

THE McNAIR FIVE-TO-ONE PLAN

By

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*A Plan that proposes to shift the burden of taxation
from those who honestly earn their wealth to
those who receive public funds.*

The following article is a brief exposition of the Five-to-One Plan advocated by Mayor Wm. N. McNair of Pittsburgh. The article particularly emphasizes the incidence of this system of taxation upon the economic life of the people.

Would Shift the Incidence of Taxation

The McNair Tax Plan deals exclusively with the rate of taxation on real estate, and proposes to set the municipal tax rate in the ratio of 5 on land value and 1 on buildings, or, what is the same, exempt buildings 80% of their value. This ratio does not affect the amount of revenue raised from real estate, nor the expenditure of revenues collected, but it does materially affect the distribution of wealth, tending to make the distribution more equitable and just. Economists who have made a careful study of the plan, declare that it would lower the taxes of the

small property owners, thereby increasing the effective purchasing power of a large number of consumers. By stabilizing real estate values, the Plan would exert a beneficial effect upon the small investment market, such as mortgages and other securities. It is their belief, moreover, that this Plan, by stimulating land into productive use, would have a marked tendency to encourage gainful employment.

The economic philosophy* underlying the McNair Plan states that land value—as distinct from the utility value of land—is a socially created product, and should therefore bear a larger share of the tax burden than it now does, while the processes and products of labor, as houses, for example, should be exempted from taxation—or, at least, should not be taxed so heavily as land values.

The McNair Plan is not a radical innovation, for Pittsburgh has had a Graded Tax for years. In fact, Pittsburgh (with the exception of Scranton) is unique in its present system of taxation. Most of the municipal revenue is raised from real estate. There are no taxes levied on other forms of property or on income. Since 1925 there has been in full operation what is known as the Pittsburgh Graded

*For the economic principles underlying the McNair Five-to-One Plan, read *Progress and Poverty* by Henry George; also, *Social Problems* and *The Science of Political Economy* by the same author; *What Is The Single Tax?* and *Basic Facts of Economics*, both by Louis F. Post. Advanced students will find a most interesting discussion of this economic philosophy in *The Philosophy of Henry George*, by Dr. George R. Geiger.

Tax Plan** which automatically fixes the rate on buildings at one-half the rate on land values. The Pittsburgh Graded Tax has reduced the tax burden of the small home owner from five to thirty per cent of the old flat rate. The McNair Plan is simply an extension of the Graded Tax, but its benefits are more pronounced.

In the following comparative tables, the flat-rate millage is determined by dividing the amount of revenue (to be raised from real estate) by the total value of taxable real estate. To determine the millage governing the Graded Tax and the McNair Five-to-One Plan, it is necessary to assess land and buildings separately. The separation of land and buildings rests upon a logical and scientific basis, for buildings and land are not economically related, land being the source of all wealth, and the passive factor in all employment, while buildings represent a labor-capital product. All of these various graduated rates, by the way, will produce approximately the same amount of revenue now obtained by the Graded Tax.

**See the pamphlet, *Pittsburgh's Graded Tax in Full Operation*, by P. R. Williams, Chief Assessor for the City of Pittsburgh; the *Single Tax Year Book* by Joseph Dana Miller; and *Report of the National Tax Relief Convention*. It would require a small pamphlet to tabulate all the statements made in favor of the Graded Tax by prominent persons not only in Pittsburgh but throughout the country.

Exhibit A

Land, \$1,000
 Bldg., \$5,000
 Real Estate, \$6,000.

City Levy

Flat Rate	(15.3 mills)	equals \$91.80
Graded Tax	(20.6 on Land) (10.3 on Bldgs.)	equals \$72.10, a saving of \$19.70 or 21%
McNair Plan	(26 on Land) (5.2 on Bldgs.)	equals \$52.00, a saving of \$39.80 or 43%

School Levy

Flat Rate	(11.25 mills)	equals \$67.50
Graded Tax	(16 on Land) (8 on Bldgs.)	equals \$56.00, a saving of \$11.50 or 17%
McNair Plan	(20 on Land) (4 on Bldgs.)	equals \$40.00, a saving of \$27.50 or 41%

