

One Reason We Have Slums

The Tax Structure Penalizes Upkeep of Property

By Raymond Moley

While the doctrines of Henry George and other tax reformers seem to have faded into the past and are largely forgotten in the calculations and teaching of economics, the new policies of urban renewal bring those ideas into sharp focus again. Henry George lived in a predominantly rural civilization, but his ideas have a permanent value and their reconsideration was never more necessary than today.

Embodied in that philosophy was the concept that since land on Fifth Avenue is physically no better than land fifty miles away in the wooded Hudson Valley, its greater sales worth must be due to the fact that many people are living in the city. Therefore, there attaches to prices a "social" value created by the community. And that value should be taxed to help support the public needs of the city.

Those who hold city real estate with little interest in its improvement are thus speculators who contribute little to the interests of the community. And if, as is necessary, there is to be urban renewal or redevelopment, the unearned increase in values should be squeezed from speculative profits. Thus it would be less necessary to tax not only those who have built improvements but the generality of taxpayers.

In a study just completed in New York City by a special committee on tax policies organized by the Citizens' Housing and Planning Council, some very interesting facts are developed.

The committee started with the self-evident fact that New York, just like all modern American cities, needs more and better housing for its people and that such housing should supplant slum properties. There should be action to create that housing. But the committee found that since the assessments and hence the tax burden on unimproved slum property are far lower than on improved property, the speculative values of such unimproved property have risen. It is a curious fact, then, that those who make improvements are punished. Government thus puts pressure on landowners not to do what the government wants done.

But to provide better housing and to improve the face of the city, state and Federal governments break through the situation by pouring our vast sums of money, largely Federal, to induce or to create improvements. So the government buys the land

and sells it to the developer. The committee study found that the government paid \$103,475,040 for twelve projects, but then sold the property to the developer for \$22,721,303. The government pays 70 per cent above the values at which the same government has assessed the property. This low assessment on unimproved land means that to support the city, more must be raised on improved property. There is neither common sense nor justice in this.

For example, there are two pieces of real estate with a frontage of a block each on Fifth Avenue. They face each other and are of equal attractiveness. When, until recently, both had buildings dating back to the Nineteenth Century, the land under them was appraised at \$5,000,000 each. But a private builder bought up one and built a tremendous office building. Nothing happened to the other. In the present appraisal, the man who built the office building has had his land assessed at \$15,000,000, while the other side still pays on \$5,000,000. Thus the man who built the big office building is penalized for doing something to improve the city, while the do-nothing owners pay the same as before.

A major remedy recommended by the committee is an overhauling of assessment policies. Also, to induce owners of undeveloped property to make improvements, it is suggested that such improvements should be exempt from taxation for a specified number of years.

A rational move of this kind would certainly lighten the immense burden on the Federal budget as well as promote the rebuilding of our cities.

The Public Revenue Education Council offers Citizens a more concise and accurate understanding of the problem of Public Revenue than most tax-information organizations. Some of its most basic facts are:

1. TAXES are not SOURCES of Public Revenue;
2. Regardless of the number of kinds of taxes all draw from one, or the other (or from both) of two basic SOURCES; and,
3. That the use of one SOURCE helps, while the use of the other harms, the people, the economy and the nation; that the use of one assures, while the use of the other, prevents, more successful anti-Communist efforts.

We reprint the accompanying articles because they give information and facts important to encouraging the use of Correct rather than Wrong-Source Public Revenue. Free information and literature will be sent on request. (See inside, third page)

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generous in its appraisal of the value of the land on which it makes its loan; and since the government has nothing but its taxing power to support its guarantee of the mortgage, the effect is to make the taxpayer underwrite the speculative value of the land. There have been "scandals" exposed, showing how land speculators have boosted beyond all reason the value of the land on which government-guaranteed mortgages have been written and have pocketed the increase; but there is nothing that can be done about this practice under our land tenure system.

WELL, what can be done about land speculation? The answer, says *House and Home*, lies in the revision of our tax system. "Today's taxes often make it more profitable to misuse or under use land than to develop it and use it properly. They penalize land development, land improvement and home building by (1) multiplying the local taxes the owners must pay as soon as new buildings are built on his land or existing buildings are improved, and by (2) taxing away most of the profit from land development and home building at ordinary income tax rates. But they subsidize land speculation by (1) undertaxing the land as long as it is left idle or under used, and (2) taxing the profits of land speculation less than half as heavily as the profits of land development and home building are taxed."

Let us consider the subsidization of land speculation "as long as it is idle or under used." The price of land is based on its probable yield if it were rented. To explain this statement, let us make an analogy with the price of an industrial bond. All things else being equal, the price of the bond is determined by the capitalization of its yield. Thus, if the going rate of interest is 5%, and the bond pays \$5 per year, it will probably sell for \$100. If it pays \$8 per year, and the going rate of interest is 5%, its price on the market will be about \$150.

So it is with land. The value of a site is fixed by what it will yield in rent. Thus, if a piece of land on which a building rests rents for \$1,000 a year (and assuming the going rate of interest is 5%), the land, without the building is worth \$20,000. That is what the owner of a site, similarly situated, will ask for his land. The price of land is the capitalization of its rental value.

Now, a tax on land value is really a tax on the capitalization of its rental value. A tax on land value absorbs some of the possible yield. The land owner cannot capitalize what he does not get, what the tax collector gets. So, the selling price of his land is decreased by the amount of the tax on it. If all of this rental value were taxed away, then the selling price of his land would disappear; it would be worth nothing.

That is what *House and Home* means by the subsidization of land speculation: the low taxes imposed on land which is left idle or uneconomically used. Uneconomically used land is land which supports a slum or a building inconsistent with the

value of the land, sometimes called a "taxpayer" you know the land is uneconomically used when you see along side of it a big office building or a hotel. If the taxes on unused or economically unused land were raised to the level paid by land which has an adequate building on it, the owner would be forced to improve his land accordingly. He would be forced to improve his land because that is the only way with which to pay his land tax. He would have to get it out of the space he rented. If, in addition, taxes on improvements were lowered, that would be further inducement to build on his land. There would be more money in renting building space than in land speculation—if land were heavily taxed and buildings were untaxed or taxed at a lower rate.

Says Professor John Henry Denton, in charge of real estate studies at the University of Arizona: "The only cure for land speculation is to eliminate the extraordinarily favorable tax treatment accorded the land speculator. No justification for this can be found in economic theory. Unlike speculation in commodity futures or common stocks, land speculation does not support a market or provide a stimulus for production. In fact, it has just the opposite effect. It destroys the marketability of large areas of land by pricing them out of the reach of immediate users. It deprives our communities of many facilities for good living (such as parks and playground) by driving the land beyond what the communities can pay. It limits competition by holding a large part of the land supply off the current market. It channels capital funds from productive investment into sterile adventures and may be responsible for the present day dearth of private risk capital."

He might have added that land speculation does the economy no good.

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