

The purpose of the Boston Contest is "to promote the sound growth and prosperity of the Metropolitan Area". In the accomplishment of this purpose, we, the people, are faced with the choice of favoring privilege on the one hand; or industry, home-owning and employment on the other hand. Until we are ready to choose the latter principle we cannot make the progress desired. When, however, we are ready to take this forward step, the exact method of establishing the principle will not be difficult to determine, and the way will then be open to the desired goal.

It is stated in the circular of the Boston Contest that "the program should be of such a practical nature that it will stand a chance of being adopted as the basis of a master program for the Metropolitan Area". Now it may well be that the people of the Commonwealth are not ready, and may not be ready for some time yet, to adopt the program outlined here, but, if so, it is high time that this matter were brought to their attention from an authoritative source. It is certainly not practical to undertake elaborate plans for the betterment of the Metropolitan Area while leaving untouched the conditions which will make all such plans to a great extent ineffective. When a patient is seriously ill with disease, it is somewhat out of place to make elaborate plans for his future welfare while doing nothing toward the cure of his disease.

A campaign of education is badly needed for the development and maintenance of citizen interest in the reform herein offered, and should be started promptly in order that a solid foundation may be laid, upon which to establish the sound growth and prosperity of the Metropolitan Area.

A TAX REDUCTION PLAN

for

METROPOLITAN BOSTON

by

John S. Codman and Francis G. Goodale

*Awarded honorable mention and a prize for
specific meritorious suggestions,*

December 6, 1944, in

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conducted by

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SECOND PRINTING

THE BOSTON CONTEST

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The following were the judges of the contest:

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HENRY J. NICHOLS, *President, Boston Chamber of Commerce*

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A MASTER PROGRAM

for the

METROPOLITAN AREA

Introduction

In preparing to offer a program in the "Boston Contest" we have examined the eleven subjects, all of which must be dealt with by a contestant, and it has seemed to us that Subject B dealing with the problem of how to raise revenue for the cities and towns in Metropolitan Boston is the most important. We have, therefore, given it the first place in this discussion and the greatest amount of space.

PART I

Subject B.—Taxation and Revenue System

It appears to be well appreciated to-day that our whole system of taxation local, state and federal is a tremendous burden on industry and a great discouragement to home owning. But it is not altogether the sum total of these taxes which is considered a burden. It is realized that there is no kind of tax, be it property tax, income tax, sales tax or any other kind of tax, which is not to some extent a burden and a discouragement. Therefore taxes are looked upon as necessary evils, and, although one tax may be thought by some to be less of an evil than some other tax, depending often upon "whose ox is gored", the final conclusion is that the revenues of government cannot be raised without a deleterious effect on the economic life of the people. And yet this is a strange conclusion to arrive at. For if the services rendered by our various governments are of value to the people there must be some way of paying for them which will not have a destructive effect. If so, it should be found, and the discussion of the question is of the very first importance in the consideration of a Master Program for the Metropolitan Area. This is especially true if there is to be involved in the program the expenditure of any public funds. In such case, no plan will be satisfactory, no matter how well thought out, if the advantages to be obtained by the expenditure of public funds are to be offset to any extent by a destructive method of raising those funds. It is believed that there is no need of this.

It is believed that when public funds are intelligently spent, they should bring back in public funds a greater value than the amount spent, or in other words the objects for which the expenditure is made should and could be made to more than pay for themselves. Before this can be made clear, however, we must first examine our present system of raising revenue for public purposes so we may see wherein lies its failure.

It has long been the practice in Massachusetts for the cities and towns of the Commonwealth to raise the bulk of their revenue by means of taxes on the value of so-called "real estate". For example, according to the latest Annual Report of the City of Boston published in 1943 giving the latest published figures, namely those for 1937 (see page 4 of Report) the revenues for that year were divided as follows:—

Taxes on land and building valuations, including supplementary assessments, ...	\$56,906,508
Taxes on personal estate including supplementary assessments,	4,661,469
Poll Taxes, including supplementary	487,226
Total	\$62,055,203

In addition to the above, the City of Boston received in 1937 from the Commonwealth of Massachusetts the sum of \$5,219,504 as Boston's share in the distribution of income for the year ending Nov. 30, 1937, bringing the total receipts to \$67,274,707 of which the taxes on "real estate" were 85%.

There is much dissatisfaction expressed today over the tax situation in Massachusetts, and important changes are likely to be forthcoming which will have a tremendous effect for good or ill and must, therefore, be carefully considered in any proposed Master Program. Conspicuous among the changes proposed is the adoption of a State sales tax in order to relieve real estate from what is claimed to be an undue share of the burden of taxation. Also an amendment to the State constitution is now being advocated to limit local taxation on real estate to \$25 per thousand of assessed valuation. "Relief for Real Estate" is a demand pretty widely expressed, and the discussion of the question usually becomes merely a discussion of what new source of revenue can be found so that the tax on real estate can be reduced. Of the new taxes proposed, the sales tax, already mentioned, is by far the most conspicuous, but there is great opposition to it and consequently nothing is done.

The fact is that the whole discussion of relief for real estate appears to be carried on in a fog of misunderstanding, which arises from the failure to appreciate that the term "real estate" is used to describe two kinds of property quite different in character.

According to Webster's International Dictionary, second abridged edition, 1940, "real estate" is defined as "property in houses and lands", or in other words it is property in two things, not one. Just what are these two kinds of property and in what way are they different in character?

