

GRADED TAX LEAGUE OF PENNSYLVANIA

Reduce Taxes on Homes and Buildings — Stimulate Private Enterprise and Urban Renewal

710 BAKEWELL BUILDING, PITTSBURGH, PA. 15219

WILLIAM E. SCHOYER
President

PERCY R. WILLIAMS
Executive Director

Dear Sir:

Having come this far with us, you are probably one of the growing number of urban renewal authorities who feel that land value taxation is a long overdue urban renewal reform. By now you must agree with the Urban Land Institute's research monograph #4 when it says:

In the slum, the process of natural renewal by private action has come to a stop, hindered, among other things, by speculation in land, and by the taxation of improvements. But, while millions of dollars are being spent and millions more are proposed to clear slums and to rehabilitate blighted areas, the city deteriorates faster than public action can renovate it. Certainly, private action needs to be stimulated in some way.

To exempt improvements and at the same time to tax land more heavily would provide a double incentive to the owners of derelict buildings to demolish them and to use the land more intensively. Here surely is a golden key to urban renewal, to the automatic regeneration of the city - and not at public expense. (emphasis added)

It should come as no surprise that a tax advocated by experts for its economic advantages should meet the standard of "benefits received" as well. Here again, the aforementioned Urban Land Institute pamphlet states the matter lucidly:

The services provided by public improvements and the size and wealth of the community are directly reflected in land values. Whether or not the land owner takes advantage of the benefits conferred upon his property by availability of services, by access to the community at large, or by unique natural advantages, is not the point at issue. Benefits are conferred upon different sites in varying degrees and these benefits are measured in land values. A corner lot in the business district may be occupied by a department store or a car parking lot. The same public services are available to it, the same advantages accrue to it, whether or not it is well used.

On the principle of benefit-received then, it is fairer to tax the value of the site alone rather than the value of the improvements and the site together; that is, to tax on the potential use of the land not on its actual use.

When the West Side I. R. T. subway in New York City was built some decades ago, nearby land value naturally jumped many-fold. According to one well-known study, the increase in land values was more than double the cost of the subway. After the George Washington Bridge across the Hudson River was built, New Jersey land values increased more than six times the cost of the bridge. Certainly, these are typical cases. Is it not logical that society or government should tax the locational values (represented by higher land prices) which it creates?

The more valuable the land, the more able are the owners to pay the tax - a practical consideration not to be overlooked. The only alternative is for the government to tax

incomes, sales or improvements, and these taxes (especially the latter) fall with special force upon the poor (the income tax, as now constituted, is not very progressive and sales and improvement taxes are passed on to the users, mostly the poor, via higher prices).

Yes, we can see now that there is no alternative - either we shift the tax from improvements to land values and give a continuous spur to the process of urban renewal, or we hobble the renewal efforts of both private builder and public authority alike. If we don't force land to be put to the use most consistent with market needs, then blight and sprawl will result. If we continue to levy a 50% excise tax on new construction (for that is what a 3% annual property tax over the average expected life of a building amounts to), then renewing our cities will be like swimming upstream or walking uphill. Techniques other than LVT are needed to renew our cities - imaginative and well-financed traffic planning is one, for instance - but without LVT these techniques will generate considerably less renewal momentum.

It is now legitimate to ask: what political appeal does LVT have? Consider these facts: the great majority of homeowners will get a tax reduction if LVT were to be imposed; progressive businessmen will be similarly benefited; LVT would enable a city to attract new industry. It is for these reasons that land value taxation has had political appeal throughout Australia and New Zealand - why not in your city as well?

Is it not true that just a few city officials and a handful of public-spirited citizens have spearheaded most of the recent governmental reforms in your city, reforms such as new traffic patterns, zoning revisions, changes in assessment procedures, and urban renewal projects? Couldn't land value taxation be added to this list if it received the active support of people like you? Certainly the task would not be easy - obtaining public support for any necessary social change never was - but it is equally certain that a more rational real estate tax is necessary for your city's optimum growth and the effort required to obtain this reform would be effort well expended. Can we ignore the evidence presented in these letters? Should we ignore the dictates of conscience?

If you act now, you will not be alone. As you have seen, you would be joining a growing company of urban renewal experts who are coming to see the merits of land value taxation. The Graded Tax League, consisting of a number of businessmen and public officials, is willing to help you win support for LVT in your city. Will you accept our offer?

This is the last in this series of letters. The time for decision has arrived. In the first place, would you like to join the Graded Tax League - to support its work and receive its literature? Secondly, would you like one of our members to come and visit you - at no obligation whatsoever - in order to provide information you may want, offer help and suggest plans for the future?

We appreciate your acquiescence in sending you these letters. We trust that with this letter our relationship will not end and hope that you will be able to send us the enclosed card.

Sincerely yours,

GRADED TAX LEAGUE
Steven Cord, G. T. L. Director
Professor of History and Economics
Indiana University of Pennsylvania

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Dear Sir:

Most of you who are receiving these letters have not asked for them. Yet they keep coming in, week after week. We are acutely aware that we may be presuming on your time, but we assume that you are receptive to these new urban renewal ideas, and it is on this assumption that we send you these letters (if you do not wish to receive them, please let us know).

The theory behind LVT is clear and simple: by gradually increasing the tax rate on land while decreasing it on improvements, we encourage land to be put to its full economic use while simultaneously making it easier to do so. Speculation in land would eventually disappear - the prospective builder would not have to buy up land in advance at ruinously high prices, thereby tying up vast sums of money. Also remember that a 3% annual property tax, paid over the expected life of the property, is equivalent to a 50% excise tax imposed on new construction! Who can doubt what would happen if such a burdensome tax were removed as a result of LVT?

