Mr. Smith Rides a Hobby

(Engineers and others, please copy)

BENJAMIN F. SMITH of Grand Rapids, Iowa, a consulting engineer who for the past twenty years has been studying land values and taxation as a hobby, made an address before the Community Council in September which caught the attention of the local press and the City Commission. The Finance Committee Chairman said Mr. Smith's ideas and his suggested use of a city-wide land value map merited serious consideration. He was formerly the director of the Henry George extension in Grand Rapids.

In a newspaper report it was noted that Mr. Smith asserted the City Assessor is under tremendous pressure from downtown merchants in "closed door" meetings to keep assessments down, and said they should be forced to show figures publicly. "You should be able to change assessments at least once every six years as at present. It would yield returns many times greater."

He took up in detail the city's assessment problems and the importance of land, as well as the importance of principles, and proposed making the city a better place in which to live by following the principles of the free enterprise capitalistic system—not the Marxist method which kills incentive. Specifically he proposed lower taxes on homes, factories, inventories and all things created by men; and to replace lost income he suggested raising taxes on land, the value of which is created by society. He then outlined two methods. The first involved a long range plan—a change in the state constitution to give local option to tax land and improvements separately. For instance, land might bear a 80 per cent tax, improvements only 20 per cent.

Mr. Smith gave a great deal more attention to his second proposal however — an assessment reform which simply complies with present laws to assess land uniformly with improvements. By law, he said, assessments must be at 100 per cent of value, and he noted that Grand Rapids is now assessing improvements at 33⅓ per cent to 50 per cent, inventories at 66 per cent, and land under 10 per cent. "We should assess land higher now," he said.

Estimating Grand Rapids land value at more than half a million dollars, he charged that not even the city assessor knows the value of the city's land. Because the total city, school and county budget for Grand Rapids residents is less than $20,000,000, even a 5 per cent economic rent on land would cover the local government expense.

The speaker gave some interesting figures, as: an increased tax on land value cannot be passed on because it brings in new competition, and no one can raise prices in the face of new competition. He feels this is proved by the results of site value taxation in Australia and New Zealand, also on a small scale by Pittsburgh, Johannesburg, California's Irrigation Districts and more recently in Southfield, Michigan. The present tax system he regards as a "feudal" one which taxes creativity and does not follow incentive principles, whereas his suggested reform would result in natural urban renewal, increased building, improved social conditions and higher living standards.

He illustrated his premise by putting an imaginary 60′ x 145′ lot in three different areas in the city. In the outskirts it would be worth $50; in a decaying neighborhood $2,500; in a fine residential section about $5,000; opposite a junior college $22,000; downtown $100,000. In a slum area he estimated it would be worth $5,000 because of the population density.

He then placed his imaginary lot within walking distance of downtown. Its gravel surface, unimproved, was used for parking to yield $2,016 a year in pure economic rent. "What is the value of the land," he asked. "How much money at 10 per cent will give you $2,016 a year? By this method, called capitalization, we get the land value of $20,160. If we use a figure of 5 per cent it's $40,320."

Then he posed a more difficult example. Placing the same parking lot right in the downtown area, the gross take is $8,400 a year, but there are costs up to $1,000 for asphalt, lights, etc. The annual capital return is $100 a year, or 10 per cent of $1,000—labor at $80 a week adds $4,000 a year making a total of $4,100. The economic rent equals the total take less capital and labor costs—$8,400 less $4,100 or $4,300 in economic rent. Its value—capitalizing the rent at 10 per cent, equals $43,000—or at 5 per cent, $96,000.

He then hypothecated a house on the lot, and placed it again in different locations. Rentals would vary from $70 a month to $120 in the best residential area. He subtracted $70 from $120 to produce $50 a month as the economic rent.

The same house in the slum district might house two or three families, with a combined rental of pehaps $120 a month, and the economic rent would equal that of the best area—proving that land values in the rundown neighborhoods are very high.

He referred to much of the city's land as not being put to its best use, and said vacant land, vacant buildings and slums were deliberately assessed low—vacant land below 10 per cent, cushioning the load for the owners.

Going back to his early proposal that all real property should be assessed at true value, he said if land were assessed at the same ratio as other property the taxes would rise by 200 to 300 per cent or more, and taxes on homes and improvements could be reduced.

