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PART TWO

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Vol. XXVIII San Francisco 19, California, Monday, January 21, 1952 No. 3

TAX PROBLEMS OF CITIES

OBJECTS OF THE CLUB

"TO investigate and discuss problems affecting the welfare of the Commonwealth and to aid in their solution."

COMMONWEALTH CLUB OF CALIFORNIA FOUNDED 1903

"TO maintain itself in an impartial position as an open forum for the discussion of disputed questions."

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Commonwealth Club of California

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The Commonwealth Club of California is a men's organization, statewide in its scope, organized to afford an impartial forum for the discussion of disputed questions; statements or conclusions published in The Commonwealth are not necessarily to be considered those of the Club unless approved by the Club.

IN THIS ISSUE OF THE COMMONWEALTH—PART TWO

STUART R. WARD, Editor **WILLIAM L. HUDSON, Managing Editor**

Pages

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Vol. XLVI TRANSACTIONS OF THE COMMONWEALTH CLUB OF CALIFORNIA No. 2

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The Commonwealth

Vol. XXVIII San Francisco 19, California, Monday, January 21, 1952 No. 3

TAX PROBLEMS OF CITIES

IT IS doubtlessly logical that, as governmental forms of American cities have waxed more and more complicated and their functions more and more multifarious, devices for raising income have proliferated apace.

Long has it been since funds derived from an annual percentage tax on the assessed value of realty holdings have been an almost exclusive source of city revenues.

Today, in such cities as Los Angeles or San Francisco, for example, revenues are now derived from taxes on sales and business licenses, from state subventions and "shared taxes," from traffic fines, from payments by other governmental agencies in lieu of taxes, as well as from levies on the assessed value of homes and other real estate.

For the past fourteen months the Club's Governmental Finance Section, under the able direction of Chairman Louis Kroeger, has been continuing and completing a study originally begun in the Spring of 1947 under chairmanship of Warren H. Pillsbury.

By hearing speakers from many diverse viewpoints, the Section has devoted itself to such questions as: Must more sources of tax revenue be found immediately, or should the first move be to reduce expenditures? Should the present assessment practices in California (whereby relationship of assessed valuation to market valuation varies greatly from county to county) be made uniform? Should a special tax be levied on such municipal services as sewer connections or water connections? Is real property today bearing all the tax it can carry? Would the single tax proposal of Henry George afford more revenue, and socially be more equitable?

The findings of the Section and discussion thereof, as presented at a Report Meeting to the parent Club held on September 26, 1951, in Parlor A of the Palace Hotel, and as condensed and edited by the Editors, will be found in this present Transaction.*

—THE EDITOR

*Other Club reports dealing with related topics (available, at 25 cents per copy, at the Club Office) include: Taxation (1904); State Indebtedness (1908); Proposed Taxation Amendment to the State Constitution (1908); Home Rule in Taxation (1912); Taxation Problems (1914); The Land Tax Amendment (1916); The Corporation Tax Bill (1921); The State's Budget (1925); State Finances (1926); State Taxation (1928); California Tax Problems (1930); Farm, Gas, and Income Taxes (1932); Ballot Propositions of June 27, 1933 (1933); The State Deficit (1934); Ballot Proposals for November, 1934—Group II (1934); State Financial Problems (1935); A Chain Store Tax (1936); Ballot Proposals for November, 1938 (1938); Federal Sales Tax and Inflation (1942); Federal, State, and Local Tax Conflicts (1947).

Hearings on Tax Problems of Cities

GOVERNMENTAL FINANCE SECTION

1947

Apr. 10—*"Next Study Subject."*

Sept. 11—Subject: *"Next Section Study."*

1948

May 13—Ben G. Kline, Asst. Administrative Officer Russell L. Wolden, S. F. Assessor. *"Tax Problems of Cities."*

June 10—Alden C. Fensel, Tax Director, State Chamber of Commerce. *"Tax Problems of Cities."*

Nov. 18—M. D. Lack, Tax Specialist, P. G. & E. *"Developments of Statewide Tax Committee on Tax Problems of Cities."*

Dec. 9—Joseph E. Smith, Mayor; Jack Hassler, City Mgr. Oakland. *"Tax Problems of Cities."*

1949

Jan. 13—*"Tax Problems of Cities."*

June 27—Loran C. Vanderlip, Economist, State Chamber of Commerce. *"Where California Cities Get Their Money."*

Feb. 10—Richard Graves, Secretary, California League of Municipalities. *"Tax Problems of Cities."*

Feb. 24—Wayne E. Thompson, City Mgr., Richmond. *"Tax Problems of Cities."*

Mar. 10—J. Rupert Mason, Retired Investment Banker. *"Municipal Tax Problems in Canada."*

Mar. 24—*"Additional Sources of Revenue for Cities."*

Apr. 14—Edward T. Mancuso, Supervisor. *"Additional Sources of City Revenue."*

Apr. 28—Ross Miller, City Manager, Berkeley. *"New Sources of City Revenues."*

Nov. 10—*"Section Discussion: Tax Problems of Cities."*

Nov. 17—N. Bradford Trenham, Gen. Mgr., California Taxpayers Association. *"Tax Problems of California Cities."*

Dec. 8—Arthur B. Sullivan, City Mgr., San Mateo. *"Why San Mateo Has No Revenue Problem."*

1950

Jan. 12—Paul G. Pinsky, Research Director, State Council, C.I.O. *"What Additional Sources of Revenue Should Cities Tap?"*

Jan. 26—*"Discussion of Position of Paul Pinsky."*

Feb. 9—J. Rupert Mason, President, International Union for Land Value Taxation and Free Trade. *"How Should Cities Raise Their Revenue?"*

Feb. 23—*"Discussion of Paper of J. Rupert Mason."*

Mar. 9—John F. Henning, Research Director, California State Federation of Labor. *"Fairness of Different Types of Local Taxation."*

Mar. 23—*"Discussion of Future Section Report."*

Apr. 13—*"Discussion of Items for Section Report."*

Apr. 27—Richard Carpenter, Legal Counsel, League of California Cities. *"What Authority Do California Cities Have to Raise Revenues?"*

May 11—(1) Ben G. Kline, Director, Dept. of Finance and Records, San Francisco. *"Operations of City Sales Taxes."* (2) Report by J. Rupert Mason—*Summary of article, Yale Law Journal, Dec. 1947, on "Real Estate Taxation."*

May 25—*"Discussion of Proposed Section Report."*

June 22—J. Rupert Mason, President, International Union for Land Value Taxation and Free Trade. *"Views of Will Lissner, Financial Expert New York Times, on City Revenues."*

Sept. 21—*"Report on Tax Problems of Cities."*

Oct. 12—*"Drafting of Questionnaire."*

Oct. 19—*"Preparation of Report on Tax Problems of Cities."*

Oct. 26—*"Discussion of Proposed 'A' Report and 'B' Report."*

Nov. 30—*"Proposed 'B' Report."* J. Rupert Mason.

Dec. 14—*"Extension of Study of Tax Problems of Cities."*

1951

Jan. 11—(1) Dixwell L. Pierce, Executive Secretary, State Board of Equalization; (2) John H. Keith, Chief, Division of Assessment Standards, State Board of Equalization. *"Assessment Practices."*

Jan. 25—*"Development of Section Report."*

Feb. 8—Ronald B. Welch, Chief, Division of Research, State Board of Equalization. *"Distribution of Tax Burden."*

Mar. 1—De Witt Washburn Krueger, Manager, Fremont Tax Service. *"Tax Exemptions."*

Mar. 15—Louis J. Kroeger, Louis J. Kroeger and Associates, Personnel and Management Consultation. *"My Views on Tax Problems of Cities."*

Mar. 29—*"Discussion of Proposed Section Report."*

Apr. 12—*"Discussion of Section Report."*

Apr. 26—*"Discussion of Section Report."*

May 10—*"Discussion of Section Report."*

May 24—*"Section Report."*

June 14—Richard Graves, League of Cities; Russell Horstmann, Alameda County Assessor. *"Discussion of Report."*

June 28—*"Tax Problems of Cities."*

July 12—*"Section Report."*

July 26—*"Section Report."*

Aug. 9—*"Section Report."*

Aug. 23—*"Section Report."*

Sept. 26—Report to Club Report Meeting on Tax Problems of Cities.

