

Review: Urban Tax Reform Re-Examined

Reviewed Work(s): The Self-Supporting City by Gilbert M. Tucker

Review by: John A. Zangerle

Source: *The American Journal of Economics and Sociology*, Vol. 6, No. 1 (Oct., 1946), pp. 129-132

Published by: American Journal of Economics and Sociology, Inc.

Stable URL: <https://www.jstor.org/stable/3483991>

Accessed: 28-01-2020 20:42 UTC

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at <https://about.jstor.org/terms>



JSTOR

American Journal of Economics and Sociology, Inc. is collaborating with JSTOR to digitize, preserve and extend access to *The American Journal of Economics and Sociology*

(1) The liberally educated person should be intellectually at home in the world of physical nature. He should know something about the earth he inhabits and its place in the solar system, about the solar system and its relation to the cosmos. He should know something about mechanics, heat, light, electricity and magnetism as the universal forces that condition anything he is or may become. He should be just as intimately acquainted with the nature of man as a biological species, his evolution, and the discoveries of experimental genetics. He should know something about the structure of his own body and mind, and the cycle of birth, growth, learning and decline. To have even a glimmer of understanding of these things, he must go beyond the level of primary description and acquire some grasp of the principles that explain what he observes. Where an intelligent grasp of principles requires a knowledge of mathematics, its fundamental ideas should be presented in such a way that students carry away not only the sense of mathematics as a tool for the solution of problems but as a study of types of order, system and language.

Such knowledge is important to the individual *not* merely because of its intrinsic fascination. Every subject from numismatics to Sanskrit possesses an intrinsic interest to those who are curious about it. . . .¹²

And this is for the modern man—in a democracy, I presume! Such a precise encyclopaedia of knowledge appalls me, and I am prompted to ask Dr. Hook if he has ever met at a university any professor who has mastered the course he recommends.

New York

Urban Tax Reform Re-examined

The Self-Supporting City. By Gilbert M. Tucker. New York: Robert Schalkenbach Foundation, 1946, 108 pp., \$1.

Mr. Tucker has presented the cause of reduced tax exactions on buildings, typified by the Pittsburgh plan, in an attractive and readable manner. He has covered the various pros and cons of this perennial issue with commendable thoroughness.

I like Mr. Tucker's presentation as it deals with the practical question of application. The theory of land valuation taxation has been well presented and re-presented many times, but few students give the problem of practical application any thought.

I would have appreciated some comment from the author as to whether it is possible to absorb all economic rent, the generally recognized ideal, and still retain a capital value assessable against the owner, eventually the user of the property. Of course, no capital value would inhere in the taxing district. A social value would arise which could be dictatorially valued

¹² *Op. cit.*, pp. 85-7.

and taxed to the user regardless of its earning power. The assessor would be in clover, as conformity of assessment to market price, or capital value, could not be involved. Appraising a capital value without benefit of sale or mortgage or asking price would be steering a ship without a compass.

All the difficulties involved now in learning the net economic rent of improved property, or of erecting a structure on vacant property from which an economic rent might be deduced, would still be with us, such as, gross normal rents, normal expenditure for heat, light, repairs, decorating, management, depreciation, rate of investment allowable to the entrepreneur, rate of capitalization of net earnings to value, similarly as now exists when economic value is the assessor's avenue of approach in assessing land and building capital values.

In order to absorb all economic rent, a statement of net earnings should be filed each year. The State must then annually assess a capitalized value of these net earnings, otherwise a residual might be left for capitalization and sale. Even so, future (possibly increased) rentals originally contracted under long term leases to be paid in the future would not be valued. This would be speculative, not economic, rent. Such a drastic assessment administration by assessors, politically-minded, frequently changing, democratically elected, even competent, to secure the full economic rent—even if the proper statements were obtainable—would be too much to expect.

The full economic rent is deducible only from earnings statements of each individual property, derived as it must be from many guesses as to normalcy of the reported income and expenses. If such statements were generally available, then on the assumption that the taxpayer will generally get the benefit of these estimates (the evidence for reduction is always stronger than evidence for increase), as he does today, a residual income attributable to the land may always be expected, and therefore a capitalizable value. But the process of appraisal becomes detailed, particular, rather than general and relative.

Appraisal of the economic value of a department store operated by the owner would be particularly difficult, if we are to get the entire economic rent. In such cases discovery of the rental due to use of the site is inordinately difficult.

