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GRADED TAX LEAGUE of Pennsylvania

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Allegheny County Division

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Dec 27
1956
This letter and the accompanying material (or other appropriate "News Notes") are being sent to several hundred government officials, members of planning bodies, educators, and other civic leaders.

Contributions toward the expense will be welcomed; but even more important--- Would you like to have copies sent to people with whom you can talk? People of influence, perhaps, but "let no one imagine that he has no influence. Whoever he may be, and wherever he may be placed, the man who thinks becomes a light and a power."

Robert C. Bowers
John C. Weaver

During the past summer, Dr. Harry Gunnison Brown, who has had a long career as head of the economics department at the University of Missouri, spent several weeks speaking in Pennsylvania, because he regards the Graded Tax system of Pittsburgh and Scranton as one of the rare examples of sound local taxation in the United States. He wished to help the extension of the system (now optional in all the third-class cities of the state under the McGinnis Act of 1951), since he hopes that Pennsylvania will become a "demonstration laboratory."

He spoke on Australia as a laboratory in taxation, because there the exemption of buildings and improvements from most, or all, taxes has produced a marked increase in construction.

Those of us who feel that Pittsburgh is missing an opportunity -- to advertise and further apply the basic principles of its own system -- have been seeking for the right way to re-state these principles and bring the Pittsburgh plan to fresh public attention. We believe that this should not be done in a narrow propagandist manner, but rather should appeal to public officials and community leaders who may find ways of blending it with other movements for civic progress.

Fearing in mind this object, we hope you will give the enclosed leaflet, "The Pittsburgh Graded Tax," a careful reading -- noting its application to the acquiring of land for redevelopment and "urban renewal," and its new and non-controversial manner of dealing with doubts and valid objections. An article by Dr. Brown is also enclosed, emphasizing industrial development. We should welcome an opportunity for conference.

Sincerely yours,

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WILLIAM E. SCHoyer

GRADED TAX LEAGUE OF ALLEGHENY COUNTY
534 Bakewell Bldg., Pittsburgh 19, Pa. (AT 1-8066)

NEWS-NOTE No. 1.

November, 1956

EYES ON THE ASSESSORS

The Pennsylvania Economy League has made suggestions to the County Board of Property Assessment for greater efficiency. The Board has shown willingness to receive and act on constructive criticisms from this and other sources--from industries, from small and large municipalities, and notably from the City of Pittsburgh.

Mayor Lawrence appeared before the Board, early in 1956, pointing out that failure to increase land assessments, during the 40 years that the Graded Tax has been in effect, seemed "a contradiction of all the facts of Pittsburgh's rebirth." This brought a reversal of the Board's apparent policy, and a considerable number of increases, though not all that the Mayor and his advisers recommended.

The City Treasurer's consultant on assessments, Percy R. Williams, has gathered a mass of information from cities throughout the United States, confirming the familiar tendency to assess below true market value, but discovering also a slow growth of recognition that this is an absurd situation. A number of cities are finding that citizens are not deceived by low assessments, accompanied by high tax rates. They are willing to face accurate assessment--provided tax rates are correspondingly reduced.

Among advocates of the Graded Tax principle, there may be differences of opinion as to the administration tax proposals for 1957, since a surplus has been reported. A strong case could be made for elimination of the earned income tax or the taxes on business, which are a penalty against service and enterprise. As for the property taxes, it would be well if the gradation between land and buildings were changed by the Legislature to decrease levies against buildings.

But with the law as it is, there is reason for satisfaction that the millage is being decreased as the assessment rises. This will serve as a token precedent that whenever in the future an approach is made toward 100 per cent assessment, the millage can and will be reduced -- so as to bring in only the same total revenue as the people have been paying, unless they clearly approve a higher budget.

THE MACHINERY TAX

The third-class cities and other industrial towns of Allegheny County have been troubled for a long time because of the pressure to eliminate machinery from taxation as "real estate." This elimination^{has} been brought about by law in all other counties of the state, and the city of Pittsburgh does not tax machinery, though its industries must pay the county tax.

E. M. Elkin of Westinghouse Electric Corporation declared in July that Allegheny County in this respect is "the worst in the state," while Arthur B. Davies, executive director of the Smaller Manufacturers Council, said in a statement on November 3 that "this unfair tax is driving more and more small business out of Allegheny County each year." W. R. Ahern, member of the County Board of Assessors, who has had the task of assessing machinery and meeting constant appeals, now urges abolition of the tax.

The communities which rely heavily on this source of revenue are naturally afraid of throwing the burden on home-owners or wage-earners. But McKeesport, Duquesne, and Clairton could immediately, under the McGinnis Act, adopt a tax graded to place much of the weight on land of high value (which is not usually in the residence districts). The industries occupy large tracts of land, and if they were taxed on the basis of what this location is worth to them, rather than penalized for modernization of their plant and equipment, they could have no complaint. Businesses in the shopping areas are, in a sense, collectors of revenue from all the people of the community who create the "downtown" values by their patronage. (If patronage shifts elsewhere, land assessments should of course reflect the change.) But direct taxes on homes mean less spending in the stores, while a lightening of home and building taxes will mean more spending.

