THE DAY THEY FROZE SAN DIEGO'S SKYLINE

by Dr. Robert V. Andelson

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In 1928 the population of San Diego was less than 150,000. Today, it is half a million. Yet despite this population rise, it took 33 years before construction was begun on a single important private building in the downtown area. This was not because of lack of need; neither was it because of lack of capital. I propose to show a little later that this 33 year hiatus in significant building was primarily due to the nature of our local tax structure. What I have to say about building applies equally to industry. Within the past year, San Diego has lost at least two major industrial plants that I personally know of, for this very reason.

In recent months we have witnessed the beginning of a dramatic change in the face of the center city. Scarcely a day goes by but what we read of some projected major building to be constructed here — or see tangible evidence in the form of foundations being laid or girders reared. But a large proportion of these are government buildings. And as for the rest, they are for the most part best exemplified by the one which I am told is being erected with the understanding that after it goes up it will be foreclosed by the bank and can therefore be taken as a federal tax loss.

For 33 years we were an expanding community, yet there was no building. Today, in the midst of industrial stagnation and severe unemployment, we see a building boom — a boom which reflects neither the realities of the current market nor any reasonable projection for the future. Crazy? Of course! But the answer is simply that we've come to the place now where the stupidity of the federal tax structure works to counteract the stupidity of the local tax structure!

But here in San Diego our local tax structure wasn't always stupid. Immediately prior to the year 1928, downtown San Diego had experienced an era of major construction. It was wholesome construction, engendered not by artificial factors but by the market and the needs of the community. Then, just after the erection of the San Diego Trust and Savings Bank Building, an event occurred which literally froze San Diego's skyline just as surely as if it had been subjected to the paralyzing gaze of Medusa or the immobilizing ray-gun of Flash Gordon.
For it was in 1928 that the courts, responsive to the pressure of special interests, placed the kiss of death upon the continued development of the downtown area by declaring unlawful the method of property assessment which had made that development possible.

Back in those days we were fortunate enough to have had a city assessor by the name of Harris L. Moody. John L. Bacon, who was mayor at that time, speaks of him as "a crackerjack assessor, who really knew real-estate values and was fair in every way." Harris Moody was a man who understood what kind of tax structure encourages the healthy growth of a community. He reasoned that inasmuch as the value of a site is socially created, land should bear the major part of the municipal tax burden, and that since buildings and improvements are the result of private effort and initiative, they should be insofar as possible, exempted from taxation.

Thus, in 1928, the last time it was assessed under his method, the San Diego Trust and Savings Bank Building — to give just one example — bore a land assessment of $540,000 and a building assessment of $240,000. Today, under the system which replaced that of Mr. Moody, despite 34 years of appreciated value, the assessment on the land has gone down — believe it or not — to only $262,000; whereas after 34 years of depreciation and obsolescence, the assessment on the building has risen to $522,000! Let me repeat: Over 33 years of land value appreciation, the assessment on the site has gone down from $540,000 to $262,000 whereas over the same period of gradual depreciation, the assessment on the building has gone up from $240,000 to $522,000. Similar figures can be adduced for the Bank of America Building, the Security First National Bank Office Building, the Pickwick Hotel, and innumerable other downtown structures.

Now I ask you, does this make sense? No wonder, to paraphrase Poe, the "time-eaten towers" of downtown San Diego lie "resignedly beneath the sky." Who, under our present topsy-turvy system of rewarding stagnation and penalizing development, would have any incentive to rescue them from their state of hopeless resignation? Well, the government might, because it doesn't have to worry about costs. And the fellow who wants to avoid paying federal taxes might, because buildings can be largely written off as capital depreciation. But what about the ordinary businessman, who isn't interested in fancy gimmicks of the Cash McCall variety, but who simply sees a market for building and proposes to supply that market in return for a reasonable profit to himself.
Is he not likely to think twice under circumstances where he is treated as if his activity were a crime for which he must be fined?