Actual experience with LVT in Australia and New Zealand corroborates the theory in every way. But we needn't go so far, for in the United States there are a number of good examples of LVT in operation. Fairhope, Ala., a lovely suburb near Mobile, was originally established in 1894 by LVT advocates who bought some farmland, vested it in the hands of the municipal government, and to this day the rent charged to the individual residents for the use of that land (and more bought later on) has paid for all local expenses and county and state property taxes in addition. Fairhope was not so old or so well situated as many nearby towns, but it has grown much faster than they have. Arden, Delaware was founded in the same way and has a similar success story to tell.

There are other examples of LVT in the United States. A land tax collected in the California Irrigation District has more than paid for the expensive federally sponsored irrigation network. (Is it not just that the landowners who benefited from the network should pay for it?) In 1921, New York was suffering from an acute housing shortage, so it exempted new residential construction from taxation for ten years; result - an unprecedented housing boom (write for details!).

Pittsburgh, Pa., however, provides the best example of modified LVT in action in the United States. In 1913, the Pennsylvania state legislature passed a law enabling Pittsburgh and Scranton to gradually increase the tax rate on land and decrease it on improvements so that by 1925 the land tax rate would be exactly double the tax rate on improvements. In 1914-15, the tax rate on buildings dropped to 90% of the tax rate on land; in 1916-18, to 80%; 1919-21, to 70%; 1922-24, to 60%; and in 1925 and thereafter, to 50%. Although the county and school taxes still fall equally on land and building, this nevertheless was a significant step forward in urban tax reform.

The principal effects of Pittsburgh's Graded Tax - for that's what the law came to be called - were felt primarily in the first few years as landowners sought to make adjustments to the new tax picture. In 1913 and 1914, while the country underwent a sharp recession which hit with extra impact the heavy industry that dominated Pittsburgh's economy, the city's building industry flourished. Many vacant or underdeveloped plots in Pittsburgh which were owned by large absentee landowners were suddenly developed.

It is interesting to compare the Graded Tax bill of different types of landowners with the tax bills they would have to pay if the tax rates on land and building were exactly the same (as they are in most communities). Here the Pittsburgh experience further corroborates the Australian-New Zealand experience and the many research surveys cited in previous letters. The great majority of homeowners pay less under the Graded Tax. Most downtown properties pay more - with the exception of the well-improved ones, of course. Manufacturing plants generally show very substantial tax savings. The same is true in Scranton, where a former chairman of the New Industries Committee of that city's Chamber of Commerce reported: "We have found that our method of taxation on land improvements is a factor in attracting new industries."

Pittsburgh's Graded Tax has received the endorsement of all of its recent mayors, Republican and Democrat alike. For instance, William A. Magee, mayor in 1913 and again in 1925, had this to say:

In 1913 the proposed graded tax law appealed to me because of conditions in Pittsburgh. We had large tracts of vacant land in the residential areas and many dilapidated, old and small buildings in the business districts. A bonus to the owners (who improved their property) in the form of a relatively lower rate of taxes was deemed worthy of experiment.

After years of experience, we are justified in claiming success. Many new buildings have been erected in the business district and the residential area has been practically built up. Five square miles have been annexed to the city by vote of the people of the adjoining territory. The principal argument for annexation was the lower taxes inside the city.

More recently, David L. Lawrence, Pittsburgh mayor and later governor of Pennsylvania, gave this endorsement:

There is no doubt in my mind that the graded tax law has been a good thing for Pittsburgh. It has discouraged the holding of vacant land for speculation and provides an incentive for building improvements. In the distribution of the tax burden it is particularly beneficial to the home owners.

Pittsburgh is now in the midst of a very extensive urban redevelopment program, and it is a matter of record that the owners of many of the fine office buildings, hotels, apartments and industrial plants that have been built in recent years are paying substantially lower taxes than they otherwise would pay because of the Pittsburgh tax plan which encourages all private improvements on real estate by the lower tax rate on buildings.

In 1959, the Pennsylvania legislature passed a law enabling any of Pennsylvania's 48 cities of the third class to adopt LVT or the Graded Tax if you prefer (boroughs and townships would have little difficulty in obtaining similar permission from the legislature). It is possible under this new law to go further than Pittsburgh and Scranton and even abolish taxation on improvements altogether! All that is required is an ordinance by your city council. Isn't this the time for action? If you want inexpensive slum clearance for your city (and not a one-time shot in the arm but a continuous spur to renewal) isn't the Graded Tax something for you to seriously consider? If you want to attract new industry, won't the Graded Tax help you?

The theory is logically sound and is thoroughly substantiated by the facts of experience. What more can you ask for?

If it's more information you need, write us. If you want a reprint of the LVT article that appeared recently in the Nation's Cities, let us know. If you would like us to send these letters to someone else, send us his name. Pretty soon these letters will be coming to an end, and so if you would like us to come out and visit you, we'd be glad to do so. This would be done only at your request.

Sincerely yours,

Steven Cord
Professor of History and Economics
Indiana University of Pennsylvania
GTL Director

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WILLIAM E. SCHOYER
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Dear Sir:

If your community should tax land values more heavily, then real estate improvements could become tax-exempt. Real estate in neighboring non-LVT communities will not have this advantage and your community could expect an influx of new investment. In addition, the tax on land values will make land cheaper, in part because it would end land speculation; this would be an extra incentive to new construction. It therefore should come as no surprise to us that there are many prominent endorsers of LVT. Here are some:

The Urban Land Institute has recently published a carefully documented study of Burnaby, a suburb of Vancouver, B. C., Canada, by Mary Rawson entitled "Property Taxation and Urban Development". Miss Rawson has carefully documented the conclusions reached in this and previous letters. This study concludes: "To exempt improvements and at the same time to tax land more heavily would provide a double incentive to the owners of derelict buildings to demolish them and to use the land more intensively. Here surely is a golden key to urban renewal, to the automatic regeneration of the city - and not at public expense."

