

See inside cover for statistics which show how much the owner of this property will save.

By making it easier for the "little fellow" to secure cheaply priced homes such as the one illustrated above, the Graded Tax Extension Plan would be a step in the direction of solving the slum problem. At least, it would aid those slum dwellers who now lack only the opportunity of helping themselves.

The history of previous depressions proves that a revival of prosperity invariably followed a national building boom, so that the real problem before us is literally to build our way out of the depression.

Mayer Publishing & Printing Co.,  
East Liberty, Pittsburgh, Pa.

*McNair*

# The McNair Five-to-One Plan

BY JOHN C. ROSE

An Extension of the Present Graded Tax System

**PRICE 10 CENTS**

A Practical Plan to Reduce Taxes on Homes

8534

First Printed, August, 1934  
Reprinted, November, 1934  
Reprinted, December, 1934

725 BAKEWELL BUILDING  
PITTSBURGH, PA.

Dedicated to the memory of  
Francis W. Maguire, who devoted  
his life to the social and economic  
philosophy of Henry George.

Of the many comments expressed in regard to the preceding editions of the "Five-to-One Plan," the consensus of opinion is this:

That one of the most significant, as well as unique, features about the system of taxation outlined in this pamphlet is the fact that the relief afforded to the home owners and their tenants by the extension of the Graded Tax is a genuine relief, for the saving effected would not have to be made up by any new tax. In other words, the saving to the home owners and their tenants would not appear as an increase in any other tax now in effect, nor would it appear in a substitute tax, such as the income tax or the sales tax. All other proposals for tax relief can be brought about only by the shifting or substitution of present taxes, or by legislating new ones, so that the tenants and home owners are no better off than before, as they merely pay the same tax in another guise; but the extension of the Graded Tax represents a genuine reduction in the taxes now paid by the home owners and their tenants.

## The McNair Five-to-One Plan

BY

John C. Rose

*A Plan that proposes to shift the burden of taxation from those who honestly earn their wealth to those who receive public funds.*

The following article is a brief exposition of the Five-to-One Plan advocated by Mayor Wm. N. McNair of Pittsburgh. The article particularly emphasizes the incidence of this system of taxation upon the economic life of the people.

### Would Lower Taxes on Homes

The Five-to-One Plan<sup>1</sup> deals exclusively with the rate of taxation on real estate, and proposes to set the municipal tax rate in the ratio of 5 on land value and 1 on buildings, or, what is the same, exempt buildings 80% of their value. This ratio does not affect the amount of revenue raised from real estate, nor the expenditure of revenues collected, but it does materially affect the distribution of wealth, tending to make the distribution more equitable and just. Economists who have made a careful study of the plan, have expressed their opinion that it would

<sup>1</sup>For the actual text of the Five-to-One Bill, see Appendix, page 12, where it is reproduced in part.

### Would Encourage Gainful Employment

lower the taxes of the small property owners, thereby increasing the effective purchasing power of a large number of consumers. By stabilizing real estate values, the Plan would exert a beneficial effect upon the small investment market, such as mortgages and other securities. It is their belief, moreover, that this Plan, by stimulating land into productive use, would have a marked tendency to encourage gainful employment.

The economic philosophy<sup>2</sup> underlying this system of taxation states that land value—as distinct from the utility value of land—is a socially created product, and should therefore bear a larger share of the tax burden than it now does, while the processes and products of labor, as houses, for example, should be exempted from taxation—or, at least, should not be taxed so heavily as land values.

This tax system is not a radical innovation, for Pittsburgh has had a Graded Tax for years. In fact, Pittsburgh (with the exception of Scranton) is unique in its present system of taxation. Most of the municipal revenue is raised from real estate. There are no taxes levied on other forms of property or on income. Since 1925 there has been in full operation what is known as the Pittsburgh

<sup>2</sup>For the economic principles underlying the Five-to-One Plan, read *Progress and Poverty* by Henry George, also, *Social Problems* and *The Science of Political Economy* by the same author. Advanced students will find a most interesting discussion of these economic principles in *The Philosophy of Henry George*, by Dr. G. R. Geiger.

### Would Extend the Benefits of the Graded Tax

Graded Tax Plan<sup>3</sup> which automatically fixes the rate on buildings at one-half the rate on land values. The Pittsburgh Graded Tax Plan has reduced the tax burden of the small home owner from five to thirty per cent of the old flat rate. The Five-to-One Plan is simply an extension of the Graded Tax, but its benefits are more pronounced.