Another aspect of the picture is the phenomenon we call "Suburban Sprawl." Suburban Sprawl is what happens when land developers cannot assemble at a profitable price the tracts they would like to buy first, so they have to leapfrog out to places such as Poway in order to find land cheap enough to build on. Suburban Sprawl inflates land prices all the way down the line. It penalizes farmers who want to farm instead of speculate. It defies good local land planning. It is one big reason why downtown is stagnating and downtown stores are losing trade. It increases the cost of public services and utilities. It forces homeowners to waste millions of hours and millions of gallons of gas, traveling to and from work. And it too, stems directly from a tax system which actually encourages the speculator and penalizes the developer.

There is at present legislation under study by the State Assembly Committee on Revenue and Taxation which would help to correct this situation. Assembly Constitutional Amendment #43 would give home rule to local taxing districts so as to permit them to decide for themselves what method of assessment they are to have. We cling tenaciously to the principle of home rule in other fields such as education. Why then must our methods of collecting local public revenue be subjected to restrictions from on high?

According to figures taken from the City Planning Department report and the city budget for the fiscal year of 1959-60, approximately 50% of the incorporated area of San Diego is undeveloped, and is paying only 1/8th of the city's tax load. And this is merely a close-to-home illustration of a national situation which is the rule rather than the exception.

The August 1960 issue of the magazine, House and Home, which was devoted solely to an examination of this problem, states that today's taxes penalize land development, land improvement, and homebuilding by 1) multiplying the local taxes the owner must pay as soon as new houses are built on his land or existing buildings are improved, and by 2) taxing away most of the profit from land development and homebuilding at ordinary income tax rates.

But they subsidize land speculation by 1) undervaluing the land as long as it is left idle or underused, and 2) taxing the profits of land speculation less than half as heavily as the profits of land development and homebuilding are taxed.
"No justification for this can be found in economic theory," says Professor John Henry Denton, in charge of real estate studies at the University of Arizona. "Unlike speculation in commodity futures or common stocks, land speculation does not support a market or provide a stimulus to production. In fact, it has just the opposite effect. It destroys the marketability of large areas of land by pricing them out of reach of immediate users. It deprives communities of many facilities needed for good living (such as parks and playgrounds) by driving the price of land beyond what communities can afford. It limits competition by holding a large part of the land supply off the current market. It channels capital funds away from productive investment into sterile adventures and may be responsible for the present day dearth of risk capital. But our tax system grants this nonproductive and destructive activity the most favorable tax treatment of all."

Years ago, Sir Winston Churchill pointed out that the unearned increment, that is, the socially produced value of the land, is reaped by the speculator in exact proportion, not to the service, but to the disservice done. "The greater the injury to society, the greater the reward."

Lately we have been hearing a great deal about the need for urban renewal. Various agencies clamor constantly for public housing. The League of Women Voters has gone on record as favoring the adoption of a San Diego Housing Code. Certainly the deterioration of our cities is a national scandal of the utmost seriousness. Yet last year Mr. Anthony Panuch, special advisor on housing to the mayor of New York City, submitted a report which culminated in the following statement:

The $2-billion public housing program here has made no appreciable dent in the number of slum dwellings. No amount of code enforcement will be able to keep pace with slum formation until and unless the profit is taken out of slums by taxation.

The close relationship between our taxing policies and our problems of slums and urban blight is cited by Housing Administrator Norman Mason. And he goes on to quote Professor Frederick G. Reuss of Goucher College, who remarks that: "By overtaxing good housing we first take away much of the incentive to keep values up; but once an area is blighted we reassess it at a low value and thus pay a premium for poor upkeep."