In June 1964, a conference on urban taxation was held at Claremont, California under the auspices of the Lincoln School of Public Finance. Co-sponsors were the National League of Cities, the Urban Land Institute, and the National Council for Good Cities (ACTION). Sixty-three specialists in taxation participated in the discussion. The conclusions of these specialists were highly favorable to LVT. A summary of the discussion and conclusions reached at this conference was published in the March 1965 issue of Nation's Cities and a shorter version in Fortune (3/65). Would you like to have reprint of the Nation's Cities summary? Just write us...

A Life editorial asserts that "there has been far too little creative thinking about taxes below the federal level. The property tax system, financial pillar of local government, is a notorious boondoggle; underassessment of land not only allows revenue to slither away, but wreck havoc with land use planning. Since the (Toronto) subway was built the neighborhood around the station has experienced a small construction boom and land values have skyrocketed. A 100 square foot plot purchased in 1947 for \$22,000 sold 10 years later for \$257,000." If all such land values were collected in taxation, the subway which produced these values would have been more than paid for without any burden on private initiative.

One of our leading public finance economists, Harold M. Groves of the University of Wisconsin, endorses LVT as a stimulus to city growth (see Financing Government, 1958, p. 323).

Mabel Walker, the executive director of the Tax Institute at Princeton, advocated LVT in her book Urban Blight and Slums (p. 110, 253), and quoted Edwin R. A. Seligman to the effect that "... a heavy tax on land, by keeping its capital value low, makes it more accessible of purchase by those of small means."

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Mason Gaffney, the well-known land economist now at the University of Missouri, advocates LVT as the most effective deterrent of urban sprawl. His views have already been given in a previous letter.

Arthur Krock of the New York Times has pointed out that because local municipalities have neglected to tax land values, the only outstanding tax source still available to them, they have not been able to provide the necessary services to their residents. Consequently, they have been forced into a growing reliance upon the federal government (see his column of 3/17/61).

Walter Heller, President Kennedy's chairman of the Council of Economic Advisers, has written very sympathetically and knowledgeably about LVT in his paper on "The Use of Agricultural Taxation for Incentive Purposes", published by Harvard University in 1954.

LVT is one urban renewal measure which would fit in easily with the political philosophy of both the Democratic and Republican parties. The Democrats would like it as a new source of tax revenue which would not lessen productivity - which, because it requires land to be put to its fullest economic use, would even increase productivity. Republicans would welcome it as an "incentive tax" that would reduce taxation on improvements and encourage private enterprise to renew our cities and towns. For instance, Dr. Robert Hutchins, former president of the University of Chicago and now director of the Center for Democratic Research in California, presents the liberal point of view when he says that the speculator, by forcing up the price of land, puts a premium on squeezing the most housing into the smallest area. This is one of the causes of suburban slums. Since it is the growth of population and the development of the community that is producing the increase in land values, the speculator is trying to reap what he has not sown. Says Hutchins, "The remedy is absurdly simple. It is to take the tax off the improvements and put it on the land. The owner would then be taxed on what the community had done for him in raising the value of his land. He would not be punished for what he had done to build up the community by using his land." And Raymond Moley, conservative columnist in Newsweek, states that "our tax laws and their administration 'harness the profit motive backwards.'" In other words, the present real estate laws tax incentive and fail to penalize the improper use of scarce and vital land.

Mayor James Clarkson of Southfield, Michigan (a Detroit suburb) has introduced a modicum of LVT by merely observing existing laws. When he came into office, land was assessed at 15 to 20 per cent of its market value; buildings were assessed at 80 to 90 per cent. Now Southfield assesses all land as close to market value as possible, as the law requires, and all buildings are depreciated 1% per year of their life. Mayor Clarkson points to a new \$25 million building project as proof of the efficiency of his new assessment approach and as an indication of what full LVT could accomplish.

Governor John A. Burns of Hawaii thinks that too much land in his state is being held back from full use for speculative purposes. "The owner of land has a social obligation to make it contribute to the entire community," he stated at a recent press conference. "Some land is held back for good reason, but it should return to the community the benefits derived from the growth of the community through property taxes levied on the basis of proper valuation of land." Hawaii has recently adopted a state-wide heavier tax on land values modeled after Pittsburgh's Graded Tax.

Are your views on LVT the same as these men? And if so, aren't you willing to act on your views within your own community?

Sincerely yours,
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Steven Cord

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Dear Sir:

Urban sprawl is a new name for an old phenomenon - the inefficient use of our city and suburban land. The problem has become particularly acute in recent years with the expansion and urbanization of our population. What is urban sprawl like? - shopping centers here, residential sections there, business districts elsewhere, vacant and underused land in-between, all held loosely together by garish and congested roadways, accompanied by blight in downtown city areas and rising taxes. After discussing the problem and its causes, we will present a new approach; what it is won't surprise you by this time, but you might like to know exactly how it would alleviate urban sprawl.

THE PROBLEM - Modern cities are spreading at their fringes and decaying at their centers; this is what urban sprawl implies. Harland Bartholomew, in his book, Land Use in American Cities, surveyed 53 central cities and discovered that the undeveloped portion was about 29% (the underdeveloped portion would be even greater!). Victor Gruen, retained to replan downtown Fort Worth, found that "the underused or derelict reservoir (of land) was large enough to provide space for a belt highway, parking garages for 60 thousand cars, greenbelts, a 300 percent increase in office space, 80 percent in hotel space, and new civic cultural, and convention centers... Fort Worth is not a special case..."

