

THE OLD-FASHIONED -- REDISCOVERED

The object of these Supplements has been to prove that what we are calling "The Pittsburgh Idea"--applied in the Graded Tax, enacted 1913--is not only old but perennial. Its principles have been freshly discovered a number of times in man's history, and after a period of forgetting, are again discovered by new generations unaware of their predecessors. It is well known that fashions in dress, furniture, and arts go by cycles, with revivals of the antique or classic becoming "the style" as a Period influence.

The principles of (1) Land Reform--removing private barriers to use of under-used land (which is not a human product) and (2) Incentive Taxation, removing government barriers from production, are unmistakably coming again into fashion through spontaneous inventions, though often in disjointed, complicated ways.

American Feudalism and Land Reform

Land Reform is in style around the world, propagated under that name though in different forms, by revolutionists, and by the United States everywhere except at home. Here it is called redevelopment, renewal, land-use planning, etc., utilizing eminent domain--which is a historic term recognizing that there are sovereign or public rights dominant over private titles. It reminds us that our modern Pittsburgh problems are not far removed from those of feudal societies on other continents.

GRADED TAX HISTORY BEGINS PUBLICATION

Publication of the first installment of "Pittsburgh's Pioneering in Scientific Taxation," by Percy R. Williams, in the January quarterly issue of the American Journal of Economics and Sociology, has begun to provide a long-needed history of Pittsburgh land-ownership and the Graded Tax. Reprints have been sent to most of those receiving these "Pittsburgh Idea" bulletins. A few more copies are available. The author has received numerous congratulations. Gilbert Love's column in the Press, April 4, featured some of its human-interest details, including the feudal land-tenure of the Penns. The history shows how transfer of the Penn "manors," at nominal prices, to the O'Hara, Schenley, Denny, and other estates kept large parts of Pittsburgh feudal, down into our own century (with low tax rates on "agricultural" land, finally raised in 1911.)

However, Pittsburgh's land reform of 1911 and 1913 did not take the form of Marxist confiscation or Anglo-Saxon eminent domain. It was based on the principle that no private title need be disturbed so long as the owner pays to the community the value created by the growth of the community, as distinct from the value of improvements due to his own efforts. While this might tend to the lowering of asking prices, it meant no loss whatever to those who had bought "for a song." But to protect more recent buyers, the change to a higher rate on land was made so gradually that many Pittsburghers scarcely became aware of it. And since the cost of government was rising at the same time, the lower rates on improvements also did not attract much attention; home and building owners paid about as many dollars as ever, unaware that with a flat rate, as in other cities, they would be taxed much more. The Graded Tax did bring a building boom in the 1920's. Corn fields and cow pastures gave way to homes--but then the reform stopped short, at a rate of 2 to 1 for city taxes, and no change for school or county taxes.

Coming installments of the Williams history will evaluate later developments. It can be said, however, that the early and obvious need for developing great stretches of vacant land from a rural status tended to leave an impression that the work of the Graded Tax was done. Pittsburgh's land except for hill slopes seemed to be well filled up. The framers of the Renaissance did not see the relevance of its principles to their task of redeveloping a city full of aging structures.

It was left for practical builders and planners in other cities to rediscover these principles, piecemeal or hit-and-miss, gradually fitting parts of them together and stumbling on the fact that Pittsburgh and Scranton had something called a graded tax which combined them in an on-going system.

"Supplements S-2, S-3, and S-4", with numerous newspaper reprints, have given examples of these partial discoveries.

ANOTHER CHICAGOAN SEES IT -- IN PART

One of a growingly familiar type, including only one side of the total picture, occurred in the "Seventh Annual Wherrett Lecture on Local Government," under auspices of the Institute of Local Government at the University of Pittsburgh. This was given by Philip M. Hauser, professor of sociology at the University of Chicago, "On the Impact of Population and Community Changes on Local Government." Quotations follow, from pages 19 and 20.

"We have yet to solve the problem of 'urban maintenance' without which urban renewal will fall short of its objective. 'Urban maintenance' involves much more than code enforcement. Building codes, in fact, cannot be enforced by present administrations without forcing hundreds of thousands of urban inhabitants to flee the city; and they would have no place to go....To achieve urban maintenance, measures must be devised to take the profits out of slums. This necessarily requires the redefinition of real property rights along lines that pay much more attention to the interests of the tenant and of the urban community at large, than to those of the landlord and particularly of the 'slumlord.'"