The essential nature of property in houses is easily understood. It is property in something created by human labor, and in this respect it does not differ from what is known as tangible personal property, such as furniture, rugs, pictures, motor cars, machinery, tools, etc. It is classified as real estate merely because houses are permanently fastened to the land. In fact the distinction between tangible personal property and that part of real estate consisting of buildings is often very absurd, and for some kinds of property it is difficult to decide to which category they belong. A closet in a building is part of a building and therefore it is real estate, but a portable wardrobe is personal property. A lighting fixture is real estate, but a portable lamp is personal property. Pictures hung on the wall are personal property, but presumably a mural painting is real estate. As to portable houses, and automobile trailers used for living purposes, are they personal property or real estate?

For an understanding of the nature of property in lands, we must first consider the institution of private property in land. This institution, wherever it exists has originated almost universally as a grant from the State, which confers upon the owner the privilege of monopolizing a specified portion of the land in the community. Although in strict legal theory the State (in England the Crown) remains the landlord, and the owner is merely a tenant in fee simple; this tenancy gives unlimited and rent-free control of the portion of land in question and the owner is guaranteed from interference from others by the full power of the State. It is this exclusive privilege, then, which constitutes one portion of real estate, namely property in lands, and it is the duty in Massachusetts of the assessors of the municipality in which the land lies, to ascertain the value of this privilege, (the so-called "land value") at the fair cash price for which it will sell. What are the fac-

tors which determine this price? Or to express it differently, why does the privilege of title to a location on the land have a cash value in the market?

The answer to this question is that the privilege is granted free of rent, that is, the municipality charges no rent for the location even when a rental value exists. Obviously, if the municipality did charge the title holder annually for the full worth of his privilege, that is the full rental value which the title holder could himself secure from a tenant for the use of the location, there would be no selling price, that is no "land value". The "land value" then is actually the premium which arises from the fact that the title holder does not pay rent to the municipality. If, however, the municipality levies a tax on this premium, that is on the "land value", the tax acts as a partial collection of the location rent and in such case the selling price of the location, that is the "land value", will not be as high as if all the location rent were retained by the title holder. Thus the tax itself becomes a factor in the determination of the "land value". In fact, the "land value", that is the price at which the title to the location will sell, is approximately fixed by the amount of the location rent remaining to the title holder after payment of the tax on the location which he is privileged to own. In other words it is the location rent less the tax on the location which constitutes the net location rent available to the owner, and it is this net location rent, capitalized at the current rate of interest, which determines approximately the selling price of the location, the so-called "land value".

If, for example, we assume that the current rate of interest is 4% and that the full or gross rental value of a particular location is \$1000, then the table below indicates what will be the approximate prices of the location for different amounts of net location rent. It is of course understood that the selling prices in the table are approximate only, since there are other factors besides net location rent and interest rate which would affect them, notably future prospects. Also they are not identical with assessed valuations. Nevertheless they are of value in showing how the selling prices of locations are reduced by the taxes levied upon them.

Gross Rent	Assumed Tax	Net Rent	Price
\$1000	None	\$1000	\$25,000
1000	\$200	800	20,000
1000	400	600	15,000
1000	500	500	12,500
1000	800	200	5,000
1000	900	100	2,500
1000	1000	none	Zero

Now the significant fact indicated by the figures on page 7 is that, if a location has a selling price, such price is approximately the price of the privilege accorded the title holder to collect the location rent and to appropriate some or all of it for himself. And from this it follows that the value of property included in the term "real estate" and designated as "land" is not, like "buildings", a value of tangible wealth, but is merely the selling value of a privilege. And just as "land" and "buildings", the two portions of "real estate" are quite different in character, so also is the effect of taxes levied upon their values.

What is a tax? According to Webster it is "a charge or burden, usually pecuniary, laid upon persons and property for public purposes; a forced contribution of wealth to meet the public needs of a government". This is certainly a valid description of the tax on buildings, and its effect is to discourage the erection of buildings and to add to the cost of their operation. It is definitely a taking of private property for public purposes without due compensation. On the other hand, it is not a valid description of the so-called "land tax", which, as explained above, is nothing but a means of securing partial payment for a privilege. As such it does not in any way discourage the erection of buildings nor any other use of land. On the contrary it definitely encourages the use of land by holding down its price as already pointed out; and, as will be more fully explained later, it tends to check the practice of withholding locations from proper use for speculative purposes. There is, therefore, no sanity in the idea that the two portions of real estate "land" and "buildings" must necessarily be taxed alike. It is the economic effects of such taxes that have to be considered. Before discussing this question more fully, however, we must still further clear the ground by first having an understanding of the nature of location rent, that is: Why is anyone willing to pay location rent, and just for what is the payment made?

The rental value of a location on the land is generally in the writings of economists referred to as "rent", and it means solely such rent as can be obtained from a tenant for a location on the land. It definitely does not include rent for the use of buildings on such a location, nor rent for any improvements to it. Rent so defined is often called "ground rent", but the term "location rent" is more descriptive and will, therefore, be used throughout this statement.

Obviously, for any particular location, the location rent is paid for certain advantages which the tenant

expects to secure there. In part these advantages may be supplied by nature such as agricultural fertility, favorable climate, potential water power, coal or oil or other minerals in the ground, or proximity to a harbor, a river, a forest etc. None of these advantages, however, are of any value unless there is a population to exploit them, and they will not result in location rent for any location unless there is a competitive demand for such advantages. It is the presence of population, therefore, which gives rise to location rent, and its amount in any particular case depends almost entirely upon the services of the community which are available at such location.