Tax Problems of Cities

(Report of Section on Governmental Finance)

by Louis J. Kroeger

Chairman, Section on Governmental Finance

CHAIRMAN A. F. BRAY*: We will hear today the report of the Governmental Finance Section on "Tax Problems of Cities." It will be read by Louis J. Kroeger, Section Chairman, noted management consultant, Louis J. Kroeger and Associates.

THE SECTION on Governmental Finance has for many months been studying the tax problems of cities. We have heard the problem discussed from many viewpoints, by city and state officials, by tax experts and by representatives of taxpayers.

We submit this report with no idea that it solves the tax problems of cities. Perhaps our only contribution is that we have defined the problem more clearly; and that we have placed it in better perspective in relation to more fundamental tax problems.

The *tax* problems of cities are one aspect of the broader *financial* problems of cities.

California cities, under present conditions, claim to have serious *financial* problems. They have enjoyed (or suffered) tremendous increases in population in the last ten years, with consequent need to expand existing municipal services—without in every instance an equal increase in the normal tax base from which municipal revenue flows. They have been called upon for new and different municipal revenue services. They have high current costs resulting from deferred capital outlays and deferred maintenance during war years, which have had to be made up before buildings and equipment fall into complete ruin. Many of them carry a heavy burden of bonded indebtedness to add to current problems. Most have tax rate limits, which become increasingly restrictive as the dollar buys less. In many cities this loss in purchasing power is the principal problem. On an absolute basis their costs are down; but in dollars they are up.

Not all these elements are necessarily the *tax* problems of the cities. They are their *financial* problems. They do not become a *tax* problem unless we accept them as necessary conditions which can be met only by increased revenue.

Re-Examine Needs Before Seeking New Revenues

The question is raised whether cities should seek to increase their revenues until they have first re-examined their needs.

It is suggested that cities ought to re-examine the demands for service.

*In the absence of President Wiser and Vice-President Dooling, Judge A. F. Bray, member of the Board of Governors, presided.

There is doubt that the people have always fully understood the ultimate costs of increased services. If they had a clear choice between new service and holding the line on costs, they might want to hold the line.

It is also suggested that cities should examine the efficiency of their present organization and practices. Some cities, urged to do so by local citizen groups, have undertaken so-called "Little Hoover" reorganization studies, patterned after the Hoover Commission work in the federal government. Until a city has carefully examined its organization and the efficiency of its day to day operation, it is questionable whether it should seek further income.

In short, the city should render only those services which are needed; and should perform those necessary services as efficiently as possible, as a condition to seeking an increased income. The private citizen faced by a gap between his wants and his means, has to adjust the former to the latter. Should not our governments be guided by the same principle?

While it may be possible to reduce the financial problem of cities by the steps described, we must realize that the cities are still left with a problem of deciding how best to raise their revenue. That is the subject matter of this report.

Members Who Attended One or More Meetings During Study of Governmental Finance Section

Louis J. Kroeger, Chairman
Robert Tideman, Secretary

Henry C. R. Akin
Richard C. Anderson
Paul A. Anglade
Hugo Arnstein
Virl Bennehoff
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James Hurst
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Paul F. Keim
Russell A. Kern
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DeWitt Washburn Krueger
M. D. Lack
C. B. Lastreto
Scott Lawton
J. F. Long
F. B. Magruder
N. J. Nalville
R. E. Marks
J. Rupert Mason
William B. McDonald
Leslie N. McReynolds
Willard C. Mills
Martin Mongan
Jack Murray
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Capt. Edwin H. Pagenhart
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James A. Vincent
Stuart R. Ward
Harry W. Wernse
Eugene E. Whitworth
Richard M. Zettel
E. R. Zion

Sources of Revenue

For many years property (by which we mean land, improvements, and personal property) bore the municipal tax burden. Only a minor part of the cost of local government was borne by such sources as business licenses and fines. More recently additional taxes and charges have been imposed, until property now bears less than half of the total burden in the great majority of California cities. In 1929-30, our cities collected 76 percent of their revenue from property taxes. By 1947 it was down to 49 percent, and it has declined steadily since.

This does not mean, however, that property necessarily pays less—it may pay more—because while property's proportion of the load has been decreasing, total city costs have been increasing. The additional sources of revenue which the cities have used are principally higher charges for the privilege of doing business, parking meter receipts, sales taxes and—to a considerable extent—that source of revenue "which costs us nothing," the handout from the federal and state governments.

Does Property Bear All Taxes It Can Stand?

The argument frequently advanced in support of these new sources of revenue, and being advanced in support of the search for still further sources of revenue, is that property is either bearing all of the burden it *can* stand, or that it *should* stand.

The supporters of this view argue that while property pays a smaller portion of the total municipal tax bill than it once did, this change in proportion has not at all lightened the tax load on property. Local expenses have advanced to such an extent that cities have sought other sources of revenue. These other sources have come to amount to an ever increasing portion of the total municipal income, but at the same time the load has become so heavy that even property taxes have mounted to new highs.

The tax which the city imposes on property is not the sole tax on property. The same property is the principal source of revenue for the counties, the school districts, various local improvement and protective districts, and other units of local government. None of these have the same legal right to diversify sources of revenue as have the cities. This means that for *city purposes* property pays as much as it can stand.

The opponents of the view that property is bearing all it can, argue that the fact that the burden on property has increased, and potentially might increase much more, does not in any way prove that a limit has been reached, or even approached.

Three Practical Tests of Tax Burden

We find no scientific evidence that property is now bearing all of the burden it can stand; nor do we find any scientific formula by which it can be determined what property can stand. Lacking any such scientific criteria, however, there are three quite practical tests which can be applied:

1. *Are people or industries leaving or staying away from California cities because of high property taxes?*
2. *Are the people loud and active in their objections to high property taxes?*
3. *Is tax delinquency on the increase?*

Tax Delinquency Low

The answers are clear:

1. People and industries are not leaving or staying away because of high taxes. They are coming to California, and staying here. Many settle in unincorporated areas; but the reason for that will be discussed later.
2. People are not active in their objections to taxes. Some organized taxpayers' groups are effective in their protests of present trends; but the general public is complacent about property taxes. City councils, whether acting on budgets or as a local board of equalization, attract little general public interest, and few protests. This complacency may result from the partial property tax exemption enjoyed by a large part of the population; and from the fact that F.H.A. financing includes, and thereby conceals, taxes in monthly payments. But whatever the cause, it is evident that there is little organized vocal objection to the level of property taxes.
3. Tax delinquency throughout California is low.

The views of the Section on this matter are as follows:

> **Question:** Do you believe that property is bearing all of the city tax that it *can*? Yes, 48; No, 48.

This still leaves the question of whether property *should* be taxed to the limit of its endurance, or whether an appreciable part of municipal revenue should come from other sources.

Objectives of a Tax Structure

It has been difficult to find agreement upon a theoretical basis for local taxes. In recent years the tendency has been to let new sources of municipal revenue develop by trial and error, as they are found workable and expedient.

A tax structure might have any of the following objectives:

1. To tax in relation to benefit received.
2. To tax in relation to ability to pay.
3. To tax in a manner to encourage economic enterprise.
4. To tax according to some combination of these.

Unfortunately, it is difficult to find a clear-cut basis for saying which taxes contribute to which objective.

Do City Services Benefit "Property" or "People"?

If taxes are to be levied according to benefit received, then the question arises whether municipal services benefit property, and should therefore be financed by a tax directly on that property; or whether they benefit individuals, and should be financed by means not related to property ownership. Every city has many residents who do not own property, yet who share municipal benefits and services. It is argued that since these residents help create municipal problems, they should contribute directly to the financing of the services their presence requires; and that we should therefore have a municipal revenue structure which includes direct charges for garbage collection, for sewage connections and for other specific identifiable services.