This spotty sparse development results in inefficient cities. Cities exist to bring people together. Vacant and underdeveloped lands keep them apart and thus lessen the city's unique advantages: closeness to customers and suppliers, cheaper utility costs, easier access to and support for cultural activities, etc. Think of the excessive cost of running water, gas, electricity and phone lines past miles of vacant or underused lands!

What about autos? Spread people out thinly and you need a land-eating highway system to bring them back together again. So we build more highways (past vacant or underused land) and further subsidize urban sprawl! In so doing, we undermine public transit (by simultaneously increasing its costs and competition), forcing even greater dependence on private cars. Writes Mason Gaffney, the eminent land economist: "Urban sprawl is not a flight from traffic congestion but the primary source of it." Then think of the tax expense of all this! Gaffney adds: "It is becoming prohibitively expensive to tie our cities together. The New York Regional Planning Association recently estimated a cost of \$50 billion to re-connect what used to be the coherent, articulated city of New York. Los Angeles has kept open the automotive arteries to downtown, but when you get there, where are you? The automobile pre-empts two-thirds of the central business district, and fouls 100 percent of the atmosphere."

CAUSES - Why are our cities disintegrating like this? Why are they decaying at the center and sprawling at the fringe?

For one thing, our cities are subsidizing sprawl by extending highways and utilities to the sparsely settled fringes at more than cost. But even more important, our cities are not renewing themselves fast enough and few middle class families want to live amidst growing decay. Furthermore, the prevalence in our cities of much vacant and underused

land such as slums and blighted commercial neighborhoods creates an artificial land scarcity that forces up the price of city land. The result is the overcrowded use of that urban land which is developed. Another result is that in order to build, to expand, people have to move out of the city to the cheaper lands at the fringes. Many have been forced out by an inequitable land policy; they haven't always chosen voluntarily to go. And what do these exurbanites meet at the fringes? - a raging land speculation, fed by this urban land policy and the low-priced utilities and highways. The result is a spotty development of fringe land as some land speculators, usually the smaller ones, sell out while others hold out for still higher prices. S - p - r - a - w - l.

NEW APPROACH - Zoning is useful but it has its limitations. It is but the finger in the dike, a temporary expedient. Experience has shown that the more restrictive the zoning, the more powerful become the political pressures building up for variances and code revisions. However, we will see how land value taxation will improve the effectiveness of zoning.

Essentially, urban sprawl is a land problem and therefore a land solution is needed. Consider LVT. If an urban landowner had to pay a higher tax on the value of his land, he couldn't afford to keep it unused or only partially used; he would have to use the land to its fullest economic extent. Many landowners already do, of course; profit is a powerful beacon. But those who don't would be forced to do so by LVT, and the city would be the gainer. More land would become available for development, thus reducing the need for overdevelopment on some urban lands. Simultaneously by un-taxing buildings, LVT would make it easier for urban landowners to improve their land. They would not be taxed for helping to end urban sprawl. The city would grow together, fill in, be re-knit and re-connected.

As for the fringes, LVT would end the wasteful land speculation there, for who could speculate in land, hoping for a future increase in price, if land values were heavily taxed? LVT would keep land prices down but would increase the land's use value - the prospective builder (either on the fringe or in the urban core) would not have to buy up land in advance at speculative prices, thereby tying up vast sums of money (while losing interest income and incurring mortgage interest expense). It should be remembered that a 3% annual property tax on a new building, if converted to a lump sum payable now, is roughly equivalent to increasing the cost of new construction by one-half.

To sum up: LVT would induce a gradual development of land, a more intensive development in high-rent downtown land shading off to a less intensive development of land at the fringe. To some extent we have this desirable kind of development today with the present real estate tax; to the extent that we do not, and that extent is considerable, urban sprawl results. LVT accomplishes what it does because it directly relates land development to land rent, which is the proper measure of a piece of land's developmental potential.

LVT is not a one-shot gimmick but a continuously operating land reform. And it is a land reform which does not cost billions but instead brings in revenue.

Sincerely yours,
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Steven Cord

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Executive Director

Dear Sir:

"The theory behind land value taxation is wonderful, seemingly flawless, but how can we be sure it would work out in practice?"

Has this thought been flitting through your mind as you read these letters? Then let us tell you about the actual experience Australia and New Zealand have had with LVT.

In Australia, municipalities have been empowered to raise all their revenue from LVT, since 1890 in some states and later in others. Only in Queensland are they required to do so. In the Capital Territory of Canberra, all land sites are owned by the government and rented out to users with leases renewable every twenty years, a system similar to LVT in its economic effects (Canberra is by all reports a most beautiful and efficient city). In the other five territories, one municipality after another has slowly switched to LVT from ordinary real estate taxation so that today 587 municipalities in Australia (covering 92% of the municipalized area of the whole continent!) are using LVT while only 337 are not. The LVT benefits must have been considerable to occasion such switching.

In recent years, LVT adoptions have taken place at an increasingly faster rate, and switching to LVT is not easy. Special municipal elections are held for this purpose, and only landowners can vote in them; a majority must vote for LVT before it can be adopted. In South Australia, where the spread of LVT has recently been particularly marked, the rules for its adoption have been even more difficult: three-fifths of the landowners voting must favor the switch and they must constitute at least half of the total number of all landowners (including those who don't vote). Nevertheless, a third of the population of South Australia live in LVT districts. Although only a simple majority of the landowners suffices to switch the municipality back to ordinary taxation from LVT (in all states except Queensland, that is), almost no municipality has ever abandoned it.

It can be seen, then, that the landowners themselves have chosen LVT, and they have made this choice not only from theory but from actual experience. Isn't this proof enough that LVT has worked out in practice? But more proof exists...

