

Robt. Clancy, Director
Henry George School
50 East 69th St.
New York 21, N.Y.



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Portland to Initiate Costly Blight Study

There is a disease running amuck in our cities. It is an infestation that turns new buildings into inelegant structures long before their time, and makes old serviceable buildings ancient. It is called blight, the deterioration of a home, a plant or a community into an ugly, hollow crust, uninhabitable and certainly something repulsive.

The slow seepage of blight into a particular metropolitan area leads invariably and irresistibly to slums, the recognized breeding pen for crime. No city escapes. Even the smallest township or the beautifully quaint hillside village has what is commonly called "the wrong side of the tracks", an inarticulate expression, but nevertheless an adequately descriptive one.

At an informal council gathering recently, Lloyd T. Keefe, Portland's planning director, said that the 1960 census shows 43 per cent of the city's housing units are 40 years old; 57 per cent are over 30 years old and 72 per cent are over 20 years old. He also reported that census tabulations showed 2.8 per cent are "dilapidated" and 11.6 per cent are "deteriorating." The result of this meeting was to make a \$217,907 study of the cause and cure of blight with the federal government putting in two dollars for Portland's one.

Why does a 20-year old building deteriorate? Why do we, on our Sunday afternoon excursions through the city, see entire blocks of unsightly, unpainted houses, houses that have sagging porches, leaning garages and unkept lawns?

I cannot believe that home owners are lazy, although undoubtedly some are. Neither can I accept the proposition that home owners are indifferent to the squalor in which many exist—certainly not live—and deaf and blind to the rising slums around them. No, they are not indifferent, they are merely clever.

It does not take a business degree from Harvard or Yale to compute the monetary gains involved. If the tax upon a house with a sagging porch is \$50

per year and \$65 upon a similar structure with a well painted, rebuilt porch, who is the more astute owner? The same applies to the factory owner or the apartment house landlord. No one wishes to spend money needlessly and this is exactly what they would be doing if they improved their dwellings.

Not too long ago, the Kennedy administration asked Congress to give industry tax concession as an incentive to modernize plants and equipment. I can just see the voracious state, county and metropolitan tax depredators waiting to leap, papers and pen in hand, upon the newly modernized plant to reassess the value, thereby jumping the property tax once again as much. Why should the federal government spend \$2,500,000,000 in a four year program to arrest blight and revitalize our cities when local governments are endeared to increasing property taxes, thereby completely negating any effort the federal government might make.

Instead of modernizing the ancient adage of stealing from Peter to pay Paul, it would seem more logical and more business-like to revitalize our blight ridden communities by giving the home owner a tax abatement as well. President Kennedy's program of tax incentives for industrial modernization can be applicable to the single home owner by permitting him to rebuild, repaint and generally improve his home without choking him with local property tax increases.

Representative Frank Thompson of New Jersey recently declared that residential real estate is being eroded "by carelessness, by bad laws, by misunderstanding of its nature." He urged a new look "at the consequences of our taxing system" including "tax deductions for home improvements."

To reiterate, blight is a disease. However, unfortunately our preventatives are sorely inadequate and, paradoxically, our medications rather than destroying

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Graded Tax Plan Aids Urban Renewal

by the Hon. JOSEPH M. BARR
Mayor of Pittsburgh

Pittsburgh has the distinction of being the only large city in the United States where the special taxation of land values has been in actual operation over a long period of time. We are in the midst of an enormous program of urban redevelopment and urban renewal—a program which has attracted nation-wide attention.

I believe the Graded Tax plan which was adopted here in 1913 by an act of the state legislature, has done a great deal to encourage the improvement of real estate in general, and especially the building of homes and apartments. And I think it has been particularly fair and beneficial to home owners.

It is generally felt that most of the fine structures erected through private enterprise and investment as part of the renewal program, are benefited by the lower tax rate on buildings, which for city purposes is just one-half of the rate imposed on the value of the land. City tax rates are \$37 per \$1000 valuation on land, and \$18.50 per \$1000 on buildings.

