17

COMPLIMENTS OF
SAMUEL DANZIGER
241 MINT ARCADE

Reprinted from National Municipal Review, January, 1913

## TAXATION IN PHILADELPHIA

BY LOUIS F. POST

Chicago

PHILADELPHIA was characterized some years ago by Lincoln Steffens as "corrupt and contented," but he saw a saving remnant. Active in this remnant was Rudolph Blankenburg, of whom we hear as a successful and respected manufacturer and merchant, now approaching the age of three-score and ten but perennially youthful and hopeful and public spirited. Mr. Blankenburg's activities in his apparently hopeless fight during his "thirty years' war" were doubtless to the gangsters a joke. Last year, however, he was elected mayor.

The cartoonist of a local newspaper celebrated his induction into office by picturing him as "The Old Dutch Cleanser." It was a happy thought. Philadelphia laughed and applauded, thanked God and took courage.

The new mayor had work cut out for him. Philadelphia finances were in a deplorable state, due to neglect followed by bossism, extravagance and worse—as usual. For years large amounts of current expenses had been paid from loans. It is necessary now that both income and borrowing capacity be increased. Mayor Blankenburg's first annual message, September 20, 1912, must have been awaited therefore with interest and anxiety.

The situation needed a master hand, the outcome was disappointing. The Associated Press telegraphed to the country his proposals contained in "a message remarkable for unusual recommendations." These have been severely criticized, in some respects justly. The subject of taxation is yearly attracting increasing attention, yet the mayor did not appear to have thought very profoundly. His sugges-

tions generally were reactionary. Not all were so, but taken as a whole his message is like the old time mince pie which was full of ingredients, some of them wholesome.

\*

Proposing an occupation tax, from which Philadelphia is now free, the Mayor said:

This, it would seem to me, is an equitable proposition, for all citizens enjoying the privileges and protection of our municipality should not only be willing but glad to contribute their mite for the maintenance of that government.

Men otherwise intelligent and public-spirited, as is Mayor Blankenburg, are frequently ill-informed on the subject of taxation. He has failed to see that all citizens already do contribute much more than a "mite" for the maintenance of government.

An editorial in the Saturday Evening Post of October 26, 1912, quotes census figures showing that the average family of five persons contributes in taxes almost \$180 yearly, and this, says the editor, "takes no account of whatever indirect burdens the tariff tax imposes by raising the price of protected goods." Thomas G. Shearman in Natural Taxation (p. 27), estimates conservatively the latter tax at three times that which is collected at the ports.

Now every owner or occupant of a house in Philadelphia pays taxes on that house. If he occupies but a room or rooms, he pays a real estate tax. Take the case of a boarding house. All inmates pay equally for food, but they pay differentially for their respective lodgings. The boarder in a desirable room pays a large price; the boarder in the third story back pays a small one. These prices include rent of land, interest on the cost of the furniture, interest on the house, repairs, water rent and taxes, always and everywhere, excepting only in the case of paupers and criminals—they being tax eaters.

Students of taxation know that taxes fall in undue proportion and with undue severity upon the humbler classes, generally known as wage-earners, whose share is not to be lightly regarded as a "mite." The cautious Shearman (p. 33) estimated for 1880 that "taxes consume directly and indirectly at least 15 per cent. of a laborer's average income." He showed further (p. 36), that disproportionate taxation is a powerful and persistent factor in the unequal distribution of wealth. It works cumulatively toward concentration in a few hands, producing on the one side poverty and on the other swollen fortunes. It is

undeniable that the humbler classes pay vastly more than their share already. Shearman says "ten times." Then why tax a man additionally because he has an occupation?

Occupations are natural and necessary, and the lack of occupation for multitudes of men is a matter which excites anxiety among the thoughtful. On October 10, 1912, F. O. Walters, a Kansas City grocer, was jailed because of his refusal to pay such a tax. His protest may be commended to Mayor Blankenburg. He said, "I won't pay it. I pay a state tax, a county tax and a city tax, and I don't see why I should be made to pay a tax for making a living. I can't afford to pay this extra tax, and if you are going to fine me for not paying it, you might as well do so, because if I pay it, you may have me in here for vagrancy later. A fine for not paying a tax, or a fine for vagrancy induced by paying the tax—what is the difference?"

