

Incentive Tax League

Delaware Valley Chapter

616 S. 10th St. Philadelphia, PA 19147

(215) WA3-7793 or (215) HA4-6479

President: Richard L. Biddle Vice-President: Donald E. Hurford Sec.-Treas. & Counsel: Patricia A. Lowe

AN OPEN LETTER TO THE MAYOR AND MEMBERS OF THE PHILADELPHIA CITY COUNCIL
Re: Bill # 1226 Introduced by Councilman James J. Tayoun - Pending.

Greetings:

This is the first of what we hope might be several letters pointing up reasons why the property tax should be structured so as to base the tax more on land value and less on buildings. Each letter will address itself to some aspect of the INCENTIVE TAX policy, and along with each letter will come some additional material that will expand more fully for any who might wish to read.

Four years ago in December of 1978 the Pittsburgh City Council cautiously agreed to levy a small increase of the tax on land value in the amount of 4.95% per hundred of assessed valuation. At the same time it agreed to levy 2.475% on buildings. Progressively, each year since, the shift has been widened. On December 22, 1982 the levy on land was set at 16.8% and that on buildings at 2.2%. Another surge in new building permits will occur in 1983.

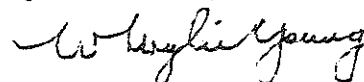
Councilman Tayoun will reintroduce the bill for institution in 1984. Instead of a 6.75% rate on land value and buildings together it will call for a 12.25% rate on land value and a 5% rate on buildings and improvements. Actually, this will represent a very small shift from buildings to land value.

This bill does not call for complete and total land value taxation. Far from it! It will merely indicate the direction a local economy might take under such a taxing system. Indeed, the rate suggested will be so small that no elected official need be the least bit apprehensive for having supported it.

So many taxpayers who may have invested heavily in fine buildings, such as homes, apartments, shopping malls, mortuaries, office buildings, banks and factories will enjoy such agreeable tax reductions that a chorus of approval will go up over the entire city. Naturally, owners of vacant lots and those who charge high rents for old worn-out buildings located on high value land may not appreciate it at first, but in the long run the INCENTIVE TAX will enable them to improve their properties without tax penalty. By taxing all buildings we restrict construction of appropriate buildings of all kinds, but especially those in high land value districts.

Traditionally we have been taxing land and buildings alike as if they were alike and as if taxes affected each in the same way. Actually, they are not alike and taxes affect each in diametrically opposite ways. The enclosed material will explain why this is true. If you can spare the time please check it out.

Very cordially yours,



For Councilman Tayoun and
The Incentive Tax League.

1885

County Representatives

Bucks: Richard L. Biddle Chester: Arthur Yeatman Delaware: Wylie Young Montgomery: Jack Himmelstein Philadelphia: Joan Colgan, George Collins, Kristie Feder and Linda Marucci New Castle: DE: Peter Brachman; Donald Crawford and Michael Curtis Camden, NJ: John Daniels

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Greetings:

There are two kinds of landowners: those who make money by using land productively, and those who make money solely by virtue of their ownership of land without any productive effort.

Every city has many of both kinds of people. Those who improve their land with good homes, stores, shops and factories give to a city the appearance and being of substantiality and prosperity. Those who hold vacant land out of use; or collect high rents for valuable, close-in land sites with buildings that are ramshackle; or rent shoddy homes in run-down areas with no intention of making improvements; or those who soar like vultures around the edges of the city, buying up land and holding it until the thrift and industry of many others have increased its value.

These are all land speculators. They produce nothing. Their dog-in-the-manger attitude thwarts and impedes many who need land for homes, stores or shops.

Not all landowners are either workers or drones. Many are both. Millions of hard working people, instead of investing in productive enterprises, buy vacant or run-down properties with no intention of improving them. Their numbers and their vast supplies of money thus invested only exacerbate the situation. Stagnation is everywhere. So much so that people come to accept it as both normal and natural.