It is argued in return that the presence of these individuals in the city enhances the value of property, and that they contribute their fair share of the cost of government by the payment of a portion of the property tax burden through rent.

Ability to pay is difficult to apply because of the lack of any true measure of ability. Income, outgo and consumption, and property have all been suggested as measures of ability.

The possibility of designing a tax structure which will encourage economic enterprise is an attractive one, but accepting it as a basis merely raises all over again the question we seek to answer.

Concerning the objectives of a proper tax system the Section votes as follows:

> **Question:** If you believe that a city tax structure should be based on *only one* of the following objectives, indicate which:
>
> (1) Benefit received? **17.**
> (2) Ability to pay? 5.
> (3) Encouragement of enterprise? 8.
>
> If you believe that a city tax structure should be based on some *combination* (of the above objectives) list below, by number, the objectives you would combine.
>
> Combination of Nos. 1, 2 and 3: **25.**
> Combination of Nos. 1 and 2: 12.
> Combination of Nos. 1 and 3: 11.
> Combination of Nos. 2 and 3: 1.

Principal Revenue Possibilities

Whatever the objective, we still have the basic question of actual method of raising revenue. The means may prove of greater practical significance than the theoretical end sought. The principal possibilities appear to be:

1. An ad valorem tax applied to land.

2. An ad valorem tax applied to improvements.
3. An ad valorem tax applied to tangible personal property.
4. Sales, use and purchase taxes.
5. Charges for municipal services.
6. Proceeds from municipal utility operations.
7. Gross receipts taxes.
8. Income taxes.
9. Miscellaneous income, including licenses, fines and fees.
10. Federal and state subventions.

As already pointed out, the ad valorem tax on property, which has in the past included land, improvements and tangible personal property, has been a principal source of municipal revenue.

How Much Dependance on Ad Valorem Tax?

Three important issues before the Section have been:

(1) Whether any future increases in the cost of municipal government should be met in the main by the ad valorem property tax rather than from other sources of revenue;

(2) Whether the ad valorem tax should be made the sole source of municipal revenue, supplanting other existing sources; and

(3) Whether the municipal ad valorem tax should be further restricted by resting it exclusively on land values, or at least more heavily on land values than on improvements or personal property.

"A Dollar Increase"

On the first of these issues, those who favor property taxes rather than other sources of revenue argue as follows:

The so-called "increasing cost of city government" is almost entirely a dollar increase, due to the rising price level. But rents and property values are being driven up as much as or more than the cost of city government. Therefore, property taxes can meet these "increasing costs" without higher tax rates, *if assessed values are adjusted as they should be with rising property values.*

In fact, the per capita cost of city government, when properly adjusted for the rising price level, is declining. In 1930 it was $30.05; and by 1948 it had declined to $14.94.

Thus tax rates *based on true property values* are actually falling. Official tax rates are rising simply because the official assessed valuations on which they are based are low and discriminatory. Despite the command of the Constitution that property be assessed at "full cash value," assessed valuations of 25 percent are not uncommon. These low assessed values force tax rates toward the statutory limits, creating an apparent need for sales taxes and other burdens on productive activity. However, there is no need for alarm over tax rates which rise simply because assessed values do not keep up with rising market value.

"Traditional Source"

On the second issue, the proponents of property taxes rather than other sources of revenue argue as follows:

The direct ad valorem tax on land, improvements and personal property is the traditional source of revenue for cities in California and throughout the United States. From the founding of the State until 1930, direct property taxes provided almost the entire revenue of California cities. As shown above, property taxes can meet city expenses, with even lower rates than before, if assessed values are properly adjusted.

Many speakers before the Section have mentioned, however, the greater sensitivity of property owners to direct taxes, than of consumers to diffused and indirect taxes. Property owners, particularly the owners of valuable commercial and industrial sites, are always a strong, alert pressure group. "You get hell on the property tax!" is the way one official put it.

Political pressure, rather than any actual need, is responsible for the steady shift since 1930 to sales taxes and other burdens on production and trade. These new taxes, falling on wealth-producing activity, increase production costs, and are therefore shifted to consumers. The producers who shift them see little cause for complaint, while the consumers who pay them do not fully realize it—and are not organized to oppose them.

This tax shift has been effected under the slogan "tax relief for real estate." Attention has been focused on the need for relieving improvements to encourage construction. But attention has been diverted from the fact that "property" also includes land, and that relieving land from taxation enables holders to keep it idle and therefore *discourages* building. It is thus an open question whether a lower tax on both land and buildings will stimulate construction, but there is no doubt that sales taxes and the other new imposts substituted for the property tax do increase the cost of doing business and do altogether discourage industry and trade. If "property is bearing all the burden it can stand," productive activity is bearing *more* than it can stand.

"We Should Untax Thrift"

On the third issue, the proponents of land value taxes rather than other sources of revenue argue as follows:

Taxes on improvements, personal property, sales, and incomes discourage production and trade. Such taxes have greatly increased, weakening the productive incentives of capital and labor. We should begin untaxing industry and thrift.

Land is not humanly produced. Taxes on land values cannot check the supply of land nor discourage the use of land. Adam Smith said, "A tax upon ground rents . . . would fall altogether upon the owner of the ground rent. . . . Though a part of this revenue should be taken from him in order to defray the expenses of the state, no discouragement will thereby be given to any sort of industry."

A tax upon land value is like the price of a theatre seat. It encourages the holder to use it himself or to secure a tenant who will use it, in order to get an income from which to pay the tax. Land value taxation has even been opposed on the ground that it "would over-stimulate industry."

The principle of raising municipal revenue by an ad valorem land tax has always been and is today applied by every city in California. Our Constitution requires every assessor to separate the value of land from the value of improvements, for purposes of taxation. The Legislature has authorized many local units of government to raise revenue from an annual tax on land values, irrespective of improvements and personal property. Although this principle has been attacked in the courts, the Supreme Courts of California and of the United States have held that the Legislature may delegate the State's taxing power to political subdivisions to raise revenue by ad valorem land taxes.

For a long time there has been no city tax on improvements in Sydney, Australia; Wellington, New Zealand; Copenhagen, Denmark, or Johannesburg, South Africa. About 75 percent of the cities in New Zealand do not tax improvements. As a result, assessment practices in these cities are much simplified.

In 1913 the Pennsylvania Legislature allowed Pittsburgh and Scranton to lighten the tax on improvements. By 1925 the tax rate on improvements was only 50 percent of the rate on land. The benefits have been so convincing that the Pennsylvania Legislature this year voted 50 to 0 in the Senate and 184 to 11 in the Assembly to allow 47 other cities to raise their revenue by an ad valorem land tax, exempting buildings, machinery and personal property up to 100 percent.

In California, however, land value taxes have gone down, and other taxes have gone up. In 1935, about 60 percent of all public revenue (federal, state, and local) was paid by the owners of real estate. With the growth of other taxes, this figure fell to about 8 percent in 1945. During the same period, the price of land in cities has skyrocketed. Land has not been "burdened" by taxation or its cost to home, shop and industry seekers could not have thus increased.

"Burden on Property Close to Maximum"

As to all three of these issues, the proponents of a tax system based on sources of revenue in addition to property taxes, argue as follows:

No rule can be laid down to determine the point beyond which the ad valorem property tax should not be increased. The needs and circumstances surrounding each city's revenue structure are different.

Nevertheless, in general, property now bears all, or nearly all, the burden which it is economically desirable to impose on it.

An analysis of reports of the State Controller and State Board of Equalization indicates that the statewide increase in the ad valorem property tax, if it were made the sole source of municipal revenue, would average at least 75 percent. If the ad valorem tax were further restricted to land values alone the increase in the city tax on land would average well over 400 percent. This takes no account of the further burden imposed on the same property by other taxing jurisdictions.

