

# the Henry George News

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## *Urban Experts View LVT*

by STEVEN CORD

TWICE previously the Nation's Cities magazine, organ of the prestigious National League of Cities, has focused entire issues on particular urban problems. Both times a substantial section was devoted to an unequivocal advocacy of land value taxation. In March 1965, 15 pages were devoted to the question, "Are Property Taxes Obsolete?" and five of these were directly concerned with the land value tax.

The April 1967 issue considered, "What Kind of City Do We Want?" in 32 pages, at least four of which were devoted to LVT. Reprints of these issues have served Georgists extremely well. The arguments have been well substantiated with solid facts and figures. There is no doubt that the impressive support of the Nation's Cities publication and the long list of prominent experts it has lined up on its sponsoring panel, have served to still the skeptics and make the apathetic take notice. Cynics were put on the defensive perhaps more by the sponsorship than by the reasoning.

In its March 1969 issue Nation's Cities once more focuses on a major urban problem, "The Financial Crisis of Our Cities," and asks what the state and federal governments should do to help and what the cities must do to

help themselves. Thirteen pages are devoted to an enthusiastic no-ifs-and-or-buts advocacy of LVT. Reprints available in booklet form (32 pages) will convince readers that Georgist ideas are not out in left field any longer but are starting to flow into the mainstream.

A word about the sponsorship of this study—its findings are based on a conference held by representative leaders from the National League of Cities, Conference of Mayors, Council of State Government, National Governors Conference, National Association of Counties, Committee on Economic Development, Advisory Commission on Intergovernmental Relations, National Commission on Urban Problems, and Ford Foundation. Also the U.S. Chamber of Commerce, National Industrial Conference Board, National Association of Manufacturers, National Housing Center, Regional Plan Association, New York Economic Development Council, Small Business Administration, and Tax Foundation.

The conference was organized by the first five of these organizations in association with Time, Life, Fortune and the Robert Shalkenbach Foundation. Assisting in the deliberations were



three outstanding university economists and the former Secretary of Health, Education and Welfare. It is worth noting that although the report represents a consensus of opinion, this implies broad and general agreement rather than complete unanimity, since the organizations represented are not to be understood as having officially affirmed the general consensus.

#### Fair Treatment For Cities

All the conferees apparently agreed that cities are hobbled by state limitations on their taxing powers and particularly on their ability to impose a higher tax on land. Cities have to compete with state and federal governments for tax sources, and they generally come out third best. In addition, cities are burdened with far more than their share of welfare, education and regional facility costs. We have to re-think clearly what level of government should do what and which should pay for what. These costs are not entirely local in nature. They are in fact state-wide or national, yet the tax-limited cities are expected to foot the bill. Let the state and federal governments provide the funds, but let the cities be in charge of spending them. Local people know their own problems best. Who in Washington could have known that the people in Pittsburgh's Hill slum would assign their three top urban renewal priorities to collection of garbage, repavement of streets and more lights?

Because of the importance of this report which appeared in the March issue of *Nation's Cities* and which has attracted nation-wide attention, more than the ordinary amount of space is being given to a review by Professor Steven Cord of Indiana University, Indiana, Pennsylvania. For those who can make use of the complete 32-page reprints, these are available from the Robert Schalkenbach Foundation, 50 East 69th Street, New York, N. Y. 10021, at a cost of 15¢ each.

One guideline for federal-state subsidies to cities is that the aid would go mainly to the cities that try first to help themselves by imposing an adequate property tax. There is no point in cities reducing their property taxes and then substituting federal or state subsidies. "How good a case for bigger state and federal subsidies can a city make if its property tax rate is well below the 2 percent of true value national average, and less than half the rate many other cities impose?"