On the same day Thomas Morrison was taxed because he washed soiled clothes for pay. He was given ten days to pay the tax, in default of which Kansas City would put him in jail (and go dirty). In Kansas City they call the occupation tax a "license fee." The term has a pleasanter sound. In other cities, presumably in Philadelphia and Kansas City, a wealthy automobilist pays a license fee or occupation tax (they call it "a fine") because he has run his car at a murderous rate through the streets of the city—his usual "occupation." Still another "tough" pays a license fee or occupation tax of \$10 (they call it "a fine"), for going on a drunk—his usual "occupation." We are absurd. Boasting of our civilization, yet we fine men for industry and fine them for idleness, we fine them for virtue and we fine them for vice and even for crime.

What is the proper course?

Occupation should be encouraged instead of being taxed; criminals should be imprisoned instead of being fined.

Mayor Blankenburg says that the proposed occupation tax would not be a burden upon wage-earners, storekeepers, professional men or any persons who follow a gainful occupation. The mayor is apparently not aware that the mercantile license tax in Philadelphia is such a burden to thousands of humble people, as I am informed, that it is a perennial source of iniquity, annoyance, irritation and corruption, and that many attempts have been made to repeal it.

\*

In view of the fact that every man, owner, lessee, lodger or board-

er, directly or indirectly, pays a real estate tax proportioned to the value of the real estate occupied, whether the whole house or a part of it, whether the cellar or the top floor, what justification has Philadelphia for asking for any other kind of tax?

The mayor says it is in return for the enjoyment of the privileges and protection of the municipality. So far, so good. Let us concede that privileges and protections should be paid for by all citizens. But they are, in fact, so paid in Philadelphia now. Doesn't Mayor Blankenburg see that the entire financial benefit of the taxes spent for those privileges and protections attaches to land, always to land, and to land only? And that it raises the rent of land, which is thereupon promptly extracted by landords from tenants? Humbler individuals pay taxes for good government in their rents, and they, as compared with richer classes, are already overburdened.

The mayor is influenced by a vicious principle of taxation, namely, that each should pay according to his ability to pay. The just principle is that each should pay according to the benefit he receives.

This principle Mayor Blankenburg must have followed in dealing with customers during his long and honorable private business career. It is the principle which he should try to follow in dealing with Philadelphia's customers, generally known as "citizens." As good government cheapens labor products, but increases the value of land and in the long run of land only, the cost of government should be derived not from products, but from land.

\*

The mayor proposes also an output-tax upon goods manufactured in the city, say \$1 per \$1000. He estimates that this tax would produce a revenue of \$750,000. It would be a backward step, if the policy of Pennsylvania is, as I understand it has been for many years, to invite manufacturers.

To this end, stocks of goods and machinery are untaxed by the state; manufacturers selling their own products are exempt from the ordinary mercantile license tax; manufacturing corporations are exempt from the 5 mills tax on corporation capital stock, as well as the corporation tax on net incomes, paying in Philadelphia only on land and buildings.

Hasn't this policy of simplicity and directness made Philadelphia

attractive to manufacturers, and in fairness shouldn't it be extended to all industries?

÷

The mayor's proposal to tax vault-spaces under side walks is good. But if sub-sidewalk space is public property why not rent it for full annual value instead of taxing only a percentage? If not public property, doesn't it add to the value of the adjacent lot if the owner is privileged to appropriate it and in that event is it not already taxed?

\*

The state tax on automobiles in Pennsylvania is \$10. The mayor proposes in addition a city tax of 25 to 50 cents per horse power per annum, his justification being that

No one will gainsay the fact that automobiles are largely the cause of the heavy cost of street repair and maintenance—particularly on the macadam and country roads, of which we have more than four hundred miles—and add materially to the labors of the department of public safety.

