

Freedom from Taxation

ADDRESS OF THE HON. WILLIAM N. MCNAIR, FORMER MAYOR OF PITTSBURGH

SEVENTH COMMERCE AND INDUSTRY LUNCHEON

HENRY GEORGE SCHOOL OF SOCIAL SCIENCE

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Chairman: Myron T. Monsen, Jr., vice president of Monsen-Chicago, Inc.

As mayor of Pittsburgh, Mr. McNair administered the Pittsburgh Graded Tax Law from 1933 to 1936. He was a member of the Pennsylvania State Legislature from 1944 to 1946 and is now a candidate for re-election to the Legislature, where he hopes to play a part in widening the application of Pittsburgh's successful system of taxation. He was the speaker at the first commencement exercises of the Henry George School of Social Science in Chicago in the fall of 1934.

Your Customers
Are Being
Robbed!

I should like to start out with something we can all agree on, whether we are businessmen or politicians, for we politicians have to observe certain laws if we want to get along, just as do you businessmen. We seem to agree universally on this: that the customer is always right. The merchant who wants to increase his trade doesn't have a man at the door to hit his customers on the head, nor does he have someone there to pick their pockets before they come in to do their shopping. A good merchant will not only agree with his customers but do everything he can to increase their purchasing power.

Businessmen would do well to concern themselves with what they are doing through the Federal government to impoverish their customers. Do you realize that you are actually electing men to office to pick the pockets of your customers? They not only do that, but they slap a mortgage on the old homestead before the customer gets down to the store. In what condition does that leave him to do any buying at your place of business? What kind of credit risk is the average man when he comes into your bank? After the Civil War the federal debt per family was \$400. After the First World War it was \$1100 per family. Now the federal debt averages \$7000 for every family in the country. If that ever sinks into your customers' heads, you'll find them in a poor state of mind to do any business.

Yet, these are the facts. These debts are a first lien on production, and we can't laugh them off very much longer. We haven't thought much about these obligations because our politicians haven't left enough loose change in our pockets to make it worth while to do any thinking about anything. In just five days from now, we're going to be broke unless we make a mistake in our favor on our income tax returns. A couple of days ago a man came into my law office in Pittsburgh and said he didn't know whether to pay his boarding-house keeper or Uncle Sam, and I said: "Well, you have to eat."

I think you are well enough acquainted with the federal budget, the state budget, and the city budget so that I don't need to tell you that taxes are rather high. So I want to suggest today a method by which you may relieve your customers of some of

this distress and get commerce and industry on a sound basis so that we could actually guarantee to ourselves and to those with whom we do business that we could have good times.

Ars You
Collecting
Your Bills?

The second fundamental law of business I want to mention is so commonplace you've probably never even thought about it. But I'm going to remind you of it. It is this: you have got to collect your bills. You have to collect them for yourself. You can't let some outsider go around among your customers picking up their money and sticking it in his pockets. That will last for about two weeks. Then you'll have a friendly visit from the sheriff or the referee in bankruptcy will be calling you up to come down and see him.

For a while I happened to be sitting in a place in my home town of Pittsburgh where I could see what was going on, and I later served a term in the State Legislature in Pennsylvania where I made some observations. From the facts gathered in those two places, I can tell you that Pittsburgh does not collect its bills. The city's earnings are going into the pockets of the few old families. I don't know much about the city of Chicago, but if this city, or any other, was doing any differently, I think I would have seen it in the headlines.

Now the sole function of the mechanism which we call municipal government is the furnishing of services such as police protection, fire protection, sewage, garbage and rubbish removal to certain trading locations and then forcing the users of those services to pay the market rate to the holders of the sites. Then the municipality goes after the taxpayers for the maintenance of the city equipment and the money to meet the city payroll, instead of collecting the city's earnings itself and using such earnings to keep up the city.

Take a local example. I saw in one of your papers the notice of the sale of a building. The lot didn't enter into the transaction at all. The site had two leases, one for \$24,000 a year for the vacant lot when the building was built in 1893, another for \$30,000 some twenty years later. What are these two charges amounting to \$54,000 a year that every customer must help pay before he walks out of the building? This sum is the market price fixed by the demand for the city services, none of which is furnished by the owners of the site that get the money; all of which are furnished and paid for by the taxpayers that get none of the money.

The city should collect its earnings even if it has to abolish all its taxes to do so. We've started to do that very thing in Pittsburgh, I'm glad to say. We are recapturing some of Pittsburgh's earnings made valuable by our transportation system that dumps thousands of customers an hour in front of these business locations. We've started sending out some of the bills for furnishing services there by putting a heavy tax on the value of these sites, at the same time cutting the tax rate on buildings by fifty per cent and abolishing all our other taxes.