"It may be anticipated that much will be done to strengthen legal weapons to maintain the urban plant. Housing courts are notoriously ineffective..... It may be anticipated that the trends will exert pressures to make urban decay uneconomic as well as illegal. Some such provisions to take the profits out of slum ownership have been proposed by Julian Levi, Executive Director of the Chicago South East Commission. One would be a change in property assessment procedures, which now reward the owner of a decaying property by providing him with reduced valuations for tax assessment. Another is modification of the income tax provisions which now give landlords depreciation allowances without requiring the establishment and expenditure of reserves for code maintenance."

Like other proposals from Chicago (Arthur Rubloff) and New York, cited in S-3, this shows the struggle to do the right thing under handicaps of state constitutions, laws and assessment practices which can be far more easily dealt with in Pennsylvania.

ACTION-HOUSING STRUGGLES

For this reason it is painful to watch the similar struggles of ACTION-Housing and its fine volunteer workers to lift the blighted neighborhoods of Allegheny County by bootstrap tugging and punitive building code enforcement--when a great instrument to aid their efforts lies unnoticed in the 2nd and 3rd

class city tax laws of their own state. (The 2nd class code needs amendment which could be easily attained.) They are announcing a May workshop, and circulating the proceedings of one held in May, 1961, when at two different small groups these suggestions were made:

(Workshop 9) "Tax laws could be used to discourage owners from allowing houses to deteriorate by increasing taxes on dilapidated buildings." This came spontaneously from a health inspector.

(Workshop 2) "People might be made more conscious of their property if taxes were raised on land and lowered on buildings"

A MAJOR DISCOVERY IN BOSTON

A really complete discovery has occurred in Boston--one deserving credit as a discovery, by the writer of an article in the March, 1962, Massachusetts Law Quarterly, because to recognize and proclaim an unfashionable truth to a new audience calls for pioneering spirit. (In this case the writer credits the chief prophet of our decade, Perry Prentice of House and Home.)

The article, by Attorney H. Philip Howorth, active in legal problems connected with real estate, is entitled "Site Value Taxation: A Solution to Allocation Problems in the Taxation of Real Estate."

Recent Massachusetts court decisions have instructed assessors to alter a practice widely accepted (in Pittsburgh, too; and compare Futterman's "The Future of Our Cities," p. 89): that of assessing commercial property at a higher percentage than residential. The result will be a heavier, though more legally equitable, burden on home-owners. An exception was legislated, after delay, for tax concessions to the Prudential Insurance Co., erecting a "Center" considered to be "identified with the public interest." But this also may "shift to the not-too-willing shoulders of all Boston realty taxpayers." Mr. Howorth describes the "Economic Effects of the Present Realty Tax System":

"In the case of improved realty, a major portion of the tax burden is borne by the improvements, since in most situations the value of the improvements is much greater than the value of the land alone. One of the effects of this burden on improvements is the discouragement of new building and betterment of existing structures....Thus those who desire to benefit the economy by increasing the value of their realty are penalized by the existing tax allocation methods.

"At the same time, the system encourages the maintenance of substandard realty and slums, since the less property is improved the more economical it becomes from a tax standpoint. Furthermore, such property tends not to be reassessed unless its condition changes; its owners are therefore reluctant to make any improvements which may call their property to the attention of the assessing authorities.....The author has learned of cases where this 'don't rock the boat' attitude would appear to have extended to realty trustees....The drastic method of urban renewal by eminent domain is often the only solution to this tendency toward property decline.

"Low taxes on unimproved land, another factor in the present tax structure, permit long retention of vacant realty, thereby paving the way to land speculation...Owners of valuable commercial and residential property are thus put in the position of indirectly subsidizing those who keep their property off the market for long periods of time in the hope of realizing large gains."

Boston Discovers Pittsburgh

The article then gives the facts regarding Pittsburgh and Scranton systems and the optional law for third class cities. It refers to the major study of Australia and New Zealand, where many cities "levy no taxes at all on improvements," "Municipal Improvement and Finance," by Cowan.

"Under site value taxation, valuable urban land bears the greatest tax burden, and its owners are thus encouraged to place thereon improvements which will generate the most income in order to offset the high land tax. The owners are not discouraged from new construction by high taxation of improvements and thus tend to erect the most valuable structure they can afford. Slums on valuable urban land tend to disappear, since their substandard income levels are not sufficient to offset the high land tax.....In addition, a shift to land taxation makes land speculation less profitable because of the tax penalty involved in holding non-income-producing realty. Owners of such property are encouraged to sell their land or to build improvements, rather than await future high profits."