But an automobile traveling at moderate speed on wide rubber tires is not a road breaker but a road maker. The damage by automobiles to macadam and soil roads is due to excessive speed, which causes suction of the road material as well as danger to pedestrians, an evil which should be prevented by criminal penalties instead of being licensed by taxation.

\*

The mayor proposes also a tax on overhanging signs. He says they are innumerable in Philadelphia.

Such a tax is bad. Every overhanging sign is an aggression on public property, an eye-sore and a menace. In Philadelphia the evil is said to have attained proportions which make the city streets a mess of ugliness, perhaps beyond those of any city in the country, and although the mayor says there is a law forbidding them on some streets, that law is apparently more honored in the breach than in the observance. Aggression should not be licensed but forbidden. Signs are private property; private property should not be allowed beyond building lines.

Although the mayor refers to the defacement of the city's highways and suburban landscapes by these signs, it is somewhat difficult to understand whether he wishes to get a revenue from the signs or to repress them and their ugliness. If the latter, it should be remembered that the power of taxation should be used for revenue and not for police regulation.

\*

Household furniture is not taxed in Pennsylvania, whose methods, however faulty, may not unfairly be said to be simpler and better than those of any other state in the union. The mayor suggests reform backward. Concerning the tax on household furniture which was repealed in 1887 he says:

It is somewhat strange to me that while real estate is highly taxed, the contents of the dwelling escape entirely. A general exemption of \$300 for household furniture and furnishings would seem reasonable, but everything above that is a fair subject of taxation, and would not affect the people of small means, but would impose an equitable tax upon those well able to pay. I have before me a tax bill levied in the city of Cape May, N. J., which taxes the value of land and the value of buildings separately, and also separately the value of furniture and personal property. The value of land, \$7,100, the value of buildings, \$10,000; the value of personal property, \$1,000; a total value of \$18,100, at the rate of \$2.25, making a total taxation of \$407.25.

The mayor says a tax on household furniture would be "equitable." But furnishings and other personal property never have been equitably assessed anywhere. It is not in the nature of things that they can be so assessed. It would require omniscient intelligence to do it. The history of taxation shows that attempts to assess personal property equitably have generally been a joke, sometimes a tragedy, and always and everywhere a foundation for schools in perjury.

A tax on furniture and other personal property is a tax on comfort and decency, and an inducement to deceit and double-dealing.

Always, too, the rich are favored at the expense of the poor. No better proof of this is needed than the item which Mayor Blankenburg furnishes to support his suggestion. Here in fashionable Cape May are a lot and building worth \$17,100, an expenditure incurred for the purpose of sheltering furniture and other personal property worth only \$1000! Truly an interesting case—especially so when we look for the New Jersey definition of personal property subject to taxation "according to true value." It includes all goods and chattels, all debts, and all public and corporate stock, and whether within or without the state.

The greatest cause of corruption in government is indifference, neglect. The cause of neglect of government by humbler classes is that the cost is largely concealed by reason of indirect taxation. (Shearman calls it "crooked" taxation.) People pay for government without knowing it. For instance, which of the readers of this magazine knows, even approximately, what he and his family pay for the support of the government at Washington?

Take a "horrible example" from Philadelphia.

The illuminating gas used by the city corporation is served "free" to the city by the United Gas Improvement Company. Anybody who thinks that this company furnishes anything free is an innocent. The city's bill for gas is in fact paid for by an increased price to the citizen consumers of gas in Philadelphia-by consumers of gas only. These consumers are then taxed on their own use of gas according to their consumption respectively, 15 cents per 1000 feet, which is collected by the Company from consumers and paid to the city by the United Gas Improvement Company; that is to say, consumers of gas pay for their own gas and for the city's gas, and then are taxed, each according to the volume personally used, 15 cents per 1000 feet. If this tax were direct, there would be a riot in Philadelphia in twenty-four hours. It is indirect (concealed in price), and has therefore continued for fifteen years. This is a special tax imposed upon a certain class, largely humble. It appears from the mayor's message to amount to \$1,304,-028.78. The mayor does not seem to recognize that it is not only a tax, but also a peculiarly "crooked" tax. He refers to the difficulty of reducing not the tax on gas, but the price of gas.