The Land Values Research Group of Melbourne, Australia has made an exhaustive comparison of similar and neighboring communities, some of which use LVT and others of which do not (their written report is available to you upon request). The researchers found that those Melbourne suburbs which were about five rail miles from the center of Melbourne and which tax land values had 50% more dwellings constructed per acre during the test period of 1928-1942 than those neighboring suburbs which did not. Making a similar comparison for suburbs seven miles out, the land value tax suburbs did two and a third times better; for suburbs nine and a half miles out, they did twice as well. Convincing?

The researchers also found that in Victoria only 16% of the state population was in the fourteen districts taxing land values at the 1921 census, but by the 1933 census these same districts accounted for 46% of the total increase in dwellings for the state. And in South

Australia, evidence submitted to the Commonwealth Housing Commission showed that dwelling construction in the LVT districts was markedly superior to that in the non-LVT districts. A more recent survey (1955-63) among 46 rural municipalities in Victoria also showed greater dwelling construction in the LVT districts than in the non-LVT districts. Once again, experience supports theory.

Generally, the construction improvement is immediate: after the landowners in Mildura, Vic., voted 3 1/2 to 1 for LVT in 1956, construction the following year broke all records, and the year thereafter was even better. Two years after Wangaratta adopted LVT, the Wangaratta Chronicle Despatch (issue of 6/5/58, p. 1) reported "Building Wave Envelopes Whole of Town", this despite a general recession in the Victoria building industry at that time. Valuable blocks of idle land were reported to have been sold at "very satisfactory" prices. Also, a number of derelict buildings had been razed to make room for new construction. In 1965, Wangaratta won the Victoria State Government's triennial contest for the most improved town.

Malvern's experience is much the same. It switched to LVT in 1955. It thereupon experienced the usual construction boom, but what is most significant, according to a 1961 study made by the Land Values Research Group (based on published statistics), the construction increase in its chief slum area was more than double the increase in the city as a whole. The effect on the nearby retail district was electric. Stores were modernized, total retail trade increased faster than in similar nearby cities, and small retailers in particular were benefited. Write us if you want a copy of the report on Malvern.

The report of the Land Values Research Group also showed that the pace of economic development in the six Australian states is almost exactly proportional to the degree of LVT in these states. This development was measured by such factors as increase in total area under crops, new dwellings constructed per one hundred marriages, inflow of population, increase in the assets of landowners and banks, and increase in manufacturing and retail trade. While it may be that factors other than LVT have caused this greater economic development, it nevertheless strongly corroborates the other evidence presented above and which is, incidentally, not subject to this "other factors" qualification.

The story is no different in New Zealand. Dr. Rolland O'Regan, a well-known surgeon and tax expert of that country, reports that "some 56 New Zealand communities have adopted land-value taxation, exempting all buildings and improvements, in the last fourteen years." This was by vote of landowners only, 30% of whom had signed a "petition for land-value taxation," resulting in a special election called by the municipal council. Dr. O'Regan commented that "it spreads like a grease spot." Starting from zero in 1896, the local option method by now has resulted in 75% of the total number of municipalities switching over to LVT. A somewhat greater percentage of urban as compared to rural areas tax land values. One reason for the political success of the LVT movement, according to Dr. O'Regan, has been that LVT usually results in immediate tax reduction for 80-90% of homeowners. Another reason, of course, is the economic improvement which follows from the introduction of LVT.

The conclusion to be drawn from this extensive evidence is obvious. The facts speak for themselves. Isn't it time for you to think of urging the adoption of LVT in your community?

Sincerely yours,
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Dear Sir:

Numerous references in previous letters have been made to prominent urban renewal authorities and economic experts who have endorsed land value taxation, the new approach to urban renewal which we suggest not as a replacement but as a supplement to already existing urban renewal techniques. In this letter, I would like to quote some of these authorities.

The National Association of Housing and Redevelopment Officials informed its members that "property taxes (LVT) designed to make slums unprofitable are now used by New Zealand, Australia, parts of Canada, South Africa and other countries... A joint U. S. - British-Canadian study group reported last year that in nearly every case the switch to this type of property tax was successful... This slum-punishing tax assesses property on the value it would have if used for its most valuable purpose, called a 'site valuation'. Buildings or other improvements on the land are not taxed - only the highest potential land-use. Under most property tax systems in this country, the assessment is on the value of the land plus its improvements, so slums pay less property tax (though they are a greater drain on city resources) than the property kept in good repair. This would not be true under the 'site valuation' tax." (quoted in United States Municipal News, 11/15/59)

House & Home has long been an enthusiastic advocate of LVT. Its August 1960 issue was devoted almost entirely to a description of how LVT works and how it could alleviate or solve many urban renewal problems. If you would like a reprint of this fascinating issue, please write us. As recently as February 1965, House & Home advocated LVT because it would cause land to be put to its fullest economic use, thus increasing the supply of land available in the market. The result of this would be a reduction in the cost of land to builders, a great boon to urban renewal.

A recent editorial in Practical Builder states: "Many experts feel that building sites are scarce and expensive primarily because of our real estate tax system which has made raw land speculation one of the most profitable of today's forms of investment. They feel that these laws can and must be overhauled to take the exorbitant profits out of land speculation and stimulate rather than penalize orderly land development and increased building opportunities for industry. The recommended cure: taxation on the basis of site value rather than improvements. They claim that the increased revenues from decaying areas and from land held in cold storage would go far to offset the loss of revenue from improved land."

In New York City, the Mayor's Special Planning Commission reported that "no amount of code enforcement can stop the seemingly unstoppable spread of slums until and unless the profit is taken out of slums by taxation."

Says Professor Colin Clark of Oxford, who is fast taking the late Lord Keynes' place as England's most honored economist: "Today any good economist can demonstrate that the land tax is just about the only tax that does not discourage enterprise."