Today big differences exist in local tax efforts. In 1966 Birmingham, Alabama taxed its median homeowner .92 percent of true value while Montgomery taxed only .54 percent. In Memphis the median homeowner was taxed at 2 percent as against .95 percent in nearby New Orleans. Los Angeles doubletaxed at the rate of 1.85 percent while San Francisco settled for .93 percent. If laggard-taxing cities increased their taxes federal-state subsidies wouldn't need to be so high.

Of course federal-state subsidies could also be used to encourage a grad-

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The community, by its presence and activity, gives rental value to land, therefore the rent of land belongs to the community and not to the landowners. Labor and capital, by their combined efforts, produce the goods of the community—known as wealth. This wealth belongs to the producers. Justice requires that the government, representing the community, collect the rent of land for the community purposes and abolish the taxation of wealth.

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ual shift to land taxation. Such subsidies could encourage cities to attack problems they have too long neglected, like air pollution and metropolitan-area government units ("if metropolitan-area government units below a certain size were declared ineligible for federal block grants we might be surprised by how many too-small units might decide to get together").

Consider one of the big city government expenses—education. Why should federal and state bear more of this expense? Nation's Cities' spokesmen give four reasons:

(1) Cities just can't afford zooming education costs.

(2) "The impact of school costs varies too widely from one tax jurisdiction to the next, and it costs central cities much more than it costs the suburbs to give all its children comparable schooling." Central city children are more numerous and, if culturally deprived, are more expensive to educate. The City of New York spends per pupil for the public schools in Harlem more than is required for grade school tuition in the most expensive private schools and still it is not enough.

(3) "With our increasingly mobile population it no longer makes sense to think of education as a local cost and treat it as a local cost to be paid for out of local taxes."

(4) If states subsidized education, suburbs would have one less reason to resist consolidation into larger and more functional governmental units (it wouldn't cost them more in taxes to consolidate).

And as for poverty and welfare costs, what makes them more local than federal in nature? Aren't they the outcome of structural defects and injustices in our total economy?

But many Georgists might object to urban subsidies or to a shift of taxes to Washington, preferring instead that urban costs be paid out of land tax-

tion. Furthermore they would prefer no other taxes at all, or as few as possible. Cities receive subsidies now from federal and state levels, but "today the shocking fact is that in most states per capita state aid is greater to the suburbs than to the central cities whose need is so much greater."

The Nation's Cities conferees unanimously condemned local property tax exemption for state and federal property inside city limits. Expensive city services are provided to federal post offices free of charge. Isn't this a reverse subsidy by the cities to the state and federal governments? "Why, for example, should New York City subsidize the army with a \$37,340,000 exemption on Fort Hamilton or the navy with a \$50,940,000 exemption on Floyd Bennett Field?"

An increasing need was seen for subsidy help to cities whose costs are rising vertically, and the bigger the city the greater the urgency. Nevertheless, its final caveat is that although cities should try hard for subsidies, or for the equivalent of letting state and federal governments assume certain welfare and education burdens that are properly theirs, they would be foolish to count on getting any sudden increase in federal aid. They had better do it on their own, by themselves.

#### **Impact of Non-Land Value Taxes**

The report presents eye-opening evidence that taxes are dead weight on the economy of a local city. For instance:

(1) "Before New York City cut its sales tax back from 4 percent to 2 percent a university research study showed that each 1 percent of tax was driving 6 percent of all clothing and household furnishing sales out beyond the city line (along with thousands of jobs)."

(2) "The one and only reason the federal government can get away with an income tax schedule ranging from a minimum of 15.4 percent to a high of 77 percent is that no one can escape

the tax without giving up his citizenship; but no city has dared raise its maximum income tax rate higher than 3 percent for fear of speeding the upper-income and middle-income exodus to tax-cheaper suburbs."

(3) "The corporation tax takes 52 percent of the admitted profits of corporate business (plus another 5 percent or so in accelerated payments). On top of that the personal income tax takes an average of some 30 percent of whatever corporate profits are paid out in dividends, so all told the federal government is now socializing close to two-thirds of business profits from all but the smallest corporations."

