

# *The Hand In Our Pockets*

by WALTER W. GERVER

SOMETIMES in observing a typical local situation, principles emerge which point up valuable object lessons in fundamental economics. The recent wage tax controversy in Lancaster, Pennsylvania seems to be such a case.

About the middle of last November we were startled, though not surprised, to learn that a wage tax was on the agenda for our city. Suburbanites who work in the city were particularly vocal since they were to be taxed at the same rate as the city residents.

In addition to imposing the wage tax (the city council passed it on December 30, 1958), the motion picture tax, which netted \$273,000 a year, was taken off and the property tax was reduced by two mills. It is true that most taxes come out of our wages, so perhaps it doesn't make such difference whether we pay a direct wage tax, or pay, out of wages, a 12 cent tax on a loaf of bread. A movie tax comes out of wages too, but I think bread is more necessary to life than a movie.

The Manufacturer's Association sent a petition to the mayor in an effort to prevent passage of this bill, but received the reply that property was being taxed too high for people with low incomes and social security. "Isn't it rather foolish," he wrote, "for a city to be razing its slums in one action, while in another action it is adopting a tax program which would create the slums of the future?"

There was a great deal of discussion about this issue and among many letters published in the newspapers was one from A Taxpayer who said, "widows who own their own homes have less than \$100 a month to pay for taxes, fuel, food and other necessities.

Lancaster, in the beautiful Pennsylvania Dutch country, is noted for its manufacturing, rich farms and good cooking. Under the terms of legislation giving third class cities in Pennsylvania the option to adopt the Graded Tax plan if city councils agree, Lancaster could, if it chose, follow the example set by Scranton and Pittsburgh. If it would tax land (or location) higher than buildings, the owners would no doubt willingly improve their own buildings, and this, as Walter W. Gerver pointed out in a letter to one of the Lancaster newspapers, would save a lot of money on the slum clearance programs. It just might be the answer to the mayor's dilemma.

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Most wage earners get as much in a week as we do in a month."

Even where this final optimistic statement is true, the writer misses the point that workers earning \$100 a week, and some who earn less, may be providing "food and other necessities" including rent, for a family of four or more.

In another letter, which seemed to me to be one of the best, the movie tax was mentioned. This tax, I'm sure, was less damaging than the wage tax will be. But far too many people do not realize the importance of considering the source of a tax as well as the amount to be collected.

"We ask ourselves," wrote A Township Taxpayer, "does it make sense to reduce a property tax and take off the five per cent movie tax, adding a burden to the average wage earner who already has a small take-home pay because of deduction for taxes.

"The mayor further states the property owners should be relieved of some of the burden because ten per cent of them are among the retired group of

citizens who have a limited income. But what about those people who own properties for investment purposes? I dare say that the percentage of Lancaster property owners would be about 50 per cent, who are collecting exorbitantly high rents, and are receiving the full benefits of all the city services.

"You (Mr. Mayor) might say 'you come into the city and use our streets to do so.' And I would say to you 'how will your industry and business survive if we do not come into the city to work in them and patronize your stores'?"

This correspondent is saying in effect that the residents of outlying districts help to make Lancaster a good "place" for industrial and commercial firms to operate in. Lancaster has a "place" value for these firms, derived, in large part, from its neighbors. The presence of factories and stores, in turn, makes Lancaster and vicinity a good "place" to live. "Place" value is therefore another name for land value. Since land gets its value solely from the presence and activity of people, we might question whether landowners are *entitled* to receive interest on their investment.

The exorbitantly high rents do not represent the value of the buildings, since these are the product of labor and capital. What they do represent is the value of empty space — living space in a crowded community — and *land is not capital*.

Some people who own their own homes have been saying that it would be cheaper to rent. Perhaps so. But if all people changed from owning to renting, all rents would go up still more, including those that are already

exorbitantly high. It is not the house that would increase in value, it is the land on which the house is built. Thus the argument in the foregoing letter becomes an argument for taxing the value of land (or location).

On the day the wage tax was passed, the following comments appeared editorially in the *New Era*, a Lancaster newspaper:

"What will the wage tax and the property tax reduction mean to a wage earner who owns a home in the city? It will mean a net increase in taxes, according to figures worked out by an accountant for the *New Era*. The figures are based on average weekly earnings for city residents, current city tax and assessment facts, and a national formula showing the average value of home owned by a man making \$50 to \$150 a week."

Figures were then given, according to which the man who was both a home owner and a wage earner would pay as much as if his property tax had been increased by almost two mills. Does this look like a move that will help to eliminate slums or prevent creating the "slums of the future?"

Along with this, consider the fact that those shrewd investors who are collecting "exorbitantly high rents" will now be enabled, by the reduction of their taxes, to carry off a bigger load than before.

Incidentally there is some agitation in Pennsylvania for legalized gambling — horse racing, etc., with a proposed tax on the proceeds. Most students of Henry George would probably agree that speculation in land has a more devastating effect than all other types of gambling put together.

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No matter how you get there, whether by ship, jet or flying saucer, you ought to be in Hanover, West Germany, for the Tenth International Conference on Land-Value Taxation July 25 to August 1st. The Bankers and Merchants Travel Service, 511 Fifth Avenue, New York 17, N.Y. have the information and the right connections.