Normal it is, our property tax policy being what it is. There is one reason, and one reason only, that things happen as they do. We tax land far too low and buildings far too high. Except in rare cases assessments on good buildings run from $2\frac{1}{2}$ to 6 times higher than assessments on land. On many big industrial plants the assessments on buildings are as much as 15 times as high as those on land. Actually, the appraised market value of land is often from three to six times as high as the assessments. This provides the land speculator an additional leverage, enabling him to make a killing when adjacent properties are improved and land prices go up.

Increase the tax on land value and watch the landholders rid themselves of their lots. Decrease the taxes on buildings and watch the land improvers move in. This is always the first visible happening. All across the entire city other things will occur. With taxes on homes lowered and taxes on buildings decreased, improvements on homes will zoom. The construction industry will come to life and private enterprise will again be king.

No need to waste our sympathy on land speculators or to give ear to their cries of outrage. In such a land as this there will always be opportunities to invest in productive enterprises. If a simple shift in our tax policy would release the brakes that are now set against production, and provide economic motivation for the renewal of our city, is it not the moral obligation of our legislators to set the stage for action?

Very cordially yours,

1886

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Greetings:

Christopher Johnson, Lord Douglas of Barloch, some forty years ago wrote a book called LAND-VALUE RATING. He said, "The practicality of land value rating is no longer open to argument. Experience in many countries, extending in some cases over sixty or seventy years, has finally settled that question.

"The desirability of the system is also attested by the same experience. The arguments in favor of land value rating are: 1) that it is economically the most advantageous system because it conduces to the best use of natural resources, and to the greatest production and the most equitable distribution of wealth; 2) That it is a restoration to the public of a value which is entirely due to community causes, including public expenditure itself."

He then goes on to explain that when a city shifts taxes from buildings to land the tax bills on practically all owner occupied homes are lower than before, and the tax bills on most of the properties in central city areas are higher than before. The reason, of course: Land values are relatively low in residential areas and good homes more than "carry their weight," whereas land values in central city areas are high and it takes a sizable building to off-set the increased tax on land. By shifting taxes from buildings to land value all kinds of people will be encouraged to improve all kinds of land.

Such a shift in taxes may be partial or complete. No matter! The resultant equation will always favor the improvers. Not only will land and building costs be reduced but the punitive tax on buildings will be less damaging. Homes, stores and factories will be bigger and better. Old buildings will be renewed or replaced and landless managers, clerks and tradesmen will have better shops and stores to work in at lower rental figures.

It is seldom mentioned in the press, radio or television but land prices must come down. All through the 19th century our economy was plagued with panics and depressions. Finally, competition between landowners forced the issue. Today we are faced with the complications of a technological revolution and for reasons difficult to pinpoint land prices have resisted the tendency. Nevertheless there will be no economic recovery until this happens. The institution of a greatly increased tax on land value would do the trick but there are powerful forces at work to keep this from happening.

Most people are led to believe that when land prices are going up all is rosy. This is pure myth. It may be fine for those who own key land sites but for the people who work for wages it is a calamity. Their lot is never improved. When a city elects to capture those soaring values for the public treasury and is thereby able to lower the taxes on labor produced goods of all kinds, including buildings, the tendency for land costs to climb will be curbed. This is the only scientific way to reward people who actually produce those values.

As the depression hangs on, of course, cars and household appliances will wear out and those who can will buy more. Those who can afford it will get married and pay that 11% interest on a mortgage and buy a house. The boys in Washington will point with pride at the 1% increase in commodity sales and the desperate unemployed will fight back their tears. Who do you think is running this country anyway?

Very cordially yours,

W. Wylie Young

For Councilman Tayoun and
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1887

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Greetings:

Speaking of the need to get the economy out of the stagnation rut we start by reducing taxes on buildings. Most people have less difficulty with this idea than with its counterpart, — increasing taxes on land. Their first concern as to buildings is, "Where are you going to get enough money to run the city?" That is settled when we say, "What is lost on buildings will be gained on land. The budget will remain the same."

