

Pioneering in Scientific Taxation

by PERCY R. WILLIAMS

FREDERIC C. HOWE, the noted authority on civic affairs, said in 1916: "Pittsburgh has set the pace for all America in her tax system—the greatest single step any American city has taken in city building."

And the Pittsburgh Press stated, regarding the Graded Tax: "The law is working to the complete satisfaction of everybody except a few real estate speculators who hope to hold idle land until its value is greatly increased by improvements erected on surrounding territory. It is a statute so pre-eminently fair and so thoroughly in accord with enlightened modern ideas of taxation that it has been favorably commented upon from one end of the United States to the other."

The great majority of real estate owners today are saving money through the Graded Tax. It follows, of course, that the owners of vacant or under-improved land are paying higher taxes. Where land values are very high, as in the Golden Triangle and other shopping centers, most of the properties, including some with substantial improvements, now pay more. But the home owner is the chief direct beneficiary and this is a principal reason why the plan has popular support.

We can learn valuable lessons by reviewing the efforts of those who pioneered in one of the few successful attempts to apply Georgist principles in a municipal tax system. Let's glance at the year 1912, for we are observing the 50th anniversary of the formal launching of the Graded Tax movement in Pittsburgh.

The Joseph Fels Fund Commission

had dedicated itself to a special effort to win at least one state or community for the single tax, and political campaigns were in progress in various states, especially where the initiative and referendum had been adopted to permit carrying the issue directly to the people. Louis F. Post was editing an influential weekly called *The Public*, and Joseph Dana Miller was writing in the bi-monthly *Single Tax Review*. Frederick H. Monroe was conducting a nation-wide lecture service for single tax speakers, notably for John Z. White who frequently addressed various clubs and organizations in Pittsburgh. There was no Henry George School in those days, but the members of the Single Tax Club of Pittsburgh were working enthusiastically, and one real estate broker, William D. George, proved to be an effective lobbyist. William A. Magee, a skillful, practical politician, had been elected Republican Mayor of Pittsburgh in 1909.

The land tax reform movement was under way. Three separate acts of significance to the land taxers had already been enacted by the legislature in 1911, when Mayor Magee's support was enlisted behind a bill drafted for the purpose of shifting a substantial portion of the municipal tax burden from improvements to land values. It was felt that a gradual and moderate approach would lessen opposition, and this proved to be the case. The act, applying both to Pittsburgh and Scranton, was adopted by an overwhelming vote largely because the Pittsburgh city administration was behind it and the daily newspapers were friendly. It was signed by Gov-

ernor John K. Tener on May 15, 1913. The city building tax rate was reduced 10 per cent every three years until a ratio of 50 per cent was reached in 1925 and the act became mandatory—this ratio of buildings to land has prevailed. Since 1925, however, there has been a strong upward tendency in both land and building millages in order to provide for the expanding financial needs of the city.

The city tax rates for 1962 are 37 mills on land and 18.5 mills on buildings. This means that the total taxes on buildings this year are approximately five million dollars less than the amount that would have been levied on buildings this year under the old flat or uniform rate system, were it still in effect. A flat rate of 25 mills (or \$25 per thousand dollars of valuation) would produce approximately the same amount of revenue. Thus it is possible in any individual case to determine by mathematical calculation how much each taxpayer gains or loses in tax dollars.

The advocates of the Graded Tax reform hoped to encourage private improvements of all kinds through fuller development of urban land, check land monopoly and speculation, collect more unearned increment for public revenue, and reduce the tax burden on improved real estate. After nearly fifty years of actual experience we find that definite progress has been made toward each of these goals. The soundness of the

method appears to have been demonstrated and nothing has occurred to nullify its effectiveness.

The Graded Tax has brought about much higher taxes on land values, but owing to changing economic conditions it has not been as effective in reducing taxes on improvements. Year by year it is becoming more difficult to untax improvements (speaking from the political viewpoint), because building values have been increasing very sharply. Since such a large proportion of the required municipal revenue is derived from assessed building values, these values can only be untaxed by means of a marked increase in the land tax. And while the land taxer will rejoice in the prospect of taking the maximum amount of economic rent for public purposes, the landowner must be convinced of great general economic benefits before he is apt to see the desirability or justice of the increase.

We must remember that land values are being taxed today by every local government in the United States through the real estate tax, but only here are they taxed on a differential basis. While it is difficult to be precise, available figures indicate that approximately one-half of the economic rent of Pittsburgh is now being collected by our local taxes. As land monopoly and speculation are no longer conspicuous in Pittsburgh the Graded Tax must be a contributing factor.

"Five Important Differences Between Socialism and Single Tax," was the subject assigned by the Fairhope Single Tax Corporation for its annual essay contest open to high school seniors. "It was gratifying to note that all of the students were aware of the loss of freedom under socialism and the enhancing of freedom that would come about under the single tax," wrote Bruce Evans, Jr., director of the Fairhope extension. "Most of the students have learned the difference between government ownership of land and common property in land, and understand that capital and land should be treated differently." Mr. Evans is a teacher at the Extension Center of the University of Alabama and he incorporates into his class on Economic Principles, the evils of land speculation and the remedy—land value taxation.

The winner of the contest was Nancy Ruth Dealy, who received \$100 in cash and will receive \$100 each year for the next three years, as she is accepting a scholarship to Memphis State College. Paul Straw and Curtis M. Arnold won \$100 each. Graham Timbes and Fran McKinney, fourth and fifth winners, received \$50 each.