Meeting
the Housing
Shortage

We've had this system in effect now for some thirty years, and it has done much to encourage building, although Pittsburgh, like every other city today, has a housing shortage due to the shortage of building materials. Of course, the only way to solve this problem is to build more houses. The only person to solve this problem is the speculative builder or the private individual who has saved up enough money to build a home. As I go around Chicago, I find there are plenty of good locations for housing projects or for individual homes, but they are standing idle. What discourages people from building on these convenient spots, so well supplied with all the facilities necessary for comfortable homes? Might it not be the fact that if anybody did build on these vacant lots, he would have to pay a heavy tax on the building until it is torn down or burnt up? As long as the site is held idle,

the owner has low taxes, but as soon as he starts building, he is discouraged by a high tax rate. I therefore think it might be well for your city to study our plan with the idea in mind that it would encourage more building if Chicago would also have a half rate on improvements.

In Pittsburgh we would like to take all the taxes off of buildings. But until that time we feel we are doing some good by offering an inducement to builders, giving them a lower tax rate on their improvements. This has another effect which we are noticing in our city. When you cut the tax rate on houses in order to get sufficient revenue to run the city, you have to raise the tax rate on land values. So today our tax on land values is \$28 a thousand and our rate on buildings is one-half, or \$14 a thousand. We notice that this rate of \$28 a thousand on land values is bringing more locations on the market at a more reasonable price, which in turn makes it easier to carry on a building project, because the initial expense is lower.

For instance, here in Chicago, if you find a block of ground suitable for building and approach the owner for a price, he will charge you more for it if the tax on the land is low than he would if the tax were high. If you will think this over, you will see that this is what happens, although at first glance you might think that the seller would add the higher tax to the price of the ground. We have found in Pittsburgh that as we increase the taxes on land values, the speculators are unable to pass that tax on in a higher purchase price.*

Put yourself in the place of a speculator who has a large area of vacant land ripe for development. If his taxes are low, he can hold on until he gets a high price, and so the land remains idle. The builder is unable to go ahead with his project because he can't get a place to build. As the taxes on the land values are gradually raised, as they were in Pittsburgh, the speculator is forced to let go. And the land comes on the market at suitable prices so that the builder may go ahead with his enterprise.

How Pittsburgh
Untaxed
Industry

We applied the same theory to industry in Pittsburgh many years ago by exempting all raw materials, finished products, and machinery from taxation. This also tended to raise the taxes on land values. I am informed that you still tax this form of industry in Chicago. I would suggest that you exempt machinery, raw material and equipment in your city, even though it raises the tax on land values, because we have found in Pittsburgh that a high land values tax does not harm anyone except the speculator who is holding back production. Even he may be benefitted if he will put his land to adequate use. Land that is put to use, either for housing or for industry, can well afford to pay a high tax if building and equipment are exempt.

*"The general principle which determines the incidence of taxation is this: A tax upon anything or upon the methods or means of production of anything, the price of which is kept down by the ability to produce increased supplies, will, by increasing the cost of production, check supply, and thus add to the price of that thing, and ultimately fall on the consumer. But a tax upon anything of which the supply is fixed or monopolized, and of which the cost of production is not therefore a determining element, since it has no effect in checking supply, does not increase prices, and falls entirely on the owner...the effect of a tax on land values is to increase the amount of land which owners must strive to secure tenants or purchasers for. Thus the effect of a tax on land values is not to increase the rent that the tenant must pay the owner for the use of the land, but rather to reduce it. And since the tax must be paid out of what the land will yield the owner, its effect would be to reduce the price for which the land could be sold outright."--Henry George, Why the Landowner Cannot Shift the Tax on Land Values (New York: Robert Schalkenbach Foundation), pp.89.

From the figures I have run into I believe Pittsburgh building trades craftsmen are paid higher wages than they are in most other cities. This may be due to the workings of an economic law which many writers have developed, namely, that production is divided between the workers and those who hold the locations. When the latter get less, the worker gets more. After all, an enterprise has just so much money to carry itself. If one factor takes too much, there is just that much less for the others that enter into the picture.

Housing and industry must have public conveniences. These are furnished by the government, and the government charges the location for them. But if the speculative holder is not taxed, he too, can put in a charge for these services before the builder can get at the site. This leaves only a small amount to be paid the worker in the shape of wages. But if the city checks this speculation by a heavy land values tax, as we do in Pittsburgh, then the worker gets a higher rate of pay.

Although we cannot claim great results from the small step we have taken, we do say that it is a more logical and reasonable system of raising revenue for a metropolitan center. In a way, it is an experiment. We put it into practice back in 1931. It is now no longer just in the realm of theory, but accepted practice in tax matters. It has shifted about \$3,000,000 of our tax burden from many thousand small home owners and building operators on to a few old families that are holding speculative sites.

Recently one of our old families has thrown all of its vacant sites on the market. These are now in the hands of builders who are waiting for the supply of building materials to come on the market to improve these locations. There is no doubt in my mind that this higher tax on land values was the thing that urged this family to allow its holdings to go on the market.*

The
Pittsburgh Plan
in Chicago

How can Chicago adopt this system? First, I would suggest that you send a committee to Pittsburgh to study our plan of lower taxes on buildings and check up on its results and also our method of applying the system. Next you will have to simplify your tax set-up. If you want to have one rate on land values, and a half rate on buildings, in order to get the thing to work, you must limit your tax base to those two items. You will probably find the assessed value of your land going down as has been the case in Pittsburgh, so that you cannot hesitate about raising the rate, since you have to have the same amount of money to run your city.