Then comes the, "So you want to take away our land?" Wrong! Or "What will happen when rents go up?" But rents will go down. Then the clincher, "But when you tax anything the price always goes up." Wrong again. That is the unique thing when you tax land value. The price always goes down. Then is when you get, "You must be some kind of nut!"

Land prices are arrived at in the market place by competitive bidding for land use. The annual rental value is the key. In normal times, if a piece of land could be rented for one year for \$100.00, the selling price, capitalized at 5%, would be $\$100.00 \times 20$ or \$2,000.00. But in Philadelphia, where there is but one property tax authority, every piece of land has two owners, — the privateer and the city. If the city takes a measly 2% of real market value the privateer would keep \$98.00 for himself. His land would then be worth $\$98.00 \times 20$ which would be \$1,960.00. But if the city were to take 25%, as it really should, since land values are created by the city and not by any one privateer, the privateer would have left only \$75.00 and 75×20 is 1,500. So, by whatever percentage of the annual rental value of land that is taken in tax the PRICE of land is reduced accordingly.

But these are not normal times. Inflation and high interest rates, however they have happened which we cannot take space to discuss, have sent land prices into the stratosphere. We know of a modest home in LA which was bought a few years ago for \$40,000.00. The asking price today is \$400,000.00. Building costs do rise as land prices mount but this is ridiculous. Buildings can be replaced and \$100,000.00 would be an outside figure here. That means that the land price is at least \$300,000.00. Stagnation is in process all over America. The production of adequate housing and business buildings has been made all but impossible because landowners can demand fantastic prices for well located land.

Land and buildings are different. We pay RENT for God-created land, but we pay INTEREST on man-produced buildings. We call it rent but that is a semantic short-cut. No one can produce more land. No one can tax it out of existence. Millions of buildings can be produced and destroyed at will. If a city were to take 5% of the real market value of buildings, taxing land and buildings alike, all building for profit would stop. It is almost prohibitive even today when Philadelphia collects 6.75% per hundred of assessed valuation. In theory the city should not penalize any builder when it could get all the revenue it needs by taxing land value instead.

It would not be feasible to do it all at once. No land-taxers even urge it. But we could begin to move in the proper direction and we might be amazed at what even a small increased tax on land value would accomplish. It would jolt a lot of land free for there are plenty of people who would like to invest their money in both land and buildings if a reasonable return could be assured. In due time Philadelphia could take 75% of the annual rental value of land. Then the price of land would be within the reach of all kinds of entrepreneurs. Millions of able people would be set free to develop ideas that might be buzzing in their brains, and tens of millions of eager-to-work people would be glad to do their part as routine employees.

Very cordially yours,

W. Taylor Young

For Councilman Tayoun and
The Incentive Tax League.

1888

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Greetings:

This is the 5th letter in a series urging City Council to pass bill # 1226. We must tax buildings less and land value more. Our traditional low-or-no-tax policy on land has brought this country to the very brink of disaster. No one thing will put everything to rights but unless we make basic changes in our property tax policy things are bound to go from bad to worse.

Let us explain, as graphically as possible, how our property tax policies have corrupted our entire economic system. We began this series by pointing out that there are two kinds of landowners,— those who use land productively, and those who use land as a means of gaining wealth without producing anything. We are on the side of the "do-ers", the improvers and the producers. Those other guys have simply got to go. A simple change in property tax policy would make their activities unprofitable.

