

# SOCIALIZED vs. PRIVATE ENTERPRISE HOUSING

and

## THE WAR AGAINST POVERTY

by

Harry Gunnison Brown

Author of

*The Economics of Taxation*

*The Economic Basis of Tax Reform*

*Basic Principles of Economics, etc.*

(Dr. Brown is Professor Emeritus of Economics, University of Missouri)

Our present local tax system — generally with the connivance of our state governments and, often, compulsion by state constitutions — is a system that leads inevitably to (1) high cost of rental housing, (2) high cost of acquiring ownership of a home, and (3) diminished economic growth and prosperity, as well as (4) the proliferation of blight and slums. Hence, when Congress is willing to spend money extracted from federal taxpayers, for subsidization of dwelling construction and of slum clearance, city governments are ready and eager to receive — and they actively seek — federal aid. Members of Congress can vote for the spending of billions of dollars in our various cities and hope thereby to gain votes, yet salve their consciences by convincing themselves that the need is desperate. The result is socialized housing.

The total cost of private enterprise housing is obviously greater because of the scarcity of available land for housing, that results from the speculative holding out of use in our cities — in the hope of speculative gain — of between twelve and thirteen MILLION vacant lots! Housing being more expensive than it would be were it not for this speculative holding, efforts are made to subsidize it and, in large degree, socialize it, instead of relying on free private enterprise. Without subsidization, the high price of land decreases the amount of land purchased for housing. For under private enterprise, people are not FORCED to buy. They can economize by using less space and, therefore, need not purchase so much land. But when the Federal Government subsidizes housing, the purchase of land for housing is no longer on a purely voluntary basis. Instead, individuals are now COMPELLED to pay, in extra taxation, the money the Federal Government needs in order to purchase the land. So IN THAT SENSE citizens as taxpayers are COMPELLED TO BUY THE LAND, however excessive the speculative prices of the building lots purchased may seem to them. This tax-compulsion system of buying up vacant lots must certainly stiffen the resistance of land speculators against reducing their prices and encourage them to demand STILL HIGHER PRICES. And such speculators would be likely to advance their asking prices to a YET HIGHER LEVEL should Congress provide, as President Johnson has suggested, federal grants and loans to local governments and

even to private developers, so that future expansion "won't be carried out . . . in a sprawling, space consuming, unplanned and uneconomical way."

Both sound economic theory and impressive statistical data indicate that to exempt buildings and other improvements from taxation and secure the necessary revenue by taxing land values at a higher rate, greatly increases the construction of dwellings and other buildings. And such a policy encourages the modernization of buildings and keeping them in good repair.

If the local tax system in the United States gave full incentive for building and took away the "incentive" to hold needed land speculatively out of use, there would be far more building and far less "sprawling." But our current federal policy, in effect, BRIBES our cities — and mostly with money taxed away from city dwellers themselves — NOT to follow a tax system that would encourage building and discourage "sprawling!"

It is the same as regards slums. Our present local tax system BREEDS slums. For it says, in effect, to the slum owner who may, perhaps, really want to make his slum dwellings more fit to live in: "Don't do it. Because if you do, our assessment and taxing officials will PUNISH you with higher taxes. But if you let your slum dwellings become still more slum-like and less fit to live in, they will REWARD you with reduced taxes." And here again our Federal Government in effect BRIBES our cities to continue a bad (a slum-producing) policy, by COMPELLING federal taxpayers to pay extra for clearing up slums recurrently, so that cities can manage to continue a tax policy that BREEDS slums.

Judging by the policies our "liberal" administrations urge and our "liberal" members of Congress vote for, it would appear that "liberals" DO NOT WANT our local governments to INTERFERE WITH the "vested rights" of landowners to maintain slums OR to hold vast amounts of land speculatively out of use for decades. And neither do "conservatives." Land value taxation, by breaking the log jam of speculative holding, would lower the land prices to which, both seem to feel, the speculators have a "vested right." Yet ap-

parently our "liberal" administrations and our "liberal" members of Congress, would really like to lessen the slum evil, and also keep down the cost of housing for at least a selected few, IF this can be done without producing any downward tendency in speculative land prices. So instead of a local land value tax which tends to REDUCE land prices, they have chosen to use federal funds drawn from our federal tax-paying citizens, including millions who have only – or little more than – their wages, in a way that tends to INCREASE land prices. For tax funds thus collected are used to buy up and redevelop slums and to buy up speculatively held vacant land. Presumably it involves no interference at all with any "vested rights," to TAX WAGE EARNERS IN ORDER TO BUY UP LAND for federal housing and THUS, through this government demand, to MAKE LAND PRICES EVEN HIGHER than they would otherwise be! How can this LOWER the cost of housing!

How is it possible – except through lack of understanding – for our "liberals" to think of such a policy as part of a "war against poverty," or as anything but a hindrance to realizing the ideals of "The Great Society!"

In Australasia, where the local tax system in some states and in parts of other states gives full incentive for building and takes away "incentive" to retard building (through holding large amounts of land speculatively out of use), the states and parts of states that follow this tax system, taxing land values much more heavily and exempting improvements, have far more building than those which follow the system followed almost universally in the United States. Why have American legislators – and American administrative leaders – completely IGNORED the statistical data on this? And why have the leaders of our political opposition consistently – and it seems persistently – failed to attack administration policy where it has been (1) logically most vulnerable, (2) morally wrong, (3) injurious to those who have only their labor, and (4) inconsistent with the principles of incentive most favorable to private enterprise?