Boroughs and townships with population of 10,000 could also become third class cities and gain this advantage, or, without such a change, they could ask the legislature for the privilege of graded taxes--which was accorded the cities by practically unanimous vote in 1951.

THE GRADED TAX LEAGUE OF PENNSYLVANIA

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THE PITTSBURGH GRADED TAX

What It Is And When It Started

In 1913 the Pennsylvania legislature, on recommendation of leading Pittsburghers, including Mayor William A. Magee, enacted a "Graded Tax" law for "cities of the second class"—namely, Pittsburgh and Scranton. This provided that the tax rate on houses and buildings should be adjusted by gradual steps until, in 1925, it should be fixed at one-half the rate levied on land.

Overseas—And In Pennsylvania

This is a unique plan, though numerous cities in Australia, New Zealand, Western Canada, Denmark, etc., have gone much farther with a similar principle. In 1951 the "McGinnis Act" extended to all third-class cities of Pennsylvania the right to tax land and buildings at different rates—two to one or any other ratio. In 1956 their maximum millage was increased from 15 to 20, plus additional mills for debt retirement, so that a city might now, for example, adopt a ratio of five to one, and have a rate of 25 on land to 5 on buildings. In the city of Easton, Professor George Sause of Lafayette College has made a study showing the benefits which would come by adoption of such a plan.

Why Not More Of It?

But Pittsburgh should take the lead in promoting its own "invention"—securing the same complete option as the other cities, and extending the idea to school and county taxes. The half-rate on buildings has not produced a noticeable lowering of taxes, because the total cost of city services has been rising, but land values in choice locations here pay a larger share of this cost than in cities with a flat rate.

Benefits To A Typical Property

An example will show how nearly all home-owners benefit—since houses are usually built on lots worth much less than the dwellings.

Assessment, in thousands	Land	House or Building	Total
	8	12	15
1956 Pittsburgh millage (rate per thousand)	34	17	
	\$102	\$204	\$306
Tax			\$345

but if there were a flat rate of 23 (to produce the same revenue) the tax would be

For a modern office or apartment building assessed in millions instead of thousands, a similar proportion often applies. Try working out an example with your own property—and imagining a still lower rate on houses.

Its Aim—And Why It Works

The aim of course is to encourage building and improvements, and to discourage the holding of under-improved land.

Two well-recognized laws of economics should be kept in mind.

1. Lessening of taxes on man-made products will increase their sale, and will thus stimulate more production and prevent rise in prices; increasing such taxes has the opposite effect.
2. Increasing of taxes on land value lowers the sale price, since the quantity of land cannot be changed—and thus stimulates sales; decreasing such taxes encourages a "waiting game," in the hope of higher prices.

Will Anyone Lose By It?

Advocates of this plan recognize that investors in land who did not know of an impending change should not lose their investment by sudden new policies. But often the tendency to lower land prices is offset by increased demand for sites when building is less taxed—allowing time for a fair return on the investment, and for a transfer of reliance from land to buildings (or some other form of productive enterprise.) To allay fears of sudden loss, the application of higher land rates may be planned in gradual stages (as in Pittsburgh, 1913-1925), though the process might well be speeded up after investors understand the situation through experience. Owners who do not have funds for improving their land could be helped by loans.

Developers Need Land

"Authorities" and community development projects of our day show a new recognition of the principle here set forth. They see that one of the chief obstacles to clearance of blighted areas, highway changes, public works, and attraction of new industry and business, is the high price of land. Some invoke eminent domain (the ancient legal doctrine which says that no land title can stand in the road of the general good) and acquire the land at the lowest price which public opinion, through court juries, will sanction. They sell or lease it to developers—perhaps at a loss which is spread among all tax-payers. Because the public is not alert to the principle involved, the land-owner, instead of taking any loss, often makes a gain which he could never have made through his own efforts had the "blight"—or ordinary circumstances—continued.

First Steps—With Fairness To All

The principle might have been more quickly recognized if it had not been entangled in one-sided moralizing, condemning speculative gain without also admitting the injustice of a possible loss to unwarned investors (though this is far more characteristic of other current taxes than of the plan here proposed.) But by the various processes mentioned in the two preceding paragraphs, a fresh start can be made, with the hope that future land-speculation may be prevented, instead of trying to punish it late in the game. Still, the first step might be the prevention of excessive wind-falls when redevelopments are under way, through clear legislative instructions to the courts.

Conducting Government As A Business

For there is a moral principle to govern the future. Land value is not the product of individual effort but of all the community's efforts put together. It measures, more exactly than any other yardstick, what it is worth to live and do business in a given community or district, so that if the community, through its government, collects a good part of the annual land-value by taxation, it is charging for its services in a businesslike way, uncomplicated by nuisance taxes on production and private transactions and income. Such taxes are an incentive **not** to produce or trade; and a very poor yardstick, having no relation to the worth of government service. Property owners in cities with a variety of taxes often pay more, in a way hard to calculate, than under a simple tax on the broadest of all bases—the places where all of us set foot on earth.

Let us un-tax production!