Many people now believe the Graded Tax law should be extended. As state senator it was my pleasure to support the bill introduced in 1951 by Senator McGinnis, which was enacted by an overwhelming vote in both houses of the legislature giving our 48 third-class cities the option to adopt similar tax measures if the City Council sees fit to do so.

In Pennsylvania the Graded Tax plan is considered non-partisan and has not been a political issue. It was first sponsored here by a Republican Mayor, William Magee in 1913, and has since been supported by both Republican and Democratic mayors.

The law is generally accepted in the community and there is no significant support for its repeal or modification. In short, the Graded Tax plan has worked well in Pittsburgh, and we believe it would prove equally beneficial if tested in other areas.

To the Editor:

I should like to offer some comments on the letter of Don B. Card printed in the March-April issue of *Taxpayers Digest*. First I agree that there is political pressure to provide more government services than we ought to have. I might go further and say that many of the Federal Government services are more *dis-services*. Many of the regulations are a burden upon business. Other government actions assisting some sectors are discriminatory and inequitable. All subsidies are a *dis-service* in that they assist an inefficient business to continue while taxing the efficient.

I cannot avoid differing with Mr. Card on other ideas. He states: "The only way to make them (taxes) equitable is to use as a tax base a common denominator that will equitably measure the benefits derived from having an orderly government." Three sentences further he suggests: "Personal income is the best suited common denominator." That is quite contradictory because it is obvious that personal income does not in any way "measure the benefits derived from—government." If he is looking for a measure of the benefits of government services available land value or site price comes much closer to that measure. Personal income (excepting land rents received) largely measures personal ability, effort and or productivity.

Mr. Card objects to tax on land value. It is perhaps redundant to restate the case for any one who has read "Progress and Poverty" by Henry George or "The Curse of Modern Taxation" by W.R.B. Willcox.* It is especially recommended that we should be acquainted with the ideas of Mr. Willcox who was a professor at the University of Oregon. I should also mention L. D. Beckwith of Stockton, Calif.

It has always been the wish of land speculators and their apologists to confuse and identify land with other property, including improvements and productive capital. The rest of us should discern the differences.

Improvements are made by the effort of labor and modification of materials. Land was never made by any Man's effort. Improvements have a real cost in labor and materials. Land had no original cost. Improvements deteriorate, may burn, rust or wear out. Land (commercial sites) does not burn, rust or wear out. (Agricultural fertility may deteriorate but fertility is not the chief part of land price. Highest priced land is never agricultural.) Taxes on improvements must be added to price and make

the price greater. Taxes on land are subtracted from the price and make the price to the seller lower.

I might refute some of Mr. Card's ideas briefly. He states, "Using income as a base—would—leave the price of land to supply and demand . . ." But the law of supply and demand involves changes in production and consumption of a commodity. It cannot apply to land for land is neither produced nor consumed. First: The supply of land is constant; and area does not stretch nor shrink. Second: There is no demand for land in itself. A buyer (or renter) of land desires (demand) the services available at the given location; the streets, utilities, transportation and other public and private services offered. The nearness to all those aids of the community and commerce and the quantity and quality of such services is what determines the price or rent of land.

Mr. Card states truly, "Taxes on land values do not spur economic progress—" But taxes on improvements do definitely hamper economic progress. Taxes on land (site price) do not in the least penalize productivity, initiative or efficiency because the price of land is not influenced by productivity or efficiency of its owner. It may be true that all taxes must come from income but income comes from differing sources. Income from productive labor or from investment in productive improvements (capital) is closely proportional to the usefulness of the laborer and the investment. Income from land or land rents has no connection to the usefulness of the land owner. Income from land sites is closely proportional to the usefulness of all the other people around the site which make the location desirable. Income from labor or from investment results from the productivity of the one who gets the income. Income from land rent results from getting out of the way and letting others do the work and investment.

Since the source of land is totally different from the source of improvements (capital) and since land differs fundamentally from any other property in all economic functions it is sound economics to study those differences as related to income or taxes.

R. P. Lorier

E. 8511 Valleyway

Spokane 62, Wash.