Among these community services are some that are usually the direct services of local government. These are well summarized in a report by Mr. Charles J. Fox, Auditor of the City of Boston, published in 1937 and entitled, "Over-all Property Tax Limitation". The summary on page 48 of his report is as follows:—

"The New York State Commission on the Revision of the Tax Laws recently made a study to determine what current services and what long run benefits are obtained by real estate owners from the activities of the local government which they help to support. It was concluded that the following services were directly beneficial to property owners; police patrol, fire fighting and prevention, sanitary collection and disposal, sewer maintenance and operation, water supply, care of streets and other public utilities. Another group of services such as traffic control, city planning, inspection services, the law department and the courts are specifically beneficial to property owners in part only. In addition, capital outlay, interest charges and bond retirement costs for such improvements as bridges, subways and viaducts, schools and libraries, parks, civic centres, and public buildings, result in benefiting property owners because of their favorable influence upon property values. Thus a substantial part of the activity of local government is directed toward rendering services which directly benefit property owners."

In the above statement of the effect on property values of the services of local government, the New York Tax Commission fails to distinguish between land and buildings. It is plain, however, that the value of these services is reflected only in the value of "land". It cannot affect the values of buildings which are in general determined by reproduction costs, although, it is true, that the acts of local

government may modify the suitability of a building to its location and in that way may affect its sale value. It is seldom, however, that such action has the effect of increasing the value of a building. On the contrary, it is quite likely that increased government services made available in a district because of a new demand for them, may so change the character of the district as to destroy the value of some buildings no longer suitable to their environment.

Thus it appears that the services of local government are reflected in the value of the land owning privilege. Moreover, it is not the actual rendering of service which has that effect, but its availability, and this availability applies equally to vacant and built-upon locations.

Other community services, that is those not due to local government, are those available from public service corporations such as transportation facilities, light and power service, and telegraph and telephone service. Also there are community services available which arise from the private activities of the community. Among these are schools, churches, theatres, hotels, restaurants and much else.

Rent is much higher for those locations where a high character of community service is required and is available, which usually is the case where the population is the most dense and the most active. For example, a department store must have a location which will be convenient for a large number of people. It must have well lighted streets, good transportation service, traffic control, light and power services, etc. Also prompt police and fire protection must be available. For these advantages a high location rent per unit of area will willingly be paid. On the other hand, a location which would be satisfactory for farming purposes does not need to be easily accessible to many people, nor does it require so much community service. Its location rent, therefore, per unit of area will be much less.

From the above it follows that location rent is not due to the action taken on any particular location, but is the result of the advantages and services available at the location arising from the activities of the public around and about such location, both near and far. **It is, therefore, a value which can very properly be claimed by the public, not as a tax but as payment for community service.**

Considering now the position of the user of a location paying location rent to a title holder, it is plain

that the competition of the market will oblige the user to pay the full rental value of the location, or in other words he will pay in full for community service. Instead, however, of paying the community for the service rendered by the community, the tenant makes his payment of rent to the title holder of the location, who in his turn is not required to pass it on to the community, but is permitted to keep it for himself subject only to the "land tax" levied on the assessed value of his privilege. At usual rates of taxation, this tax is less, usually much less, than the location rent.

In a memorandum published in 1939, it was shown that the location rent of the City of Boston in the year 1935 was approximately 86 million dollars, of which only 38 millions were collected by the City through the tax on so-called "land value", while the balance of 48 million dollars was appropriated by the owners of title to land. In order to make up in part the resulting deficiency in revenue, 33½ million dollars was raised for the City by taxes levied on the value of buildings and personal property. Thus the greater part of the community created location rent of Boston was given away to the holders of title to land.

The above is now summarized in the following statements.

The assessed valuation of a location on the land is the assessed value of the privilege, accorded to the title holder by the Commonwealth of Massachusetts, of the exclusive possession of the location without payment of location rent.

The so-called "land tax" is a tax on the assessed value of the privilege as described above, and it operates as a partial payment of the location rent to the municipality which contains the location.

It is the duty of the assessors to assess the value of the privilege at the fair cash price for which it will sell. This price, except for prospective change in conditions, will depend on two factors (1) the amount of the location rent and (2) the amount of the tax on the privilege (the land tax). Its actual amount will approximate the capitalized value, at the current rate of interest, of the net location rent accruing to the title holder, namely the full location rent which can be collected from a tenant less the tax levied on the title holder.

In plain language, then, just what are we really doing under our system of raising revenue for municipal purposes by taxes on real estate, tangible personal property and polls? By means of the tax on that part of real estate which we call "land" we levy a tax on the selling value of a location, which value arises from the fact that the privilege of exclusive possession of the location is not adequately paid for. This tax is in effect, although not in fact, a partial payment of location rent for the privilege of possession, but it is usually, as already pointed out, considerably less than one half the rental value of the privilege. The resulting deficit has then to be made up by taxes, on buildings principally, and it is the taxes on buildings which constitute the real burden on real estate. The way to get rid of this burden is not through finding other things to tax, nor by an indiscriminating blanket reduction of the tax on real estate, but by securing through the land tax, or by the direct collection of location rent as such, a larger proportion of the location rent. As has been stated by John Stuart Mill ("Principles of Political Economy", Book V, Chapter 2, Section 6) "the existing land tax ought not to be regarded as a tax, but as a rent charge in favour of the public".

In brief, we are levying taxes on buildings, tangible personalty and polls in order that the privilege of exclusive possession of locations on the land may escape adequate payment. There is good reason to suppose, as will be explained later, that if in any municipality the privilege of land ownership were adequately paid for, there would be no need of the taxes above mentioned.

It is now the general practice of the cities and towns of Massachusetts to give away to private parties a large proportion of the socially created location rent and to make up the deficit thus caused by taking privately created wealth for public purposes. Thus each one of these cities and towns resembles an industrial corporation which every year gives away a large proportion of its revenue and then assesses its stockholders to make up the deficit.