\*

The mayor is desirous of increasing the borrowing capacity of the city, which is constitutionally limited to 7 per cent. on taxables. Obviously the only stable basis for such a percentage is on immovables, such as land and buildings. But Mayor Blankenburg proposes increasing the borrowing basis by adding such evanescenses as "occupation" and "debts at interest."

The State of Pennsylvania, in order to "relieve" financially able people, taxes those whose necessities compel them to borrow money on mortgage. This is the 4 mill tax on money at interest, mostly mortgages, collected as a state tax, three-fourths returnable by the state to the various counties to "relieve real estate." The owners who

are so fortunate as to be free of the necessity of borrowing do not pay any such tax.

The mayor's proposal is that the tax be named a city tax instead of a state tax. Not to increase the city's revenues. Change of name would not do that. But in order that by means of a verbal juggle a further constitutional basis may be had for loans to the city.

The proper course with this tax would seem to be to abolish it, an example for which may be found, I understand, in the neighboring States of New York and Maryland. It is one of the taxes which thoughtless legislators put upon lenders supposing that lenders pay it, but which tend with increasing pressure to burden borrowers.

\*

Mayor Blankenburg also proposes to substitute the occupation tax for the poll tax, the occupation assessment to be an additional basis for borrowing. Both taxes are unjust and absurd. The first is a tax on doing something useful, the second on being alive.

\*

A hopeful section of the mayor's message is that wherein he proposes to reform Philadelphia's methods of assessing real estate, a matter which he well says is of great importance, and to which he proposes to refer at a later date.

In Pennsylvania, fortunately for Philadelphia, state taxation is divorced from county and municipal taxation; real estate (land and improvements) being subjected to local taxation only. There is thus no contribution to the state government by real estate, and no state board of equalization is required to supervise assessments of real estate. Thus, also, there is no temptation to under-assess one county as compared with another. The real estate tax in Philadelphia is for her exclusive benefit.

Now, the assessment of real estate is a business of extreme importance and delicacy, and in Philadelphia it is badly managed. The methods are a hundred years behind the times. Assessors do not even separate land and buildings; and, as the mayor points out, the assessors are independent of the city government, although the city pays their bills. The mayor is out to reform the matter by drastic legislation. More strength to his elbow! But, strangely enough, he does not mention as a basis for increased borrowing capacity an increased assessment on central business property.

Two years ago the Philadelphia councils employed outsiders to investigate assessments in seven wards of Philadelphia. They were the tax appraisal experts of the Manufacturers' Appraisal Company of Cleveland, operating under the Somers assessment system which Mayor Tom L. Johnson introduced in Cleveland and which after trial he strongly endorsed. The councils appointed local experts in real estate values to indicate, for the use of the appraisal company, a unit of land

value at the middle of every block, and to check and supervise the work of the appraisal company's experts. The company, in accordance with the Somers method, then called public meetings in every ward in order that the units might be criticized by the citizens. Figuring from the units finally set by public opinion the experts, using the Somers mathematical tables, reported in detail the usual discrepancies and iniquities that are familiar to students of taxation everywhere.

It appears, however, that no relief is to be obtained from the reassessment of dwellings in general. The mayor states that the assessment of two-story dwellings (200,000) and of most of the three story dwellings (100,000) is practically up to full value. Yet the appraisal companys' experts, on units furnished by the local experts, estimated an approximate under-assessment of \$500,000,000 for the whole city. Of this deficit \$100,000,000 was within a quarter of a mile of the city hall, \$16,000,000 having been missed from only three properties. On the other hand, in one single block there had been an over-assessment of \$500,000. A trust company at 515-521 Chestnut Street, assessed at \$700,000, was appraised by the experts at only \$453,106: and 537 Chestnut Street, in the same block, assessed by the city at \$225,000, was appraised by the experts at only \$149,265. No. 701 Chestnut Street, assessed by the city at \$90,000, was appraised by the experts at only \$76,283.