There is double-jeopardy for all the do-ers and improvers when we insist upon using a low-or-no-tax on land value. 1) They are the good guys in any economy. When they have to bear the bulk of the tax it is as if the City Fathers were saying, "It is an anti-social act to improve a property and all such people deserve to be fined, not only once, but every successive year the improvement is in use. 2) Under our present property tax system the wrong kinds of people are set up in business. They buy up and hold out-of-use vacant areas and poorly developed land sites, so that the improvers are obliged to pay high prices or rents in order to use the land. Such a policy provides fantastic financial "windfalls" to landowners who under-use or misuse their holdings. What is infinitely more damaging to all the good guys (homeowners, industrialists and merchants) is the fact that by the very processes involved in such a tax policy the price of land is so high as to restrict and limit their ability to enjoy adequate facilities.

Conversely, there is double-security for the good guys in the policy of basing the tax on land value. 1) Instead of having to pay good money to some landowner in rent and receiving nothing but the right to use the land, he now pays his rent to the city with the promise that he will not have to pay any more no matter how fine a structure he chooses to put on the land. 2) All of the wrong kinds of landowners will don black coats and mustaches and say to themselves, "curses, foiled again!" With the city now championing the cause of the improvers and assuring them that high land prices will no longer be demanded before action, capital and labor (all good guys) will collaborate in an explosive burst of mental and physical energy. All this because the higher the tax on land value the cheaper land becomes. If that sounds strange and unbelievable it is because we have had far too much experience with taxes based on labor products, on labor itself (incomes) or on the right to make a deal (sales). All such taxes are regressive and should go into Denenberg's dump.

By taxing land low, or not at all which is the policy in England, in due time only a few will own most of the valuable land areas or urban sites. Today, in England, land is seldom "for sale." It is held and rented to those who have no chance of ever owning land. It will soon be so in America unless we come to our senses. There will come a time when low or middle-income people will never be able to buy a well located lot on which to build even a cheap cracker-box type of house.

Very cordially yours,

W. Hughes Young

For Councilman Tayoun and
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1889

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Greetings:

Personal? Well, not very! I have been writing these letters on the land tax, having them printed, and then delivering them personally to your office. So far I have had no opportunity to speak with any council person.

In case you may not have sensed how important this subject matter is I want to assure you ours is no hair-brained scheme. It is the brain-child of one of the greatest minds this country ever produced. John Dewey said, "It would require less than the fingers of two hands to enumerate those who, from Plato down, rank with Henry George among the world's social philosophers. This is high praise, and since, in our judgment, his findings are crucial to the continuance of our modern civilization, I am taking this way of saying that you, in your position as a member of the Philadelphia City Council, can render an invaluable service to your city.

Henry George really solved the problem of poverty. If his ideas are coming to you for the first time, you are not alone. One hundred years ago colleges were being founded by high-minded men, but they were being funded by men of wealth. Their "munificence" was rewarded by invitations to join boards of trustees. George was making waves that threatened to take away their favorite method of accumulating wealth and they fought back with a vengeance. Land speculators were swarming like locusts on the edges of all the towns and cities of America. The low-or-no-tax on land enabled them to amass great fortunes without doing anything to deserve them. So they took advantage of their positions of influence and refused to allow the philosophy of Henry George to be taught. After 100 years, twenty-five college generations later, there are millions of graduates who do not know whether Henry George was an Englishman or an American. Right? Did you know?

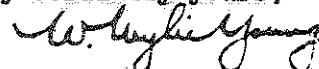
Time is running out. We cannot reeducate everyone. Only a few demonstrations will suffice. All we ever get from most college trained people is an endless series of "yes-buts" anyway. They were never taught that the government should collect the economic rent of land in lieu of levying taxes on labor products or sales. One highly visible demonstration would be worth a trillion words. It could happen in Philadelphia.

The far-flung ramifications of our low tax policy on land has so multiplied our economic and social problems, and our incorrect methods of dealing with them has made our political economy so complex that the energies of most of our concerned and caring people have been diffused and ineffective. They "spin their wheels" dealing with symptoms instead of focusing on basic reform. Please note: I did not say "reforms."