Property Tax Not Depression-Proof

In response to the argument that taxes should be increased with inflationary increases of land values, it should be pointed out that ability to pay taxes depends upon income, not capital valuation. Increase in land value is not necessarily associated with increased income from the land. A tax on valuation of a capital asset not based on increase in income is a capital levy and may be confiscatory. We have not yet reached the stage where capital levies are necessary. Nor should any tax be confiscatory.

While delinquency is now low, substantial increase in the property tax would, in the event of a depression, greatly increase delinquency. Tax rates on remaining property would increase and pyramid, until municipal taxing machinery would break down and private property would be virtually confiscated. It was the great depression of the '30s which first necessitated resort to other revenue sources, in order to avoid that very situation.

Proposals to limit sources of revenue to taxes on property, or more particularly to taxes on land, are objectionable. The arguments and considerations in their support are precisely the same as those urged in support of the so-called single tax, which in turn is ill advised, on a number of counts:

(a) It eventually appropriates to government the entire rental value of land, resulting in virtual land nationalization. It is subject to the same objections as the nationalization of industry and property which has always been accompanied by bureaucratic control, waste, inefficiency, destruction of individual incentives and ultimate economic stagnation.

(b) Such confiscation is unjust to those who in good faith have invested their accumulated earnings in land, assuming the risk of substantial losses as well as the prospects of possible gain.

(c) An undiversified source of revenue lacks elasticity and is without reserve power in times of need or stress. The more restricted the tax base the more inequitable the tax burden.

(d) Difficulties inherent in fairly assessing land values are almost insurmountable. The resulting inequities would be greatly magnified if land values were made the sole source of municipal revenue and the base for an enormously higher tax rate.

(e) A small class would pay the taxes—a large class vote them.

(f) Even if more capital were attracted to the building of improvements on vacant land, that much less capital would be available for investment in other productive enterprises, the aggregate fund of investible capital remaining unaffected.

(g) The security back of loans and investments of savings made by banks, insurance companies and other financial institutions would be jeopardized, with ensuing economic dislocations and financial disaster generally—detrimental to all classes, not merely to the so-called "property owners." In instances where rent control is still in force, the resulting injustice and disaster would be obvious.

Exemption of buildings and other improvements from municipal taxation, or their taxation at a lower rate than land, would require popular support of an appropriate amendment to Article XIII of the State Constitution, of which there can be no reasonable expectation in the face of the overwhelming defeat in 1938 of a similar, statewide measure by a 5 to 1 vote. The courts thus far have held that local taxes on land values alone may be only for local improvements and not for general governmental purposes.

Should Encourage Home Ownership

From the standpoint of those who favor other sources of revenue than a tax on property alone, there is one more line of argument of particular interest to those who own homes:

Taxes on homes cover a major part of taxable realty if measured either by the number of pieces of property or by the number of voters affected. Even those who rent homes contribute through their rent to the payment of the property tax. The taxpayer in this instance may be an employed person, a self-employed person, such as a merchant or professional man, a retired person, an unemployed person, or a widow living on insurance money.

To the employed person, a substantial increase in taxation on his home either subtracts from his funds for other living expenses, or encourages him to seek further—and in these times inflationary—wage increases.

Owners of residental rental properties must increase rents to meet rising property taxes. If rent controls prevent such increases, the effect of the tax is confiscatory.

Home owners not actively employed, but depending on fixed incomes, face the danger that increased property taxes will cause tax delinquency and forced sale.

The tax burden on homes should not be increased either actually or proportionately, but additional city tax needs should be met from other sources. It is sound public policy to encourage home ownership and to provide low cost housing for renters. This can best be accomplished by increased exemptions and reduced taxes on home properties.

The views of the Section on these issues are expressed by the following vote:

> **Questions:**
> Should cities meet their increasing costs by:
> Increasing property taxes? 25.
> Seeking other sources of revenue? **65.**
>
> Should municipal revenue be obtained exclusively by an ad valorem tax on property? Yes, 4; **No, 88.**
>
> Should an ad valorem tax be based upon land, improvements, and personal property, as at present? **Yes, 67;** No, 24.
>
> Should an ad valorem tax on property place a greater proportion of the burden on land than on improvements and personal property? Yes, 37; **No, 54.**
>
> Should taxes on homes be proportionately reduced? **Yes, 51;** No, 36.
>
> Should a property tax be based exclusively on the amount of annual yield or earning capacity of the property? Yes, 12; **No, 80.**
>
> Should an ad valorem tax on property be based on land alone? Yes, 10; **No, 82.**

For those who seek other sources of revenue, in addition to the property tax, a variety of possibilities are open.

Sales Tax Frequently Utilized

The most popular source of revenue sought in the last few years has been the sales tax and accompanying purchase and use taxes.

Cities have turned to this tax because of ease of collection and on the argument that it spreads the cost of government over all who enjoy its benefits.

The opponents of the sales taxes, notably labor, have argued that it is not based on ability to pay, is in no sense related to the benefits of government received, and is oppressive on those in low income brackets.

The Section voted as follows:

> **Question:** Do you favor in principle the use of the sales, use and purchase taxes as a source of municipal revenue? **Yes, 73;** No, 23.

Should Cities Charge for Services?

Charges for municipal services are defended on the ground that the fairest way to finance many municipal services is to identify their exact cost and assess it directly as a service charge on those who enjoy the service. They have been opposed on the grounds that administrative costs absorb too much of the income, that such charges are oppressive on the low income groups, that exact costs cannot be truly determined. Charges for garbage collection are common in many cities; the parking meter has become a familiar sight on most city streets, and there has been a growing interest in sewer connection charges and other possible sources of direct charge for local government services.

The attitude of the Section is reflected by the following vote:

> **Question:** Do you believe that the cost of government services should, wherever administratively feasible, be charged proportionately directly to those who receive the service? **Yes, 77;** No, 17.

High or Low Rates for City Utilities?

Proceeds from municipal utility operations may be either directly or indirectly a source of municipal revenue. We shall not open here the entire question of municipal ownership of public utilities. We simply recognize that some municipalities do operate utilities such as water, light and power, gas and street, railway systems, and harbors and airports. The question is whether the benefits of public ownership should be gained by charges to the users of the service, barely sufficient—but at least sufficient—to support the enterprise; or by higher rates if necessary, to produce a surplus to be applied to general municipal costs.

Some contend that since a municipal utility is operated by and for the people, its benefits should be felt directly by keeping charges barely high enough to support the utility itself; and that the monopolistic position of municipal utilities should not be used to force higher rates on the public, even if any resulting surplus is applied to general public purposes.

The responding argument is that municipal utilities are usually financed initially by bonds which are a lien on property, and that the return from the utility should be high enough at least to pay off that obligation. It is contended further that applying some of the utility proceeds to general purposes is a fair means of putting some of the cost of local government on those who do not have the responsibility of property ownership.

The attitude of the Section on this point is expressed in the following vote:

Question: Should "profits" from municipal utility operation:
(a) Be used to support general municipal functions? 23.
(b) Be used for utility bond redemption and interest? **71.**

Some believe that gross receipts taxes are the most equitable and just source of municipal revenue. This principle is recognized to a limited extent by those cities which base a part of their business license structure on the gross-receipts principles. Proponents of the extension of this principle hold that it is the only sound basis for taxing in direct relation to economic activity. It is a tax which is difficult to pass on.

The opposition regards a gross receipts tax as but a further extension of the income tax, without the equalizing aspects of the income tax, which recognizes that gross receipts bear little relation to the ultimate economic return to those engaged in different lines of endeavor.