"Affirmative evidence that such stiff tax rates can be a heavy drag on the economy was given by how the small relief provided by the Kennedy tax reduction abetted an overnight acceleration in the GNP growth rate."

(4) "A 3 percent-of-true-value tax on improvements is apt to tax away 75 percent of the net income a new building would otherwise earn."

(5) "A 3 percent-of-true-value tax on improvements is the installation plan equivalent of a 52 per cent sales tax [on new improvements]."

(6) "A 3 percent-of-true-value tax on improvements will . . . add more than 25 percent to the rent a tenant must pay or more than 25 percent to the carrying costs an owner must meet."

(7) The present real estate tax collects two or three times as much money from taxes on improvements as from taxes on land (reason—total improvement assessments are double or triple land assessments).

#### **Why We Should Exempt Improvements**

Local governments depend for 87 percent of their tax revenue on the property tax, which, as all Georgists know, is really two taxes: a tax on man-made improvements, which is deleterious—and a tax on land, which is positively beneficial to the economy—

so much so that it should be imposed even if the revenue collected should be (foolishly) tossed into the sea. HGN readers know the arguments for LVT well, too well to repeat here. Suffice it to say that the Nation's Cities report tells the same old story but in a delightful way interlacing theory with fact. Did you know that from 1955 to 1965 building site prices have climbed 6.19 times as fast as the index of wholesale commodity prices? (No shortage of revenue from a land tax!) Here are some more facts you might not have known:

(1) Land prices for building have been soaring 8 percent to 15 percent a year.

(2) A \$1 million piece of land can be held out of use for a property tax cost as low as \$5,000 a year, with up to 77 percent of that \$5,000 deductible from the owner's federal income tax.

(3) The Tax Foundation reports that most federal urban redevelopment subsidies have gone to enrich the owners of slum property by raising the price of slum land (\$484,000 per average acre for the slum properties bought for demolition by the New York Public Housing Authority) and have done little to help the poor people living in the slums.

(4) "The federal government has been bailing out our slumlords by buying them out at prices averaging ten times the assessed valuation and three times the re-use value" via the urban renewal land write-down subsidy program.

(5) Mason Gaffney's Milwaukee study shows that a shift to land taxation would make subsidies unnecessary for developing underused land which accounts for three-fourths of the downtown area. Why? Because the new tax arrangement would make re-building profitable.

(6) "More intensive use of downtown should, perhaps surprisingly, les-

sen downtown traffic congestion, because more people could walk, escalate, or use public transportation instead of driving to where they want to go. Says Professor Gaffney: 'Sprawl is not a flight from congestion; it is a major cause of congestion by making more people use more cars to travel more miles to downtown.' In addition, sprawl balloons city costs.

(7) "In Milwaukee today the assessors must spend 80 percent of their time on improvements—only 20 percent on land values."

(8) "The shift should be popular with most voters because it would reduce the taxes on most owner-occupied homes (since their improvement-to-land value ratio is well above the city-wide average)."

(9) Land value taxation would increase construction, thus land-rent also; this would mean that the tax base would be an expanding one, unlike the present property tax.

For confirmation of the efficacy of land value taxation the experience of Southfield, Michigan is cited as the state's boomingest city. In 1962 the assessment (and therefore the tax) on land was doubled, thereby permitting a substantial reduction in the tax on improvements. "Since then Southfield has recorded more new office building construction than 30-times-as-big Detroit next door; land values have continued to soar, until some acreage that was assessed at \$2,400 in 1961 is now assessed at \$100,000; and the grateful voters three times re-elected the mayor who instigated the tax shift."

#### Other Helps for Cities

Many new ideas are contained in this report. All are thought-provoking, many are desirable, some are questionable. The conferees did not stop short of advocating a serious reform.

In the field of education it was suggested that costs could be reduced by using movies, tape recording and TV.