In the following comparative tables, the flat-rate millage is determined by dividing the amount of revenue (to be raised from real estate) by the total value of taxable real estate. To determine the millage governing the Graded Tax and the Five-to-One it is necessary to assess land and buildings separately. This division of land and buildings rests upon a logical basis, for buildings and land are not economically related, land being the source of all wealth and the passive factor in all employment, while buildings represent a labor-capital product. All of these various graduated rates, by the way, will produce approximately the same amount of revenue now obtained by the Graded Tax.

<sup>3</sup>See the pamphlet, *Pittsburgh's Graded Tax in Full Operation*, by P. R. Williams, Chief Assessor for the City of Pittsburgh. Some of the concrete results of the Graded Tax are as follows: (1) the stimulation of the building trade, resulting in the construction of many homes and office buildings; (2) reduction of the city taxes on homes and buildings where improvements exceed the value of the land; (3) stabilization of Pittsburgh's municipal credit, so much so that, in spite of the depression, the bonds of the City of Pittsburgh are the highest above par of any large municipality.

It would require a small pamphlet to tabulate all the statements made in favor of the Graded Tax by prominent persons in Pittsburgh and throughout the country.



**Comparative Statistics Illustrating  
the Flat Rate, the Graded Tax,  
and the Five-to-One**

See page 7 for Illustration

Land, \$1,000; Building, \$5,000; Total value, \$6,000

**City Levy**

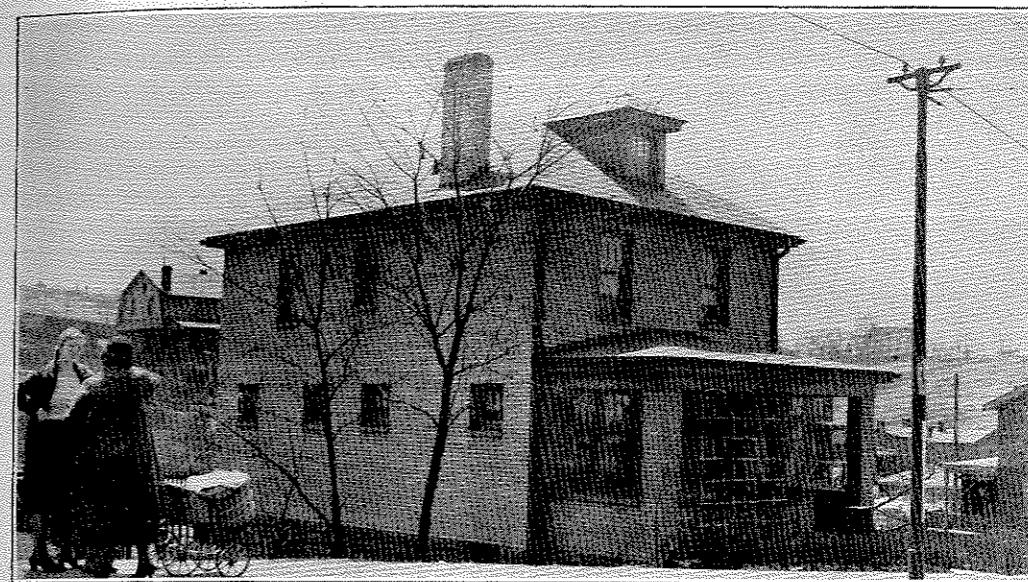
Old Flat Rate	(15.3 mills)	= \$91.80
Present Graded Tax	(20.6 on Land) (10.3 on Bldgs.)	= \$72.10, a saving of \$19.70 or 21%
Proposed 5-to-1	(26 on Land) (5.2 on Bldgs.)	= \$52.00, a saving of \$39.80 or 43%

**School Levy**

Present Flat Rate	(11.25 mills)	= \$67.50
Proposed Graded Tax	(16 on Land) (8 on Bldgs.)	= \$56.00, a saving of \$11.50 or 17%
Proposed 5-to-1	(20 on Land) (4 on Bldgs.)	= \$40.00, a saving of \$27.50 or 41%

**School and City Levy**

Old Flat Rate	= \$159.30
Present Graded Tax	= \$128.10, a saving of \$31.20, or 20%
Plus Proposed Graded School Tax	
Proposed 5-to-1	= \$92.00, a saving of \$67.30, or 42%



See preceding page for statistical data illustrating the saving in dollars and cents to the owner of this property if the City and School had the Five-to-One Plan in operation.

The flat rate of taxation, applied indiscriminately to land and buildings, which prevails throughout the country, and which was also used in Pittsburgh prior to the adoption of the Graded Tax, actually penalizes attractive homes such as the one pictured above. The Five-to-One Plan would be an actual boon to such owners.

