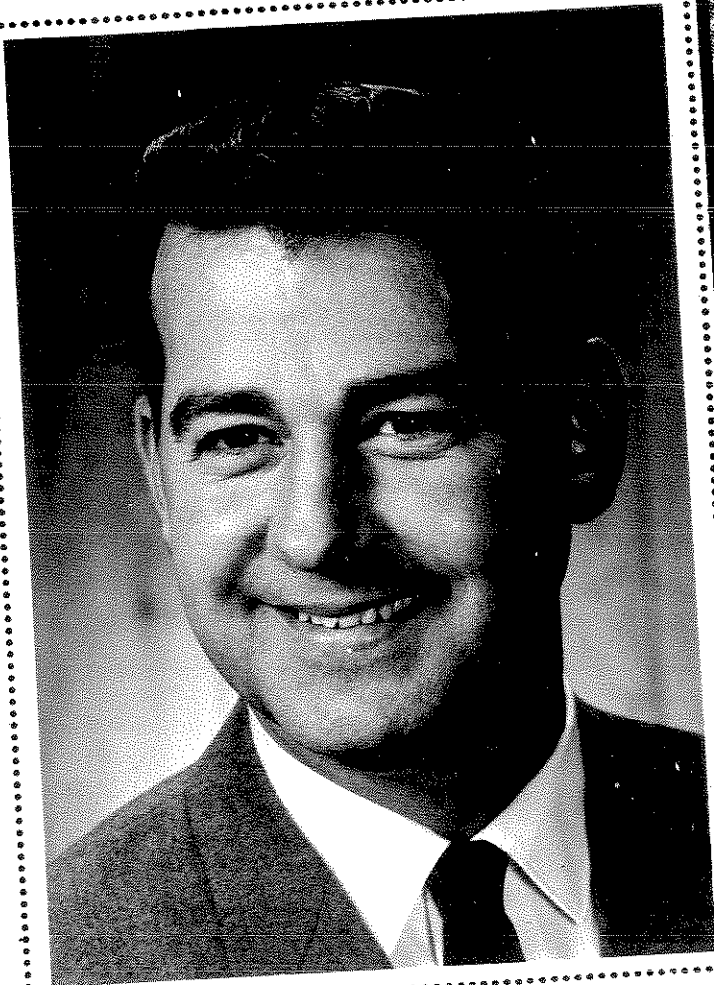


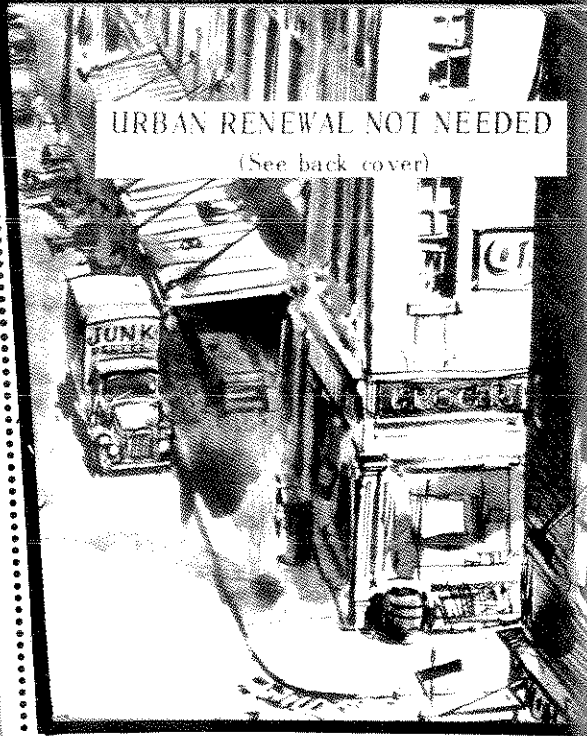
California HOMEOOWNER

June, 1969

Twenty Cents



Floyd Morrow, Councilman, City of San Diego



TAX REFORM HOAX

by Floyd Morrow
(See page 3)

6956

California Homeowner Magazine

Vol. 8, No. 2 June, 1969

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California Homeowner Magazine is published by the Statewide Homeowners Association.

Offices: Editorial
577 1/2 N. Vermont Ave.
Los Angeles, CA 90004
(666-2974)

Business Office
953 Eighth Ave.
San Diego 1
(233-6977)

San Francisco Office
1085 Monadnock Bldg.
San Francisco 94105
(AT 2-3110)

Mailed quarterly. Controlled Circulation postage paid at Los Angeles and San Diego

The TAX REFORM HOAX

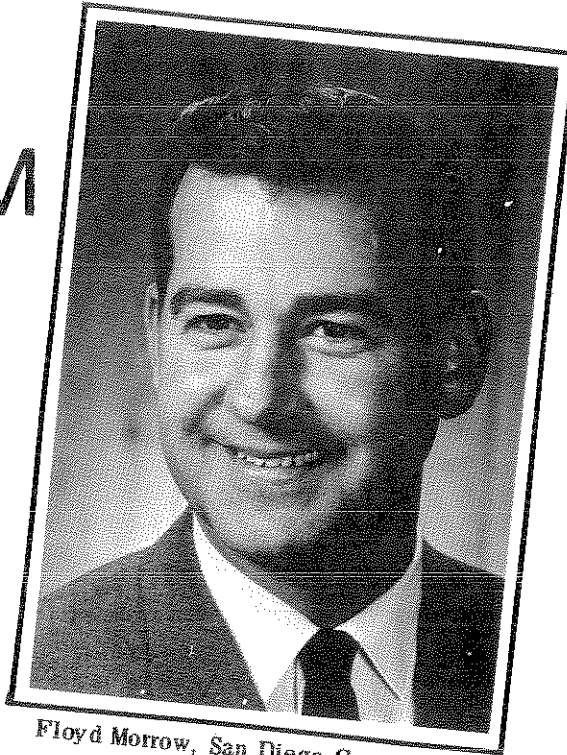
By Floyd Morrow
San Diego City Councilman

There is so much talk these days about Tax Reform that no public official would be caught dead being against it. The tragedy of it all is that most officials do not understand what the people want or are purposely trying to distort the term to serve special interests.

Surely no politician could misunderstand the term "Tax Reform" to mean higher taxes, yet that is exactly what the bulk of the tax reform packages would mean. Heaven help us from any more reforms as evidenced in California which increased state taxes by almost \$1 billion and no evidence of reflected tax relief at the local levels.

Is "property relief" really the term we should be using or should we use the term "reduced spending"? For example, here in San Diego, last August, the City Manager came up with a bright "property tax relief" idea. He proposed that the .10 rate for the Metro-

As a practicing Tax Attorney and former instructor in economics, Councilman Morrow has a good understanding of why homeowners continue to pay an unfair share of the high cost of government.



Floyd Morrow, San Diego Councilman

politan Water District be removed. This would give \$1.6 million "property tax relief" to San Diego property owners. And, to offset that loss, water rates would be increased to recapture \$1.6 million. Unfortunately, no less funds would be collected by such a proposal and water users would be paying the fare for non-water users. The funds are needed to expand the water system which is adequate for present users. Yet, the direct beneficiaries (wateeless land owners) would be relieved of any support to expand the system so their lands can be developed.

It so happened that opposition to the increased rates resulted in a discovery that a rate increase was really not necessary, but the "property tax relief" did go through. (TAX RELIEF FOR WHOM?) If additional funds were found, as they were, why weren't water rates reduced since water rates created the surplus?

With budgeting time here again, the City Manager is again proposing "property tax relief" measures. This time he is attacking the exemption of household furnishings, which the people voted themselves in November, 1968. He says that the exemption of household furnishings will cause a revenue loss to the city and in order not to increase the tax rate too much the city should put a tax on "utilities". He wants to replace the few buck's gain to homeowners by many bucks in the form of taxes on utilities. According to him, the homeowners could do whatever they please, but they will not avoid paying the bill for special interests.

It seems odd to me that, in a city of 700,000 people and with a budget last year of \$103 million, only \$7 million of the budget is collected as a tax on land and that our total "property tax" revenues brings in only \$21 million, \$14 million of which is on the improvements, such as homes, office buildings, apartments and personal property, such as inventories. The \$7 million portion of the property tax levied on the underlying land doesn't even cover 20% of \$37,000,000, the cost of improvements made in a single year by the City of San Diego, which has the direct effect of increasing land values. The largest source of income to the city being \$33 million on water and sewer charges, and more than \$20 million coming from sales and gasoline taxes.

