

How Reforms Are Circumvented

In this article the HONORABLE WILLIAM N. McNAIR, whose three turbulent years as Mayor of Pittsburgh came to a sudden end with his resignation from office in 1936, tells how tax reform measures sometimes fall short of the desired results. In an interview printed in THE FREEMAN for July, 1940, Mr. McNair said, "My troubles started when I started something unheard of in Pittsburgh—forcing tax dodgers to pay up. My Law Department told me it could not be done. I knew this was bosh. I fired the Law Department and started action against tax dodgers which resulted in the collection of millions of dollars."

★ WE IN PITTSBURGH thought, back in 1913, when we had passed the Graded Tax Law, that we had given continued relief to the small home owner by shifting the tax burden to land, and particularly centrally located land with a high speculative and commercial value. But we have found that those who are collecting the revenue which should support the city, that is, the real estate interests, are always on the alert to reshape any situation to their advantage. Their latest dodge has been a change in the assessment machinery, and to explain it I shall tell the story of some earlier investigations in two California cities.

The Ingram Institute in 1928 made a survey of the tax situation in the city of San Diego, and as director of the Institute I found an interesting situation. For reasons of economy (at least that was the excuse) the city tax assessors had been dismissed, and valuations fixed by the county were being used. There seemed to be no objections on the part of people in the city, only praise for saving the cost of the maintenance of the city tax bureau. But knowing that politicians never eliminate good jobs willingly, we looked deeper, for the real cause of the change in the assessment system. We soon discovered it.

By the adoption of the county instead of the city valuations, downtown land values were reduced in the sum of forty million dollars. Thus the cost of running the city was in large part shifted from commercial locations to small home owners, without any chance for appeal. The assessed value of the homes had not been raised, but by lowering assessments on the city blocks leased for trading purposes, those who were getting the chief benefit from city services had their taxes reduced, and the small home owner began to bear a disproportionate share of the tax burden.

I think it was about the same time that the city of Stockton put the same plan into effect, with the same result, namely, higher taxes for the small home owner

and lower taxes on the speculative holder of good commercial locations.

So when a movement started, a few years ago, to save money in Pittsburgh by abolishing the department of city assessors, I was interested to find out if the same idea was back of the change. The downtown land holders were also interested. The small home owners as usual did not know what was going on, but were fed the same alleged reason of economy in city administration.

When the home owners got their tax bills, however, they found out. The valuation of buildings had been raised by forty million dollars, increasing their taxes considerably also through reducing commercial land assessments by a like amount. The change in Pittsburgh went farther than the change in San Diego and Stockton, since not only were land values lowered, but building values raised at the same time.

Protest meetings were held by the small home owners, based on the fact that they had no opportunity to appeal their increased assessments. Later two bills were introduced in the state legislature, No. 186 directing the assessors to exempt the first \$1,500 of the value of a building, and No. 239 to exempt \$3,000. If either is enacted into law, the situation may be remedied to some extent.

Since land in Pittsburgh is taxed at the full rate and buildings at half rate, the lowering of land assessments reduced revenue by more than it is raised by the increase in building assessments; and this disparity must eventually lead to an increase in the millage tax rate for the city and the schools.

This manipulation of assessments reflects the disquiet of the owners of speculative land values in the city, who have been increasingly hit by the operation of the Graded Tax Law, and who are trying to get out from under. Their success is of course directly due to the fact that small home owners are not yet fully conscious of the advantages which accrue to them by reason of a lowered tax on buildings.

Thus the answer to this situation, as to all others in the progress of humanity toward freedom, is education, and ever more education. When the home owner understands the question of taxes he will press for the extension of the idea to school and county taxes. Merely passing a Graded Tax Law and leaving it to operate itself is not the complete solution, but leaves the door open for the manipulation of those who stand to benefit by a different system.

CORRECTION: The next to the last sentence in Mr. Lancaster M. Greene's article in the March FREEMAN, "Land Value Taxation In New Zealand," should read: "Mr. Purdy said that he was not at all afraid that taking more of the land rent and lowering the tax on improvements would complicate the real estate owner's problem."