Though the Section did not study fully this particular revenue, it is a possible source. The views of the Section are expressed as follows:

Question: Should cities seek additional revenue through gross receipts taxes? Yes, 23; **No, 71.**

The income tax is another possible source of municipal revenue. The arguments for this tax are that it is a field not yet tapped by the municipalities; that it is related to ability to pay; and that the machinery for its collection is already established. The argument against it is that it is a field of taxation already quite adequately occupied by the federal and state governments. The view of the Section on this point is as follows:

Question: Should cities adopt a personal income tax? Yes, 5; **No, 95.**

Every city has miscellaneous income from business licenses, fees for minor services and fines for violations of the law. These sources are not a material part of a municipality's income. The discussions of the Section have generally assumed that this miscellaneous income would continue without material change. Nonetheless, the question was put to a vote, with the following results:

Question: Do you favor material increase in the miscellaneous income now derived by cities from business licenses, fines and fees? Yes, 41; **No, 56.**

Contributions from Other Governments

Cities receive some income from the federal and state governments. Most of the income from the state is what is known as shared taxes. This is where the state collects the tax and shares the return because the tax is on an activity which creates municipal problems. For example, a portion of the state liquor tax is returned to the cities for the support of police departments, on the theory that the local consumption of liquor contributes to local law enforcement problems. In like manner a portion of the revenue derived from taxes on gasoline is returned to the cities for street improvement work.

Federal assistance to cities is relatively slight, taking the form principally of payments in lieu of taxes where large federal property holdings result in hardship to the community. Federal housing projects, for example, create unusual municipal problems. Some federal contributions may also reach a city through the state, for specific health and welfare activities.

The subject of shared taxes and grants might well be a separate study. If we accept the contention that municipalities should raise their revenues principally by a property tax and more particularly by a tax on land values, it necessarily follows that the shared taxes should be discontinued, since they are not a tax on property. If we believe that the tax structure of a city should recognize the diversified services rendered and the benefits received, the shared taxes are perfectly logical. They place the tax load on specific local sources, have it collected by the state, and then apply it to a specific local purpose. Whether the practice of shared taxes results in a loss of local autonomy is an important problem—but one which we have not explored.

The views of the Section are expressed on this subject as follows:

Question: Do you favor *extending* the principle of state and federal grants to cities? Yes, 9; **No, 83.**
Do you favor *continuing the present level* of state and federal grants to cities? Yes, 30; **No, 55.**
Do you favor *restricting* state and federal grants to cities? **Yes, 65;** No, 25.

Even when the proper sources of municipal revenue have been settled upon, there remain numerous related problems.

High Assessments Permit Fair Apportionment

Any system of local taxes which depends in part on a tax on property creates a question about assessment practices. If a tax on property is to be used, the burden should be fair and equitable. It can be a fair and equitable tax only if all property is assessed in relation to the same standards, and is assessed at a proper level.

State and local officials who have addressed the Section concede that present assessment practices are inadequate. Assessors often lack trained staff and financial support sufficient to make realistic and up-to-date appraisals. Some, for political reasons, have failed to make the adjustments which equity demands.

In one sense, the level at which property is assessed may seem of no concern, because when assessment levels are low it merely means that a higher tax rate needs to be applied to produce a given amount of revenue; and conversely, when assessment levels are raised, a lower tax rate may still impose the same tax burden on the property owner. But there are at least two good reasons why assessment levels should be as high as the law permits. One reason is that depressed assessment levels give a disproportionate amount of relief from taxation to such favored classes as the veterans. A veteran who has a $1,000 exemption on a piece of property appraised at $2,000 enjoys a 50 percent exemption. That same exemption applied to a more realistic appraisal of $5,000 would reduce the exemption to 20 percent. The other reason—not directly related to the problem of cities, but of interest to taxpayers—is that eligibility for public welfare may be established, even though the applicant owns a certain amount of property. If assessment levels are too low, it may be that the individual owns property having a real value of many thousands of dollars, but still is eligible for welfare assistance because of depressed assessment levels. Low levels also affect the income of school districts, since they operate under tax limits imposed by law. Inter-county equalization of assessments becomes more and more important as assessed valuations are used as a base for incurring bond obligations and for allocating state school funds.

No discussion of property taxes is complete without considering exemptions from such taxes. The increasing land holdings of the federal government, of the states, and of many private institutions which are qualified for exemption, place an increasing burden on the remaining property owners in every community. This becomes a particularly serious problem in the case of public housing developments, large military installations, and state universities and colleges which bring into a community a large population demanding city services, but which at the same time take from the tax rolls a large part of the property value.

On the time-honored theory that "the power to tax is the power to destroy" the courts have held that our levels of government may not tax one another. In some of our cities, however, we are literally reaching the point where the lack of power to tax may become the means of destruction of the local revenue structure. Without intending to place in the hands of any level of government the power to destroy other governments we must find a means by which a different government creating a large municipal cost can be called upon to meet its share of the financial burden.

Part of the tax problem of the cities is that the city dweller pays a tax on his city property to support municipal services rendered by the county for those who live outside of city limits. The result in some parts of the state has been the development of "fringe areas" in which the population outnumbers the nearby city, with the property inside the city bearing a disproportionate part of the cost for services from which the city and its inhabitants gain no benefit.

In general summary, we believe that the tax problem of the cities is not to find new sources of revenue but better to utilize the basic sources originally reserved to city purposes.

Should Good Tax Be Painless?

We ought to get away from the idea that the test of a good tax is that it be easy to collect and painless. We ought to get back to the principle that there is merit in a tax which is direct and painful, if necessary, while at the same time based on an equitable and intelligent basis of taxation. We drift dangerously near the shoals of bankruptcy at every level of government because of a public apathy which is encouraged by the lack of any sense of mounting cost. We have so concealed and diffused an overwhelming tax burden that its effect will not be realized until it is too late. There is a deadly analogy between the growing burden of taxation at every level of government and the painless early stages of a cancer in the human body, which is not detected until it has progressed beyond hope of cure.

We conclude this report as we opened it, with the observation that this study has not produced new and startling concepts in the field of municipal taxation, but has, we believe, succeeded in placing the problem in its proper focus and perspective. The real problem is not the tax problem of cities as such, but the problem of the *taxpayer*. The question of a structure of taxation suitable for cities cannot be considered apart from the equally significant problem of taxes to support our county governments, our numerous local districts, our state and our nation.

The Section believes that the suggestions it offers for coping with the tax problems of cities are not wholly conclusive. Many members of the Section feel that the problems encountered in this study point to the need for a more fundamental examination of principles and theory of taxation. The Section may want to undertake a more basic study on the broader aspects of a balanced tax structure for all levels of government.

Question: Irrespective of your opinion on the questions above do you approve the Section's proposed Report as a whole as to form and content? **Yes, 87;** No, 4.

RECOMMENDATIONS OF GOVERNMENTAL FINANCE SECTION

(Results of Mail Ballot of Section Following Three-Year Study.)

(NOTE: *In all questions "cities" refers to California cities.*)

I.

1. Do you believe that property is bearing all the city tax it *can?* Yes, 48; No, 48.
2. If you believe that a city tax structure should be based on *only one* of the following objectives, indicate which:
   (1) Benefit received? **17.**
   (2) Ability to pay? 5.
   (3) Encouragement of enterprise? 8.
   If you believe that a city tax structure should be based on some *combination* (of the above objectives) list below, by number, the objectives you would combine:
   Combination of Nos. 1, 2 and 3: **25.** Combination of Nos. 1 and 3: 11.
   Combination of Nos. 1 and 2: 12. Combination of Nos. 2 and 3: 1.
3. Should cities meet their increasing costs by:
   Increasing property taxes? 25.
   Seeking other sources of revenue? **65.**
4. Should municipal revenue be obtained exclusively by an ad valorem tax on property? Yes, 4; **No. 88.**
5. Should an ad valorem tax be based upon land, improvements, and personal property, as at present? **Yes, 67;** No, 24.
6. Should an ad valorem tax on property place a greater proportion of the burden on land than on improvements and personal property? Yes, 37; **No, 54.**
7. Should taxes on homes be proportionately reduced? **Yes, 51;** No, 36.
8. Should a property tax be based exclusively on the amount of annual yield or earning capacity of the property? Yes, 12; **No, 80.**
9. Should an ad valorem tax on property be based on land alone? Yes, 10; **No, 82.**
10. Do you favor in principle the use of the sales, use and purchase taxes as a source of municipal revenue? **Yes, 73;** No, 23.
11. Do you believe that the cost of government services should, wherever administratively feasible, be charged proportionately directly to those who receive the service? **Yes, 77;** No, 17.
12. Should "profits" from municipal utility operation:
   (a) Be used to support general municipal functions? 23.
   (b) Be used for utility bond redemption and interest? **71.**
13. Should cities seek additional revenue through gross receipts taxes? Yes, 23; **No. 71.**
14. Should cities adopt a personal income tax? Yes, 5; **No, 95.**
15. Do you favor material increase in the miscellaneous income now derived by cities from business licenses, fines and fees? Yes, 41; **No, 56.**
16. (a) Do you favor *extending* the principle of state and federal grants to cities? Yes, 9; **No, 83.**
   (b) Do you favor *continuing the present* level of state and federal grants to cities? Yes, 30; **No, 55.**
   (c) Do you favor *restricting* state and federal grants to cities? **Yes, 65;** No. 25.

