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Fighting Decay in Erie

by WILLIAM E. WALKER

IN ALMOST every community and state, active groups are seeking new industries, but society bears down on its established firms and applies such tax pressure as to make continued operation a constant problem for many old and established manufacturers. These tax pressures and exorbitant costs of both land and building, complicated by keen competition from home and abroad, make the operation of the entrepreneur altogether too marginal, even for the best interests of labor.

The average effective life of an industrial plant is thirty years. In Erie many are twice as old. Most of us sincerely desire plant expansion, new industries, good jobs for all and a community in which our own children might grow up and remain with a promising future. But how can they enjoy such a prospect when our industrial community, that once had national recognition for its strength, is like many other communities, fading in the evening sunset?

There is one bright ray of hope, if, as we now believe, the current real estate tax is capable of being changed, so that incentives to produce might replace the penalties that are now imposed on the producer every time he brings wealth

or value into existence. But we must put aside the obsolete economic theories under which we have erroneously operated, and put every enlightened device to work. Making industry, which utilizes land to the Nth degree, pay the tax burden of those properties which relatively misuse land, is a major fallacy. Some might say it is an unimportant fallacy. Let us see. In planning a new building, whether for rent or for the owner's use, the rate of return must be compared to other investment possibilities. Often this rate, after such costs as interest, a low depreciation schedule, insurance, maintenance and taxes, is unreasonably low; sufficiently low so that new facilities are not built, and old ones not modernized or made efficient. The tax burden of roughly 30 mills, or 3 per cent of assessed valuation, is a sizeable part of the cost of the interest from the capital invested, especially when we are penalizing the segment of the economy that creates the wealth and supplies the wages. Encourage industry and industry will return to every one in the community a higher standard of living.

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L. to R.: Thomas Greene, Eleanor Pryer, S. James Clarkson, Gerald Weber and William E. Walker. All except Mayor Clarkson are members of the Erie Land Tax Association.

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Undertaxation of land is the number one reason why many cities are in financial trouble. If you undertax land it is necessary to overtax improvements to make up the deficit. Industry has built high cost structures on the land, and has then been overtaxed on these improvements to the detriment of the entire economy. Since undertaxation of land encourages land speculation and thus high land prices, the industrial concern in need of a large plot of ground must move to the outlying areas, drawing its employees toward the new site. Remove speculation in land and encourage progressive maintenance and utilization of land, and no form of major decay as we have witnessed should need to take place.

Erie is now authorized by law to levy all city taxes on land value. School and county taxes would continue to be levied against land and buildings together. This is how we set it up: building value assessments are \$335,653,-690. Land value assessments are \$61,-215,920. Land and buildings together total \$416,869,610. Building values are 5.8 times higher than land values. This makes the ratio of building value to land value 5.8 to 1. When taxes are

taken off buildings and levied against land value alone, building values are disregarded. Since the city will be obliged to raise a budget of \$4,272,913 on land, it will have to increase the millage from 10¼ on land and buildings, to 70 mills on land alone. This will yield \$4,285,114.

Under this scale of taxation all individual properties change unless the building value is exactly 5.8 times higher than the land value. Where the building value is more than 5.8 times higher than the land value the tax will be lower under a land tax system. Where the building value is less than 5.8 times higher than the land value the tax will be higher than it is now.

[Examples were given of one manufacturer who is being charged three times the fair land value tax share; and Hammermill now being penalized over \$57,000 a year above a fair tax based solely on land value.]

I am not pleading for special privilege for industry, only for fair treatment which will benefit Erie, the state and yes, the entire nation. Needless suffering will result wherever present tax policies are permitted to persist. It fires the imagination to know what a truly just tax system might do for the betterment of everyone.