STATE LEVEL JUST AS BAD

We've all heard about the many proposals in Sacramento for "tax reform". Among them is the Governor's package. As always his press release had the phrases we all like to hear - among them:

"One thing is clear, we will not achieve any real or lasting tax reform if we dodge certain basic issues. We will not achieve reform by simply adding more patchwork to the existing and crazy-quilt pattern of taxation. The need is to simplify ... and make more honest and more equitable ... the tax

structure of our state."

That statement and others would indicate he is solidly for motherhood and against sin. What he really means is that his program will continue to call for "reducing property taxes", which gives the homeowner the best deal of any tax, and will continue to increase consumer taxes which hit homeowners squarely between the eyes. Reduced property taxes do not help homeowners if new or increased taxes are imposed on consumers or wages, it does help land speculators though.

His proposal to increase the Homeowner Exemption is good, but to put a new \$130 million sales tax on items now exempt, such as repair services, is like giving a baby a sucker to attract his attention while you steal his bottle of milk.

BLOW TO COUNTIES

William R. MacDougall, general counsel and manager of the County Supervisor's Association, called the Governor's proposal to restrict County tax rates a "gimmick". In a statement, MacDougall said it would be "sheer folly" to destroy county government as "an unnecessary by-product of a major tax reform operation".

"Tax reform can be achieved in California with equity for all and without undermining our local governments", he said.

"This undermining and weakening our local governments will surely pave the way for direct state and national operations in all fields of government and will, thus, completely remove significant government functions from any sort of home rule whatever", he added.

The Governor, even though he campaigned on a platform of less state spending and more local control, has consistently called for increased state spending, thus, increased state control. It seems that his campaign was run by expert Public Relations people who knew what the people wanted to hear and what people wanted done, which was not being done

by the previous administration. But, after his victory, the Public Relations men went about their way and the large financial supporters became advisors and decision makers. Strangely enough, most seem to be land speculators, not just the seven who recently boasted of making 500% profit on a recent land investment. It will be interesting to see what the property, which they sold for \$1.5 million, was assessed at for taxes. If the assessor is assessing at the 25% ratio, as most assessors are, the assessment should have been \$375,000. I guarantee that homes, businesses, and farmers in Nevada County are assessed at 25% of their market values, or very close to it.

LOSING LOCAL CONTROL

It is most unfortunate that free enterprise is so tied up with controls that it hasn't for many years been able to show what it really can do. Taxes on wages, production and trade only cripple the profit motive and free enterprise.

MacDougall briefly scratched the surface when he said that the Governor's proposal would weaken local government. The continuing trend toward bigger and bigger state and federal budgets can't help but cause more state and federal control. The tragedy is that the advocates of more and more financial assistance to local agencies, be it city, county or state, are contributing to creeping socialization of our country. Local communities pay the taxes collected by state and federal governments. They have no way of getting money without getting it from us. As for controls, they must have controls or spending would go wild, more so than it already has.

If California is going to compete for jobs with other industrial states, our City Managers, City Councilmen and State Legislators will have to change their thinking about revenue sources. It's time a spade was called a spade and the "sacred cows" be taken to slaughter. The "sacred coes" I refer to are the land speculators and slumlords. There isn't a city in California which doesn't have its EYESORE in its core area. There isn't a city in California which isn't riddled with

vacant lots in its City Center which probably serves as a parking lot where 20 to 30 story parking towers are needed. In most cases neither the slums nor the vacant lots are for sale. The reason being the profitable nature of those investments with the present tax structure. California's tax structure penalizes those who do what is socially desirable and subsidizes those who do what hurts and is costly to society.

TAX LAND ONLY

If our legislators really want to solve some of the problems facing California, they should wake up to the tax structure which turned an arid desert (The Central Valley) into the most productive agricultural community in the world. The Irrigation Districts of California made that transformation possible, but, only after the farmers demanded that the taxes on improvements be removed. In 1909 the legislature amended the Wright Act so that Irrigation Districts would be taxed on land-only, after which their use became widespread. It should be stated that no state or federal funds were used in any of the Irrigation Districts.

If our cities, counties and school districts would collect all local property taxes from the value of land only, the slums would disappear. Not because the federal government or urban renewal agency bought them up, but because the owners would no longer find them be to "profitable investments". The same will apply to vacant lots on Main Street, if parking is needed (and it is) on Main Street, then a split level lot would be more profitable than a single level one since the taxes would be the same.

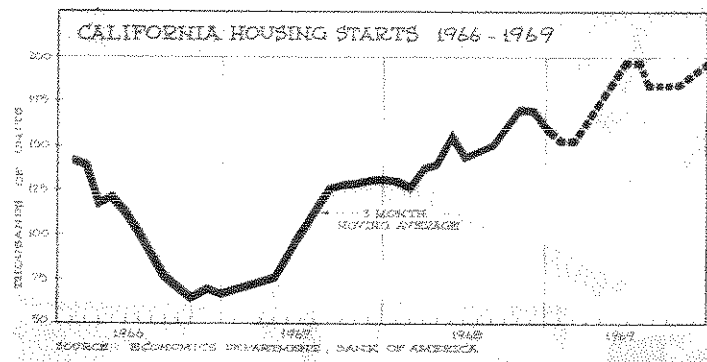
Homeowners too would be paying less property taxes on a land-only basis, and with no fears of increased sales taxes, income taxes or other such taxes on wages or trade.

The time has come for our public officials to stand up and be counted. Where do you stand, for or against the sacred cow?

END

SAVINGS and LOAN HELD LIABLE

by Michele H. Greenhill



The California Supreme Court has decided another case involving damage to housing because of defective soil conditions. The story is all too familiar. A subdivision was constructed in 1961, in adobe soil in the Thousand Oaks area. The houses began to crack and break up because of expansive soil conditions. (Concrete slabs broke and slipped under homes.) The homeowners got together and sued the subdivider and they also sued the savings and loan association which made the construction loans. (Me thinks they should also sue the county building inspectors who passed the construction site as safe.)

How can a construction lender, which merely provides financial services, be held liable for expansive soil conditions resulting in damage to homebuyers? The Supreme Court gave its answer in *Connor v. Great Western Savings and Loan Association* (1968) ADV. Calif. (L.A. 28,698).

Plaintiffs were the homebuyers who purchased moderately priced housing in the Conejo Valley. The defendant was Great Western Savings and Loan Association. Amicus curiae briefs supporting Great Western were filed on behalf of the State of California, the California Mortgage Bankers Assn., and the California Savings and Loan League. The Legal Aid Society of Oakland filed an amicus curiae brief in support of the homeowners. The decision was written by one of best known and most respected judges in the United States, the Chief Justice of the State of Calif., Roger Traynor.

In 1959, the subdivider agreed to purchase 100 acres in the Conejo Valley. He went to Great Western to obtain financing. Great Western agreed to supply funds to purchase the land, and also received a gentlemen's agreement that it would have the right

of first refusal to make any construction loans on the houses to be built.

(This was also declared illegal in a decision recently.)

The subdivider put \$190,000 of his own funds into the purchase of the land, and the balance of the purchase price was supplied by Great Western. Great Western actually took title to the land, and gave the subdivider a one year option to repurchase the land at a \$30,000 profit to Great Western. This was an early example of what has become known as "land warehousing" under which a financial institution holds land for a developer until he is ready to use it.

One reason for the "land warehousing" technique according to the court, is that the lending institution is prohibited by law from lending more than thirty-three and one-third per cent of the appraised value of the unimproved real property. Therefore, in this case, Great Western could not have loaned \$150,000 to the subdivider on the land, so, instead, Great Western took title to the land as a means of circumventing the statutory prohibition by disguising what was really a loan, and making it look like an investment in real property.

Great Western knew that the subdivider was under capitalized. The subdivider's financial statement showed a capitalization of \$325,999, but, of that, \$320,000 was estimated profits which the subdivider expected to make from selling homes which were not yet built. Thus, the court said, 64/65ths of the total purported capital was extremely hypothetical.