"Furthermore, personal residences bear a much lesser proportion of the tax burden under site value taxation, because in most cases they are located on less valuable land and have a high ratio of improvement to land values."

Citations are given to Rowan, "Property Taxation and Urban Development," published by Urban Land Institute, Washington, and the study of "Potential Effects of a Movement Toward a Land Value Based Property Tax," for Bethlehem, Pa., by Schwartz and Wert.

"Finally, a tax based on land values has a fundamental theoretical basis as being a tax levied by the sovereign in exchange for the grant by the sovereign of freehold rights."

Thus a Boston lawyer confirms the doctrine set forth by many legal authorities, including Blackstone, that land ("not a human product") belongs in essence to the sovereign, whether a feudal lord, a crowned king, or the sovereign people. But he has also confirmed the "Pittsburgh Idea" that "no private title need be disturbed so long as the owner pays to the community the value created by the growth of the community."

Mr. Howorth deals with objections such as the tax increase incurred by some taxpayers, and tells of the transition period provided in Pittsburgh. "The need for a period of transition should in no way affect judgments on the ultimate merits of site value taxation." He analyzes the constitutionality of a change. While the Massachusetts constitution has been construed in unfavorable ways, it does not seem to place a greater barrier in the road of property classification than does Pennsylvania.

HARVARD PROFESSORS CONFIRM THE TREND

Not long after Mr. Howorth's legal article, a full page advertisement, headed "The Tax Tangle," appeared in the Boston Globe, April 23, 1962, one of a series commissioned by the New England Merchants National Bank, on Boston problems. The writers are Harvard Professors Martin Meyerson (of city planning and urban research) and Edward C. Banfield (urban government.) Reprints are available.

First emphasizing the rising needs of city government, they set forth "principles of taxation": it should "be fair and equitable,"; "encourage honesty on the part of the taxpayers" and "be cheap and simple to administer": "stimulate economic growth"; "serve as an indication of the citizens' demand for local government services": and "be politically workable."

On this basis they say that the personal property tax on movable goods "has no virtues at all," and that the existing real property tax discourages new investment, offers no incentive, and "actually penalizes efforts at modernization." Slum owners "get a free ride."

"The best way to remove the inhibiting effect of the property tax.. would be to tax the land component of real estate relatively heavily and the building component relatively lightly. A tax on land is normally capitalized (that is, the price of the land changes to take the tax into account) while one on buildings is (except in a depression) normally passed on to tenants."

"By taxing land heavily and buildings lightly the city would give owners an incentive to build on their land if it is vacant or to rebuild on it if it is already built upon, or else to sell it to someone who would build on it. In this way more might be accomplished in the elimination of slums and blighted areas than is likely to be accomplished by Federally aided housing and renewal programs."

A NEW YORK STUDY TEAM BRINGS LIGHT TO OHIO

Examples of this kind are occurring so frequently that they need to be noted, even if briefly, before still more accumulate. The City and County Boards of Commissioners in Dayton, Ohio, cooperated with the making of a study by Management Services Associates of New York, under the direction of Albert Pleydell, and financed by the Lincoln Foundation of Cleveland. "In 1959," the report begins, "a study of urban renewal in New York City, sponsored by the Citizens' Housing and Planning Council of New York, Inc., raised questions as to the possibility of a causal relationship between urban blight and real property tax policies."

The Dayton study revealed the usual pattern of underassessment in blighted areas; failure to enforce housing codes in such areas when Renewal became the alternative; and payment for properties at prices above average. It called attention to the Graded Tax plan by quoting from United States Municipal News, published by the U. S. Conference of Mayors, Nov. 15, 1959:

"Property taxes designed to make slums unprofitable are now used by New Zealand, Australia, parts of Canada, South Africa and other countries, the National Association of Housing and Redevelopment Officials notes. A joint U. S.-British-Canadian study group reported last year that in nearly every case the switch to this type of property taxes was successful."

"The slum-punishing tax assesses property on the value it would have if used for its most valuable purpose called a "site valuation." Buildings and other improvements on the land are not taxed."

Pittsburgh and Pennsylvania laws are cited, as well as the proposal for graded taxes in California now being studied by a legislative commission.

In Ohio and California, barriers of constitutionality stand in the road, and Ohio has a one per cent ceiling on "real estate" taxes. But this Dayton study begins a process of education, and contains valuable observations and suggestions of study methods for technical experts.

