

CHAPTER XXIII

City Taxation

HOW A CITY CAN MAKE IMPROVEMENTS PAY FOR THEMSELVES
AND HOW IT CAN BECOME SELF-SUPPORTING.

The following conversation between William H. Seward, Secretary of State under Lincoln, and Andrew H. Green, a distinguished citizen of New York, is recorded in the book, A War-time Statesman, by Mr. Seward's son.

Taking up a corporation report, Mr. Seward said:

"Mr. Green, here is something which you can comprehend but I confess I cannot. Here is a great corporation which, by its report, shows it is well managed and profitable and pays all its expenses.

"Now, the city of New York is a corporation which has vastly more property and resources in the way of real estate, streets, franchises, docks and wharves, buildings, rents, licenses, powers and privileges, than any other corporation possibly can have. And yet it cannot pay its own expenses! It has to ask the individual taxpayer to go down into his pockets and take out of his personal earnings a yearly contribution, in order to keep this gigantic corporation on its feet. Why should not the city of New York pay its own expenses? Why should the individual taxpayer be called upon at all?"

To this Mr. Green replied:

"Mr. Seward, you are right! The problem is one that I have worked on over many years. The city of New York has given away more than enough to pay its expenses many times over. But the citizens of New York don't see it, either because they are too careless, or too ignorant, or too unpatriotic, or don't care. Whichever it is, the fact remains that they don't correct it, or don't want to."

THERE are many reasons why this principle which George advocated is particularly applicable to urban land. In the cities, the relative value of improvements is far greater in proportion to site than in the country: therefore, landowners would gain by exempting from taxation the greater element and increasing the collections from the less valuable element. It is also easier in cities to disentangle the man-made improvements and the natural qualities of land. It is not too difficult, but it would be more complicated, to determine how much of the fertility of a farm is due to the wise practice of the operator and how much to natural endowment by nature, and it is hard to say sometimes whether trees are a natural wild growth or whether

they have been set out by those who labored the land years ago. Similarly, with some improvements, drainage, grading, and excavating. These qualities are hard to appraise and it is not always easy to say what is the work of nature and what is the work of man. The principle is equally applicable to rural and to city lands, but we would do well to begin with the cities.

Aside from the ethical argument, there is much to be said in favor of the program, especially as applied to cities. Consider some of the arguments advanced for and against this proposal.

It is said that even in the case of city land it is hard to differentiate between man-made improvements and site values, but it is done every day. It is done on assessment in all progressive cities; and, in many communities, the building is owned by one owner and the site by another, the building being erected on land leased for a long period of years. This is true of such great buildings as the Empire State Building, Rockefeller Center, the Chrysler Building, of many buildings in Chicago, and a still greater proportion of buildings in Baltimore. There is no difficulty in disentangling ownership of the two elements of real estate.

Another objection advanced is that it is unjust to the landowner. He has bought his land in good faith, and it is unfair to put a large part of the burden of supporting government on his shoulders. To this our answer is that generally the landowner will fare better if he parts with his ground rent and has complete exemption for buildings and all other improvements, than under today's tax program. As a matter of fact, in the cities, heavy taxation of buildings often makes them utterly profitless, and frequently good and serviceable buildings, for which there is a real need, are torn down for no other reason than to reduce the tax bill. Generally, city land brings little return unless it is built upon; and, if our tax system is such that it does not pay to build, as is often the case in cities, the land itself yields no return and becomes valueless. Herein lies the explanation of many forced tax sales and the forfeiture of land for non-payment of taxes; the taxation of buildings is so heavy that it amounts virtually to prohibition of building. Without buildings, the land can bring in no revenue; so its value is wiped out and the owner forfeits it rather than pay taxes on it.

Of this principle the writer had a good example in his own experience. He owned a good but obsolete house in an excellent location where there was a great demand for living accommodations. The property has frontage on two good residential streets, but the house is seventy years old and not in keeping with the

needs of today. The tax on this property was about twelve hundred dollars; and, had the entire ground rent of the property been taken in lieu of taxes throughout this city, it would have resulted in increasing the tax on the property by about two hundred dollars. In the opinion of real estate operators, the site would have justified an apartment house development costing half a million, or perhaps a million dollars. If such development were tax free, what would an addition of two hundred dollars to the tax on land values have mattered had a million dollar property, which would today be taxed nearly fifty thousand dollars a year, been exempt? Erecting such a building would have been highly profitable, and would have made the holding a source of generous income. As conditions are, the earnings would not cover interest on the cost of the building, plus a tax of fifty thousand dollars on the building, and these two charges would eat up all revenue which might be expected. In this city the tax rate just about equals the current interest rate on building mortgages, each being about four and one-half percent. This means that the taxing of buildings doubles the overhead, which must be met before the owner gleans any returns; and this, as the author knows from experience, often precludes any building. Cut this overhead in half, and then the owner could himself pocket this second four and one-half percent and building would boom.