School and City Levy

Flat Rate	equals \$159.30
Graded Tax	equals \$128.10, a saving of \$31.20, or 20%
McNair Plan	equals \$92.00, a saving of \$67.30, or 42%

Exhibit B

Land, \$880
Bldg. & Garage, \$5,700
Real Estate, \$6,580

City Levy

Flat Rate equals \$100.67
Graded Tax equals \$76.84, a saving of \$23.83, or
24%
McNair Plan equals \$52.52, a saving of \$48.15, or
48%

School Levy

Flat Rate equals \$74.03
Graded Tax equals \$59.68, a saving of \$14.35, or
20%
McNair Plan equals \$40.40, a saving of \$33.63, or
45%

School and City Levy

Flat Rate equals \$174.70
Graded Tax equals \$136.52, a saving of \$38.18, or
22%
McNair Plan equals \$92.92, a saving of \$81.78, or
47%

Would Lower Taxes on Homes

A critical analysis of the above exhibits clearly and forcibly demonstrates that 90% of the owners of small and average-sized homes are the chief beneficiaries of the McNair Plan, for, in nearly all cases, the improvements exceed the value of the land, in the ratio of from 5 to as much as 20 times the bare land value.

It is a serious defect in nearly all of the various "glowing schemes of betterment" that they ignore the "little fellow." He is the true "forgotten man." But the McNair Plan seems almost specifically designed for the small property owners and renters. However, the Five-to-One system extends beyond this limit, for all owners of real estate whose improvements exceed the value of the bare land would also benefit. Where the improvements greatly exceed the land value, the saving would be quite material.

The McNair Plan proposes to shift the tax burden where it logically belongs—upon the *land-value* owners. This is not only in harmony with the dictates of justice, but accords with modern economic ideology that insists upon the ability-to-pay doctrine. In addition, large *land-value* owners receive more benefits from government and society in general than do the modest property owners. It is therefore only just that owners of valuable sites should pay for these social advantages in direct proportion as they receive them.

Use of Land Means Employment

Since the McNair Plan would increase the rate of taxation on land values, it would naturally have a tendency to stimulate land into productive use, for the obvious reason that it would not be profitable to hold *valuable* land idle and unimproved.

The vital connection between the use of land and employment is most clearly observable in the building trade, which is one of the most basic of the trades, having many important subsidiary trades dependent upon it. Therefore, to stimulate the building trade is to initiate an impulse that will bring into existence a large number of minor trades.

Economists state that in the best economic use of land, the improvements should equal the value of land, or, preferably, should exceed the bare land value; but in any city, the proportion of unused *valuable* land is astonishingly high. It is not difficult to find in the Assessors' books assessments similar to the following one: land, \$304,000; building, \$25,000. In this case, however, the land is being used only one-twelfth of its minimum economic use, which means, in other words, that employment on this particular plot of land *could* be increased 12 times. The McNair Plan would stimulate such land into productive use—literally convert it into gainful employment.

A tax on land values tends to reduce the exchange value of land, while a tax on labor products has the opposite tendency of increasing prices of commodities. Therefore, the McNair Plan, by placing a higher tax on land values would make land cheaper, and by reducing the building tax would lower the cost of buildings and homes. Cheaper land and lower-priced buildings would also give an added impetus to construction, and, so, help to set the wheels of industry moving.

Would Stimulate Industry and Business

Not only would the building trade, with its many dependent trades, benefit by the McNair Plan, but industry and business in general would be encouraged. All varieties of business require sites, and the more favorable the location, the better the opportunity to conduct business. High land prices are a serious detriment to successful business. The McNair Plan by increasing the tax on land values would lower the purchase price of business sites and render them more available to labor and capital. By reducing the tax on buildings, office "rents" would be reduced, and no longer enter so heavily into the "overhead" expenses.

The McNair Plan is not a *panacea* or cure-all for our socio-economic problems, nor do any of its advocates advance it as such, but within the limits defined above, it is a most efficient social instrument of economic reform. As stated, it would benefit the modest home owner by making land cheaper and by lowering the cost of houses. It would check land speculation, which, as history points out, is always *one* of the major causes of industrial depressions. Finally, by stimulating land into productive use, it would encourage gainful employment, and to that extent, at least, would help to prevent cyclic depressions.