II.

Irrespective of your opinion on the questions above, do you approve the Section's proposed Report as a whole as to form and content? **Yes, 87;** No, 4.

New Taxes to Get City Revenues

by Louis J. Kroeger

Management Consultant,
Louis J. Kroeger & Associates

CHAIRMAN BRAY: And now Mr. Kroeger will discuss the subject, "New Taxes to Get City Revenues." He appears now as "Private Citizen" Kroeger and not Chairman Kroeger.

THE REPORT, I think, adequately advances the economic arguments on both sides of the principal question, "How much more taxation can property stand?" But there are other considerations, aside from economics, which are involved in a tax structure.

The case has not been made that "property" cannot bear any more of the tax load. Nevertheless I am going to argue—on other grounds—for diversification of municipal revenue, which does relieve property of some of its tax burden.

Should Have Diverse Sources

The Section has voted—and I agree—that municipal revenues should flow from diverse sources. Among the many reasons why this is so, four stand out:

(1) The practical point has been made in the report that property supports not just city government, but all forms of local government. Property supports the school district, the county, the local improvement district, the sanitation district, the sewer district, the fire protection district and others. And all of them are limited to the property tax for revenue.

The costs of these services will increase. For all local government to tax property alone might lead to a burden beyond bearing. The cities at least can tap other sources. It is proper and good sense, therefore, that cities should relieve the situation by seeking sources of revenue these other units of government cannot tap.

Charge Costs to Persons Benefited

(2) There is much to be said for charging costs of city services to persons benefited. In Northern California many cities directly or through private organizations require the citizen to pay for garbage collection—a practice that could be extended to many other services. In Southern California that is not at all the common practice. The property owner pays for garbage collection.

I think the taxpayer should more often be made to understand the kind of service he is getting by paying for it directly. Certainly this could be done where the service can be identified, its cost determined, and where no great collection difficulties are involved. If that were more characteristically a part of our tax structure, it would force our local governments to do better what they do now so poorly—cost accounting. If they charged for these services, they would be required to keep the records and accounts which would determine costs and show how they should be distributed.

Should Do Good Cost Accounting Job

Governments should do a good cost accounting job so they can better see where to reduce the costs. Now the possibilities for savings are concealed because accounts do not show how much is spent for what. Furthermore, if people pay the costs directly, they are going to review more critically the services they get.

The tax problem of cities is not to be solved simply by raising more revenue; but by finding more efficient and economical ways of doing things, to hold the tax burden down. Many services cannot be related directly to benefits received. To charge the cost of the police department to crooks, for example, is hardly feasible. But you can charge for garbage collection, sewer connections, parking privileges and for many other services. And when the service benefits property, then let property bear the cost.

Taxes Should Be Spread

(3) A tax on property alone falls on relatively few people directly. In that case many people vote taxes; few pay them. Taxes should be spread so that a large part of the population will not be encouraged to vote additional taxes and service by the fact someone else seemingly pays the bill.

It may be argued that such a tax falls indirectly on all people. But the only cost the average citizen understands is the cost he pays out.

(4) And finally, I will argue for diversifying municipal revenue on the ground that it is expedient. To abandon principles in favor of expediency is bad; but to find expedient answers which also have logic and good sense on their side is a happy solution.

Property Taxes and Single Tax vs. Other City Taxes

by Robert Tideman
Director, Henry George School of Social Science

CHAIRMAN BRAY: Now we will hear a discussion of "Property Taxes and Single Tax vs. Other City Taxes," by Robert Tideman, Director of the Henry George School of Social Science.

PROPERTY TAXES are the traditional source of revenue for California cities. For a long time they raised most of our city budgets. But in the last twenty years, under pressure of property owners, sales taxes, license taxes, gross receipts taxes, etc. have been imposed, and property taxes reduced.

Only by culling facts can one argue that property taxes have been rising. Those who do this point with alarm to the rise of city budgets, tax rates, and tax dollars paid, but carefully avoid mention of the enormous rise in property values resulting from population growth and dollar devaluation. They never compare assessed values with market values.

Tax Rate Seldom Measures Burden

You may recall a few months ago that one of our San Francisco dailies screamingly headlined the tax of several hundred dollars that might fall on our homes. The reader was led to believe assessed value was market value. However, my own home, bought at a bargain for $8500, is assessed at $1780. The Donahue corner, sold recently for $1,750,000, was assessed at $425,000. The vacant sites, west of Stockton Street, running from Ellis through to O'Farrell, recently sold for about $1,250,000, but were valued by the assessor at $347,000. The vast King Estate in Alameda County is assessed as agricultural land, far below what home seekers have paid for sites no different at its rim. The assessment pattern is generally the same throughout the State. Assessments are so low, the tax rate seldom measures the burden.

The subject of this report is: How *should* cities raise there revenue? Some of us have tried to meet this question squarely. We answer that a direct, annual, ad valorem property tax, even if increased, is preferable to a sales tax, a sewer tax, a receipts tax, or any other new taxes. We even hazard arguments *in favor of* the property tax. But those who favor the numberless new taxes do not come out and say so. Instead, their whole position is *against* the property tax. They seek to slip these pesky new taxes in through the back door while we are shaking our heads over the property owner's complaint.

Growing Population a Calamity?

It is claimed our growing population is a calamity to the property owner; that newcomers bring little property with them to swell assessment rolls but demand more city services, so the poor property owner gets the ax in his tax bill. But if greater population means only higher tax rates, why does the Bay Area Council point to population growth as an attraction of real estate here? Because they know increasing population boosts real estate values. Does it matter then if the newcomers bring little property? Their very arrival adds to the annual value in the property under our feet. No one claims this value is created by the landholders. Then why not call on it to support the services the newcomers need?

On page 34 advocates of new taxes say ability to pay depends on income, and when increase in land value is not accompanied by increased income from land, an increased tax may be confiscatory. Consider the Donahue corner. It has increased enormously in value, but with its one-story wooden building down, does not yield even the income from that ancient structure. Does anyone think if we raised its taxes—or did not acquiesce in the new sewer tax to relieve that site—Metropolitan would relinquish title? Of course not. They would come to terms with some prospective user to get some rent to pay the taxes.

Why Land Increases in Value

Land increases in value because people are willing to pay more for permission to use it. When a landholder's income does not go up correspondingly, it is only because he has not come to terms with those who would like to use it. He is speculating he can get a better deal by holding out. To argue that land values should not be taxed when no income is received, is to say that the holding of valuable land idle should be fostered.

The "sewer-use tax," now under debate by the Supervisors of San Francisco, is typical of new taxes. Each home owner would pay $4.20 a year. If all the revenue—about one million dollars—went to reduce the property tax, the rate could be lowered one-tenth of one percent. Thus, owners of homes assessed at more than $4200 might save more on the property tax than they would pay in the sewer tax. Many homes are *worth* more than $4200 but not five percent are *assessed* that high, so 95 percent of the home owners would lose through the sewer tax. But the holder of the Donahue corner, for instance, would save about $425 a year. Thus, the sewer tax, like other new taxes, would shift more of the burden from holders of valuable real estate to home owners and consumers.