After fussing with this property for some years, and getting tired of paying taxes, with practically nothing but tax bills in return, we sold the property at a ridiculously low price, taking a fearful licking. Had our tax bill been increased by two hundred dollars, *with exemption given to improvements*, the property, which was sold for a song, would have been a valuable and profitable holding, and a real contribution would have been made to the city's housing problem. Therefore, when it is argued that our proposal would be unfair to the landlord, the writer harks back to his own unfortunate personal experience.

In the case of the out-and-out speculator, the proposition is different. In the city where the writer lives, were we to levy only on land values and free all improvement values, if we are to provide the present city budget, it would be necessary to collect in ground rents a trifle more than twice what we now collect in taxes on sites. Applying this principle to some new speculative "divisions," where real estate operators have bought farm land and divided it into building lots, shows how the proposition would work with such speculators,

We have in mind a tract of thirty such lots which the operator has been unable to sell, for the same reason that my own property showed such a loss. The tax on buildings is prohibitive, and no one can afford to build. Therefore, the lots are a drug on the market: only one or two have been sold, and the rest of the lots are in forfeiture for non-payment of taxes. The tax on each lot is about eighteen dollars a year, and yet the owners cannot pay even this nominal sum. To provide the present budget, exempting improvements would necessitate that the amount collected as ground rent be a little more than doubled, and the city would get about forty dollars for each lot, whereas today it attempts to collect only eighteen dollars and can't collect that.

The owners would be far better off. These lots would justify the erection of fifteen-thousand dollar houses, and if the owner escaped the tax of about seven hundred dollars, today levied on such a house, an increase of the tax on site from eighteen to forty dollars would be as nothing.

Such speculators would profit by the change, but there is another type of speculator who would be caught. He is the dog in the manger who holds the vacant lot, or an old slum property encumbered with a ramshackle old fire-trap, breeding vermin, disease, delinquency, crime and death, unwilling either to improve it or to sell it. Such a speculator, who does nothing for the city, who houses no one, employs no one, and produces nothing, only holding a valuable possible asset out of use, would be badly caught. He would have to sell, or improve if he would continue to hold the property; but why worry about him? Is it not better to penalize those who hold back progress than to penalize those who truly make the city?

A great argument for the proposal is that it would solve the housing problem. Certainly we would be quicker to build untaxed houses than heavily taxed houses. Furthermore, the increased tax on the sites will bring unused land, such land as that held by the dogs in the manger referred to, on the market, and it will be easier to acquire a site. The fact that the tax is levied only on land value and not on the building will incline would-be homeowners to purchase lots in less congested parts of the city, where they can buy at a moderate price, and to spend more money on the house. This will mean a more uniform development of the city and better construction, with reduced fire risk and less health hazard. To this argument the opponent answers that we can meet the housing problem by publicly-financed housing, but this program calling for untaxed publicly-owned

housing, which competes most unfairly with private enterprise, works a great hardship on the taxpayer.

It is also said that our program would result in over-building our cities. This seems on the face of it nonsense, for most cities are terribly underbuilt. There is a great scarcity of desirable housing, and there is a great overplus of obsolete rookeries and fire-traps, which should be displaced by modern buildings, and which would be displaced if we did not penalize building. We see no reason to suppose that anyone would build a house unless it was a sound proposition: he would naturally consider it and weigh the pros and cons before risking his money. Why should there be over-building?

As we have seen, this program would result in a greater diffusion of population and in less congestion. It is sometimes said that in the congested parts of the city, there would be a scarcity of parking lots, for everyone would build to the limit. The lessened congestion, which the change would promote, would help, but probably the answer to the parking-lot problem is for the city to buy slum properties, and properties which are today a disgrace, raze the buildings, clear the spaces, and lease them to operators as parking lots. In Riverside, California, such a plan has been most successful, parking lots having been provided by money collected by parking meters. Under our proposal, it will be easier for the cities to buy such properties, and many will come on the market.

Another argument in favor of the program is that all wise public improvements, new streets, better pavements, water supply, sewers, street lighting and even more indirect improvements, such as schools, fire-houses, police and sanitation services, playgrounds, libraries and the like all add to the value of the land. Any real estate operator knows this. We see, as this is written, an increasing demand for property, and at higher prices, on an avenue in New York City, recently greatly improved by the removal of an elevated railroad. As soon as anything of this sort is proposed, land values immediately sky-rocket.