*The Curse of Modern Taxation, Willcox, Publ. Fortuny's, 1938.

**MONEY IS THE BEST
LABOR SAVING DEVICE
YET INVENTED**

BLIGHT—

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the sickness, give it strength and allow it to continue to spread. By promoting what one reporter termed "slumlord" with privileged tax legislation, we are subsidizing the very ailment which threatens our cities.

It seems to be characteristic of our time to study, to analyze, to educate and then consistently do nothing about the results our investigations show. There is a tendency to do nothing but talk, report and powwow and the consequences are buried and allowed to stagnate in the obese bureaucratic pit which touches every facet of our personal lives.

Actions, someone once said, speak louder than words. To employ the vernacular, I say, "Let's get on it!"

—H. James Hotaling



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The *Taxpayers Digest* actively supports groups interested in problems of taxation and tax savings and provides a means by which such organizations may reach the general public. It holds that homes used as homesteads by the owners whose yearly income is less than \$3,000 should be tax exempt and that taxes should be placed where they will hurt the economy the least and from where they cannot be shifted.

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WHY CREATE SLUMS?

by E. C. HARWOOD

When a hurricane or earthquake destroys part of a city, the urgent desirability of immediately clearing the wreckage and rebuilding is obvious. But when a slowly spreading slum has become a blighted area of major proportions, the first step should be to seek the answer to this question: How does it happen that this festering sore of a blighted community exists; or, How are slums created? When this question has been answered, not only can the particular slum probably be removed at minimum cost, but also the development of other slums can be prevented.

How Do We Create Slums?

In order to clarify what might otherwise be obscure, we invite readers to assume that they have become the elected managers of their respective cities. You are the city manager of Yourtown and have almost dictatorial power during your term of office.

First, reminding you that this is fantasy, we shall assume that you have the most evil intentions and that among your boon companions is a friendly devil who is amazingly astute, as devils presumably are. Below are some discussions between you and your devil friend held during the nightly excursions you and he have made around your city in search of more and better ways of achieving evil results.

"My friend," you said, "this is indeed a beautiful, in fact far too lovely a city. Since it was rebuilt after the great fire you kindled so successfully a few years ago, it has been reconstructed with more and better buildings than we had before. Can you not think of a more permanent way of creating a little hell on earth than merely burning a city? True, the effects of that conflagration were striking, but you will have to admit that they haven't lasted very long."

"Indeed," replied the devil, "I have been giving the matter serious consideration; I have a plan that will bring a more lasting hell to the midst of our city. The effects will not be apparent all at once, but they will be far more devastating than any fire. Moreover, whereas a disaster such as fire or flood tends to cultivate the bonds of human sympathy among men, make them considerate and helpful to their fellows, my scheme will divide our fellow citizens in such a manner that those in the hell we shall devise will, in the course of time, become virtual savages prepared to tear down all that our better citizens can build. In short, we can even breed the new vandals that perhaps will in the end destroy

present civilization if we follow my plan."

"You make it all seem so easy. What is this plan?" you asked eagerly.

"Here it is," said the devil, "I shall describe it in one step at a time so that you can reflect on its simplicity and effectiveness; all truly great ideas are essentially simple, you know."

"We now are in one of the residential parts of the city, but it is an older section that was not burned a few years ago. The houses are somewhat crowded, but they once were occupied by some of the leading citizens. Do you notice that an occasional building could stand repainting?"

"Yes, of course, but what of that?" you replied.

"Simply this. You arrange with the tax assessors to raise the assessment and therefore the taxes on any building in the city that is repainted, or remodeled, or improved in any way. Moreover, caution them to assess at full value, or more nearly full value, any new building that is constructed. You know that the power to tax is the power to destroy, or in this instance to inhibit. If this procedure is followed assiduously, and your tax rate is high enough, you soon will observe the following results:

a. Throughout the older sections of the city, buildings will at first not be painted and maintained; then some will become dilapidated; and virtually none will be improved or replaced.

b. Into this area will move the poorer families of the city. They will gravitate to this locality, not because most of them prefer to live in a slum, not because their taste has become so depraved that they could not enjoy life elsewhere, at least not at first; they will come to live in this area because our clever taxing method will prevent or at least limit the remodeling or new construction of housing that these families can afford.

c. Then, given another decade or two, as children are brought up in these depressing surroundings, our city will first have increasing problems of juvenile delinquency; then the former juvenile delinquents will become competent criminals and racketeers; and everyone can see that we need only enough of these individuals to overturn civilization itself."