In my opinion however these aids should be considered as supplements, not substitutes, since students complain vociferously if their classwork becomes strongly audio-visual. A variety of other suggestions, such as the following, are worthy of consideration:

(1) High school degrees are not needed for such police activities as ticketing parked cars and collecting tolls. Many of the unemployed could qualify for such jobs. "For some police functions like fighting organized crime the best is none too good; for other police jobs a high school graduate with courage, good health and proper training can do at least as well as a Ph.D. So it makes no sense that in so many cities the starting requirements and pay scales for all police jobs should be so nearly alike. The end result of this leveling practice can only be higher costs for a mediocre police force."

(2) "Cities could save much of the land cost for new schools on high-priced close-in land by following New York's example and sharing the site with an apartment tower, with the school occupying the lower floors entered from one side of the block, and the apartments using the air rights above and entered through a lobby on the opposite side."

(3) To increase the intensity of downtown land use, why not follow San Francisco's example and put pools, trees, plantings and playgrounds over stores, schools and service industries? Central city land is too valuable to be used for only one purpose at a time, and requiring urbanites to travel far from their recreation is burdensome to them and their highways.

(4) Cities should charge for the specific business services they offer just as private business does. For example, water meters at rates high enough to cover cost would stop water waste. Also, "it is insane to let motorists park at the curb [tying up traffic] for 10¢ or 25¢ an hour where parking lots

charge 50¢ or \$1.

If cities charged for garbage collection at full cost, more property owners would install approved incinerators, and air pollution would be lessened.

"To discourage industrial water pollution, industries that pour pollutants into streams and sewers should be charged the full cost of purification. If this policy can keep the Ruhr river in Germany safe for drinking purposes there is no reason why it should not do as much for the Hudson, the Mississippi and Lake Erie."

In my opinion the land price cannot differ from that of neighboring lots of the same locational advantage. Also cost-less-depreciation of buildings may bear little relation to market prices and current usability of buildings, which is what the assessment should be based on. It seems to me that we should assess land first and then assess the building at whatever value remains, rather than vice versa. And if we assess property in this order we will not only arrive at a truer value of land, but we would

almost surely find that land values and assessments would be much higher than they are under the present system.

When all is said and done, we become enthusiastic advocates of LVT because it is ethically right. Each man owns his own labor; labor is the sole justification of private property; thus, only those things producible by labor can rightfully be owned, and so land can be rightfully owned only if the landowner pays society for the annual privilege of using it (i.e., rent). Alternatively, we all have an equal right to the opportunities afforded by nature, but these can only be appropriated by land ownership, and so we all have equal rights to land ownership, or more practically, equal rights to land rent.

We assume that if something is ethically right it will be economically beneficial. Very good, but it is nice to have the facts and figures to prove directly that it is so, and this is what the March 1969 issue of *Nation's Cities* provides us with.



## Housing Dilemma in Lisbon

Illegal housing has been resorted to at several places in Portugal owing to a ten-year delay in meeting a housing deficiency. In one of these, a community of 12,000 inhabitants known as Brandoa, near Lisbon, some 400 stark concrete apartments, four stories in height, had been built without official permission, as reported in *The New York Times* of March 25th. Because of the collapse of one of the illegal buildings the entire 400 were ordered demolished—until an earthquake intervened.

When the earthquake devastated the surrounding area, leaving Brandoa practically unscathed and all the buildings intact, a forceful appeal was made

to give builders an opportunity to legalize them. Brandoa is on an estate that was divided in 1959 and sold in small lots at modest prices. Since then prices have soared and land is difficult to obtain. There are no paved streets in this "urban desert" and not enough drinking water, but rents are cheap—only \$10.50 a month for a room. Most of the residents are former farm laborers who would not be able to afford rents twice as high in Lisbon.

By the end of the summer it is hoped there will be utilities, schools and streets. A recent decree opened the way for legalization, since it was agreed that demolition was no solution.