When called to an account by an interviewer, the president of the assessing board said that his own dwelling was over-assessed \$2000: yet, the Pennsylvania terminal, directly opposite the city hall, and appraised by the experts at \$10.677,878, was assessed by the city at only \$5,500,000. The Reading terminal, valued by the experts at \$7,319.100, was assessed by the city at only \$4,500,000. The Mint Arcade, across from the city hall, valued by the experts at \$4,063,078, was assessed by the city at only \$1,250,000. The Wanamaker store, opposite the city hall and valued by the experts at \$17.378.219, was assessed by the city at only \$9,250,000. The Masonic Temple, opposite the city hall and valued by the experts at \$3,762,256, was assessed by the city at only \$2,000,000—exempt from taxation, the Lord knows why if anyone does!

The explanation of these gross under-assessments and over assessments is that the city assessors work by rule of thumb: the appraisal company, with the local experts, worked by public methods and mathematical tables.

An example of the Philadelphia assessors' methods of "how not to do it" may be found by comparing 713 Chestnut Street, assessed at \$90,000, with 725 Chestnut Street assessed at \$125,000. These lots are within a few feet of each other, are of precisely equal area, and are occupied by buildings precisely alike: yet one is assessed for \$35,000 more than the other and by the same assessors.

\*

It would not be profitable to discuss at length the mayor's pro-

posal to tax the physical properties of public service corporations, for this would require fundamental legislation at the state capitol. In order to divorce state and local taxation, a commendable idea, the state of Pennsylvania reserves to itself taxes on public service corporations, namely, a tax on the market value of capital stock (5 mills) and a tax on the gross receipts of those companies (8 mills).

The mayor himself does not consider his proposal seriously, but only as a possibility. But his language regarding these physical properties is scarcely just. He says:

The assessment and taxation of physical properties of public service corporations should be considered. At present corporation franchises are not taxed. Assuming that a fair valuation of franchises would add \$100,000,000, and that they were taxed at the same rate as other properties are now taxed, this would mean an increase of \$1,000,000 in current revenues.

Now as the value of these physical properties is a part of the market value of capital stock (taxed 5 mills) and necessary to the production of gross receipts (taxed 8 mills), it is obvious that they are not exempt from taxation. The justice of the amount of the tax is another question.

\*

The mayor has a further proposal as a basis for borrowing. He says:

It is well known that our mills and factories and the real estate of all manufacturing establishments are assessed far below their actual value. This has been done for many years to encourage manufacturing. A reasonable proposition, it appears, would be to ask the board of revision of taxes to assess all such property at its full value, because such reasonable assessment would add scores of millions of dollars to the real estate values of our city and thus increase our borrowing capacity very largely. To avoid placing any additional burden upon our manufacturers, the tax rate upon all such property might be proportionately decreased. A special tax rate upon the real estate of all manufacturing establishments (which, when paid upon a full valuation, would only equal the present full rate on a low valuation) would injure no one and would help us in the present dilemma by probably \$7,000,000 additional to the borrowing power.

As the borrowing limit of the city is 7 per cent. this statement indicates that manufacturers in Philadelphia have been yearly underassessed to the extent of \$100,000,000, thus placing an undue tax burden on non-manufacturers to the extent of \$1,500,000 yearly, the tax rate being 15 mills.

In addition to the protective tariff, I have already indicated three legislative "favors" enjoyed by manufacturers and manufacturing corporations in Philadelphia. The mayor mentions a fourth, namely, a

systematic and illegal under-assessment, of mills and factories "for many years to encourage manufacturing."

The fact is well known, says the mayor. To whom? It was known to manufacturers, but was it known to those who had to make up the deficit?