Dean Gillies, Director of the Real Estate Research Program at U. C. L. A. , says: "I think almost everybody out here is beginning to agree it is important to tax land much more heavily."

Fortune Magazine goes much further, spelling out in so many words that "there is evident inequity in a tax system that puts most of the tax burden on improvements. Inflated land prices are now the biggest U. S. housing problem. Wages and prices have not kept up with land prices, so more and more Americans are paying more and more of their incomes for the privilege of living on earth. The high cost of land has produced the urban sprawl and this in turn requires needlessly high taxes to pay for the stretch-out of roads, school bus routes, sewer, water, and utility lines past scattered acres of vacant land, which is now set apart from the market action of supply and demand by preferential tax treatment. . . In most areas there is growing local demand for higher taxes on land with an accompanying reduction in taxes on improvements." (the last four items are reported in a 9/5/64 speech by Perry I. Prentice, Vice President of Time, Inc. and an enthusiastic advocate of LVT)

The Arthur D. Little Company, the nationally respected firm of urban renewal consultants, advocates a heavier tax on land and an untaxing of improvements because failure to do so penalizes those who improve their properties and favors slum owners (reported in San Francisco News-Call Bulletin, 4/26/65)

Edward P. Eichler, on leave as president of Eichler Homes in Palo Alto, California, urges Congress to probe the real roots of the land-cost problem: "From 1950 to 1960, the per-unit cost of raw land rose ten times more than the consumer index or construction cost in California. By making property taxes and interest deductible from ordinary income tax and the profit on the sale of raw land taxable only at capital gain rates, the federal government has invited speculation. The cost of land is increased and sprawl is encouraged as land is held off the market for future gain. I strongly urge this committee to consider recommending changes in tax laws as well as other efforts to bring housing costs down."

A number of studies have been made to determine exactly how a shift from improvement to land value taxation would affect specific cities, and they all without exception bear out the statements made in this and previous letters. Copies of the following studies are available to you upon request:

"Pittsburgh's Experience With the Grades Tax Plan", by Percy Williams (a reprint of article originally appearing in the American Journal of Economics and Sociology).

"Reclamation of an Industrial Suburb", a study conducted by the Land Values Research Group at the invitation and with the cooperation of the Fitzroy, Australia City Council.

"Taxation and Urban Blight: A Case Study of Greater Dayton, Volume I", by Management Service Associates, Inc.

"Tax Policies and Urban Renewal in New York City", by the Citizens' Housing and Planning Council of New York, Inc.

"An Analysis of the Potential Effects of a Movement Toward A Land Value Based Property Tax", a case study of a possible application of Public Law 299 Pennsylvania 1951 to Bethlehem, Pa., a research project undertaken by the Institute of Research of Lehigh University.

"Property Taxation and Urban Development", a study of Burnaby, a suburb of Vancouver, B. C., Canada, published by the Urban Land Institute.

REPEAT: ALL of these studies bear out the conclusions reached in this and previous letters.

These endorsements by leading authorities indicate that LVT should be given serious consideration by everyone working in the field of urban renewal. That is all we ask of you. For your convenience we have enclosed a stamped self-addressed envelope - please use it if you wish to order any of the reprints mentioned in this letter, or if you wish to recommend someone else for our mailing list.

Sincerely yours,
GRADED TAX LEAGUE OF PENNSYLVANIA

Steven Cord

GRADED TAX LEAGUE OF PENNSYLVANIA

Reduce Taxes on Homes and Buildings — Stimulate Private Enterprise and Urban Renewal

710 BAKEWELL BUILDING, PITTSBURGH, PA. 15219

WILLIAM E. SCHOYER
President

PERCY R. WILLIAMS
Executive Director

Dear Sir:

It is our hope that this series of letters is acquainting you with a new and effective approach to urban renewal; new, that is, in this country but not in Australia, New Zealand and elsewhere, where it has been successfully tried for years and is constantly spreading to new areas.

Stated briefly, this proposal involves the gradual exemption of improvements from taxation and a corresponding increase in the tax on land values. Our last letter showed exactly how municipalities could switch to this tax from the present less desirable real estate tax, which falls equally on land and building. It was pointed out that land value taxation (LVT) forces land to be put to full use while encouraging construction by removing the tax on improvements.

"It all sounds logical," you may be thinking, "but people who own land will never go for this scheme. Isn't a land value tax tough on landowners?" The answer is that certain landowners, particularly those owning property in blighted areas, would be forced to properly improve their land - but most landowners would benefit by an immediate tax reduction on their real estate! (And even the inefficient landowners would benefit by getting the opportunity to improve their lots without tax penalty.) To prove this, let's see how LVT would affect various types of landowners. In this letter, let's examine its effect on homeowners.

The typical residential home is several times more valuable than the land on which it is built. By shifting the tax from the more valuable improvement to the less valuable land, our typical homeowner could not fail to be benefited despite the fact that he is a landowner! He could improve his home without being fined annually in the form of a higher property tax for so doing. Why tax homeowners, anyway? Why make it so expensive? Is it something undesirable?

Two Lehigh University professors, Eli Schwartz and James E. Wert, have carefully studied the effects LVT would have on homeowners in Bethlehem, Pa. (a copy of their study will be sent on request), and they reached the conclusion that most homeowners would benefit (as well as the city in general). In 1955, the ratio of building assessments to land assessments for Bethlehem as a whole approximated 2.7 to 1. Real estate owners having more than a 2.7:1 building:land value ratio would pay lower taxes under LVT than under the current real estate tax; the others would pay higher taxes. Since most homeowners had building:land value ratios far in excess of 2.7:1, they would directly benefit from a switch to LVT, and that's why the tax would be politically feasible.

