

as a Factor in Property Improvement

TAXATION is no longer just a means of raising money for governmental purposes—it is the most potent economic force in our country today. Old economic laws of supply and demand are quickly made ineffective when the distribution of wealth is controlled by our tax laws.

There is little we can do about federal income and excise taxes, and not much more we can do about state corporation licenses and personal income taxes; but we can influence greatly the distribution of wealth and the improvement in our own communities by militantly seeking a revision of our discredited general property tax laws.

It is true that there are many individuals and groups of individuals who, through studied ways and means and all sorts of projects, constantly seek the enhancement of value accruing to certain areas and sites of land. The expectation of future unearned gain is an ever-present lure as these values rise, sometimes enormously, in proximity to projects such as new railroads, highways, subways, bridges, industrial centers, and residential areas. Some method must be found to control the enormous speculative profits these people sometimes are able to get. At the same time, we must find a way to rid our cities of the undesirable buildings and run-down property often found in the very heart of our cities. All this and more can be greatly stimulated through taxation. We must appeal to the self-interest of the property owners. For adequate slum clearance and real property improvement more is needed than the use of police power and the application of restrictions on buildings. It must be to the interest of the landowner himself to improve his property. How, then, can taxation be used to bring about the desired results?

Two-Fold Remedy Proposed

The remedy I suggest is two-fold:

First, the abolition of all taxes on personal property; and

Second, the exemption of real estate improvements from taxation.

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If these remedies seem radical and far-reaching, the answer is: They are! Perhaps the full effect of the changes that would result cannot be realized at once, and their eventual effect on the development of our communities could not be felt in a short time. But let's consider what the eventual results would be.

To Get Rid of Personal Property Taxes

No states except New York, Pennsylvania, and Delaware, so far as I know, now exempt personal property from taxation; but all tax collecting agencies are fully aware of the difficulties in collecting such taxes. Everybody knows that much personal property escapes taxation altogether and that the uneven burden falls on those who have so little that all they own is in sight and upon those businesses that continue to improve both their stock and their equipment. Intangible personal property escapes almost entirely and those who keep their assets in liquid form or in cash and securities pay little compared with those who must put their ownership in tangible form. Although the elimination of all tax on personal property would not in itself affect the development of our communities except secondarily as it would stimulate business, the very inequality of the tax calls for its abolition on the basis of justice. And the nature of the tax is similar to that on real property improvement. That is the villain who should be killed, and we might as well string up his partner with him. Both are bad, but let's get at the one that is really holding our cities back.

The Commonwealth of Pennsylvania has a law which permits cities of the second and third class to tax real estate improvements and the land itself at different rates. In most states, cities and counties are compelled to tax improvements at the same rate as land. Under the Pennsylvania law some cities have lowered

the rate on real estate improvements while at the same time they have increased the rate on the land itself.

Assessors now quite generally value the land and buildings separately. The application of different rates to these assessed values then, is merely a matter of securing permission from the state. Once that permission is granted, we can begin to apply the remedy that will help us to kill the blight of our cities—vacant lots held for speculation and rundown buildings located in the very best sections of our cities.

In some sections of our community, for example, very poor and unsightly buildings can be found on land of high value, while in other sections fine homes and valuable buildings have been erected on land better adapted to farming. A moment's reflection will convince you that the old fire-trap is probably downtown and the new fine home on the edge of town. Look at your city. Are not some of your better buildings being built in newer sections, while the older and more valuable land is being occupied by buildings that should be condemned? Why? Simply because our present tax laws penalize the person who builds while favoring the one who lets his building run down.

No Incentive to Build

The owner of that old building on some of the best land in your community is unwilling to improve it because we will penalize him by increasing his taxes, not only for this year but for many years to come. We penalize the builder and reward the owner of the old fire trap by lowering his taxes as the building approaches worthlessness. There is no adequate incentive to build. Our best land is held from full use and the builders must move out to the edge of town and use marginal land that might better be left for farms or low-type industrial use. The vacant lot that might be used is priced so high he cannot afford that and the increased taxes, too.

The junk dealer, the second-hand store, and the cheap rooming

house could not afford to stay in the middle of town if land were taxed at its full rental value. Speculation would be unprofitable if the vacant lot paid the same tax as the lot with the modern office building. Slum clearance would be a natural by-product of full land-value taxation. Improvements would be encouraged. New industries would not fear to come in. Business would concentrate on the more valuable sites. And the outskirts of town could absorb the newer and more moderate homes on land that paid small taxes.

These are merely suggestions of what some of the results could be of applying a higher rate to land and a lower rate to land improvements. Improvements eventually should be exempted from taxation, but in the meantime we could make a start if we go after it. A set of tax laws that penalizes the industrious and rewards the indolent is due for revision. We must ask our state government for more home rule. Give us the privilege of lowering the rate on improvements if we cannot abolish

such tax altogether, and let us increase the tax on vacant land and land inadequately improved. All we need do is tax all similar land at the same rate, regardless of improvements.

A Gradual Approach Suggested

Perhaps it would take several years to bring about the desired result. Maybe an immediate change would be too difficult to adjust to. But given 10 years, we could decrease taxes on improvements 10% each year, while increasing the tax on land at the same rate. Nobody with improved property would pay any increase in total taxes and soon the speculator would have to sell or build income-producing improvements. Our cities would soon look better. Old buildings would come down. Vacant lots would be used. The better buildings would be on the most valuable land. Factories would come in to provide new pay-rolls. Of course the speculator and the tenement owner get hurt; but

surely these people are not to be favored with the financial reward that they now receive for just sitting tight while the rest of us build up our towns.

There are many other beneficial results to be anticipated from the application of land-value taxation, but specifically from the point of view of those of us who are responsible for the development of our cities, it seems to be the most effective way to get rid of the old, worthless buildings and to insure the full development of our communities.

That's my story. Maybe the remedy seems too simple. Pennsylvania has shown us the way. Such a program can be instituted next year if we go to the Legislature and ask for a law permitting local taxing units levying on general property to tax improvements at a lower rate than land. That's all. Given the privilege, we could use our taxing power to improve our own cities without burdening the average taxpayer with new and higher taxes. In fact, it would give most of them much relief.

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