The prosperity of a municipality depends very largely on what use the land owners make of their opportunities. Those who adequately improve their property may be called the "Helpers". It is they who employ capital and labor and encourage production. Those who fail to do so may be called

the "Dead Heads". If we take from the "Dead Heads" the full location rent of their property and promise them no taxes on future building they will not long continue as "Dead Heads", but will either become "Helpers", or will sell out. If we take from the "Helpers" nothing but the full location rent and exempt their buildings from taxation, they will have every incentive to continue and increase their activities.

As an illustration of the absurdity of our present practice let us consider the analogy of an office building.

The owner of an office-building has business opportunities represented by offices which he leases in return for rents which vary in proportion to the value of the opportunity offered. From these rents he secures all the revenue which is required to operate the building; and it is of no consequence to him whether his tenants make good use of their opportunities or not. If a tenant cannot pay the rent, he is expected to vacate; but as long as the rent is paid, the owner of the building does not concern himself about his tenant's business. But now let us suppose that the owner of an office-building, in disposing of the opportunities represented by offices, has adopted a system similar to that in use by our municipalities and the Commonwealth of Massachusetts in disposing of the opportunities afforded by exclusive possession of a portion of the public domain, and that you, the reader, have approached the owner of the building for the purpose of leasing an office. In the first place, you will be informed that the owner does not have any offices to dispose of, or at most only the less desirable ones. He will tell you that he charges no rent for offices and that, therefore, those who hold them do not often give them up, even when they cease to use them themselves, but instead they sub-let them, or sell title to them at a premium; and that if you wish to secure an office you will have to find some one ready to rent or to sell and will have to make terms with him. Should your curiosity then impel you to ask the owner how he secures the revenue required to operate the building he will reply somewhat as follows:—"In the first place, I ascertain the value of the premium which each office-lease carries because of the fact that I charge no rent and, by levying a tax upon this no-rent premium, I collect a small part of the rental value of the office. As, of course, this does not supply me with enough revenue to run the building, I raise what more is

needed in a number of different ways, but principally by levying a tax on the value of the equipment in each office, on the capital invested in the business and on the net income derived therefrom. Also, in order that I may have the necessary information to levy these taxes, I require of each possessor of an office a detailed statement of his business." The absurdity of this proceeding is obvious and yet it is the counterpart of our equally absurd system of raising revenue for public purposes.

From the above, the conclusion seems to be inescapable that the present method of raising revenue for municipal purposes by means of the so-called "real estate" tax, levied at the same rate on two kinds of property essentially different in character, is highly detrimental to the public welfare. It is obvious that the tax on the value of that part of real estate which includes the buildings and other tangible forms of wealth, is a direct discouragement to industry and home owning. On the other hand, as shown above, the tax on the other part of real estate, known as "land", is not really a tax at all, but is actually merely a partial collection of the annual value of a privilege conferred on the title holder. It would certainly be ridiculous to imagine that it could be detrimental to the interests of the community to require payment for a privilege conferred by the community. Suppose, for example, that some individual had acquired the right to draw annually a certain sum from the public treasury without rendering any service in return, and that this privilege were transferable. Then, unquestionably, the privilege would sell in the open market at a premium and might be taxed as property; but how could such a tax in any way restrict industry or increase the cost of living? So also with the land-owning privilege; adequate payment for it merely safeguards the rights of the community and, instead of discouraging industry, prevents the monopoly of its indispensable prerequisite.

Consider what would be the effect of the proposed limitation of the real estate tax to \$25 in a \$1000. To limit the tax on buildings and other tangible wealth on a location to this value would certainly be desirable, but, since any such tax has a detrimental effect on industrial and domestic activity, there appears to be no reason why the tax should be set at as high a maximum as \$25. It would be better, as far as the economic effect is concerned, if the maximum were set at a lower

figure, even as low as zero. On the other hand what would be the effect of limiting to \$25 in \$1000, the tax on the value of the other part of real estate, namely the value of the privilege of holding title to the location? It would be to fix definitely the payment for the privilege at a figure less than the privilege is worth, and at a figure so low as to enhance the evil effects already described of failure to collect full value for the privilege.

With a tax of only $2\frac{1}{2}\%$ on the selling value of a title to a location, how will the rent of locations be divided between the municipality and the owners of the locations? This is not difficult to compute approximately. As already explained, the proportion of the location rent accruing to a location owner will be approximately a percentage of the selling price determined by the current rate of interest. Thus, if the interest rate is 4%, the net location rent which will accrue to the owner will be 4% of the selling price as compared with $2\frac{1}{2}\%$ taken by the municipality as a tax. As an illustration, suppose that a location will sell for \$100,000 and that the current rate of interest is 4%. In such case the net location rent accruing to the title holder is 4% of \$100,000, that is \$4,000, and the tax on the location at $2\frac{1}{2}\%$ of the price is \$2500, these two sums together making up the full rental value of the location, namely \$6500. From this it is clear that the owner receives about 60% of the full location rent while the municipality secures but 40%.

In fact if we want to get a rough idea, in any particular case, of how the location rent is divided between the owner and the municipality, we have but to compare the current rate of interest with the tax rate. The table below indicates roughly what portion is secured by the municipality for different tax and interest rates:

Tax Rate in %	Interest Rate in %	Municipality's Share
$2\frac{1}{2}\%$	3	45%
3	3	50%
4	3	57%
$2\frac{1}{2}\%$	4	38%
3	4	43%
4	4	50%
$2\frac{1}{2}\%$	5	33%
3	5	38%
4	5	44%

When all above is considered, it seems plain that the first step to be taken toward an effective pro-

gram for the Metropolitan Area, is to change radically our antiquated system of raising revenue for public purposes. Instead of setting any fixed maximum to the real estate tax, we should abolish altogether the taxes now being levied on buildings and improvements and should secure a larger proportion of municipal revenue through the payment for the exclusive privilege of title to land. Without this basic reform, every proposal to better conditions in the Metropolitan Area is bound to be to a great extent ineffective. Let us now consider some of the other subjects which must be dealt with in this contest and we shall see how all important is the question of how to raise revenue.