The subdivider did not employ an architect, but bought pre-packaged plans. Great Western did not examine the foundation plans. It was more interested in the financial aspects of the transaction than in the construction aspects.

Great Western made a construction loan to the subdivider in the amount of approximately \$3,000,000, and ended up with most of the permanent loans. Great Western charged the subdivider a one per cent fee for loans

made to substandard buyers. The construction loan fee was five points, the interest rate was 6.6%. The five percent loan fee was higher than normal because the construction loan was appraised by Great Western as one involving substantial risks.

During the course of construction Great Western's inspectors visited the job weekly to verify that the progress of the job justified the construction loans drawn by the subdivider. But Great Western made no searching inspection as to soil conditions or foundations. The court therefore held Great Western was liable to the homebuyers for negligence which resulted in damage to the houses from expansive soil conditions.

Great Western became much more than a lender content to lend money at interest on the security of real property, it became an active participant. Under the construction loan agreement, it had the right to exercise extensive control over the enterprise. Great Western received not only interest on its construction loans, but also substantial fees plus 20% capital gain for "warehousing" the land.

Since the value of the security for the construction loans depended upon the construction of sound homes Great Western was clearly under a duty to its shareholders to exercise care to assure that the homes would be properly constructed. Great Western knew that the developers were inexperienced and undercapitalized.

Great Western should have known of the expansive soil conditions. The presence of adobe is easily detectable by the naked eye. Yet Great Western failed to require soil tests or to examine foundation plans. It permitted construction on the basis of pre-packaged plans, and made no attempt to discover gross structural defects. It relied solely upon building inspectors with whom it had not previous experience to enforce a building code with the provisions of which it was ignorant.

The court held that Great Western was under a duty to the buyers of the homes to exercise reasonable care to protect them from

damages caused by major structural defects. Great Western should have foreseen the potential risk to the homebuyers. Great Western should have known that the usual homebuyers are ill equipped with experience or the financial means to discern structural defects in a home. A home is not only a major investment, but also the only shelter he has.

Substantial moral blame therefore attaches to the conduct of Great Western.

Great Western argued that the imposition of liability for structural defects on a lending institution will increase housing costs, drive some builders out of business and decrease total housing at a time of great need. But the court answered that there is no social utility in fostering the construction of seriously defective homes.

Great Western contended that it was the building inspectors of Ventura County who were negligent, and that this negligence relieved Great Western of any liability. But the court held that the fact that the inspectors were negligent would not excuse Great Western for being negligent.

There is still a chance that the United States Supreme Court will reverse the decision of the California Supreme Court, but they do not usually do so. Therefore, what will happen to building in the future?

1. Construction lenders will demand soil and foundation reports on all subdivisions.
2. Construction lenders will hesitate to deal with inexperienced, undercapitalized subdividers.
3. Construction lenders will make a more searching inspection on subdivisions in order to be certain that no major structural defects exist.

Will this make the cost of building rise? Will the Savings and Loan companies pressure insurance companies to give this type of insurance coverage? One thing is certain, there will be legislation entered in Sacramento to correct this situation.

LETTERS TO THE EDITOR

Assessor, Kern County

Subject: Tax Assessment, Parcel 245-142-10

Reference: Letter Peterson/Rudy November 21, 1967

Gentlemen:

Your reference reply indicates that my present tax assessment has been reviewed and is correct. You also indicate that the 12 fold increase in my taxes in two years is fully "just" and reasonable based on your figures and recent new assessment policies. I have checked the value of my property and am certain it has not changed by more than 50% in the last 8 to 10 years.

Gentlemen, there are only three conclusions that can be made:

1. That your previous methods for levying taxes were very unfair and inaccurate.
2. That your present methods for levying taxes are very unfair and inaccurate.
3. That the cost of running the government in Kern County has increased by a fantastic amount or is terribly inefficient, or both!

From the very firm and decisive tone of your letter, there appears to be little the average citizen can do to protect himself against this type of galloping government confiscation. The Soviet Union could afford to take a few lessons from you when it comes to socializing a country.

When my wife and I homesteaded this property a number of years ago, we looked forward some day to retiring to this land and building a nice home. However, if the cost of your government continues to increase at the

rate of 5 times per year, we cannot afford the luxury of planning for our old age. We'll just have to let the "Government" worry about that for us. And after my back is broken along with the rest of the pioneering, aggressive people like myself, there may not be anyone left willing or able to pay for the expensive luxury of a horribly inefficient "almighty" government.

Although the "little guy" who pays and pays and pays has just about lost the democratic form of government that he fought many bloody wars to preserve, there is however one remaining strong bastion of democracy, the newspapers. They are the last effective way of fighting such high-handed government policies. Some aggressive newspaper reporter should be able to find a nice juicy story here and I shall do my very best to get this information to that "aggressive newspaper reporter." I suggest that you put together a little better story than the one you used in your reference letter to me.

Sincerely,
M. Franklin Rudy

cc: Governor Ronald Reagan
Los Angeles Times
The Bakersfield Californian
Statewide Homeowners Assn.

Ed Note:

The Statewide Homeowners Assn. received a copy of the above letter as did the Los Angeles Times, Governor Ronald Reagan and the Bakersfield Californian. It is possible that the Governor would sympathize with Mr. Rudy, since he too owns land which he would like to have assessments lower upon. Notice that Mr. Rudy is not making any arguments for a lower value, only that the increase has been too much in too short a time.

Statewide Homeowners Assn. contacted Herbert Roberts, Kern County Assessor, to find out why Mr. Rudy's assessments have sky rocketed. To point out how "very firm" and "decisive tone" the letter received

by Mr. Rudy, the Assessor provided us with a copy which we have printed below.

To shed more light on this situation, the assessor pointed out five comparables within 1 1/4 miles of Mr. Rudy's property. They are:

| Parcel | Date | Acres | Sale Price | Imp |
|------------|------|-------|------------|-----|
| 245-132-02 | 1967 | 5 | 5,000.00 | No |
| 245-131-11 | 1966 | 5 | 4,500.00 | No |
| 245-132-03 | 1963 | 5 | 2,500.00 | No |
| 245-150-06 | 1966 | 4.78 | 8,000.00 | Yes |
| 245-122-09 | 1967 | 5 | 7,500.00 | Yes |

The assessor also has 32 sales of 2 1/2 acre parcels near-by which sold from \$4,500.00 to \$5,000.00 in recent years, which indicates to us that Mr. Rudy's property is still underassessed and a further increase will be due next year.

This is the assessor's letter to Mr. Rudy. The assessment from 1962 to 1966 was \$50.00.

M. F. Rudy
19001 Vintage Street
Northridge, California 91324

Dear Mr. Rudy:

Your property, Parcel 245-142-10, and other land in this area were re-appraised for the 1967-68 year. The primary reason for the increase in assessed value is due to a new law. Under the new law, called AB 80, which was passed by the State in June 1966, the county assessor is required to appraise at a set percentage of market value. Our Assessor set a ratio of 25% of market value under the new law. The full cash value of your property may be interpreted as estimated market value or full cash value is \$2,600. The assessed value is the amount which determines your taxes.

We have recent comparable land sales in this area to support our appraisal.

Yours very truly,
HERBERT E. ROBERTS
Assessor, County of Kern

A Dilettante's Dilemma

Mr. Pereira delves into the problems caused by inflation

by Wilbur E. Pereira

Dilettantism allows one certain freedoms. He can mentally roam the various schools of thought and express himself rather freely, without too much or even any regard for the ties of professional ethics. He can ask questions without violating any of the dogma or lore of particular disciplines. But he can and does find himself in a quandary from which extrication may be difficult, indeed. As a dilemma-fighter he can be bold, and his success will be in proportion to the attention he pays to that old admonition written a long time ago by Alexander Pope:

*A little learning is a dangerous thing;
Drink deep, or taste not the Pierian
Spring
There shallow draughts intoxicate the
brain.
And drinking largely sobers us again.*

With Pope in mind, this effort will explore inflation, debt and interest.