Generally, those homeowners who have not kept their homes in good repair would feel some gradually increasing tax pressure as LVT is introduced. Neighborhoods once genteel but now shabby and run-down would be forced to regenerate themselves, especially if located, as they often are, near the center of town (reason: low building - high land values).

Homes now located in business districts would be penalized because the land is not being put to its best use. But isn't it good sense to penalize uneconomic land use, urban blight and do-nothing-ism rather than subsidize these conditions as we now do under the present real estate tax system? Why not give a tax break to those homeowners who invest wisely and maintain their homes properly, thereby fighting urban blight? LVT does more than that: it forces homeowners to maintain their property by pressuring them into using their land fully or selling it to those who can. And since LVT would be instituted gradually over a period of ten years or so, those homeowners who are contributing to slum blight would have time to improve their properties, commensurate with the land value or sell out to those who could.

Other studies made in Dayton, New York City and elsewhere bear out these conclusions. So does an Urban Land Institute research study entitled "Property Taxation and Urban Development". You may write us for copies of these reports.

Federal urban renewal money in the billions can help rejuvenate our cities and towns, but certainly we should encourage private individuals to do as much of the job as possible. Why is it that practically every industry in America can meet consumer demand without federal aid - except the housing industry? Is it not the real estate tax system which is at fault? Doesn't it reward sloth and penalize initiative?

If you have any questions, write us; a self-addressed stamped envelope is enclosed. There must be some question in your mind that these short letters have not answered. If you know anyone else who would be interested in receiving this series, please let us know. If for some reason you don't wish to receive any more letters, let us know that, too; we don't want to impose upon you.

The next letter will consider how land value taxation would affect those landowners who own commercial property - stores, office buildings and apartment houses.

Sincerely yours,

Steven Cord
G. T. L. Board Member
Professor of History and Economics

GRADED TAX LEAGUE OF PENNSYLVANIA

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710 BAKEWELL BUILDING, PITTSBURGH, PA. 15219

WILLIAM E. SCHOYER
President

PERCY R. WILLIAMS
Executive Director

Dear Sir:

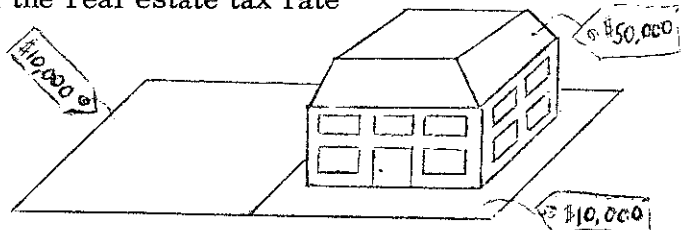
The Graded Tax League has long been interested in the problems of urban renewal, even before the term itself was coined. In our last letter to you, we proposed a new approach to this problem — the gradual exemption of improvements from real estate taxation with municipal revenue derived instead from a heavier tax on land.

We pointed out that many urban renewal authorities had advocated this proposal, and in Australia and New Zealand, where it had been used extensively, it has proven highly successful. But before we can find out why this is so, a thorough knowledge of the mechanics of the proposal is necessary. How does it work?

The present real estate tax bears equally on land and buildings. In order to accomplish the transfer to land value taxation (LVT) in, say, ten years, the tax rate on buildings must be lowered to .9 of the land tax rate in the first year, .8 in the second year, then .7 and so on until at the end of ten years, there will be no tax at all on improvements — they will be completely tax exempt — and the municipality's revenue will be derived entirely from a tax on assessed land values. During this whole time, the total tax intake may have to be lowered or raised to suit the changing revenue needs of the municipality, but the ratio between the tax rate on land as compared to the tax rate on buildings will change according to the year as indicated.

Notice that the tax is locally applied, just as is the present real estate tax. Notice, too, that it is gradually introduced in order to allow individual real estate owners enough time to adjust to the new tax situation; as will be seen, those owners who have been under-using their land will need this time to avoid financial hardship. Lastly, the land value tax must not exceed the annual rental value of a piece of land (otherwise the tax will start to bear upon the improvement). Perhaps an example will clarify the matter.

Imagine two adjacent pieces of land, both worth, say, \$10,000. One is vacant and the other has a \$50,000 building on it. If the real estate tax rate is 3%, then the empty lot owner pays a tax of \$300 a year and his neighbor pays \$1800 (you may well ask why the latter should be fined for improving the community and for providing extra housing). Because the building will gradually become tax-free under LVT, the empty lot owner would eventually be paying the same tax as his neighbor (and thus would be impelled to improve his land without suffering any tax penalty for so doing.) The municipal real estate tax would eventually be levied entirely on land. Since land rent is usually about 6% of land price, the land value tax on each lot could be increased to \$600 plus whatever is now being collected in land value taxation by the present real estate tax (assuming no changes in market values, of course). Beyond that figure no land value tax ought to go.



Allusions have been made to certain alleged benefits of land value taxation. They might now be sketched out in the remaining few lines.

In the first place, the tax would be quite easy to administer, or so the Australian, New Zealand and Pittsburgh experiences would definitely indicate. It is easy to see why: buildings are more difficult to assess than land, and eventually their assessment would become unnecessary. The real estate tax assessor's problems would be approximately halved.

Even more importantly, a tax on land values forces land to be put to full economic use. The land user must erect improvements that will at least yield an income to pay the tax, plus enough left over for profit. Rickety buildings on valuable land - slums - would therefore be strongly discouraged, and so would urban sprawl. Uneconomic use of the land would gradually disappear. Land use would be directly geared to land need!

Lastly, it can eliminate the burdensome taxation that falls on buildings and other improvements. This burden is borne by homeowners, factory owners, and tenants; in the case of commercial property, it is ultimately borne by consumers. We want new construction, and yet we tax buildings. We want to encourage new industry, and yet we tax factory buildings. We have run-down central-city cores, yet we heavily tax much-needed developmental efforts. Have not our tax policies contributed to urban blight in America?