PART 2

Subject D.—Industrial Relationships and Development

Under this heading the contestant is asked to consider "the incentives and inducements that must be offered to industry" within the Area. What are these at present? What have we to offer to any industrial concerns proposing to enter the Area?

We shall offer them a penalty for doing business here. We shall take away from them in taxes every year a part of the value of their commercial buildings and we shall do this in order that we may continue to permit the holders of titles to locations to pay less than their privileges are worth. Furthermore, if we undertake to offer within the Area any special advantages in transportation, in power and light facilities and through other community service, it will mean higher location rents, and the bulk of these increased location rents will accrue to the holders of titles to locations instead of to the community which furnishes the advantages.

Far and away the greatest inducement we could offer to any industrial concern entering the Area would be freedom from taxes on buildings and personalty, made possible because of increased collection of location rents. All that would be expected of the new concern would be payment of rent for the location it secured with its special advantages, such rent to be paid direct to the municipality in case the new concern should itself take title to the location, or otherwise to be paid to the title holder who in his turn would pass it on to the treasury of the municipality.

Much is being said to-day about "incentive taxation". There is no such thing. The best incentive is lack of taxation, and taxes can be reduced greatly when the privilege of land holding is adequately paid for.

We could have a great increase in the industrial prosperity of the Area, if it were understood once and for all that all sums paid as rent for locations would go into the public treasury, and that there would be a corresponding relief from the burden of taxation on industry.

Under this Subject D the contestant is also asked to consider the "basic policies necessary to provide conditions of full employment". Here we come to a question of such nation-wide importance that it cannot be discussed solely with regard to Greater Boston. Involuntary unemployment is not a local problem. It is a chronic phenomenon in peace time throughout the States of the Union. At times it is terrifically acute, and it is to-day the major threat to a satisfactory post-war condition. Moreover it is mainly due to the practice of giving away to private parties the annual value of location rent, as is indicated by the following serious consequences which arise from the practice.

The first, and most obviously evil consequence is of course that our various governmental bodies municipal, state and federal, in failing to collect the greater portion of the vast location rent fund, are forced to make up the deficit by means of a multitudinous variety of taxes, destructive to the incentive to produce and vastly expensive to collect. Such taxes are a direct discouragement to employment.

A second evil consequence is the encouragement to the holding of titles, not for use, but for speculative purposes. With the prospect in sight of higher rentals and higher selling prices on account of some expected community improvement or activity, and having to pay as taxation only a comparatively small proportion of the current rental value, the title holder of unused or inadequately used land will often refuse to sell or rent to a would-be user except at an abnormally high price, and if that price is not obtainable immediately, he will continue to hold his land unused in the hope of securing his price at a later date. Here we have the situation of a would-be user of a location on the land forced to pay an abnormal rent or purchase price to the title holder, or to forego its use altogether. Furthermore, in boom times abnormally high rents will be paid in the belief that the boom will continue, but

sooner or later the effect of the abnormal rents is to check production, and as a result to reduce employment and hence purchasing power. This still further checks production and still more unemployment follows.

There is still a third evil consequence of permitting a title holder to a location to collect and keep for himself that which properly should be taken by the community for public purposes. As already pointed out the selling price of a title to land represents the value of the privilege, conferred on the title holder, of collecting the location rent and keeping a part of it for himself. Such being the case, the greater the proportion of the location rent which the title holder is permitted to keep, the higher is the price of the title. Thus a buyer wishing to obtain a location for commercial or residential purposes must first spend a large proportion of his financial resources on the purchase of the location, and the greater this proportion, the less is left to spend on the buildings and other improvements and to provide capital for carrying on a commercial venture. Thus again employment is discouraged.

The best way to secure full employment in the Area after the war, is to remove the obstacles which stand in the way. This can best be done by collecting in full for the privilege of holding title to land, and at the same time reducing or abolishing the taxes on buildings and personal property.

PART 3

Subject I.—Residential Redistribution and Development

Under this subject is first taken up the question of encouragement to home owning. It is claimed that home owners in particular are tremendously over-taxed on their real estate and that they must be relieved by a reduction and limitation of the real estate tax. It is true that there is over-taxation of home owners, but it is not the "land tax" which is the burden. This, as already explained, is nothing more than a partial payment for an exclusive privilege conferred on the title holder of a location on the land, a privilege which receives its value from the community services and other advantages which are available at the location. The real burden on the home owner is the tax on the use of his property, that is the tax on his buildings and other improvements, and it is in general quite true that this is much greater than the tax on his privilege of land ownership.

For example, under present conditions, the owner of an \$8000 home on a \$2000 lot with taxes at a

rate of \$40 per \$1000 would pay \$320 on his house and \$80 on his land or \$400 in all, while the owner of an empty lot of same value would pay only \$80. If there were no tax on houses, the two owners would each pay the same amount for the privilege of land ownership, which in Boston for example would mean approximately twice as much as before. Thus owner No. 1 with a house on his lot would pay only \$160 instead of \$400, a saving of \$240, while owner No. 2 would also pay \$160, or twice as much as before. The encouragement to owning homes is obvious.