Its sponsors say the sewer tax is needed to run the new sewage disposal plants. But if these plants had not been built, and population growth had been checked, and the pedestrian count on Market Street had begun to fall off, wouldn't the downtown property owners have raised a howl? These plants maintain and increase the value of their land. The property owners get the financial benefit of these plants, but don't want to pay for what they get. Here is the "welfare state."

What is true of sewage plants is true of libraries, schools, streets, parks, firemen, police. All city services and improvements figure in the sales talk for city real estate. All go to maintain and increase the rental value of land. Why then should we submit to a sewer tax or other new taxes while the landholders get something for nothing?

"They Like These New Sales Taxes . . ."

On page 35, above paragraph (a), the proponents of more and more taxes say that "proposals to limit sources of revenue to taxes on property . . . are objectionable." That is to say, they like these new sales taxes, license taxes, etc., and don't want to go back to the traditional system by which cities raised their revenue in the pre-New Deal days. And the inference is that to wipe out these new taxes and to rely on the property tax again would amount to land nationalization. I guess we didn't realize our precarious state in the old days before we got the many fine taxes we now enjoy!

Why didn't the author of paragraph (a) tell us about the "nationalization," "bureaucracy," "waste," "inefficiency," "loss of incentive" and "stagnation" in Wellington, Sydney, Copenhagen, Johannesburg, or the cities of New Zealand which derive all their revenue from land value taxes?—or in Pittsburgh and Scranton, which tax land values at twice the rate on improvements? No such evidence is cited because there is none. These cities are prospering.

Not Landholders, but Labor and Capital Overtaxed

Anyone honestly troubled about nationalization should attend to the plight of labor and capital, the active producers of wealth. Federal taxes fall with full weight on them, and our states and cities in the last twenty years have been favoring landholders at their expense. Labor and capital, commerce and industry, *are* in great danger of nationalization by taxation.

No one has ever seriously proposed that all taxes be levied on sales or sewers or any other product or activity or earned reward. For such taxes all have bad effects. It is because land values are particularly suitable for taxation that so many wise men from Quesnay to Winston Churchill, have proposed taxing them especially. Is it not strange, then, that anyone should point to the "single tax" proposal as a reason for substituting new taxes for our traditional tax on land?

The advocates of new taxes do not deny the superiority of land value taxes over sales or sewer taxes. They know they will get scorched if they try. To evade the issue they trundle out the label "Single Tax." From the end of this handle they coolly talk of nationalization, bureaucracy and waste, *while proposing more taxes and tax collectors;* they talk of incentives and of stagnation, *while proposing a tax policy that penalizes production and makes it easier to hold land idle;* they talk of confiscating earnings, *while favoring an income tax!*

What's at End of This Road?

Not even those who are working hardest to reduce their land value taxes will like what lies at the end of the road they are taking. What is the way of life in countries where taxes have been loaded entirely on the producers of wealth, where land rent is treated as absolute private property, unqualified by any responsibility for public revenue? Look at Mexico, India, Iran, Spain, Brazil, or the Russia of 1917. You see countries where land is held by the few in great estates, without any financial responsibility to encourage efficient use. You see landlord and tax collector confiscating so much of the reward of labor and capital that incentives to work and accumulate tools are strangled. You see rich and poor a gulf apart, class against class, and the stage ever set for demagog and tyrant.

This question of who should pay taxes is a moral question at bottom, and the only spirit in which it can be justly solved is that spirit expressed seventy years ago by a wise and good and fearless citizen of this city: "I am for men."

Critique on Single Tax and Increased Property Taxes

by Raymond D. Smith
Realtor Appraiser

CHAIRMAN BRAY: Next we will hear a "Critique on Single Tax and Increased Property Taxes," by Raymond D. Smith, Realtor Appraiser.

I DON'T believe I have ever heard a taxpayer object to paying a property tax in a proper ratio of his holdings, nor an owner object to paying a reasonable tax upon his land and his improvements based upon the benefits that owner receives in police and fire protection and all the things that go with urban ownership.

It becomes then a matter of equalization of the relationships between land and improvements. Most people feel that land alone should not carry the entire load. It should carry as fair a proportion of the load as the tax assessor may determine.

Tax Assessments Go Up—Seldom Down

The tax assessor assesses upwards but he seldom assesses downwards. In a deflated dollar market like that of today, the assessed valuation goes sharply up. But when the assessor gets ready to cut assessed valuations, he makes a blanket reduction of $100, $500, usually in those areas where the most votes exist. In San Francisco in 1946 or 1947, assessments of downtown industrial or commercial properties were drastically increased. There are few votes in those areas.

But in the residential district, a blanket decrease of $100 was made, irrespective of the value of land and building.

If the assessors could reassess every year (which would be prohibitive in cost), I don't believe there would be much criticism of the property tax.

"Single Tax" Not a Tax Problem Primarily

I look at the "single tax"—placing a tax purely upon the land—not as a taxation problem but as a social problem—a matter of trying to establish a new social order. I am a practical man, and I don't believe it will work because of practical limitations on assessors.

Our big question in today's discussion is municipal revenue. But I don't believe people are interested one bit in taxes.

For ten years I have gone to the San Francisco City Hall to appear before the Finance Committee of the Board of Supervisors, and I have analyzed our annual budget, item by item, not once but three times.

During Mayor Lapham's administration he called some five of us into his office during formation of the budget, and the reports from the heads of the various departments were thrown on the table. Al Smith of the Bureau of Governmental Research and myself were asked to criticize every item. We spent days there.

Taxpayers Not Interested

When the budget went to the Board of Supervisors and was referred to the Finance Committee, I went over that budget with several others, item by item, line by line. When it went on to the floor of the Board of Supervisors, the same thing occurred again.

At none of those meetings did anyone ever appear to protest. Al Smith and I were the only ones there. We were paid to be there. But there were no taxpayers there. You can't tell me that real property taxes are onerous when the people won't appear to oppose them.

Look Closely at Non-Governmental Spending

If we are to cut taxes and spending, we must look critically at non-governmental services. How much should the ordinary citizen expect to receive from government outside of actual governmental service?

Take our school system. Some friends are attending a free class on the study of old china. They learn about dishes and how to read what's on the back. This class has a paid instructor under the Board of Education. Is the study of old china a function of government which should be paid for out of the school budget? I don't think it is. They have classes in aesthetic dancing. I don't think aesthetic dancing is a fit subject for public funds.

I am a photographic "bug." There is a large amount in the recreation budget covering an excellent laboratory at which they teach photography free and supply chemicals and other things to adults who want education in photography.

They have a real estate class and offered me a salary once for teaching there. If a man wants to learn real estate, he shouldn't be entitled to get it out of my tax dollar.

Welfare Money in Every Budget

There isn't a department in the San Francisco City Hall that does not have some "welfare" in it. The police department has a boys' club, and it is a fine thing, and some support may come from police contributions. But things like that belong to the welfare department, not the police department.

Your Board of Health budget is loaded with welfare matters of all kinds: hospitalization, child care. Your recreation department budget is loaded with free lunch programs. True, they get a subsidy. Is that a function of government to be paid for out of the taxpayer's dollar?

We must know whether we are paying for governmental functions or non-governmental activities.

Public employment must be regulated. We must have some sort of Hoover plan. Employments are created to increase the importance of the head of a department and get him more money.

We Need Budget Criteria

Because a budget was X dollars last year, doesn't mean X dollars plus or minus this year is a proper budget. We must eliminate the philosophy of building a budget on this sort of basis. We must have some criteria of measurement.

I don't think real property taxes have reached a maximum, for this reason. Some years ago I thought of organizing a taxpayers' association in San Francisco. We need one badly. I spoke to several influential, large property owners. Without exception those fellows said, "Well, I am friendly with the Assessor and I like the Mayor. Besides, these items are deductible."