But you are not convinced that the friendly devil's plan was as excellent as he supposed. You asked, "Is that all there is to your masterpiece of evil calculation? I confess it has some interesting and perhaps effective features,

but is that all?"

"By no means," friend devil replied. "In addition to taxing all improvements heavily, you must reduce the taxes on land values, especially on land values in the slum areas. As the original buildings deteriorate and the neighborhood becomes a slum, encourage the landlords to apply for reductions in their taxes. Instruct the city assessor to disregard actual selling prices of land in the slum area and assume that the assessed value of the land should decrease as the buildings on it deteriorate. Thus you will encourage the slumlords to hold their properties for speculation on the future growth of the city. You will combine the maximum of discouragement to improvement with the minimum of discouragement to land speculation. Even when buildings are condemned and closed as firetraps or are in danger of collapsing, they will not be forced to sell to someone who might build. The owner, unless he is pressed for funds (and professional slumlords usually are not), will simply wait until the further growth of the city makes it practicable for someone to pay a price that will yield a tremendous profit. How large such gains may be can be seen by reference to the prices being paid today for land held by slumlords in areas to be re-developed."

To Expedite Slum-Making

"I am nearly convinced that you have a useful scheme that will serve our evil purposes well," you said. "However, if you really put your mind to it, could you think of some improvements in it; perhaps ways of extending slum areas more widely or bringing the anticipated results more quickly?"

"Well," replied the devil, "I do know of a subtle modification of this scheme that has produced gratifying results. In parts of England, the principles I have mentioned have been carried to their logical extension. When a property becomes so dilapidated that it is no longer used, or even when the slumlord simply chooses not to rent it, taxes are canceled altogether. Thus there is nothing to prevent the speculator from holding property off the market indefinitely. It is most encouraging to slumlords not to have that nagging annual payment, however small it might be. My friends abroad tell me that England has some of the most impressive slums anywhere to be found. Vast areas of London and the industrial midlands are such hells on earth that they put the subterranean master of our profession to shame. Think of it, he is the monarch of all that perpetual fire and brimstone, yet he con-

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SLUMS—

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trives only a brief sizzle as another soul enters his dominion, whereas the tax system and slumlords in England have developed a hell that lasts for a man's whole lifetime, corrupts his children, and damns his earthly hopes. There is an achievement worthy of emulation by all who would foster evil wholesale instead of piddling around in the retail business of tempting individual souls to their destruction."

"Then why not try the same scheme here?" you asked.

Friend devil replied with some dignity, "I think you know me well enough to realize that neither lack of boldness nor any fondness for humankind have impelled me to suggest no more than I have. We must remember that you will be coming up for reelection in a few years. Anything that the public is accustomed to is accepted as right and just. Already your city is applying my scheme in substantial part; you need only tighten up a bit here and there, urge the assessors to seek more vigilantly for all improvements such as modern bathrooms in existing tenements, etc. If you introduce a completely new idea such as that applied in England, you might encounter resistance, because all new ideas are suspect as you know."

But you still were not completely satisfied; consequently, you questioned further: "Good friend devil, or rather friend devil (I do not mean to insult you), I see that you are right and I begin to understand how it happens that nearly all cities in the United States have their steadily growing slums. The scheme as you outline it is indeed convincing; but I wonder, do you have any further proof of its soundness than the obvious results of experience with it to date?"