I want to repeat the lesson learned by a little king in a Fable read several years ago: THE KING WHO GOT SQUEEZED BY "TIGHT MONEY". (Fortune, March, 1957)

*"When people attempt to borrow more
than they are saving, soon there is a
shortage of money to be borrowed."
"And then even a King can't borrow,
unless he is willing to start up the*

*printing presses, which brings infla-
tion. For as I said before, 'there is no
such thing as a free lunch.'"*

It has been reported that Calvin Coolidge, while taking his son for a walk, paused in front of the bank where they had a savings account, saying: "Shhhh, let's see if you can hear your money working for you." This simple economic lesson was that if they would regularly put aside some savings, the interest would make the nest-egg grow. Or would it?

One thousand dollars put in a savings account twenty-five years ago at four percent, compounded quarterly, would be worth \$2705 now, but at two percent yearly inflationary rate it would actually be worth only \$1648; at a five percent inflationary rate, only \$798. A \$10,000 paid-up life insurance policy bought at the same time would be worth only \$6095 today under two percent yearly inflation, or \$2953 under five percent inflation.

It may surprise some readers to know that the late John Maynard Keynes was very much against inflation. The book KEYNES AT HARVARD does not elaborate, but the free-enterprise, limited government organization THE FOUNDATION FOR ECONOMIC EDUCATION has printed Keynes' paper on inflation.

In 1919 Keynes wrote: "Lenin is said to have declared the best way to destroy the capitalistic system was to debauch the currency. By a continuing process of inflation, government can confiscate, secretly and unobserved, an important part of the wealth of their citizens. Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency." (And inflation will do just that.)

About three years ago, our national Budget Director warned inflation "redistributes income in a capricious manner, heavily rewarding some and penalizing others," and "by raising the price of goods we sell abroad robs us of our foreign exchange earning power, and reduces our ability to meet our commitments abroad."

He said this shortly after 1965's cost of living had advanced 2 percent, the highest in seven years. Wholesale prices had shot up 3.4 percent, after having remained quite stable since 1957.

The Administration had been trying to curb inflation through "voluntary" wage and price controls and by increasing the cost of borrowing money. A Republican task force proposed more drastic action, including reduction or postponement of voted welfare programs and a new "surplus" budget for the upcoming fiscal year.

Lack of courage to so move was attributed to "an election year". A conscientious dilettante often finds this, and "political expediency" stumbling blocks to a reasonable evaluation of facts.

Those who gain from inflation constitute pressure groups. In the matter of fiscal policies, and many other government actions, Dr. Milton Friedman, *THE PUBLIC BE DAMMED*, Freeman Magazine, October, 1968, makes a few points: "No strong pressure groups will favor proposed changes -- which serve only the widespread general interest of the public."

"Many citizens regard it as a paradox that a democratic government, supposed to promote the general welfare, should enact so many measures that promote special interests. It is not a paradox. It is the result to be expected when government engages in activities that have concentrated effects on small groups and widely diffused effects on the rest of the citizens. A majority rules in a political democracy, but the majority that rules is typically a coalition of special interests - not a majority promoting the general interest."

In his book *DOLLARS AND DEFICITS* (Prentice-Hall) Dr. Friedman expresses basic beliefs that "freedom is the major objective in relations among individuals. The preservation of freedom requires limiting narrowly the role of government and placing primary reliance on private property, free markets and voluntary arrangements."

He suggests we "set the dollar free and let its price in terms of other currencies be determined by private dealings. Such a system of floating exchange rates would eliminate the balance-of-payments problem, thereby enabling us to abolish the income-equalization tax and informal exchange controls, and to move unilaterally toward freer trade."

Would it be expecting too much if we sought virtue and integrity among those who hold special privilege and live by the power it gives them?

In the arena of pressure groups and special interests will occur the most difficult battles in "Tax Reforms" now being discussed at local, state and national levels.

Mr. James Reston has stated the issue very well: "Whether we can regain the gift of honest discussion, whether we can be honest and candid again, whether we can trust one another, whether men who disagree with the present policy will come forward and say why, whether our political leaders will risk the agony of debate and even defeat -- and the exciting thing is that this is what is beginning

to happen."

Let us hope so.

AMERICAN INSTITUTE FOR ECONOMIC RESEARCH, Great Barrington, Mass., has published many bulletins, aside from those that are investment advisories. One finds much about inflation, and about special privileges in their works. Especially interesting is their table HOW AMERICA'S "Forgotten Men" HAVE CONTRIBUTED TO THE "Success" OF INFLATION. From 1940 through 1967, there were \$309.7 BILLION stolen from savings in all forms by inflation. The two percent rate previously mentioned for 1965 "stole" \$16.0 BILLION. For 1966, 3.3% and \$27.2 BILLION; and by extrapolation from the table we find that using a savings base of about \$900.0 BILLION for 1968's admitted inflation rate of 4.7%, THE AMOUNT STOLEN WOULD BE ABOUT \$42.5 BILLION! Your 1968 dollar has the purchasing power of 1938's 39.5 cents; and of 1947-49's 66.07 cents!

In THE FUNCTIONAL FAILURE OF THRIFT INSTITUTIONS, June, 1967, the Institute makes a cogent presentation of facts, and some suggestions for action. "The custodians of the vast accumulation of your wealth occupy positions of great power as the leaders in banking and insurance. Unfortunately, most of those custodians have failed to see or to perform their full economic duty. What they have failed to do is to carry out their full economic obligation, which includes continuous and energetic opposition to the subtle 'embezzlement' of the buying power of your funds."

On November, 1968, a letter was written to Mr. George Champion, Chairman of the Board, Chase Manhattan Bank, New York City. It congratulated him for his fine article in U S NEWS AND WORLD REPORT 11/11/68 PUZZLE FOR NEXT ADMINISTRATION -- HOW TO HALT INFLATION. It was suggested too that; 1) the banking system has been all too quiet about the whole thing, and 2) was used by the government as a vessel for promulgating inflation. (REFERRED MR.

CHAMPION TO THE INSTITUTE ARTICLE.)

It was pointed out that the bankers need to tell us more about the various impacts of "low interest rates," and how they mean higher prices in such things as land in the capitalization process. This is extremely important, it was pointed out, since land prices have spiraled more than many other prices and have become a main cause for an increase in purchasing media. Suggested that it is not ONLY the monetizing of government debt creating more inflation, but it is the capitalizing into prices, then into purchasing media values from obligation (not wealth) instead of values from production, which are wealth. It was mentioned, too, that we have too many "daily breads" of many tomorrow's already monetized and in our stream of purchasing media. Also made a reference to the tables in Prof. Paul Samuelson's ECONOMIC (1955) showing how there is a multiplier factor associated with fractional reserve banking procedures that allows the banking system to "create money" rapidly.

Mr. Champion wrote on November 27, 1968: "Dear Mr. Pereira: Many thanks for your letter regarding my recent article in U.S. News and World Report. Personally, I had not noticed any unusual silence on the part of the banking fraternity about the dangers of inflation. A number of my colleagues have spoken out strongly on this subject in the last couple of years. However, I certainly agree with you that the threat to our economy is serious enough to warrant the best thinking of not only the bankers, but the business community in general. Kind regards, Sincerely, George Champion."

You may be interested in knowing how the "multiple expansion of bank deposits" operates. Prof Samuelson writes that bankers sometimes say the banking system cannot (and does not) create money. They have been enmeshed in our old friend the fallacy of composition: what is true of each is true for all. The banking system can do what each small bank cannot do: it can expand investments many times the cash given it. The banking system and the public do, between them,

create about \$5 of bank deposits for every dollar taken out of circulation and left in the bank.

Suppose that the bank is required to keep only 20% legal reserves. (Some are less than that, the multiplier becoming greater than 5.)

Although the bank cannot jack its deposits up to 5 times its cash reserves, it most certainly can reduce its cash reserve down to 1/5 its deposits. Nothing is easier. In Prof. Samuelson's text (1955, page 277) a table illustrates how, in three columns, "New deposits," "New loans and investments," and "Cash Reserve Balances," in steps from the original bank through banks of the 10th "generation" and beyond, a new deposit of \$1000 creates new loans and investments of \$800 and a cash reserve balance of \$200 at first, then grows to: New deposits, \$5000, New Loans and Investments, \$4000 and Cash Reserve Balance (assuming 20% required) \$1000.