Had the greatly increased ground rent, which resulted from the first subway in New York, been taken for taxes, it would have more than paid for the subway in a very few years. This simple fact, and fact it is, shows conclusively how land values are the result of social life and activity and how, by the collection of the increased ground rents, such improvements can be readily made to pay for themselves. They could be made not only self-liquidating but often highly profitable and, had New

York City accepted such a program, or were it to accept it even yet, the profit of the subways would be returned to the city in ground rents collected, and we would hear far less of labor disputes, fare increases, and general wrangling regarding transit in that great city.

In Paris, by a somewhat similar plan, the city paid the enormous expenses for cutting through the Avenue de l'Opera, meeting not only the expenses of this great improvement but yielding a substantial profit to itself. We are convinced, from careful study of the figures, that the subways of a great city, and bridges, such as the bridge across the Hudson in upper New York or a great viaduct in Toronto, and many similar undertakings, could be made a source of positive income to the cities, were we to collect the greater ground rents which they create.

We have said that we do not go along with some Georgists in the acceptance of the expression "the single tax," for we believe that other taxes would be necessary, especially in this day and age when all the world seems prepared to fly at each other's throats and when the expenses of war and preparations for war are so terrific. However, were we to collect a fair return on the land values we create, it would be possible to abandon all other city taxes and to end all subsidies to cities from state or national government. There would be a good overplus which would make possible tremendous improvements in the cities, or which might be used in contributing to the state expenses, thus reducing state taxation. Ultimately, if enough resulted, it might be possible even to substitute a share of such taxation for some of our national taxes. This may be improbable for many a year to come, but the national government would profit greatly from the change, even if applied only to the cities and perhaps some other local units of government, through the letup in the demand for subsidies from the national treasury.

That George's proposal is sound is demonstrated by experience in Denmark and Australia and in British Colonies of Africa, but American progress has been slow and fragmentary. In Pittsburgh, citizens took a partial step, making a fifty percent change in city taxation with success; for some reason, unknown to us, they have not gone further but attempts to repeal this legislation have always been rejected by overwhelming vote. The Pittsburgh experience led the State of Pennsylvania to pass legislation, requiring cities to assess land values and building values separately and permitting them to tax these two classes of values at whatever different rates they may establish. This was passed, on the

strength of the Pittsburgh experience, unanimously in the Senate and with only a few dissenting votes in the House.

Frequently cities, and sometimes states, have exempted new industrial plants and factories from taxation in order to attract them, and the latest studies at hand indicate that about one-third of our states follow such a program. Frequently assessors discriminate in favor of new industries coming to their cities, a procedure not strictly legal but accepted by common consent. The flight of industry from the North to the South is partly induced by these considerations. The idea is sound, but it is unjust to exempt only new properties and to expect the old-established businesses to compete with newcomers granted tax advantages denied to the old timers. There should be no discrimination.

Sometimes new housing is also exempted. Where exemption is granted only to new housing, it puts older properties at disadvantage, and the competition of the new and more modern dwellings leads to more rapid obsolescence and depreciation of the old. Of course, too, it means higher taxation, for every piece of taxable property must be taxed a little heavier to make up for what others do not pay. The exemption of "public housing," paid for in large part by the taxpayers, subjects the holders of older properties to the competition of untaxed properties for which they are compelled to pay as taxpayers. Some students of the housing problem go so far as to say that "public" housing accomplishes absolutely nothing, for the handicaps which it imposes on private enterprise so reduce independent building that there is no real gain in meeting the housing problem. The answer is simple: take the tax off the things that we do want—new and better houses—and impose a heavier burden on land values, to discourage holding land vacant or occupied by old slums and fire-traps. Doing this the cost of housing will be so reduced that none will be compelled to live in squalor.

The method of putting the plan into effect is simple; transfer the tax burden from improvement values to land values, reducing the tax progressively on the former and increasing it on the latter in whatever proportion is necessary to provide the required budget. To avoid dislocation of values, resulting from the change, and to give opportunity to adjust to the change, spread it over a period of years.

As a practical example, consider New York City. In the Borough of Manhattan improvement values are only slightly in excess of land values, taking the totals for the city as a whole. Cut the tax on improvements by ten percent a year for ten years,

increasing the levy on land values to compensate for the loss in revenue resulting from untaxing the buildings. If we cut the taxes on buildings by ten percent and increase the tax on land by ten percent, we would not raise quite the present budget but increase the latter by eleven or twelve percent and the borough could easily provide its present budget and have a surplus, to meet the dangerous financial conditions now prevailing in the metropolis.