### Use of Land=Employment

Since this system would increase the rate of taxation on land values, it would naturally have a tendency to stimulate land into productive use, for the obvious reason that it would not be profitable to hold *valuable* land idle and unimproved.

The vital connection between the use of land and employment is most clearly observable in the building industry, which is one of the most basic of the trades, having many important subsidiary industries dependent upon it. Therefore, to stimulate the building trade is to initiate an impulse that will bring into existence a large number of minor occupations.

Economists state that in the best economic use of land, the improvements should equal the value of land, or, preferably, should exceed the bare land value; but in any city, the proportion of unused *valuable* land is astonishingly high. It is not difficult to find in the Assessors' books assessments similar to the following one: land, \$304,000; building, \$25,000. It is quite obvious, in this case, that the land is being used only one-twelfth of its minimum economic use, which means, in other words, that employment on this particular plot of land *could* be increased 12 times. The Five-to-One Plan would stimulate such land into productive use—literally convert it into gainful employment.

A tax on land values tends to reduce the exchange value of land, while a tax on labor products has the opposite tendency of increasing prices of commodities. Therefore, this Plan, by placing a higher tax on land values would make land cheaper, and by reducing the building tax would lower the cost of

buildings and homes. Cheaper land and lower-priced buildings would also give an added impetus to construction, and, so, help to set the wheels of industry moving.

### Would Stimulate Industry and Business

Not only would the building trade, with its many dependent trades, benefit by the extension of the Graded Tax Plan, but industry and business in general would be encouraged. All varieties of business require sites, and, the more favorable the location, the better the opportunity to conduct business. High land prices are a serious detriment to successful business. This Plan by increasing the tax on land values would lower the purchase price of business sites and render them more available to labor and capital. By reducing the tax on buildings, office "rents" would be reduced, and no longer enter so heavily into the "overhead" expenses.

The Five-to-One Plan is not a *panacea* or cure-all for our socio-economic problems, nor do any of its advocates advance it as such, but within the limits defined above, it is a most efficient social instrument of economic reform. As stated, it would benefit the modest home owner by making land cheaper and by reducing the cost of houses. It would check land speculation, which, as history points out, is always *one* of the major causes of industrial depressions. Finally, by stimulating land into productive use, it would encourage gainful employment, and to that extent, at least, would help to prevent cyclic depressions.

## APPENDIX

In the coming 1935 session of General Assembly, the home owners will have an opportunity to save from 25% to 50% of their municipal tax bill by persuading their State Senators and Representatives to vote for the FIVE-TO-ONE BILL. The following excerpt from the Bill, which was drawn up by Attorney Ward Bonsall, Solicitor for the City of Pittsburgh, will give some idea of the importance of this measure.

They [the Assessors] shall classify all real estate in the city in such manner, and upon such testimony as may be adduced before them, so as to distinguish between the buildings on land and the land exclusive of the buildings, and (to) shall certify to the councils of said city the aggregate valuation of (city property subject to taxation) *the buildings on land, and of the land exclusive of the buildings, subject to taxation by said city.* It shall be the duty of said councils, in determining the rate for (each year hereafter) *the years 1936 and 1937 to assess a tax upon the buildings equal to four-tenths of the highest rate of tax required for said years; and for the years 1938 and 1939, to assess a tax upon the buildings equal to three-tenths of the highest rate required for said years; and for the year 1940 and for each year thereafter to assess a tax upon the buildings equal to (five-tenths)<sup>4</sup> two-tenths of the highest rate of tax required to be assessed for each year respectively, so that upon the said classes of real estate of said city there shall, in any year, be two rates of taxation.*

<sup>4</sup>Legal phraseology requires the insertion of this parenthetical phrase, "five-tenths," which refers to the present Graded Tax Law.

## Saving in Actual Dollars and Cents to the Owner of the Property Illustrated on Outside Cover

Land, \$500; Bldg., \$2,500; Total Value, \$3,000.

### City Levy

Old Flat Rate = \$45.90

Present Graded Tax = \$36.05, a saving of \$9.85 or 22%

Proposed 5-to-1 = \$26.00, a saving of \$19.90 or 43%

### School Levy

Present Flat Rate = \$33.75

Proposed Graded Tax = \$28.00, a saving of \$5.75 or 17%

Proposed 5-to-1 = \$20.00, a saving of \$13.75 or 41%

### School and City Levy

Old Flat Rate = \$79.65

Present Graded Tax = \$64.05, a saving of \$15.60 or 19%

Plus Proposed Graded  
School Tax

Proposed 5-to-1 = \$46.00, a saving of \$33.65 or 42%