In order to get public support for this change, you may have to do a lot of educative work to sell the mass of the voters the idea that it does make a difference what you tax. We found that when we first started this movement that people would say: "What difference does it make what you tax? You have to get so much revenue to run the government." We had to convince the voters that a tax on buildings would discourage new construction, whereas a tax on land values would encourage the use of locations for improvement,

*There is another kind of tax which we might mention which checks the supply of building materials. That is the tariff tax on lumber and builders' supplies. Thanks to the recent movement to develop reciprocal trade treaties, Pittsburgh is getting more lumber from Canada. And if all of our tariff were removed, the price of building material would certainly come down and construction would increase all over the country. In 1900 Congress passed the highest tariff bill we ever had. There were a thousand professors of economics who signed an appeal to the President to veto it because among other things it would bring on unemployment and a depression--and it did. I don't know whether that page in history has taught us a lesson or not, but it had better. If we go ahead not and knock out these reciprocal trade agreements and close our markets to our foreign customers, we'll get the same dose and have to like it.

When I sat in the office of mayor of Pittsburgh, it was my job to furnish various parts of the city with various services. Among these services was police protection, fire protection, removal of sewage and garbage, furnishing pure water, cleaning the streets, and a thousand and one things that go to make up a civilized community. The same thing is true of Chicago. Here as in Pittsburgh, various parts of the city receive all these community conveniences, but some parts receive more than others, particularly business sections. Here your streets and traffic arteries converge, unloading every day millions of customers on downtown corners that merchants bid up to fabulous figures. In order to get the advantage of these aids to business, you must secure exclusive possession of such a corner. Now our argument in Pittsburgh is this: those who hold these corners and charge high prices for their use are really selling the services of the city, and they should pay something to keep up the equipment used by the city, help maintain its plant, and help meet the cost of the payroll of the firemen, the policemen, and other city servants.

If you recapture some of that city income, I do not think that the holders of these locations will make any complaint, because they will realize that it's only a matter of right and justice that the city should use that money to maintain those conditions that make their return on their property so valuable. On the other hand, when you increase your revenue from these locations, you will be able to reduce the burden on the home owner and the producer, which is a general advantage to the community.

Community Earnings
Versus Taxation
on Production

After all these community earnings that I've been talking about are due to the services furnished by the city. The federal government and the state government have very little to do with it. These two groups of politicians produce nothing. And yet their exactions are a thousandfold of what is demanded by our city authorities. The tremendous proportion of our production that goes to pay our income tax is largely frittered away by gifts to foreign countries or in maintaining useless bureaus that don't add a penny to the site values of our cities. If Chicago tomorrow would lay off all its police and firemen and shut down its schools, the corner of State and Madison which is bringing in a couple of thousand dollars a day to the fellow who picked the right grandfather would not bring in a cent. But Congress could stop the Marshall Plan and fire two-thirds of the employees in Washington, and the assessed valuation of the land in Chicago wouldn't be decreased a cent. The business man will just have to do some thinking about the income tax even if he finds he has to lay in an extra supply of aspirin during the process.

The shift we have made in Pittsburgh has allowed an increased purchasing capacity on the part of hundreds of thousands in our city. There could be quite a study made of the ramifications of this plan, simple as it seems on its face. Sit down some day and try to analyze the effects of something like this in Chicago. Apply it to your own business or in your own home. Work out the savings in dollars and cents. Analyze its far-reaching effects, and I believe that you will have something interesting to think about.

Our research bureaus are furnishing us daily with graphs which show the business cycle, and on the companion sheet show the graph of the rise of speculation in farm prices and business sites in the city. They tell us that when they reach a certain height we'll crack, just as we did every other time. We take our lesson from that and prevent speculation in these locations which are merely the capitalized value of community earnings that are bought and sold by the siteholders. We can avoid this boom and bust if our community would say: "We're not going to let anyone speculate with the people's income. We're going to use that income to maintain our equipment and meet our payroll." Or, if that seems a little radical, Chicago could say as

Pittsburgh does: "If you're going to play this game and gamble with the city's earnings, put something into the kitty once in a while by paying a higher land-values tax." So I say again, there are two principles we must observe: you can't treat your customer rough; and you must collect your bills yourself.

You often hear the plea that business men should get into politics. But what good can they do in government if they haven't the fundamental training in economics? They should also support an educational movement that will raise the economic intelligence of the mass of the people from which all authority or changes in government policies must come. The Henry George School is in a position to treat these problems from a scientific standpoint. After all commerce and industry must have freedom. They must have private enterprise. They must get rid of all these unnatural restrictions if our present way of life is to endure. And to accomplish all this, we must have right thinking from which right action will follow.

Additional copies of this speech may be obtained from

The Henry George School of Social Science
236 North Clark St.
C h i c a g o 1
Illinois

CENtral 3348