The mayor tells us that the two-story dwellings and the three-story dwellings are practically fully assessed. These number 300,000. Divide \$1,500,000 by 300,000, and we have \$5 as the average "mite" contributed by small dwellings to "encourage" manufacturers. The encouragement is forced, illegal, "crooked" and unjust.

\*

Several thoughts are suggested by the mayor's admissions.

The assessors have for many years violated their oath of obedience to the law, which requires equitable assessment at fair market value.

The mayor does not propose that the perjured assessors shall be impeached.

Does the mayor fail to understand that the business of government is to prevent favoritism, not to establish it?

The mayor fails to see that governmental "favor" is euphemistic for "graft."

While the mayor proposes to increase and correct the present illegal assessments of manufacturers, the correction will not be actual, it will be fictitious, on paper only. For he proposes, after having raised the assessment to lower the tax rate to manufacturers (to them only) so as to make the present illegal favor a legal one.

The mayor's declared object is not to raise revenue, but only to use the thereby increased but non-productive assessment as a basis for borrowing \$7,000,000—payable by posterity. In other words, the mayor proposes to establish a \$7,000,000 liability against posterity, but at the same time to cut off the natural means of collecting by taxation the usual sinking fund to extinguish that liability. He would violate that sound doctrine which for permanent improvements only may justify the contraction of public debt within reasonable constitutional limits, against taxable properties, productive of revenue sufficient to take care of the liability within a reasonable time. That reasonable time in Philadelphia is now thirty years. The mayor wishes to extend the period to fifty years.

\*

Nobody questions the sincerity, the honesty, the public-spirit of the present mayor of Philadelphia. It is evident, however, that he has not given serious attention to the sources of public revenue.

The subject of taxation, with its simplification and improvement is stirring all civilized nations. It received its strongest modern im-

pulse from the mayor's own city, Philadelphia, when Henry George was born there. Before his time, Benjamin Franklin, Philadelphia's most eminent citizen, had anticipated George, had urged the single tax, and had lamented his inability to persuade the people to adopt it. And now, at a time when cities of Germany, Australia and New Zealand and the government of England are appropriating the "un earned increment," when a dozen cities of Northwest Canada have abolished taxes on improvements, when even the recent provisional president of China is preaching single tax, the mayor of Philadelphia seeks new ways to tax and harass industry and to find airy bases for borrowing, which might well make seasoned gangsters sit up and take notice.

Philadelphia seems determined to throw away its public treasure, a growing unearned increment, the real commonwealth of every community. It turns to levying on private property for public purposes instead of using those common values. In the last analysis Philadelphia must either tax land value or labor values. The mayor revives discarded schemes to tax labor and its products, to tax debt, and to use abstractions as a basis for loans. As someone has said, the city is in the position of a millionaire throwing away his wealth and then seeking ways to borrow money to buy pork and flour.

It is reported that some members of councils' finance committee are in favor of adopting the mayor's program in its entirety. The report is not surprising. Councils had already approached the borrowing limit within \$7,000,000, and were afraid that increasing the tax rate would arouse public indignation. But presto! A reform mayor of manifestly honest purpose shows them where they had overlooked a few score millions of borrowing capacity, but shows them millions the city has little or no right to while ignoring the larger millions that belong to it.

\*

The days of occupation taxes and taxes on money at interest are fast going the way of taxes on chimneys, windows and newspapers. But if Mayor Blankenburg has his way and does not alter his course, such taxes will fret Philadelphia for fifty years to come, for the mayor proposes to make their assessment figures the "basis for fifty year loans." He says he has other schemes to present later. Before doing so he should consult sound principles of taxation.

E. Benjamin Andrews has truly said, "Unjust methods of taxation have caused more misery in the world than any other one thing, the rum traffic not excepted."

While joining with all others in honoring Mayor Blankenburg for his many years of unselfish service for the public good, I trust that plain speech in a matter of utmost importance may not be considered as conflicting with that sincere respect which I hold for him and his record nor inconsistent with the confidence in his integrity of purpose which I entertain and wish cordially to express.