U. S. Pays the Bill

So long as real property taxes are deductible from the Federal income tax and the Federal Government is paying from thirty to seventy percent of them, you are not going to have much opposition to the ad valorem tax bill.

Some day incomes from these properties will diminish, and taxpayers will wake up and say, "Look at our tax rate, it is $6.29. Where have I been all this time?" They've been asleep, but the day of reckoning will come.

I think the solution to our tax problem lies in a critical analysis of the operation of our municipal budgets.

Discussion From the Floor

Under 3-Minute Rule

CHAIRMAN BRAY: Now we come to discussion from the floor. You are limited to three minutes. All who desire to speak will be given opportunity.

Remarks by J. Rupert Mason

President, International Union for Land Value Taxation and Free Trade

MR. MASON: I've never heard a more able support of the need for the principles of Henry George than has just been given us by Mr. Smith. I could easily trace each bad effect he enumerated to a primary cause.

Mr. Kroeger commented about people voting who don't pay taxes. Public schools have been traditionally supported by means of an ad valorem real property tax. If a man held half the land values in a school district, he paid half the school costs regardless of the number of his children. The question of voting rights irrespective of land holding is as old as this Republic. I thought that issue had been buried.

Those who oppose raising public revenue by ad valorem land taxes are putting themselves in bed with Socialists. They are unwittingly advocating the socialization of earned incomes and the fruit of man's work by taxation.

I believe it is possible for people to live and work together in a community, state or nation and enjoy the full fruit of their industry, untaxed.

Remarks by Joseph S. Thompson

President, Pacific Electric Manufacturing Corporation

MR. THOMPSON: For forty years or more I have advocated the principle that Mr. Tideman so speedily put before you.

Each of us knows what his own personal and private earned income is. Did we ever think that there is also a public earned income, a creation of all of us as a mass for which no one of us is responsible? So much so that each individual that adds himself to Skid Row, each baby picked up and slapped to start him crying, raises land value? Land value is the public earned income.

It sounds socialistic, let us say communistic, to say people as a mass and not as individuals create land *rental* value—not *land* value (if you want land, you can get hundreds of acres in Nevada for $3 an acre)—but land rental is location value. We created this value—we should collect it.

If we knew we were justified in taking what we create as the people, we would not collect from those who create, who labor, who organize, that return which should stay in their pockets. A tax on industry is a fine. When we tax an industry, we drive it out of the city.

Remarks by F. B. Magruder

Tax Commissioner, Southern Pacific Company

MR. MAGRUDER: When this Section selected a subject, "Tax Problems of Cities," it was thought that we would stick to the subject and come up with a final report that would be informative. But the subject has been so distorted that its own mother cannot recognize it.

Too much time has been given to the Henry George single tax theory. The question has become: Should the single tax be adopted?

The single tax theory should not have been considered in this study. If it was desired that it be given consideration, it should have been done in a separate study.

Remarks by E. R. Zion

Retired

MR. ZION: I'd like to ask Mr. Smith if he attended the San Francisco City budget meeting where $4,400,000 was appropriated to build a juvenile home for two hundred juvenile delinquents?

MR. SMITH: I was there and opposed it every step of the way.

MR. ZION: Expenses like that give us our problem in taxation. That is $22,000 for every child. Can you beat that for outright waste or graft?

You ask single tax advocates to tell why land should pay a little more taxes, maybe. You should first give one reason why personal property should pay any tax.

It's like the difference between Ford and Rockefeller. Rockefeller got his vast fortune from natural resources. He deprived the rest of us, disinherited us, from a share of these. But Ford added to the world's wealth. Should the two be taxed the same?

We have too many tax exemptions. Everybody likes to get exemptions, but when they get exempted they don't come to meetings on tax problems any more. It used to be, when the San Francisco Board of Supervisors met on tax problems, the Archbishop had a representative present, and the gas, water and telephone companies; the railroad and other companies had their representatives—because their property would have to pay the taxes.

Then you exempt them, and you lose not only the value of the exemption, but you lose the careful attention of these citizens to tax and expenditure problems.

Veterans are another big group that are exempt—and just recently schools, hospitals and many others. And so it's no longer to their interest to attend tax meetings.

Adam Smith, John Stuart Mills, Walker, Ricardo—all agreed "rent" is the excess profit over no-rent land. Henry George was the only one who followed this up. If this statement is true, every new labor-saving machine, every new chemical process, increases rent. And it does. None of the economists will deny it. This is the justification for more land taxes.

Remarks by Monte Dernham

Attorney

MR. DERNHAM: Mr. Magruder, if I understood him correctly, told us the single tax should be the issue of a distinct study. It has been the subject of a distinct study in this Club—fourteen years ago. In the fall of 1938 there was a proposed Constitutional amendment, Proposition 20, providing in general for a state-wide single tax.

The matter was studied by this Section. The Club in its entirety voted against the single tax, 693 to 66.

The question has been dealt with by this Club. It is behind us and should remain behind us.

MR. MAGRUDER: I didn't say the single tax should be given a separate study. I said the single tax theory should not have been considered in this study and if it was desired that it be given consideration, it should have been done in a separate study.

Remarks by Assemblyman Edward M. Gaffney

MR. GAFFNEY: School tax exemptions have been attacked. In the case of the parochial and other non-profit private schools, we of the Legislature looked at tax exemption from a business-like viewpoint.

We found that there are approximately 170,000 children attending the non-public schools, and that these schools are over-burdened with taxation. Through a new interpretation in Los Angeles county, this taxation has been multiplied three-fold and in some parts of the southland, four-fold.

If all the non-public schools were to close their doors because of oppressive taxation, the State would have to provide public education for some 170,000 children at a cost the first year of at least $120 per average daily attendance, totaling $25,000,000. In capital outlay, unless we leased the present buildings of the non-public schools (in addition to the almost $300,000,000 already spent by the State Allocation Board of recent bond issue funds voted by the people), it would cost at least $600,000,000 more to build schools for children now attending private non-profit schools.

Even now our public schools are over-crowded. In some areas children go to school on half-day shifts; in Eureka, it has been reported, there are three shifts daily. It should be borne in mind also California is the only state that taxes non-public schools whereas we should encourage all schools devoted to the education of children.

JUSTICE A. F. BRAY: I can't stand by and have Contra Costa County outdone. Assemblyman Gaffney said in Eureka there are three school shifts a day. For a while during the war in Contra Costa County, we had four.

Remarks by Robert Tideman

Director, Henry George School of Social Sciences

MR. TIDEMAN: When I joined the Club a first draft of the Section's report was being considered, telling how increased population was a "calamity" to the property owner, and about the dire predicament of our landholders. I pointed out additional facts and soon realized I was playing with dynamite. And soon, in reply, came not arguments but labels—"single tax," "Henry George theory," a "new social order," and so on.

But the taxation of land values is "old hat" in this State. The writers of the State Constitution provided for it, and its advantages are obvious to anyone who studies the subject impartially. It is certainly not wise or fair to approach the subject as if it were the mere doctrine of a nineteenth century economist. It has immediate significance. If we are to get new revenues will we get them from sales taxes or from land value taxes?

We are asked to believe that, because some men have proposed collecting all revenue from land value, we must therefore adopt new sales taxes. That is hardly logical. It is only by giving doctrinaire associations to perfectly sensible principles that they get fenced into a separate compartment of the mind. Insanity is just that: keeping things in different compartments of the mind where they cannot interact—avoiding painful integration.

Remarks by Raymond D. Smith

Realtor Appraiser

MR. SMITH: I don't favor the extension of the tax base in sales taxes or the other taxes. Governments will spend whatever they can get. The more tax sources, the more they spend.

We should put our tax eggs in one basket but watch that basket.

One thing that would benefit San Francisco would be for citizens to organize a budget examination committee like that in Los Angeles.

CHAIRMAN BRAY: The meeting is adjourned.

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