Prof. Samuelson writes that common sense tells us the process of deposit creation must come to an end only when no bank anywhere in the system has cash reserves in excess of the present ratio of reserves to deposits. Thus the whole banking system can do what no one bank can do by itself.

If only 10% reserve is required, the initial deposit of \$1000 can result in \$10,000 of bank deposits. A nervous widow's permanent withdrawal and hiding of \$1000 in the attic creates a reverse chain of events and (at 20% reserve) causes a "killing off" of \$5000 worth of deposits throughout the whole system, and \$4000 in bank-earning assets.

Even a dilettante can associate this significant fact with the importance of governmental action in adjusting reserve requirements, establishing interest rates, and MAKING DEPOSITS OF MONEY CREATED VIA THE MONETIZING OF DEBT. It doesn't take long for mild to become WILD inflation with that kind of lashup functioning! Throw in those non-wealth PRIVATE values monetized,

such as land values, and a deadly combination is born. (To the contrary, it was found that in Denmark, when site value taxation was at its most effective level, the rate of inflation was at its lowest. This was because less non-wealth value and pricing were being monetized into the stream of purchasing media.)

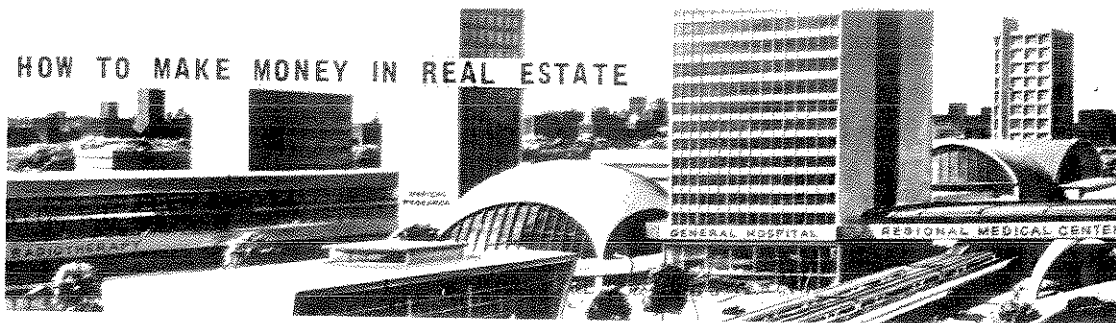
Incidentally, too, in the second quarter of 1966 FHA tables indicate that the average market price of a site for a home was \$3684, making up 20.3% of the total price of house and lot. In 1946, the market price of a site averaged \$761, and was only 11.5% of the total price of house and lot. The FHA report indicated that site values of developed lots used for new single family houses with FHA-insured mortgages advanced over 300 percent between 1946 and 1964 which contrasts with only a 58 percent increase in the general price level during that time.

The dilettante's dilemma about interest clears up somewhat when it is realized that falling values of our dollar send interest rates soaring. A \$1000 loan made on January 1, 1968, and repaid in full at 6% interest, or \$60 in interest on December 31, 1968, would have netted the lender an increase in purchasing power of only \$11.91, or a yield of 1.19 per cent. To have netted a 5% return without any erosion of the purchasing power of either his capital or his interest, it would have been necessary for the lender to charge a 19.3 per cent interest rate and be paid back \$1103.09 at the year's conclusion. "The Appraiser," a newsletter for American Institute of Real Estate Appraisers members, points out the above figures, and that the nation's commercial banks had no lack of funds for making real estate loans through 1968, but with rising inflation it is easier to understand why the interest rate was hiked.

One can understand GOOD MONEY being dear, and pulling in high interest for its use. It is a shame, indeed, that high interest rates must be paid for CHEAPER MONEY BEING FURTHER CHEAPENED BY INFLATION!

END

HOW TO MAKE MONEY IN REAL ESTATE



If you want to make money in real estate, sell to, or buy it from the government. A recent suit filed by taxpayers sought to regain \$390 million worth of land reputedly sold by the state in 1956 for \$10. These same taxpayers are considering further suits for another large piece of land which will shortly be taken over by the same developer, California City Development Company, for just under \$1.00 (one dollar) per acre. This land, which was part of the Mohave Airport, is in the path of the runway and judged unsuitable for development, but you can be sure it will be sold to unsuspecting buyers as fully developable land. This corporation, by the way, advertises that there are 1 million acre feet of water available under California City. If this is so, why do the taxpayers burden themselves with a billion dollar bond issue to bring water from Northern California? Since availability of water decides the value of land, this land should be extremely valuable, why is it then that the California City Litigants are suing for a return of their purchase price because they cannot sell their land or use it profitably?

In another recent purchase of land by the County of Los Angeles, 10.7 acres of land were purchased by the Board of Supervisors for a \$3.2 million Newhall civic center. This property, which belonged to the Newhall Land and Farming Company, was assessed at \$383,000 for 85 acres. According to that assessment the whole 85 acres should be worth \$1,532,000, since the L.A. County Assessor is using 25% as his assessment ratio. Now we find that the County has paid \$3,200,000 for only 10.7 acres of it. That being so, one of two things must be a fact. Either the assessor grossly underassessed the property, which causes homeowners to pay more than their fair share, or, the County paid \$3.2 million for land

worth \$192,600, or 16 times what it is worth. In either case, homeowners are picking up the tab. The expenditure of taxpayers funds to enrich the large landowner is a common occurrence, but in this case it was a bad investment too, the land is so sandy and shifting that it has been discovered that pilings will have to be sunk to support the one story civic center building. This is in the district of Supervisor Warren Dorn, who had a Club House built nearby in the city of Pearblossom because the ladies club asked him to, and after all, it was only \$85,000 of the taxpayers' money.

These same supervisors complained about having to pay 61% more than the assessor's indication of full market value for some land for a park in East Los Angeles a few years ago. They criticised the assessor, Philip E. Watson, quite severely for "under-assessing" four parcels of land. The county had paid a total of \$102,385 for land whose aggregate assessments were \$15,830, indicating a full market value of \$63,320. The Supervisors demanded that the assessor have land appraised at full market value in the future. It seems as though they don't want low assessment on just anybody's land, only on large land speculators. For example, we hear no requests of the Supervisors to demand reassessment of the Malibu Hills.

Other deals made by Los Angeles County include the old Law Building which was torn down to make way for the Civic Center Mall. This building was assessed at \$200,000 making it worth \$800,000 full market value. The owners, Lombardi brothers, asked \$3 million for the property and the county let the controversy go to court. They wound up paying \$1,450,000.

Another purchase by L.A. County Board of Supervisors was the De Lisa Building at Grand and Temple streets. The county was offered this building some time ago for \$300,000. They turned it down, saying they didn't need the space, although they were building enormous buildings all around it which would need parking facilities. They were offered the building in 1964 for \$600,000. They still didn't buy. Then it was decided a Court of Domestic Relations would need space, so 8 months after turning it down for \$600,000 the county paid \$1,235,000 for the building. This was never built and today the Music Center Operating Company leases the building for \$1. per year, the county pays all operational expenses.

Speaking of leases, there is the firm of Oscar and Irwin Topper, who have 11 lucrative leases under 11 corporate names, all in the district of Supervisor Ernest Debs.

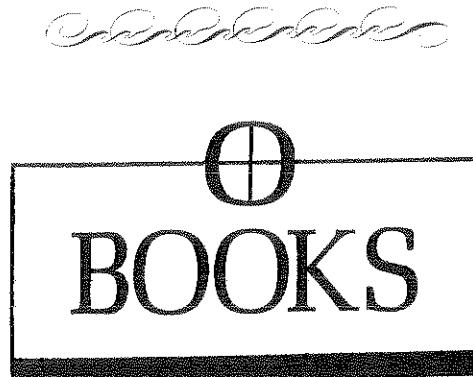
Also in Orange County a school board paid \$840,000 to purchase a piece of land on the tax rolls for \$50,000. This disparity between the taxing agency and the buying agency means that you, the taxpayers, must pony up.

WHERE ARE THE CRUSADERS?

In 1937 a member of the Los Angeles County Grand Jury filed a suit in Superior Court, Clifford E. Clinton versus Superior Court, to guarantee his right to be heard when the other members of the Grand Jury did not want him to testify as to corruption in the county. Clinton exposed some cases of pay-offs in land deals which have not been settled to this day.