If we take the city as a whole, including all boroughs, reducing taxes on buildings by ten percent a year, it will be necessary to increase the levy on land by about fifteen percent each year to provide the present budget. The figure is higher in the case of the metropolis than in the case of the Borough of Manhattan because of the relatively higher ratio of improvement values to land values. If this seems an abrupt increase of taxes on land there are factors which will make the change no more burdensome than the more gradual change in Manhattan. It is impossible here to get into a discussion of mathematics and details; but the principle is that, where the ratio of improvement values to land values is high, a greater proportion of the holdings are adequately improved. While the tax on land will go up more rapidly, compensating reductions on the greater values of improvements will more than compensate.

There is reason to believe that the change proposed will actually increase the true value of the land, and this is borne out by experience in other lands. Freedom to build and improve more than compensates for increased levy on the site, but note when we talk of true value, we mean what the land-user is willing to pay for tenure and occupancy, not the sales price, which will shrink and may ultimately vanish, ending land speculation and the inflation of land prices. There will be no profit in merely buying and selling land, but vastly more profit in owning it and putting it to untaxed use.

To put the program into effect three steps are generally necessary: (1) state legislation requiring, where they do not already have it, separate assessment of land and improvement values and permitting cities to tax the two classes of values at whatever different rates they may see fit to establish; (2) local legislation providing for overhauling city, county and local tax systems, reducing taxes on improvements until abolished, and increasing levies on site values to compensate; (3) legislation requiring that land be assessed at its full value, reached by capitalizing

the full ground rent regardless of whether it goes into private pockets or into city coffers.

We have discussed real estate taxation primarily as a local tax because, generally speaking, these taxes are assessed by cities, towns, and counties rather than by the larger units, although there are often state taxes in addition to local taxes. The principle we advocate might well be extended, for a sensible tax on land values could be easily made a source of revenue to the state and might be used for highway construction.

That improved highways bring increased development and higher prices is beyond question. We see it constantly and it is universally recognized. We even note, what is to the writer a peculiarly irritating instance, that roads which have been but little traveled are plastered with billboards as soon as they are improved. Obviously these improved roads add to the value of the land, for billboard sites often command a high rental.

The new super-highways illustrate this principle because many industries wish to locate their plants along them to save in trucking and because, in some cases, a better highway enables them to attract employees from greater distances than would otherwise be possible.

It is said that a new Massachusetts highway through the outskirts of Boston brought to that district at least a hundred million dollars worth of new industrial plants and shopping centers. Land values near super-highways often show a tremendous increase. There is a twenty-three acre area close to the New York State Thruway, formerly valued at a hundred dollars an acre, but which sold for two thousand dollars an acre after the highway was constructed and, on the northern Sacramento highway in California, land has risen from six hundred dollars an acre up to ten thousand dollars.

The same effects are seen in the neighborhood of the New York Parkways. It is beyond dispute that, when this great increase in values is created by the state at the expense of its citizens, it would be only just for the state to collect a return on it. Today, with our program for highway improvement, there is much talk about how it should be financed. Would not a state tax levied on neighborhood land, which shows an increase in value, be a just method? We note too that in the present proposal for the highway program it is suggested that all tolls be abolished, but we see no reason why some of these roads should not be toll roads. Is it not fair to adjust their cost in proportion

to the use that men derive from them? This is a good question to consider and to debate.

QUESTIONS

Considering the value of city lands, and of utilities financed by taxpayers (such as water-supply, drains, schools, etc.) would it seem that this great investment might earn an income sufficient to support the city, making true taxation unnecessary?

Does taxation of buildings reduce the profit derived from them and discourage their erection?

Would untaxing buildings presumably make them cheaper, make rents lower, and make their construction more profitable?

Would heavier taxation of land discourage holding it idle and tend to bring it into profitable use?

Would the owner of land in the city be more tempted to hold it idle, in the hope of garnering unearned increment, if the land is taxed at a low rate or at a high rate? Would taxing it at a high rate tend to check land speculation?

Would high taxation of land values and low taxation of buildings promote the improvement of land and ease the housing shortage?

Would placing the entire burden of realty taxation on land values, freeing all improvements, encourage prospective builders to spend more on building and less on sites, and lead to a better balanced growth of the city?

Would it discourage holding firetraps, old rookeries, and slum buildings, yielding a small return, and lead to the improvement of slum and blighted areas?

Would untaxing improvements and putting all the tax on land values encourage better buildings, safer, better-equipped and fireproof?

Today we are attempting to meet housing with what we call "public housing" generally granted complete tax exemption. If private enterprise could meet our needs without any burden on taxpayers, and if private enterprise would pay substantial taxes on the land occupied, would we be better off?

Is it just to tax our people today to provide better housing for others than many can afford for themselves?

Should our cities consider the wisdom of taxing things which they do not want, useful land held idle, slum dwellings, firetraps and the like, and relieving from taxation housing which we urgently need?

Would the same policy be an incentive and encouragement to new industries to locate in the city?