

# AN ANALYSIS OF THE GRADED TAX PLAN

By Julian Hickok

In 1913 the Legislature of Pennsylvania enacted a law to provide for differential tax rates on land and improvements in second class cities at a precise ratio of two to one. Under the sponsorship of the Single Tax League, with vigorous activity of the Pittsburgh Single Taxers, this law was inaugurated in Pittsburgh in 1914. It was then hailed as the most practical approach to the proposal of Henry George to take the rent of land for public uses.

When the Henry George Foundation of America was chartered by the Commonwealth of Pennsylvania and formally launched in Philadelphia in 1926, there were some Georgists who held some reservations against what came to be known as the Pittsburgh Plan. It was noted that the law did not provide for a reduction in the tax rate on improvements but required an increase in the tax rate on improvements, precisely at one half the increase in rate on land. To overcome this deficiency, the Legislature enacted an optional tax law in 1951, to apply to all third class cities, and in 1959, extended this law to permit complete transfer of the municipal tax burden from improvements to land values.

With continuing and increasing interest in Land Value Taxation, it is in order to analyze the Graded Tax Plan to define its limitations as mandated on second class cities and to determine the advantages available to third class cities. In the Winter Edition of "Equal Rights", published by the Henry George Foundation, is a statistical report on the current status of the Pittsburgh Plan. On the premise that the rent of land at any given instance is a constant, irrespective of the tax rates; and the land value (price) is the capitalization of that part of the rent assured to the owner, respective values can be derived for the several factors involved, under varying rates of taxation on land and improvements.

In Pittsburgh, for the year 1970, the land tax rate was fixed at 55 mills (5.5%), an increase of 9 mills (0.9%) over the previous rate, which by deduction was 4.6%. Assuming the prevailing rate of interest on real estate investment at 5%, the rent of land would be 9.6% of land values, or \$96.00 per \$1000 of land. The total improvement values was given as \$929,463,017, and of land values as \$402,368,555, for a ratio of improvement values to land values at 2.31 to 1. Thus the average improvement values would be \$2310 for every \$1000 of land.

To construct a formula in accordance with the law of rent and applicable to the given circumstances, we may designate the constant factors as :

L = land value (price) at the given instance	.....	= \$1000
I = improvement values per \$1000 land values	.....	= 2310
R = rent per \$1000 at the given instance	.....	= 96
a = initial tax rate on land	.....	= 4.6 %
b = prevailing rate of interest on real estate	.....	= 5.0 %
e = initial tax rate on improvements	.....	= 2.3 %

## LAND VALUE TAXATION AND LAND SPECULATION

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This publication is in support of Henry George in his proposal to use the existing machinery of taxation. It requires no change in form of government and embraces the institution of title deeds to land, the right to private property, and preservation of free enterprise. In "Progress and Poverty", Henry George writes: "By leaving to land owners a percentage of rent which would probably be much less than the cost and loss involved in attempting to rent land through State Agency, and by making use of this machinery, we may, without jar or shock, assert the common right to land by taking rent for public uses."

In the early 1920's there were many Georgists who objected to the use of the term "Single Tax". In 1924 the name of the Single Tax Party was changed to Commonwealth Land Party to satisfy the contention that land value taxation was self-defeating, that an ad valorem tax lowers the market price and eliminates the base upon which to levy eventual tax rates. There were some who believed in land value taxation and held that objections to it were based upon misconceptions of the principles involved. At the Henry George School in New York, in 1933, Julian Hickok expounded this law: "As the tax rate is increased and approaches infinity as a limit, land value (price) decreases and approaches zero as a limit, and tax revenue increases approaching the full economic rent as a limit".

To justify this law he developed a formula based upon the premise that at any given instance rent is a constant, regardless of the tax rate. In Chart I of "The Significance of Land Value Taxation", a graph is constructed by plotting the resultant value of land at any given tax rate against the effective tax rate. In Chart II, a graph is constructed by plotting tax revenue as a percentage of rent against the respective tax rates. These charts demonstrate the application of Land Value Taxation without consideration of any other taxes.

Charts III and IV show the effect of exemption of improvements (building, etc.) from taxation, in whole or in part, on the resultant land values (prices) and effective tax revenue. These indicate that first consideration should be given to secure increased tax revenue from the land, to provide relief from other forms of taxation, including that on improvements.

A supplementary article on "Land Speculation" and references to the Pittsburgh Plan and the Southfield Plan are added to emphasize the importance of taking practical steps toward the adoption of Land Value Taxation. On the basis of equitable assessment of all lands, irrespective of improvements, first steps should be taken to levy a small increase in the tax rate on land values, allowing time for the market to adjust to the proposed new tax rate, and then gradually to apply larger increments of increases up to the limit of support by the community.

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