In 1954 John B. Kingsley led a "run-away" Grand Jury which exposed fraud in connection with land deals and the Board of Supervisors. Now we have a whole list of land deals which have an over-ripe odor. The Grand Jury has refused to consider any of these deals as being "fraudulent", although some have privately agreed they show very poor management or business sense.

END



THE CONGRESSMAN His Work As He Sees It by Charles L. Clapp

This book was prepared from a conference technique originated by the Brookings Institution and is published by that independent organization which is devoted to nonpartisan research, education and publication in economics, government, foreign policy, and the social sciences generally.

Using extensive interviews with 36 Republican and Democratic Congressmen, Clapps says that most Congressmen feel that campaign funds are the biggest problem they have and a strong case can be made for financing campaigns with some sort of Federal funding. If we are going to ask our representatives to resist the blandishments of big lobbys and bigger business interests (and this is representatives at all levels of government) we must provide the means to free them from skyrocketing costs of campaigning.

The members agree that almost all work is done in the committees and say that a feeling of comradeship develops in the conference room. "Cronyism" is what one member called the feeling that develops and reforms are difficult because one member would not do anything to embarrass another. They also say that members are less inclined to make their real votes on the floor where they will be

publicly recorded. No records are kept of conference committee deliberations and you will see Senators and Congressmen fight ardently for a measure in the committee room which he went on record as opposing on the floor.

Rep. Richard Bolling of Missouri (D) has entered a bill to reform some of the ills of Congress. This package of reforms was compiled by the Democratic task force on Official Conduct and Congressional Reform, which Bolling heads. It is now before the House Rules Committee if you wish to write to your Congressman and ask for action.

EDITOR'S NOTE

There is a new law requiring Federal officials to give access to Government records to anyone who requests them unless the information falls within nine categories exempted by Congress. This just means you might have to get a court order to gain access to certain agency files, but you will get them eventually.

The self justification of government for not quite honest but not quite corrupt practices is beginning to be eroded. There remains a mountain to be cut down to mole hill size, the conflict of interest of government officials voting for clients or interest they represent. The First Congress adopted the "Jefferson Rule" which was Rule 376 of "Jefferson's Manual: the Constitution and the Rules". This rule stated "When the private interests of a member of Congress are concerned in a bill or question, he is to withdraw. In a case so contrary, not only to the laws of decency, but to the fundamental principle of the social compact, which denies to any man, to be a judge in his own cause, it is for the honor of the House that this rule of immemorial observance should be held to."

Seldom, if ever is this rule adhered to today.

Some senators voluntarily give an annual accounting of their income and its sources. Why is this rule not mandatory for all Congressmen as it is for Cabinet appointees? Campaigning for national office has become so costly that it can be said with impunity that no candidate goes into office without being beholden to some big interest. If this is true then we should know to whom a candidate owes his allegiance, to whom he will give his vote when the chips are down.

The Rich and the Super-rich

A study in the power of money today
by Ferdinand Lundberg, Lyle Start, Inc.

There is no law against bigness, anti-trust laws only protect against monopoly (allegedly) and preserve competition (allegedly). The "muckrakers" of the '90's who thought a hundred million dollar company was "too big" should see what has happened to our country now. Supposedly, there are but 500 companies with interlocking directorships which control all of U.S. business. This past year there were 3,400 mergers into the new style "conglomerates" which are perfectly legal as the businesses which merged were non-competitive.

Fifty-four per cent of American households live below the maintenance level set by the U.S. Bureau of Labor Statistics, and 27.5 per cent live below the emergency level. Of those living well, many own nothing, with mortgages on everything they are enjoying the use of, including the flashy car, the color TV and the clothes on their backs. The lowest tenth of the population receives only 1 per cent of the total income after taxes, the highest tenth receive 31 per cent. The lowest 30 per cent receive only 9 per cent of the national income. Yet, 52.7 per cent of all individual income taxes paid come from wage earners and people with an annual income between \$5,000 and \$15,000 per year!

Lundberg documents the trend away from free enterprise in this country and foresees a kind of revolution in the making - a technological one: the scientists and intellectuals are replacing the merchants. He sees a growing friction between the two factions and says the result will be "production for use" instead of the present system of production for profit. Lundberg thinks there will be more of a trend towards socialism but at present he sees America as "a society of narrow ambitions and small achievements, a society in which we belatedly repair old social ills and ungenerously attend to new ones."

Maybe what Lundberg sees is the real problem in the United States today. It may be possible that the trend toward socialism is the cause of "a society of narrow ambitions and small achievements".

END

PRESSURE FOR LAND REFORM GROWS

The farm workers throughout the world, but especially in the Far East and in Latin America, are well aware of the evils of feudalism. We may think feudalism went out with the 19th century, but a closer examination of the pattern of land ownership throughout the world would tell you it still flourishes.

In PAKISTAN

The recent riots in Pakistan were a case in point. When the smoke died down it was said the riots were caused by poverty, and demands for land reform.

In MALAYSIA

The workers of Malaysia's rubber plantation have recently made a proposal to buy one third of the rubber plantations they now work. This is the first time the poor have made an offer to buy, and this non-violent revolutionary move was made possible by the organization of a 110,000-man National Union of Plantation Workers.

P. P. Narayanan, secretary-general of the union, started as a rubber-tree tapper and evidently is a student of economics. Narayanan said the fragmentation of the big plantations through nationalizing them would result in the loss of jobs for about 700 workers and the tiny units of land could not be farmed economically. He persuaded each worker to contribute a day's pay, -- about \$1.66. They started operations by buying a 2,000 acre rubber plantation for \$867,000. They then formed a holding company and started selling shares for \$33.33 which can be paid in installments. So far about 7000 workers have bought shares and Narayanan hopes that eventually at least 2 million workers will be shareholders.

In VIET NAM

The billions of dollars poured into Viet Nam could have been used to help the peasants buy the big French rubber plantations and the enormous rice lands of the Saigon landlords, (including most of the present and past government leaders) thus avoiding the whole war. The Viet Cong would never have gained support in the villages if they had not promised to give the land to the people who worked it. The landlords charged high rents with no chance for the workers to ever own land. Can you imagine how long the Viet Congs would be in business if the farmers would own the lands they worked? Not long!

In SOUTH YEMEN

Another land reform movement, now a year old, is in South Yemen. "Land to those who can plow" is the slogan of President Qatan Ashaabi. Exiled sultans from the former British colony, which won independence in 1967, have increased their attacks from across the Saudi Arabian border and many of the new farmers had their homes and water pumps blown up, leading to a new slogan, "A hand to build, another to defend."

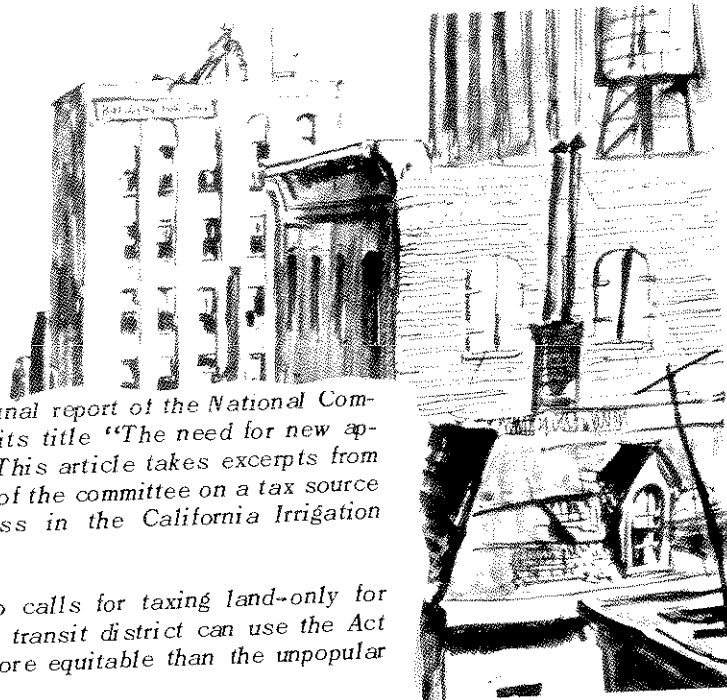
In MEXICO

In Mexico, Emiliano Zapata struggled to get land away from the entrepreneurs and the rich, he fought to retain land titles and water rights from the incursions of the expanding sugar plantations and mills with their company stores and loss of individual rights. Zapata and "Pancho" Villa were forerunners of present day guerilla warfare which is still resorted to by peasants the world over to better their existence. Neither Zapata nor Villa were good at politics and both felt uncomfortable in Mexico City, but their influence is felt in the Constitution of 1917 which led to some land reform in Mexico, although not nearly enough.