A profit and loss statement must be furnished which may be largely affected by good or poor management. Exorbitant salaries may taint the result; likewise, questions of depreciation and obsolescence, not only of the buildings but also of the tangible property, questions of inventory policy, of reserves for bad debts and many others. Department store property is

generally assessed today on evidence of sales of other nearby real property, land leases, lessor's or lessee's estates. When all economic rent is taken, we would be deprived of such evidence.

If, practically speaking, we cannot reach the full economic rent, then the question arises, what proportion should be taken? The answer probably is, all we can get, realizing that a balance will always remain for capitalization.

The data on building permits relating to Pittsburgh (p. 101) does not offer anything of value to the cause of land value assessments. The paragraph on its abnormal stimulation of Pittsburgh construction in comparison with Cleveland construction seems erroneous. From "The Science and Practice of Urban Land Valuation," by Walter W. Pollock and Karl W. H. Scholz (p. 248) we deduce the following per capita building values for 1913 and 1925, the years of transition involved in reaching 50 per cent assessments of improvements; for comparative purposes we present per capita values for Cleveland for the same years:

<i>Per Capita Building Valuations</i>	<i>Pittsburgh</i>	<i>Cleveland</i>
1913	\$499	\$481
1925	702	747
Per Cent Increase	40	55

Apropos of Pittsburgh's relative position in the matter of structural values, Roy Wenzlick's valuable statistical book on the trend of construction shows that the number of permits filed for new construction during the first quarter of this year was 347 in Pittsburgh, while it was 985 in Cleveland; for the first quarter of 1944 it was 46 in Pittsburgh as against 119 permits filed in Cleveland. The population of the metropolitan area in Pittsburgh was given as 1,994,000, and in Cleveland 1,214,943.

All this may be a purely temporary picture. It certainly is illusory. Values may be due to poor assessing conditions, initially or latterly, here or there. Assessment values may rise due to special reappraisal activities in one or the other district, or to new assessment vigor of assessors. Furthermore, the effect of the Pittsburgh experiment might have been somewhat neutralized by the more drastic valuation of improvements as the latter were diminished in assessments, or by softening of assessments as to land values as rates of levy increased.

The Pittsburgh story is valuable as an illustration of the procedure for lifting the burden from labor's product but the Pittsburgh evidence of its beneficial effect is fragmentary, not persuasive. Pittsburgh's growth is

due more, I believe, to relief from tangible personal property taxation than to its graded real property assessment system; but above all is her strategic location for the production of steel with cheap transportation of coal on the Ohio River.

Mr. Tucker's objective could better be indirectly secured, without these tremendous, long drawn out, obstacles, through the constitutional exemption clause, applied to residences and industrial buildings. Debt limitation laws, rate limitation laws, statutory maximum tax rates, popular vote for increases, constitutional inhibitions—these are not offended by such exemptions. Yet they tend to transfer the tax burden more and more on to speculative land values and to liberate labor values.

JOHN A. ZANGERLE

*Office of the County Auditor,
Cuyaboga County, Ohio*

Prospects for American Business

Post-War Markets. Edited by E. Jay Howenstine, Jr. Washington, D. C.: Public Affairs Press, 1945, 184 pp., \$2.45.

Government economists in the Bureau of Domestic and Foreign Commerce have recently compiled and interpreted a considerable amount of data on the opportunities that lie ahead for American business. The principal findings of this research are summarized in the present volume.

In a foreword by Amos E. Taylor, the basic assumption underlying this work is stated ". . . Our analyses have proceeded on the now widely accepted proposition that a high level of productive employment may be maintained after the war." The principal questions answered in reference to the basic assumption are: What will be the total volume of business if most people who want to work have productive jobs after the war? How has the war affected the possibility of reaching that goal? What will be the magnitude of the accumulated demand for goods? How big a backlog of purchasing power exists in the form of extra savings? What opportunities will the estimated national market offer business? How can the market potential for specific products be determined?

To answer these questions, the analysis is divided into two parts. Preliminary sections are devoted to general topics such as the national economic outlook, wartime savings, expanding incomes, prospects for foreign trade, and market analysis. Within a brief compass, these sections sketch the overall economic future in terms of the assumptions that have been made. The remaining thirty sections, forming the second part of the analy-