If we turn to the Assessing Department of the City of Boston for the latest figures available at the moment, namely to the Annual Report for the year 1937, we find that the total assessed valuation of the real estate of Boston was very nearly equally divided between "land valuation" and "building valuation", namely \$728 million for land and \$742 million for buildings. Since these assessed values were taxed at the same rate, namely at 3.87%, it follows that the taxes levied on the two separate assessed valuations were in the same proportion as the assessments, namely, on land 49½%, on buildings 50½%.

Now if we compare these percentages with each of those for the 22 wards of Boston as computed from the table in the Report on page 13, we shall see that a much larger proportion than 50% of the taxes on real estate in the residential wards of the City, is on the buildings. This is the real overtaxation of real estate. It is these taxes on the houses of home owners that have become such a heavy burden. In many cases these taxes have caused the loss of homes and they always are a direct discouragement to the building of houses.

On page 21 is given the table above mentioned from the Report of the Assessing Department, showing separately the assessed valuation of the land and buildings of the different wards. To this table has been added an extra column to show for each ward the percentage of taxes that are on the buildings.

It will be noted that for Ward 3, the percentage of valuation of buildings, and therefore the percentage of taxes levied on buildings, is only 30% of the total real estate valuation, while in several of the residential wards it is more than 70%. This is a heavy load for the residential wards to be obliged to carry because of the failure to collect adequately from title holders in Ward 3 where the average figure for building values is such a small proportion of the total.

However, it does not follow that all title holders in Ward 3 have failed to improve their property adequately. There are in Ward 3 many fine buildings

assessed for much more than the assessment of the locations on which they stand, and it is the owners of these locations who have to pay heavy taxes because others who are holders of vacant and under-improved locations in Ward 3 do not contribute enough. It is equally true that in the residential wards there are undoubtedly some locations that are vacant or under-improved whose owners do not contribute what they should.

It would be valuable at this point to get some idea of how the taxes in Boston would have been redistributed in 1937 among property owners if the taxes on buildings and personal property had been abolished and the loss made up by increasing the tax on land, that is by increasing the amount paid by title holders for the privilege of exclusive possession of their locations. It is not possible to give here these figures for all property owners, but it is possible and of much interest to secure these figures for the groups of property owners as represented by the wards of the City. The total taxes levied on property owners were as follows:—On land \$28,179,865.53, on buildings \$28,724,811.84, on personal property \$4,649,402.52, a total of \$61,554,079.80, see page 7 of Assessors' Report. In the table on page 22 are given in one column the actual total taxes levied on property both real and personal in each of the wards as taken from page 7 of the Report. In a parallel column are the taxes which would have been levied if there had been no taxes on buildings and personal property, but approximately the same revenue had been obtained solely from the privilege of land owning.

Figures are given to the nearest dollar.

These figures are very striking, indicating as they do how buildings and personal property in most of the wards are being taxed in order that inadequately improved property in a few other wards may be relieved. It appears that no less a sum in taxes than \$8,238,000 would have been transferred from certain wards to others, if instead of taxing property owners on their buildings and personal property, there had been raised the same revenue by securing a larger payment for the privilege of land ownership. The bulk of the increase would have been in Ward 3 which contained nearly 50% of the total land value of the City, but in which the buildings were valued at only 21% of the total building valuation of the City. On the other hand the reduction of taxes in some of the residential wards would have been tremendous amounting to over 50% in Wards 14, 15 and 20. Is it a wise policy to thus overburden home owners in order that compensation for privilege may remain inadequate?

assessed valuation of the exempt land of Boston was in round numbers \$234,000,000. Of this sum, however, \$119,000,000 was the value of property owned by the City itself, leaving a balance of \$115,000,000 as the value of other exempt land. This figure as compared with \$728,000,000 for the taxable land, bears the ratio of 15.6%. Applying this ratio also to the value of the location rent of the taxable land, which was \$58,000,000, we get approximately \$9,000,000 for the location rent of the exempt land not owned by the City itself, and a total location rent of \$67,000,000 as compared with the tax levy of \$62,000,000. The total location rent of the land, taxable and exempt was therefore substantially greater than the tax levy.

There is, however, a consideration not taken into account above, namely that the computed figure for the total location rent, \$67,000,000, represents the location rent only under the conditions which include the taxation of buildings. Unquestionably if the taxes on buildings were remitted, there would be a substantial rise in the location rent of the most desirable locations. How much this might be is problematical, but it is certain that with over \$30,000,000 of taxes on buildings and personal property removed, the use value of locations best adapted for construction of a substantial nature would be greatly enhanced. Obviously, a location on which a tax free building can be constructed has a greater use value than the same location would have if any building that might be constructed on it were to be subject to taxation. There can be no doubt, therefore, that a revenue of \$62,000,000 could easily be raised entirely as a payment for the privilege of holding titles to locations on the land. In fact it is probable that it could be done even if the \$9,000,000 of location rent from land now exempt from taxation were not collected, or in other words the exemptions were to be continued. There is not much sense then in continuing to levy taxes on buildings and tangible personal property in order that the payment for the privilege of holding title to land may continue to be less than what the privilege is worth.

We have next to consider under this subject the question of public housing and slum clearance. The demand for public housing and slum clearance is largely, if not entirely, due to the failure of private initiative to furnish low cost housing. But is not this because private initiative is stifled by the practice of penalizing it by means of taxes on buildings and by the high prices that have to be paid for locations on the land? Today, when private initiative wishes to

undertake a large scale housing project, two of the biggest hurdles to be leaped are cost of land takings and the future taxes on buildings.