To give a concrete example of how this vicious process operates right here in San Diego, I want to direct your attention to "This is Your City," a study recently issued by the City Planning Department. In order to determine comparative tax revenues from various parts of town, 17 five-acre residential
samples were made. Of these, the next-to-the-lowest tax return came from five acres in Logan Heights, bounded by K Street on the south and 22nd Street on the east. But the lowest tax return of all was recorded for five acres in La Jolla, bounded by Pearl Street on the south and Cuvier Street on the east! The average tax bill of the Logan Heights properties was $230, whereas the average tax bill of the La Jolla properties was only $192. Now, I don't need to tell you that this acreage in La Jolla is among the most desirable and valuable acreage in the whole county. If you tried to buy it, it would cost you a king's ransom. Why then is it assessed so low? Simply because it is covered with dilapidated shacks, condemned by the sanitation department and appraised at less than half the value of the dwellings on the comparable tract in Logan Heights! Here we have a squalid slum right in the middle of our choicest residential district, fostered by the self-same taxing power which then reaches into our pockets to subsidize through welfare programs the superficial amelioration of the very evils it creates. If we were to return to Harris L. Moody's method of assessment, think how quickly those shacks would be demolished to make way for structures worthy of La Jolla!

Now the system of taxing land at its full value and exempting improvements was not original with Harris Moody, nor has it been tried only in San Diego. It was proposed by Henry George in 1879, and has been operating successfully for years in major cities all over the world. Known as site-value taxation, or "incentive taxation" if you please, it has been demonstrating its workability in Sidney, Australia, for forty-five years. According to the Sidney town clerk: "This has given general satisfaction, and there is no agitation whatever for taxing improvements, machinery, or merchandise. It has brought idle land into use, improved housing, and old buildings have been replaced by new buildings. Slum areas have largely been taken over by factories."

It is in effect in every major city in New Zealand except Auckland, which I am told is the only city in New Zealand in which it has been necessary to undertake slum clearance. Denmark has been using site-value taxation since 1902, with the result that 94% of Denmark's farmers own their farms, as compared with only 64% in the United States. Regina, Saskatchewan, taxes land values at nearly 100% and exempts improvements by 85%. An investigation of its effects recently led the Regina City Council to overwhelmingly reaffirm its approval of this method of taxation.
A modified version of the system, known as the graded tax plan, operates in Pittsburgh, Pennsylvania. In the words of Pittsburgh's former mayor, David Lawrence, now governor of Pennsylvania: "There is no doubt in my mind that the graded tax law has been a good thing for Pittsburgh. It has discouraged the holding of vacant land for speculation and provides an incentive for building improvements."

Lastly, site-value taxation has for many decades been the revenue basis of our own California Irrigation Districts. Speaking in Burbank in 1958, with reference to the Irrigation District's Act, none other than Senator William F. Knowland declared: "The state law that sparked the California success story has been a powerful engine for the creation of wealth. California's discovery of this legal formula has been more important to the growth of California than the discovery of gold a century ago. This remarkable law works as a tool instead of a weapon. It taxes people into instead of out of business."

I wonder if any of you happened to read the front page editorial in the form of an allegory which appeared in the December (1960) 24th issue of the Christian Science Monitor. Entitled, "Scrooges Rub Hands as U.S. Abets Slums," it pictures slum-lord Scrooge as the recipient of all sorts of tax breaks by the government. The more run-down his properties are, the better off he is, much to the misfortune of his poor tenants, Bob Cratchit and Tiny Tim. But after being dealt with by the Spirits of Christmas Past, Present, and Future, the old man has a change of heart, and decides to renovate his holdings. "Tiny Tim won't recognize his tenement," he shouted with delight, "when I get through improving it!" But then his face clouded, and he exclaimed:

"It does seem a little strange that everything I do for Bob Cratchit's home will cost me higher taxes, while everything I did to defraud him saved me money!"

"It does indeed," said the Spirit of Christmas Present gently.

And there the allegory ends. But if I may be so bold as to add a sequel, I should like to ask: What has the Spirit of Christmas Future to say to the Scrooges and the Cratchits and the Tiny Tims of San Diego? The answer to that question will be found in Sacramento, and the nature of that answer will depend upon what we, as citizens are willing to do.