An increased land tax he asserted would solve serious problems resulting in lower land prices, new buildings, improvements, rent reductions and the end of slums. He then pointed to one specific local example of poor assessment, where one of three parcels, 3.7 acres with a shopping center, is assessed at $8,260 an acre, while an adjoining parcel of 13.7 acres, partially graded and earmarked for shopping expansion, is assessed at $2,600 an acre. The third with a gas station on its .4 acre is assessed at the rate of $25,500 an acre. The vacant land, Mr. Smith believed, is deliberately assessed three times too low.

According to the City Assessor the oil companies "are notorious" for paying high prices for corner lots, he said—and that is his excuse for not determining their value. But since this "notoriousness" occurs time and time again Mr. Smith suggests that the value is determined by this very frequency. He recalled that several assessors once did exploratory work on a parking lot and came up with the unbelievable figure of $1,000,000 as the value of a very small corner. This was so high, that even though they had calculated it objectively, they were "afraid" to use it."

If land were to be assessed uniformly and correctly at 33⅓ or 35 per cent as in the case of homes, the city could expect at least three and a half million dollars, said the engineer, which on a total budget figure for city, school and county should give a tax reduction to improvements up to

20 per cent NOW. Looking ahead he estimated that the possibilities of taxing land four times as high as improvements, would make land taxable at a round 3.6 per cent of value, or $36 per $1,000, and the levy on buildings and improvements a mere $8 per $1,000.

So Mr. Smith's luncheon address calling for a "clear directive" by the City Commission and the City Manager to support aggressive leadership by the assessor's office in assessing land on the same basis as other property seems to be bearing fruit. At least the Finance Committee is studying the proposals growing out of one's man's hobby.

Noah D. Alper's Brief Cases

MORE OF "SOMETHING FOR NOTHING"

Senator John J. Williams (Rep.) sharply criticized the government's emergency feed-grain program as a "new frontier boondoggle," stating that only very large farming units could cash in on the program. Some 700 farmers received over $10,000 each for taking feed-grain acreage out of production last year. Billie Sol Estes, for instance, got $22,875. The figures for this "something for nothing game" are from U. S. News & World Report.

ECONOMICS BENT BY A PRINCE

A few years ago Prince Rainier of Monaco turned his principality into a virtually tax-free haven with no individual income or corporation taxes for permanent residents, no excess profits and capital gains taxes. As a result, more than 2,500 business firms have moved into Monaco which has only 2,700 citizens (almost one registered corporation for each citizen). Many corporations have been established there to avoid taxation in France. To house them many skycrapers have been built in an area of only 375 acres. Naturally land prices have boomed to where they are now $1,000 a square yard.

According to Parade's Special Intelligence Report, Rainier's personal fortune has doubled five times in the past 10 years as a result basically of this untaxing policy. President de Gaulle is "putting the screws" on Prince Rainier and wants this principality subject to French tax laws. Once this happens, Monaco loses its tax-free status, the real estate boom dies, the foreign residents flee, and Monaco becomes "the poor postage-stamp principality it once was."

"LAND GRAB BILL"

"Relief for Residential Occupants of Unpatented Mining Claims," notes the Labor Newspaper in Washington, is the title of a bill which Representative Dingell of Michigan said, in House debate, would in effect give at least 2.2 million acres of public land to individuals who have no legal right to it."

Under the "guise of staking out mining claims" pieces of land in the national forests and other areas belonging to all the American people have been grabbed for summer homes, hunting and fishing lodges, permanent homes, and other purposes which have nothing to do with mining. Representative Dingell pointed out that holders of some of these fictitious mining claims are even arrogantly demanding that the government pay them millions of dollars just for permission to let U. S. Forest Service employees cross their claims to get at valuable timber in national forests.

Congressman John P. Saylor of Pennsylvania called attention to the fact that the General Accounting Office said its investigation had revealed that the so-called mining lands were being used, not only for homes, but "for townsites, orchards, restaurants, a real estate office and other commercial enterprises, farming, a house of ill repute and a nudist colony."

It seems supporters of the bill claimed its passage was "necessary to prevent 'hardship' to the mining claim holders, some of whose families have lived on these claims for several generations without doing any mining."

The bill went to a conference committee after the Senate refused to accept the House version.