Many people think that because cities need tax revenue, we have no alternative, but one does exist - LVT. It is the only tax that doesn't inhibit production but increases it. Who could keep land idle or underused if he had to pay a heavy tax on land values? Tax buildings and you discourage construction; tax land, and you force more of it onto the market! (Briefly, the reason for this seeming paradox is that land is strictly limited in supply but man-made wealth is not.) Perhaps, you can now begin to understand the theoretical reasons why the Australian-New Zealand experience with LVT has been so favorable.

Please don't think that these are the only benefits of land value taxation. There are others, but we must reserve discussion of them for future letters. If you have any questions you want answered, feel free to write us directly. We will be glad to hear from you.

Yours very truly,

Steven Cord
G. T. L. Board Member
Professor of History and Economics

GRADED TAX LEAGUE OF PENNSYLVANIA

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710 BAKEWELL BUILDING, PITTSBURGH, PA. 15219

WILLIAM E. SCHOYER
President

PERCY R. WILLIAMS
Executive Director

January 25, 1966

Dear Sir:

As a person vitally interested in urban renewal, would you be interested in a new approach to that problem, especially when this approach has succeeded in other countries?

Obviously something new is needed; billions in taxes have been funneled into urban renewal and the problem is as much with us as ever. Magazines are full of articles on urban sprawl, urban blight, slums, zooming local taxes and indebtedness. Why is it that practically no American industry needs governmental help to meet the needs of consumers -- except for our gigantic home construction industry? We do need publicly sponsored urban renewal programs, yet wouldn't some new thinking about these problems be refreshing?

Our proposal, which is supported by many prominent urban renewal experts, is simple enough. We advocate the gradual exemption of improvements from real estate taxation combined with a heavier tax on land. In other words, the present real estate tax, which is levied at the same rate on both land and building, should be changed gradually so that buildings will be tax exempt and the entire revenue from the tax will be derived from the levy on land. This proposal is called land value taxation (LVT).

Perhaps you are wondering what this can possibly accomplish. It has accomplished a great deal in Australia and New Zealand where this tax has been used extensively. For instance, approximately 60 New Zealand communities have switched from a real estate tax to the land value tax since the end of World War II; according to one observer, the idea is spreading like a grease spot. Interestingly, at least 30% of the property owners in New Zealand must sign a petition favoring LVT and only property owners can vote in the final election. Evidently, there must be some genuine advantages to them in transferring the tax burden from houses and improvements to land values. At present, all improvements are tax free in 85% of the urban areas in New Zealand and in 70% of the rural areas; three-fourths of all the local tax revenue is levied on the land alone. And the trend is continuing. Isn't there a possibility that American municipalities can benefit in the way their New Zealand counterparts have?

In Australia, the situation is much the same. Every month brings fresh news that some new locality is switching to LVT despite the requirement in this country that two-thirds of the landowners must approve of the switch. Some suburbs of Melbourne tax land values and others tax land and buildings alike. A survey shows that the LVT suburbs have faster growth rates, fewer slums, and less urban blight and sprawl than similar suburbs using the more conventional tax system. Isn't this something that you'd want to know more about?

Hawaii has had a severe land problem. The legislature there just recently passed a land value tax bill. It is too soon to judge the results, but in Pittsburgh, land has been taxed more heavily than buildings for decades (something not many are aware of), and this practice has been endorsed by city officials representing both political parties, by the

editors of leading newspapers and by numerous civic organizations.

I mentioned above that many urban renewal experts have endorsed LVT. Who are they? House & Home, Nation's Cities, American City Magazine and the American Journal of Economics & Sociology have given it editorial support. A reprint of a recent Reader's Digest article is enclosed for your perusal. The Urban Land Institute has published a study advocating LVT. Detailed case studies of Dayton, Ohio and Bethlehem Pa. by professional economists show that these cities would benefit from the introduction of LVT (especially by attracting new industry). Perhaps this quotation from a recent article in Fortune will sum up the thinking of these and other urban renewal experts:

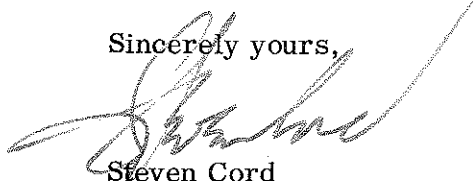
There is an evident inequity in a system that puts most of the tax burden on property improvements while preserving anachronistic tax incentive to land ownership that encourages an artificial land scarcity - and resultant high prices underlying all building.

More and more tax authorities are everyday endorsing this proposed shift of the real estate tax from improvements to land values. The evidence coming in from Australia, New Zealand and elsewhere can no longer be overlooked. Wouldn't you like to know more about this proposal and how it can help your town attract new industry? To help you do this, the Graded Tax League, a non-profit organization interested in urban renewal, is willing to send this series of letters to a small select group of individuals interested in urban renewal.

The prospect of living in a better and brighter urban America is the motivation behind these letters. We sincerely feel that the billions now being spent on urban renewal will not succeed in solving the problem unless our municipalities also adopt a tax system that offers an incentive to real estate ownership and construction instead of imposing heavy financial burdens on them.

Will you allow us to try to prove this to you? The proposal we are advocating will provide a constant spur to urban renewal - not merely a one-shot injection - while at the same time, it will provide a municipality with money instead of costing it a small fortune; will you give us a chance to show you how this can be done? In the expectation that your answer is yes, we are planning to send you more letters on this same subject, but if you want your name removed from our mailing list, please let us know. If you have any questions you want answered, feel free to write us directly. We will be glad to hear from you.

Sincerely yours,



Steven Cord
G. T. L. Board Member
Professor of History and Economics