END

FINAL REPORT

The NATIONAL COMMISSION on URBAN PROBLEMS



Chapter 6 of Part IV of the final report of the National Commission on Urban Problems has as its title "The need for new approaches to land value taxation". This article takes excerpts from the report to summarize the thinking of the committee on a tax source which has had phenomenal success in the California Irrigation Districts.

The Mills Act of 1968 also calls for taxing land-only for Rapid Transit. Any city, county or transit district can use the Act to raise revenue. It is certainly more equitable than the unpopular sales tax.

The Commission's consideration of urban problems has demanded specific attention to land values, and the taxation of such values, for three main reasons:

1. Land makes up a very sizable component of the cost of housing. It probably averages at least one-fourth of the total value of existing houses in urban areas, and more than one-sixth of the total value of apartment-house properties. Furthermore, residential land costs have been rising much more rapidly than construction costs. For new 1-family houses with FHA-insured mortgages, the proportion of total value has risen to 20 percent as compared with 12 percent in 1950. Any serious effort to stem the strong increase in

housing costs clearly cannot ignore the land component.

- 2.

Rising Fiscal requirements for urban government are outpacing the yields of the present State-local revenue system. This is a system which, especially in its excessive and faulty use of general property taxation, has many undesirable features. We have offered various proposals to deal with these problems. However, in the search for better revenue arrangements, it is also highly appropriate to consider increased taxation of land values or of increases in land values. This is particularly the case because of the long standing and widely accepted view of reputable economists (dating at least from Adam Smith, in 1776) that such taxation is

more socially justified and has less damaging economic effects than most alternative types of taxes.

3. Numerous advocates of "land value" taxation argue that it can be expected to have a generally desirable effect upon private land use in and around urban centers. They contend it will do this: (a) by reducing or stabilizing land costs, and thereby making economically feasible some new construction that would otherwise be uneconomic; and (b) by making it more costly for owners of vacant or underutilized property to retain such holdings in their existing condition in the speculative hope of a further rise in land value. Such arguments are sometimes overstated, and like much economic analysis they rest mainly upon deductive reasoning rather than extensive "hard" evidence. Nonetheless, in view of our direct concern for patterns of land use and urban development, such views have merited careful attention by this Commission.

We have received testimony and evidence suggesting the possible desirability of increased use, in the Federal-state-local revenue system, of taxes upon the value of land or upon increases in land value, or both. We propose:

. . . Action by the U.S. Treasury Department to undertake an intensive study of this subject, and to develop specific recommendations as to means by which the Federal government might recoup for public purposes a materially increased portion of increases in land value; and

. . . Vigorous exploration by State governments of the desirability and feasibility of providing through the state-local revenue systems for additional taxation of land values or land-value increments.

TRENDS IN LAND VALUE

Between 1955 and 1966, the market value of privately owned land in the United States approximately doubled. Careful estimates for "ordinary taxable real estate" indicates a rise in land value from \$269 billion to approximately \$523 billion during that decade. The 10-year growth in land value amounted to more than \$5,000 per American family. This indicates an average annual rate of increase of 6.9 percent, or somewhat more than the 6.0 percent rate of increase in gross national product. During the same 10-year interval, there was average annual rise of 1 percent in the index of wholesale commodity prices, and of 1.8 percent in the consumer price index.

A portion of this trend, of course, results directly from increased urbanization, involving the shift of some land from rural to urban use. Between 1956 and 1966, for example, the number of separately-valued parcels of "urban property rose by a little over one-fourth, while the number of "acreage and farm" properties dropped off.

Nearly two-thirds of the estimated total of land value is accounted for by "urban" land--i.e., used for nonfarm residential property, commercial and industrial development property, and vacant lots. The count of such urban properties on local assessment rolls increased during the 1956-66 decade by slightly more than one-fourth, but the estimated value of urban land more than doubled, indicating an increase in average land value per urban parcel of about 43 percent, or 3.7 percent last year. Similar calculations for "acreage and farms" suggest an average annual rise in land value per property of about 5.6 percent. This closely resembles the independently developed figures of the Department of Agriculture regarding changes in the per-acre value of farm land.

These totals obviously cover a wide variety of trends, as among areas, communities and particular properties. For example, a far

more rapid growth rate of California land values (averaging 8.3 percent annually from 1957 to 1967) is reflected in the extensive sample appraisals conducted regularly by that State's Board of Equalization. Various local-area studies have recorded notably high rates of increase in the value of urban-fringe land in process of development. Even when developers' out-of-pocket costs for such improvements as grading are deducted, some such studies report average increases in land value running up to 15 percent or more per year. On the other hand, even in a period of strong economic growth and considerable price inflation, undoubtedly some communities and surely many individual parcels of land have lagged far behind the general trend or have even experienced some value decrease.

RECAPTURE OF SOCIALLY CREATED VALUES

The value of land results from its present and prospective use for any of various productive purposes. Economists of the 18th and 19th centuries analyzed differences in value of various pieces of agricultural land by reference to their relative fertility. But they also observed that equally fertile plots differed in value because of their locations: those nearer to markets were worth more because of the lesser cost of marketing. The added worth of the better-located plots, as compared with that of the most distant land needed to meet all market needs, was recognized as a "rental value", which had no direct relation to the property owners' efforts but could be attributed solely to the differing locational advantages of their land. The concept of "economic rent" has since been broadened to various other factors of production, but for land it still is important largely from the standpoint of location.

It is evident that the value of particular pieces of land is tremendously influenced by their location, especially as this affects the way they can be used. Most remote "rural" land can best be used for agricultural purposes, though of course with a great range in its unit value for such use

because of differences in its fertility and location. But "urban" land is subject to use in a wide variety of economically productive ways. As is well known, there is an enormous range in the unit value of land in urban areas, depending upon its suitability for particular uses. Land costs range in large cities from hundreds or even thousands of dollars per square foot in central business locations that have unique access to many thousands of customers down to a small fraction of that amount in residential neighborhoods--but with land in such neighborhood still worth much more, because of accessibility and other factors, than outlying suburban land.

All this is rather obvious. But it helps to emphasize that land value results largely from social and governmental factors--i.e., the geographic clustering of people and economic activity, and the provision of public services and facilities that are essential to such "urban" areas. Furthermore, subject to

one important exception, the bulk of the recent rapid rise in land values in the United States can reasonably be attributed to the growth of population and urbanization, with attendant public facilities. The exception involves some agricultural land for which, as a result of marked technological progress (by fertilization, new plant strains, mechanization, and the like) there has been a strong shift upward in prospective crop yields relative to farming costs. Aside from this, most of the rise in value can reasonably be attributed to (1) the shift of much land from less to more intensive uses, (2) the outlook for further similar shifts in the years immediately ahead and (3) the strong effect of such changes upon the anticipated flow of land-rent returns.

Accordingly, the "social" argument taxation of land value and, perhaps even more specifically, of increases in land value, is: since such values result largely from social and governmental factors, rather than from actions by the property owners, it is entirely proper for government to capture through taxation a significant part of the economic benefits that flow in the first instance to landowners.

END

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ORGANIZATIONS

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GRADED TAX LEAGUE of PENN. 710 Bakewell Bldg., Pittsburgh 19, Pa.

Write for, "Pittsburgh's Pioneering in Scientific Taxation."

PUBLIC REVENUE EDUCATION COUNCIL, 705 Olive, St. Louis, Mo.

Write for Property Tax Information.

BOOKS

TIME TO SPEAK UP, a book on public speaking for women. Published by Harper Bros., New York. Author, Jessie Haver Butler, 660 W. Bonita Ave., Claremont, Calif. 91711. Price at book stores, \$3.95 plus tax, autographed copy from author, including postage, \$4.25.

