The Case for Abolishing Unearned Incomes

By ELIZABETH READ BROWN

CHARLES FRANKEL, in discussing deceptive practices of the television industry, raises some thought-provoking questions regarding American society.[1] Dr. Frankel points out that rigging TV shows is not the only way in which the unscrupulous have hoodwinked the public. Since World War II, he recalls, there have been "mink coats and politicians, crooked collegians who threw basketball games and New York 'statesmen' who parade their rectitude and love their friends too tenderly." Dr. Frankel inquires: "How deeply are we deceived about our society in which we live? Are we suffering from an outbreak of immorality? What is the state of American conscience?"

Participants in rigged TV shows are classed by Dr. Frankel in the same category with land speculators. "Throughout the United States," he says, "there are speculators in land values . . . who indulged in the dream of the quick dollar, earned without regard to services performed."

Over twenty years ago Professors Bye and Hewett pointed out that many fortunes were gained "from rising land values, through speculation in real estate."[2] Bye and Hewett said that "growth of land values" has brought wealth not only to many in New York but that "nearly every large city has its rich citizens whose money has been made in a similar way." They did not feel, however, "that our very rich men are to be morally censured for the possession of their unearned wealth . . ." although in some cases, they agreed, there were "practices which are justly to be condemned." These rich men, they continued, have for the most part "simply adapted themselves skillfully to the economic system in which they lived, and profited thereby. Rather than attack them as individuals, therefore, we should set about correcting the features of the system which made unearned gains possible."

Let us consider one example of "unearned gains" made possible by our economic system. In 1959 Twentieth Century-Fox "sold 181 acres in Beverly Hills for development by Webb & Knapp into a small city." It "sold for $60,000,000—it cost $1,500,000 thirty years ago."[3] Even allowing for the rise in the price level during these years a windfall went to individuals who had not earned it.

[1] "Is It Just TV—Or Most of Us?" *New York Times Magazine*, Nov. 15, 1959, p. 15.

[2] Raymond T. Bye and William W. Hewett, *Applied Economics, the Application of Economic Principles to the Problems of Economic Life*, 3rd ed., New York, F. S. Crofts, 1938, pp. 446–7.

[3] "Fox Plans to Sell 2,300-Acre Tract May Get 25 Million for Site It Bought for $217,000 in a Small-Homes Deal," in *New York Times*, Aug. 4, 1959, p. 32.

Now that an increasing number of cities are making plans for urban redevelopment programs with the federal government providing a major part of the amount spent[4]—the taxpayers ultimately footing the bill—may not the opportunity for land speculators to make a "quick dollar" and with relatively little risk become even greater than before?

Councilman Glenn E. Hoover of Oakland, California, has pointed out that the desirability of such redevelopment programs is "hotly discussed." But although its advocates defend them as the "only practical way to save some areas in our older cities from progressive deterioration," Dr. Hoover reminds us that such programs *do* "cost money."[5]

From land speculation—an age-old practice—have stemmed many evils and problems. It has fostered slums and blighted districts—perhaps even contributed indirectly to juvenile delinquency. Ownership of homes, farms and commercial properties has become harder because land is more expensive to buy. Our tax system—since it penalizes those who improve their properties—has discouraged such improvement. On the other hand speculators, who hold land out of use, have been rewarded with a lower tax bill.

Glenn Hoover comments that in "nearly all American cities a chief deterrent to improvement of property is the discredited general property tax. That tax furnishes most of the tax revenues of our cities, and in all states except Pennsylvania, cities are compelled to tax improvements at the same rate as land. To tax improvements is to penalize the owner who makes them, not only for the year in which they are made, but every year for so long as the improvements last. *No better way to discourage improvements and breed slums could be devised.*"[6]

Dr. Hoover points out that relieving improvements and taxing land instead would penalize the speculator "for holding land out of use, or inadequately improving it." "Such a system," he continues, "would tend to make slum properties unprofitable where now, as any realtor knows, they may yield the highest return of any rental property in the market. *Until we can make slum properties unprofitable, we are only trifling with the problem.*"

The General Assembly of Pennsylvania recently took a long step, unprecedented in the United States, toward the establishment of a local tax

[4] As an example see "$8 Million Price Tag for Project," in *Intelligencer Journal* (Lancaster, Pa.), Nov. 10, 1959, pp. 1, 8, where it reads as follows: "A plan which would cost the federal government and city some $8.1 million in the next decade has been proposed . . . Lancaster City's share would be just over $2.7 million. . . ."

[5] G. E. Hoover, "New Programs For Old Slums," *American City*, 70 (May, 1955) p. 111.

[6] *Ibid.* This and quotation in following paragraph are from p. 112. (Italics supplied.)

policy for its 47 third class cities, which could prevent the speculator from making the "quick dollar" or "unearned gains" via the method referred to by Councilman Hoover. Any third class city is now authorized to reduce greatly or even abolish its taxation of buildings and make up for this by increasing the tax rate on land.[7]

Since no land speculator, as such, has ever been called before a Congressional investigating committee—as were Charles Van Doren, Bernard Goldfine and others—few people worry about the land speculator or are concerned over the threat he poses. Too many citizens even of Pennsylvania third class cities, which are now permitted to move in this direction, appear unaware of the existence of such legislation and are totally ignorant of advantages which could follow such a change in the tax system.[8] What is now necessary is that interested citizens—*and also civic organizations*—endeavor to create public sentiment strong enough to induce their city councils to take advantage of this recent legislation.

Lancaster, Pa.

[7] The General Assembly of Pennsylvania Senate Bill No. 535, Session of 1959, introduced by Senator McGinnis, April 1st and signed November 19, 1959 by Governor David L. Lawrence.

[8] For confirmatory data see Harry G. and Elizabeth R. Brown, *The Effective Answer to Communism*, New York, Robert Schalkenbach Foundation, 1958, Chaps. 2, 3, 4, and 6; also E. R. Brown, "Growing Urban Obsolescence and Tax Policy," *Am. J. Econ. Sociol.*, 19 (1959), pp. 96–9.

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