It would seem to be simply a matter of common sense, before rushing into low-rent housing projects and slum reclamation with the aid of public funds, to remove, as a first step, the present handicaps to private initiative.

PART 4

Subject C.—"Assessment and Depreciation"

Tax assessment is a powerful force for good or evil in the development of a community and hence must be dealt with in any Master Plan. Business men and home owners must be relieved, as far as possible, from the inequality and uncertainty which under our present system are almost inevitable. If assured of reasonable justice and certainty, our citizens can and will proceed with greater confidence in their own legitimate activities, and the natural force and interplay of these activities will more surely promote the sound development of Boston than enforced compliance with any specific blue-print that can be made in advance.

Most of the present difficulties and inequalities of assessment result from the fact that the assessors must value buildings and personal property. This is, at best, an almost impossible task and it leads to the discouragement of industry and of the prudent management of property. Assessors tend to assess most strictly those buildings that are well-maintained, whether homes or business property, and to deal leniently with buildings that are vacant or run-down. Consequently a penalty is imposed on adequate improvement and a corresponding subsidy is afforded to those who rely, not on the development of their own property, but on the increase which may come in the value of their own land through the services of the municipality and the activities of their fellow citizens.

Under the revenue system which we propose, assessment would be enormously simplified and made more certain. If buildings and personal property were exempt from taxation, the most difficult of the problems of assessment would be eliminated entirely. Only that part of the present task of the assessors would remain which requires them to determine the location value of land. That task is not easy, but it is far easier than appraising buildings, where original cost, reproduction cost, quality of construction, nature of use, and extent of depreciation all bedevil the prob-

lem and render uniformity of treatment well nigh impossible. Land is out in the open and while many factors enter into its location value, these can all be weighed and determined in such manner as to provide at least a reasonable degree of uniformity for parcels possessing similar advantages of location. And with the attention of assessors, owners, and the general public focused on the single matter of location value of land, injustices will more quickly come to light and be corrected.

With buildings and personal property exempt from taxation, "depreciation" will no longer be a part of the problem of assessment, and property owners, relieved of the present tax-penalty upon repairing and improving property, will have an incentive to retard actual depreciation in their properties more effectively than this could be done by governmental planning or control.

While "depreciation" properly refers only to buildings and personal property, it is sometimes used to describe a decrease in "land value" and therefore should be mentioned here in that connection. As already pointed out, the true land value is not the same as the market price. True value depends on the best use which could be made of a given parcel of land for production or enjoyment and is correctly measured by the location rent. The market price is the value of the legal privilege of appropriating the location rent, and it measures merely the net value of that privilege which remains after taxes. For example, two parcels of land having the same true value for production or enjoyment, that is the same location rent, (including future as well as present possibilities), will differ widely in market price if one is subject to a tax rate of \$20 and the other to a tax rate of \$40. An increase in the tax rate will, other things being equal, tend to reduce the market price of land, but not the true value, namely the location rent. In fact, a high tax rate on land, if accompanied by the exemption of buildings and other improvements from taxation, will encourage land ownership and sound community development. It will render available more land at low prices for those who desire land for production or enjoyment.

PART 5

Subject A.—"Political Organization"

The sound development of Boston and the surrounding communities, whether the development be planned or spontaneous, would no doubt be aided by

certain changes in political organization. To strengthen our democratic form of government and make it truly representative, attention should be directed toward the desirability of adopting the short ballot, proportional representation, a thorough-going merit system, and a plan for city management in line with modern ideas of business administration. It would probably be worth while to re-examine the entire machinery of state, county, and municipal administration with a view to abolishing certain offices which no longer serve any useful purpose or the powers and duties of which could be transferred to other offices, state, municipal, or district.

Such proposals, however, are incapable of detailed treatment within the scope of our present undertaking. Furthermore, we consider them of merely secondary importance. We believe that in any Master Plan the factor of primary importance is not the tinkering with machinery but the establishment of conditions which will best promote sound industrial and governmental growth, adequate employment, healthy home and community life, and all the resulting incentives of good citizenship. With good citizenship our present political organization, even without any immediate changes, will serve us reasonably well, and changes will be made as the need becomes more definitely apparent. Without good citizenship even ideal governmental machinery will fail to produce good government.

Our present governmental system in Massachusetts, —state and municipal, is the result of centuries of conscientious and intelligent effort, through democratic processes, to improve the machinery of government. It represents an achievement in which the citizens of Massachusetts may well take pride. The same cannot be said of our haphazard system of taxation and of its effects upon the prosperity and living conditions of our citizens and upon the quality of their citizenship.

We therefore pass on to a further consideration of the subject of taxation which we believe must be dealt with as the factor of primary and immediate importance in any Master Plan.

PART 6

Subject E.—"Commercial Relations and Development"

At present commercial relations and developments are seriously obstructed by taxation of industrial acti-

vity and by high prices for building locations. This is aggravated by the constant activity of speculators in titles to locations, who endeavor to profit from the needs of industry by holding out of use, or inadequately used, those locations for which the needs of industry are likely to be the greatest. Industry must, in effect, pay these speculators a substantial tribute for the opportunity to do business.

The essentials of governmental development regarding location and types of industrial wholesale and retail centers, ease of access, parking areas, physical facilities, and labor supply, can best be left to the natural force and interplay of private activities when once artificial restrictions cease to interfere with production and exchange. Wherever private activities of certain individuals interfere with the legitimate activities of others, the correction of abuses can safely be left to zoning ordinances and other applications of the present police power.

The best way to secure the development desired is to remove needless and burdensome restrictions by correcting our system of raising revenue in the manner already explained, so that development can proceed along natural lines.