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No urban renewal subsidy at all should be needed if property tax were shifted to land values alone

(Continued from Back Cover)

such a stimulant to new construction and redevelopment that it could create just the opposite problem. The old problem has been how to end the construction stagnation that results in slums and decay; the new problem would be how to control a building boom that could wildly over-tax the construction labor and construction financing resources of the city as thousands of property owners rush to take advantage of the tax shift.

V

The shift would make good city planning at once much more necessary and more effective.

City planning is a negative power; it can keep property owners from doing what they ought not to do, but in a free economy it cannot compel them to do what they ought to do. Says the Douglas Commission in a fine understatement: "Regulations do not build cities;" and again: "Regulations seldom effect significant upgrading of deteriorating areas;" and again: "Regulations seldom effectively encourage imaginative urban design and too many times effectively discourage it."

Under the present property tax system that discourages new construction by heavy taxation and encourages obsolescence and decay by undertaxation, most of Milwaukee has passively defied effective city planning.

But when, as, and if a tax shift off improvements to land starts an all-out building boom, the planners would at last have a chance to prove their worth by directing its course to create a better city.

VI

Contrary to common belief, tripling the tax on land would not be bad for landowners if at the same time the tax is taken off improvements. A three-times-as-heavy tax on land would indeed be almost confiscatory if the owner of unused or underused land persisted in leaving it that way, but untaxing improvements would enable him to

triple his profits if he improved his property and put his land to its highest and best use. (See III above.) This smaller tax on the improved package would be capitalized into a higher price for the land, so the landowner would find himself better off instead of worse.

VII

The shift would stimulate much more intensive use of valuable close-in land near the center of the city. In conjunction with heavier tax pressure on the owners of underused outlying land this would have important side effects:

- People who prefer low-density living should be able to find land they could afford roughly half as far out as now, for more intensive land use downtown would siphon off much of the demand that is now proliferating sprawl.

- Inner city and slum unemployment problems should be eased, because factories and other blue-collar employers could likewise find land they could afford closer to where poor people live. (Nationally, says the Department of Labor, 62 per cent of all new factories from 1960 to 1965 were built outside the central cities, i.e., remote from where unemployment is concentrated and more jobs are needed most.)

- More intensive use of downtown should, perhaps surprisingly, lessen downtown traffic congestion, because more people could walk, escalate, or use public transportation instead of driving to where they want to go. Says Professor Gaffney: "Sprawl is not a flight from congestion; it is a major cause of congestion by making more people use more cars to travel more miles to downtown."

- More intensive use of downtown should result in substantial savings on city costs, most of which are magnified by distance.

VIII

How big a tax rate increase the shift would require to make up for untaxing improvements would depend on whether the assessors assign to the taxable land or the tax-exempt improvement the big increase in the value of fully improved property that would result from reducing the tax on it by more than 40 per cent.

If assessors follow their present practice of assessing the building first at cost-less-depreciation and assign all the big increase in residual

value to the land, then the tax rate increase required by the tax shift could be small. If, on the other hand, they assess the land first and assign all the big increase in residual value to the improvement, then the tax rate on land alone would have to be at least tripled.

Serious doubts as to the correctness and soundness of today's practice of assessing the building first are raised by the Milwaukee sampling, which showed nearly a fifth of the properties on which the assessors assigned a substantial value to the improvement would have sold for as much or more if the land had been bare.

IX

Assessment would be much easier and could be kept more accurate and closer to the present market if the assessors were relieved of the almost impossible task of assessing every improvement separately. Land only could then be assessed quite quickly from cadastral maps kept current by recording on them the market price shown by each sale in the area.

In Milwaukee today the assessors must spend 80 per cent of their time on improvements, only 20 per cent on land values.

X

First step in the tax shift could be taken by just reversing the present practice of assessing underused land at a much smaller percentage of market value than fully improved properties, a practice that is somewhat less notorious in Milwaukee than elsewhere. But a complete shift in Wisconsin (as in every other state except Hawaii) would of course require the repeal of state restrictions requiring that the tax rate on land and improvements must be the same.

XI

The shift should be popular with most voters because it would reduce the taxes on most owner-occupied homes (since their improvement-to-land value ratio is well above the city-wide average).

Taxes on slum property would be doubled or tripled but this would not affect many voters living in the slums, since most slum dwellers are renters and (as any good economist can demonstrate) taxes on land cannot be passed on, but must be paid out of the owner's own pocket (except under rent control).

The only voters hit hard by the tax shift would be the land speculators who are now making such a good thing out of today's property tax practice. (Unfortunately, they are by far the most powerful and effective pressure group in local politics.)

XII

Last, but not least, the tax shift would make the financial plight of the local government easier. Instead of depending on a tax base subject to accelerating erosion as the older close-in buildings deteriorate without replacement and as industry and upper-income families move to the suburbs, the city would find its tax base growing and the flight to the suburbs checked by the tax-shift-induced construction boom close-in.

The 40-per-cent-or-more property tax saving that the shift would assure new offices and new industrial plants would make the city a more profitable place to do business in, and could therefore be expected to attract more business and industry, thereby further strengthening the tax base.

* * *

Findings of the study in Milwaukee are already getting confirmation from the actual experience of Southfield, Mich., which almost overnight became the boomingest city in the state after a 1962 reassessment by outside assessors doubled the assessment (and therefore the tax) on land, thereby permitting a substantial reduction in the tax on improvements. Since then Southfield has recorded more new office building construction than 30-times-as-big Detroit next door; land values have continued to soar, until some acreage that was assessed at \$2,400 in 1961 is now assessed at \$100,000; and grateful voters have three times re-elected the mayor who instigated the tax shift.

END

No urban renewal subsidy at all should be needed if the property tax were shifted to land alone

This article is a reprint in part of an exclusive report on, "Financing our urban needs" in the March 1969 issue of Nation's Cities. The report is 40 pages and is available by writing to National League of Cities, 1612 K Street N.W., Wash., D.C.

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financing
our urban
needs

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This is just one of the many significant findings of the Urban Land Institute Study—specifically for Milwaukee, but by implication for almost any other central city facing problems of blight, obsolescence, slums and decay (as all big cities do).

This four-year sampling of more than 2,500 separate land parcels—property-by-property, district-by-district—was conducted with the cooperation of the Milwaukee Tax Commissioner. It provides the first comprehensive analysis anywhere of just what could be expected if a city were to (1) stop collecting any property tax at all on improvements, (2) assess all land as if the owner was putting it to a use commensurate with its market price, whether he was or was not, and (3) raise the tax rate on location values high enough to make up for the revenue loss from untaxing improvements. At long last, this study (of which we were given the first preview) provides a factual basis showing that in Milwaukee and any similar city that now collects roughly two-thirds of the property levy from improvements and one-third from location values . . .

I

The shift would roughly triple the tax take from idle land, parking lots, gas stations, slums, and other decaying, obsolescent, or ill-advised buildings that add little (and sometimes less than nothing) to the value of the land they preempt. Actually it might do much more than triple their tax, because Milwaukee assessors, like all other assessors, tend to confuse the property tax with an income tax and therefore grossly under-assess underused land that is not bringing in enough income to pay the full tax on its market value.

II

The shift would add roughly 50 per cent to the tax take from properties whose improvement value approximates the location value, and it would make no change in the tax take from

properties whose improvement-to-land ratio is close to the city average of two to one.

But on good homes, good apartments, good office buildings, and good commercial and industrial structures whose improvement value is likely to run at least four times their location value, the shift would cut the tax take by 40 to 75 per cent.

III

The prospect of much lower taxation of good new buildings would jump the market price of close-in locations ripe for rebuilding at the same time that increased site value taxation would be putting heavy tax pressure on the owners of underused land to put it to more productive and more profitable use.

So the shift would so change the arithmetic of property ownership that no subsidy at all should be needed to make it profitable for the owners of almost all the parking lots and obsolete decaying or inadequate buildings that now preempt nearly three-quarters of the valuable land near the heart of Milwaukee (and most other big cities) to replace them with new buildings that would put the site to its "highest and best" use.

IV

The shift should not only end the need of any subsidy for urban renewal; it should provide

(Continued on page 22)