"Yes," the devil replied, "I can offer the most convincing proof. In many cities of the world the opposite of my scheme has been applied. All improvements in those cities are exempt from taxation, and only the land values are taxed for all community expenditures. The results have been as follows:

1. Such cities have no slums worthy of the name.
2. Even the poorer citizens have no difficulty in renting adequate housing.
3. New construction is greatly encouraged; in fact those cities, in Australia for example, seem to enjoy a never-ending progression of building and remodeling.
4. Industries come to those cities, because companies are taxed only on the value of the land they occupy (this value

of course largely reflects the services provided by a city) rather than on their plants, equipment, and subsequent increase of those facilities.

5. Surprisingly enough, in many such cities where the landlords were the only citizens entitled to vote on land-value taxation, they voted for it. Although their taxes as owners of land were increased, the great benefit to the community of this method of taxation so increased the demand for land in the community that land values also rose."

"There is the proof that my scheme is sound," the devil insisted. "Apply it, and we get the slum hells we want; reverse it, and the slums are eliminated in a few short years at no cost to the community. What more proof do you need? Just keep the system we now have and accentuate its most effective features as I have suggested. Then you can rest assured that slum hells will keep spreading more rapidly than redevelopment programs can remove them."

(From Economic News of March, 1961, published by the American Institute for Economic Research, Great Barrington, Mass.)

BOOKS . . .

Pricing Power and Public Interest, by Dr. Gardiner C. Means (Harper & Bros., New York, 359 pp., \$7.50).

Dr. Means, who has a long and distinguished career as an economist, and is one of the best informed men on the steel price situation, tackles the most vexing problem on the American economic scene with a frontal attack: The big corporations are here to stay, no good can come from fractionizing them, or to subject them to Government control—with reasons fully stated—but since they have outgrown any possible local significance, they come in for a healthy social-economic criticism.

Steel prices, according to the author, have increased 35% during the last decade, three-fourths of which increase was due to "widening profit margins," and one-fourth due to wage increases. (Note by the reviewer: this last statement has been steadfastly ignored by both Henry Hazlitt of Newsweek, and David Lawrence of U.S. News & World Report.) The break-even rate of operation is an incomparable 30% of capacity (U.S. Steel).

Against the system of "target pricing" prevailing in Big Steel, and management incentives offered in the form of bonuses according to profits, and stock options made more attractive through reinvestment of surplus, Dr. Means proposes to drastically change

conditions in such a way that greater management incentive will be derived instead from "economic performance," meaning: target-operation at a high percentage of capacity — possibly 80% — which would counteract the tendency to overinvest, and increasing productivity with resultant lower prices to consumers.

Combining ideally an extensive experience in corporate organization and a legal turn of mind, Dr. Means suggests the underpinning of an Economic Performance Act, with the inhibiting feature of an excess profits tax to be applied to those corporations who might want to choose to stay outside of such an arrangement.

One might be led to say that the proposal is a bold approach, as certainly anything that is not in harmony with the ideas of Roger "I-am-an-iron-puddler" Blough on how to run his corporation could be termed "kamikaze."

But even Dr. Means' bold suggestion, it must be said, falls short of the mark, as does Walter Reuther's proposal to put a new law on the books that would require public notice in advance by any large company wishing to increase its listed prices, and a fact-finding commission set-up to approve or disapprove the increase, but without legal power to enforce its finding.

According to our own uninhibited lay opinion, neither approach seems to go far enough. Let it be emphasized, however, that we also do not favor fragmentation of big industry, provided it is run efficiently, nor governmental control of prices. In this respect we find ourselves on Dr. Means' side.

But what neither Dr. Means has realized, nor Walter Reuther apparently has seen, nor, for that matter, hardly any one of the modern economists admits, the real root of the trouble lies in the monopoly of land and our so-called non-reproducible resources. Price rises occur constantly in iron and steel, in timber, oil, urban sites, farming land, etc., in short, in all of our natural material resources. If the profit were taken out of the speculative advance of all these price rises by a sensible form of taxation, or call it if you want, government collection of land and resources rent, the inflationary pressure on prices with the resulting stagnation of the market, which is unable to absorb these constant price increases, would cease.

The price of Dr. Means' book seems in itself a stark example of an administered price! However, we recommend the book be studied not only by all junior amateur economists but by any serious student of the pricing situation. —E.S.H.