost 95 million dollars, the present tax at full rates would be over \$10,000,000, which is prohibitive. If then the city discriminates against all the other property owners and makes a special deal say at 3 per cent instead of 10 per cent, the tax would be three million dollars.

But if the rate on land were \$128 a thousand and on improvements \$74 a thousand, Prudential would then have a real estate tax of \$7,690,000. And this is the kind of saving made possible for every other property owner and for new developments, without discrimination. There is no more reason to overcharge the rich than to overcharge the poor. Then there would be a real incentive for many national companies to come into Boston and to stay in Boston. Then the city would be self-renewing. A change like the one suggested, with a rate of \$128 on land and \$74 on buildings, would solve the politically difficult problem of assessments on the home owners and voters of Boston. Even if assessments were made at full value, all those with good homes would still pay less than they are paying today. And those whose homes were run down would not be penalized for painting and improving, for adding a bathroom or a garage—in fact

there would be every incentive to improve.

The resistance of a few real estate owners to a change like the one suggested has brought upon them a greater loss than would otherwise have been the case. From a \$28 rate in 1928 to a rate of \$101.20 in 1959 has caused them a greater loss in their income than if they had taken advantage of the Pittsburgh Plan.

The real objective should be the total elimination of taxes on buildings. If this were to be done in Boston, the tax rate would have to be \$278 a thousand on land values to get the same revenue being obtained today. This rate is abnormally high because the situation in Boston is abnormal. Just imagine what a difference this would make to the construction industry. No matter what was on the land, the tax

would be just the same, so owners of vacant land and poor buildings would have to build. And they would find it profitable to maintain their buildings, whereas today it is more profitable to retain a slum building.

Let me add that an increased tax on land does not lower its desirability but does lower its selling price, because the tax on land cannot be shifted to the user. But a tax on buildings is always shifted to the user. The fact that Pittsburgh's land values are still about 35 per cent of total real estate values shows that only a small part of the market rental of land is being collected by the community—otherwise land values would be very much less. Carried to its proper point, land would be available at a song to anybody who would pay the market rental for it, which he does now to a private individual instead of to the city.

Annual Report

The 1959 Annual Report of activities of the Henry George School and its branches has been issued. Copies have been sent to all member-contributors, and are available to others on request. Besides reports on extensions in the USA and Canada, there is helpful information on schools in other countries and the Internal Conference for Land Value Taxation and Free Trade held last summer in Hanover, West Germany. The Annual Report is enlivened with eleven interesting photographs.

Through an error the following material from the New Zealand and Formosa schools was omitted from page 26 of this report:

"There were no classes in New Zealand (Robert D. Keall, Secretary) but correspondence courses were kept going, and assistance was given to Dr. Rolland O'Regan and the New Zealand League for the Taxation of Land Values in publicizing information.

"In Formosa (Dr. Hengtse Tu, Director) no classes were held due to lack of funds, but 50 students completed a one-year correspondence course which includes a study of *Progress and Poverty*. Although nearly all students live in Formosa, many inquiries were received from other countries in eastern Asia. Dr. Tu is also editor-publisher of the Chinese magazine and director of the Chinese Language Institute."

From Rolland O'Regan of Wellington, N.Z. comes a gratifying report on recent polls in nine towns and countries, eight of which formerly had capital value rating. The ratios for and against land value taxation, are as follows: 770:456 — 920:643 — 1,817:695 — 289:66 — 260:91 — 162:43 — 328:52 — 165:126. One county adopted land value rating in 1956 and there was a proposal to reject it. However the vote was 726:567 in favor of continuing land value taxation.