The Mills Grind Slowly

THE National Commission on Urban Problems, in its final report released in December, recommended that local government should be reformed to play a larger role in meeting housing and urban problems. The former Senator Paul H. Douglas headed the commission and the name of Walter Rybeck is featured as the contact. Mr. Rybeck is Washington correspondent for the Cox Newspapers and his contribution to this document is evident and noteworthy. He was formerly with the Dayton Daily News and has written articles for HGN.

Members of this "Douglas Commission" could not consent to collection of full economic rent because that would be a hardship on present owners who were beneficiaries of past progress, but they willingly recommended the property tax to state governments for them to explore. They also advised another intensive study, this time by the Treasury Department, with the suggestion that *they* submit specific recommendations for recouping a larger portion of the increased land value — this to be followed with consideration by the President and Congress — some years hence no doubt.

Chapter 6 in Part IV is a report which proves that LVT was understood and discussed by the authors since they suggested removing state restrictions that prevent home rule from operating in the fiscal field, removing such federal tax practices as discourage construction while giving private capital maximum scope for earning a profit, searching out ways to capture land value increase created by the government and population pressures, reassessing at frequent intervals to record changing values with a view to approaching 100 percent of market value as the tax base, and avoiding present circumstances which sometimes make it more profitable to let residential areas deteriorate than to keep them in good repair.

Because fiscal requirements are "outspacing the yields of the present state-local revenue system" urban authorities are looking to the property tax as another source of income. Though advocates of LVT claim that it would have a beneficial effect on private land use and has less damaging economic effects than most other taxes, the commission apparently believed that such claims rest on deductive reasoning rather than "hard" evidence, and "are sometimes overstated."

The members found that even a low rate of taxation on land values might be expected to yield relatively large amounts of revenue, though constitutional provisions regarding tax uniformity would have to be changed in many states before it could be instituted. Full reliance on site value taxation would be out of the question in any event, except possibly in areas where the property rates were very low. The most that could be recommended was a shift *toward* site value taxation with relatively higher taxes on land than on structural values. But the commission believed innovative action by one state would be very helpful as a test.

Between 1956 and 1966 the market value of privately owned land in the U.S. doubled to approximately $523 billion, partly due to increased urbanization. Nearly two-thirds of this total is in non-farm residential, commercial and industrial property and vacant lots. Notice is taken in this tabulation of the lack of uniformity of assessments and the fact that capital gains income from sales of real estate is discounted in some states.

A recurrent tax on land values was therefore suggested, also adjustment of capital gains through a separate "transaction tax." Capital gains or transaction

taxes could be considered only for use by the federal agency with the means of collecting them.

The attempt to capture more federal income tax from the unearned increment would be based on value-gains indicated by market transfers of real estate. This could tap emergent increases in land value as distinct from values developed in the past, but there would be some exemption on gains to owner-occupied residences. Questions arose as to whether there should not be periodic taxations on parcels that do not change hands often, with calculations of the accrued land gains on properties that remain unsold after ten years.

There is at present no direct precedent for a federal transaction tax, which next came under discussion. Presumably it would relate to gains on "arms-length" sales and would apply to property owned for investment. It would not affect the present property tax system and could be levied either by state or federal governments. This tax would catch individuals and institutions that benefit from rising land values but are not reached by property or income taxes—and since the focus would be on particular pieces of real estate the revenue yield could be distributed to the locality where the gains are taxed (and where community created increases belong). Every proposal had some drawbacks. The commission was aware, for instance, that the transaction tax would lead to astute legal avoidance by trustees or corporate holding arrangements and might "lock in" investments.

There was agreement apparently on a more moderate approach such as increasing the tax by 1 percent a year over a long period until all of the economic rent had been taken—a process which could be frozen at any point or speeded up as required. Still more acceptable would be gradual decrease of taxes on buildings coupled with gradual increase of taxes on the land—as in the Pittsburgh Graded Tax plan.

The chapter closes in a philosophical vein: "Government civil servants rarely initiate reforms. They can furnish valuable details but they seldom arouse public sentiment. That is the purpose of our appeal."

A supplementary section bearing the signatures of Paul H. Douglas and three others is a little more specific. It upholds the Pittsburgh plan, limited though it is, as a step toward shifting investments to buildings and improvements and away from land for encouragment of new housing.

Having spoken out on the property tax these men feel they may have generated a little interest in a crucial subject long ignored. They have not been swayed by those who say "Oh, that is the single tax," or "that is Henry George," as though "by labeling the proposal they had somehow refuted or disposed of it."

The entire report runs to about a thousand typewritten pages and will become official when it rolls out in massive quantities from the government printing office for those few who have the patience to read it. Lack of brevity serves to conceal as much as it reveals. In this short digest for HGN we have sought out the most promising statements from the Georgist point of view. This chapter however was but one of many on urban problems. In another chapter we read that all levels of government should be "mutually reinforcing." Thus while calling ostensibly for simplification of local government there is a plea for more federal aid (control?) at state and local levels, though it is assuringly stated that this would not be "directly coercive." More "significant use" of personal income and general sales taxes is recommended, and those states which do not have both are urged to get with it as soon as possible. This is known as a "balance state-local revenue system," with federal partnership in local projects.