PART 7

Subject F.—"Educational Development"

As already pointed out in Part 1 of this proposed plan, the presence of educational institutions is a contributing factor to the amount of location rent in the community. It is therefore appropriate that whatever public funds are spent for educational purposes should be financed, as far as possible, from the location rent fund. Certainly no part of that fund should be appropriated by private individuals, as is now the case. Buildings and personal property owned by educational, charitable, and religious organizations, are now exempt from taxation and would continue to be exempt under the plan which we propose. It is questionable, however, whether such institutions, any more than individuals, should be permitted to appropriate any part of the publicly created location rent fund. In the long run, it might even be a protection to such institutions against the unreasoning hostility which occasionally exists in times of social unrest, if it were clear that the community received an adequate price for the privileges granted these institutions.

An indirect but extremely important effect on educational development in a community would result

from the removal of taxes which now repress industry and home ownership, and diminish employment and the purchasing power of income. The greater opportunities for full employment which could be brought about in the Metropolitan area under this plan would automatically result in a higher standard of education due to the relief from economic pressure and to the consequent increase in leisure and the means necessary for study and thought.

PART 8

Subject J.—"Transportation"

There is great need of a wise and far-sighted policy in the development of transportation facilities in the Metropolitan area and much public expenditure for that purpose is undoubtedly legitimate, provided that the full benefit of the development accrues to the community rather than to privileged individuals or groups.

Scandals in land takings for the development of transportation facilities have been notorious. Under present conditions the expected increase in location rents, resulting from public takings, holds out dangerous temptations to public officials and their friends to engage in land speculation at the public expense.

Even if public officials and their friends scrupulously refrain from profiting by inside advance information as to transportation developments, the fact remains that such developments at present tend to create increments of value which go not into the public treasury but into the pockets of those who merely hold title deeds to the locations benefited.

Furthermore, the cost of necessary land takings will be greatly diminished. Full compensation will continue to be paid for the fair market value of all property taken and the cost of taking buildings and improvements will be no less than at present. It may even be greater, for a tax-free building will have a greater fair market value than a building that is taxable. But the cost of taking land will be vastly less than at present. As already pointed out the increased proportion of the location rent taken by the municipality does not decrease the real value of the location, but does decrease its market price. The public will no longer be obliged to pay exorbitant prices to buy back values which the public itself has created.

PART 9

Subject G.—“Recreational Development”

What has been already said in regard to transportation development applies also to recreational development. In both cases, the first and most important step is to change the present system of raising revenue so that all the advantages obtained through public expenditure shall be realized in full by those who pay for them.

PART 10

Subject H.—“Welfare Systems”

We in Massachusetts are justly proud of our health and hospital agencies and of the high level of public spirit evidenced by the great contributions to the Greater Boston United War Fund and other community funds. Do not most of us, however, fail to realize that many of these agencies and much of these contributions ought not to be needed and would not be needed if the economic condition of the people of the Commonwealth were to be substantially improved as it should be? It can hardly be doubted that unemployment and poverty lead to ignorance of sanitation and hygiene, and that poverty and ignorance together make healthful conditions impossible. It follows that an improvement in economic conditions is of the first importance in the war against disease. At the present time our system of raising revenue is antagonistic to such improvement. How can we expect to secure proper living conditions when every tenement improvement is penalized by taxes, and the prices of locations can be driven up by speculators in the privilege of land ownership?

PART 11

Subject K.—“Citizen Participation”, and Conclusion

Under the heading “Scope”, The Boston Contest requires the contestant to outline definite procedures for the adoption and carrying through of the policies and measures recommended. Therefore, it is incumbent upon us to suggest the practical steps toward the abolition of taxes on buildings and personalty and a corresponding increase in the collection of location rent. As already shown the present tax on so-called “land value” is a partial collection of location rent and, therefore, a simple way to proceed might be expressed as follows:— “Shift the incidence of taxation from buildings and personalty

to land as rapidly as may be possible”. This plan, however, is not as simple as it appears at first sight, because when we attempt to secure the increased “land tax”, the selling price of the land, as already explained, will be reduced; or, in other words, the increased tax will itself cause a reduction in the value on which the tax is based.

Eventually if all or nearly all the location rent is to be taken as a tax, it will be a better plan to take as the basis for assessment, the location rent itself capitalized at the current rate of interest. In such case it will be the location rent which it will be the duty of the assessors to evaluate and capitalize.

In order, however, to make any change in the incidence of taxation, by taxing land at a higher rate than buildings, something more than legislation is necessary in Massachusetts, namely an amendment to the Constitution, as the Constitution now requires that taxes on property shall be “proportional”. It should not, however, be very difficult to secure the necessary change as soon as the present conditions are understood and the need of change is appreciated. In fact, about 30 years ago, an attempt to remove the word “proportional” from the Constitution of Massachusetts was very nearly successful, and as far as intangible personalty is concerned the requirement of proportionality was abolished by securing an amendment to the Constitution permitting the levy of an income tax on such property and relieving it altogether from the general property tax. Nevertheless, as long as the Constitution remains unchanged, the plan of shifting the incidence of taxation from buildings and tangible personal property to land, cannot be carried out.

But there is another way of looking at this question. It has already been pointed out that the so-called “land tax” is not really a tax at all, but rather a partial payment for a privilege the value of which is measured by the location rent. It would seem then that, without a constitutional amendment, we could abolish all taxes on land, buildings and tangible personal property and instead secure the needed revenue by taking all or part of the annual location rent as a payment for the privilege of possession, a privilege having value because of the services made available by the community. The question may well be raised whether there is anything in the Constitution which would prevent our local and state governments from demanding payment for privileges conferred and services rendered by the community.