Can it be that Republican congressional leaders do not REALLY believe in the free private enterprise system? Can it be that they are not greatly interested in seeing to it that there is adequate INCENTIVE for saving and for investing in the formation of capital, but ARE interested in maintaining the kind of "incentive" that definitely HANDICAPS and RESTRICTS production! If these leaders – or any of us – do not believe in the principle of capitalist incentive, what right have they, or we, to criticize adversely communism's emphasis on COMPULSION?

How are we to account for the fact that in all the political propaganda for and publicity on "The War Against Poverty" and "The Great Society," the tax reform which would do so much to LESSEN POVERTY and to establish a TRULY "Great Society," is persistently ignored? Is this persistent ignoring of land value taxation by nearly all our political leaders to be explained, perhaps, by the fact that it is ignored, also, by the majority

of teachers and textbook writers in college economics, and argued against fallaciously, and INCONSISTENTLY WITH THE STATISTICAL DATA, by most – though NOT ALL – of the others?

For surely there can be little doubt that some of our political leaders are idealists who sincerely desire to diminish poverty – which could make America an example to the communist world, of what a capitalistic or free enterprise system can do – but lack the necessary understanding of cause and effect relations in our economic system.

The Johnson administration certainly could – with the cooperation of the Congress – adopt a subsidization policy that would greatly REDUCE the burden on federal taxpayers and that would SIMULTANEOUSLY go far in the direction of inducing state and local governments to change local tax policy in the right direction. Instead of a federal subsidization of housing and slum clearance that encourages a local tax system which breeds slums and increases the cost of housing, we could have a CONDITIONAL federal subsidization that would encourage a local tax system calculated to MINIMIZE blight and slums and to LOWER the cost of housing.

There is nothing really unprecedented or "radical" about such federal subsidization. For again and again our Federal Government has required and does require the meeting of certain conditions by local governments, if they are to receive federal aid. And the requisite condition in this case should certainly be the adoption of a local tax policy that will NOT recurrently breed slums which the Federal Government will then be expected to recurrently clear out, and which will NOT encourage land speculators to hold up the price of land and thereby keep the cost of housing high.

But what if the Administration and the Congress will not adopt such a CONDITIONAL subsidization policy? What if they are determined to continue the present policy of giving financial aid for housing and slum clearance, to local governments which follow a tax policy that keeps the cost of private enterprise housing high and that breeds blight and slums? Must we then give up all hope for improvement?

Recent legislation in Pennsylvania and in Hawaii suggests that there is still some chance for favorable state and/or local action, despite the attitude – far worse than neutral – of our Federal Administration and Congress. A 1959 Pennsylvania law PERMITS the city council of any third class city in the state (and there are 48 such cities) to reduce – or to abolish – all city taxes on buildings and increase the tax on land values enough to get the same total revenue. This legislation, however, does not apply to boroughs, nor does it apply to county taxes or to school taxes.

But our fiftieth state, Hawaii, by a law passed in June of 1963 and effective January 1st, 1965, makes it MANDATORY for all county governments in the state – and it is the county governments there which levy the real estate taxes – to begin de-

creasing the tax rate on improvements and increasing the taxes on land values. In two more years they must go further and in another two years, still further. Thereafter, the counties have the option (but are not compelled) to take three additional steps in this direction.

Nevertheless, though in the next several years they may have set their own tax house in order much more than any other state, Hawaiians will

still, presumably, be COMPELLED TO CONTRIBUTE, via federal taxation, their proportionate share towards federal subsidization of housing and slum clearance IN THE OTHER FORTY-NINE STATES! When can we hope, in this era of ideological conflict between capitalism and communism, for a statesmanship in one – better still, both – of our parties, that will make our capitalistic system consistent with the principles of incentive in which we pretend to believe!

---

*We suggest that you write to us for the following:*

**HOW COLLEGE TEXTBOOKS TREAT LAND VALUE TAXATION**

by Elizabeth Read Brown

This 21-page study is based on a survey of 76 recently advertised economics textbooks. To obtain a copy, send a self-addressed stamped envelope and two additional 5-cent stamps. Or send a dollar for twenty copies.

**COMMUNISM'S INCREASING POWER**

and

**THE SKELETON IN CAPITALISM'S CLOSET**

by Harry Gunnison Brown

(Single copies free)

**TAXING LAND VALUES AND EXEMPTING  
IMPROVEMENTS**

What's Happened Where This Has Been Tried?

by Harry G. and Elizabeth R. Brown

(Single copies free)

**THE EFFECTIVE ANSWER TO COMMUNISM**

and

**Why You Don't Get it in College**

by Harry G. and Elizabeth R. Brown

(100 pp., paperback, pocket size, 25¢)

The late Professor Glenn E. Hoover of Mills College said of this book:

“Those who are serious about creating a truly liberal and just order in these United States should read THE EFFECTIVE ANSWER TO COMMUNISM and Why You Don't Get it in College . . . . The authors write well because they first think well. They know economics and they know, too, the American colleges, in most of which economics is, in truth, a ‘dismal science,’ and this for reasons which the authors make abundantly clear.”

A British periodical (*Land & Liberty*, London, March, 1959) chose as the heading for its review of the book:

A Conspiracy of Silence

Smothers the Answer to Communism

*Noah D. Alper, President*

**PUBLIC REVENUE EDUCATION COUNCIL**

Room 308 – 705 Olive St.,

St. Louis, Missouri 63101

SOCIALIZED vs. PRIVATE ENTERPRISE  
HOUSING and THE WAR AGAINST POVERTY

Saint Louis 1, Missouri

Room 808 — 705 Olive Street

PUBLIC REVENUE EDUCATION COUNCIL