As a legislator in that very city, which two hundred years ago saw a far-sighted group of men create a new kind of government, YOU now have an opportunity to match their enormous service. You can correct a flaw, which was unrecognized as such by the wisest men of that time, but such a flaw that the employment of it has brought us to a point in history that threatens to destroy the government we all want to retain.

Any successful attempt to deal with this fatal flaw in our taxing system would cause life itself to blossom beyond all imagination. As one early advocate of this basic reform, Herbert Quick, said, "I found the very foundations of my philosophy in the process of dissolution....but the book (Progress and Poverty) did not destroy alone. It poured into the rotten base the concrete of a new and perfectly correlated doctrine, which has stood firm and unshaken ever since."

Very cordially yours,



For Councilman Tayoun and
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1890

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Greetings:

We could go on and on dealing in theories and generalities, but the time has come to look at Bill # 1226, explaining the mechanics involved and predicting what might immediately happen if this bill became law. Dr. Steven B Cord, Professor of History and Sociology at the Pennsylvania State University at Indiana, Pa., and Director of the Center for Study of Economics, made a research study of Philadelphia following the introduction of the bill last year (1982). A summary was included in the prospectus which Council received from the Incentive Tax League last June. In case the prospectus is not immediately at hand let us touch upon a few of the high spots.

Instead of assuming that land and buildings are alike, and that taxes affect each in the same way when the same rate is levied on both, we will now be levying one rate on land and another on the buildings. This means we must have before us the total of all land assessments and the total of all building assessments. Then by multiplying each by the current tax rate, which is \$6.75 per hundred of assessed valuation, we discover how much is now being raised on land and buildings separately.

Avoiding billion dollar figures (the grand total of L & B assessments being \$5,867,613,768) we find Philadelphia taxpayers are paying \$3.14 on buildings for every \$1.00 they pay on land. In other words the ratio of buildings to land is 3.14 to 1. In deciding how much to reduce the rate on buildings and how much to increase the rate on land is strictly a judgment call. Those who have had experience with this suggest that the rate on buildings be reduced to 5% per hundred and the rate on land be increased to 12.25%. This will raise the same revenue as the 6.75 rate produces now.

Many properties (office and apartment buildings, homes, factories, warehouses, banks, department stores, enclosed shopping malls, and mortuaries) are paying anywhere from \$3.14 to \$45.00 more on buildings than on land. We found one property with land assessed at \$149,600 and the building at \$6,852,100. Figure it out. Our calculator says \$45.80.

Hundreds of properties, mostly in the older home category, will carry assessments close to the city-wide average of 3.14% to 1. The tax bills will be about the same as before. Even though owners will have little to cheer about they will be able to improve their properties without suffering as heavy a tax penalty as they might should the rate still be 6.75% as before. In all cases owners will have an incentive to make improvements, especially if they can anticipate that there will be further reductions in the rate on buildings.

Owners of old rundown shops and stores, especially in the perimeter of center city, old private residences in high land value districts, and ramshackle buildings anywhere, will find their tax bills increased. This may strike many people as being a bit too tough on the poor but if there is any discomfort involved it is the landowner who will resent it. But his resentment is unjustified. He has been paying far too little for the use of such land for years. In many instances he has been collecting high rents and the people who are obliged to rent and work in such buildings are the ones for us to be concerned about. Landowners will now have a way out of their dilemma. They will be able to replace their old buildings and have a chance to make a profit besides. Let all who think this is going to hurt the poor remember: ANY TAX BASED ON LAND VALUE CANNOT BE PASSED ON. A landowner might try it, but when the dust settles he will discover he is in competition with other landowners, and he cannot raise the rent in order to recoup the increase in the tax.

Finally, there are the vacant lots. Of course it will increase the tax-bite on them. It should! Why should 5.3% of the land in Philadelphia be left vacant? A few people enjoy having a vacant lot adjacent to their home. That is perfectly all right if they are willing to pay for it. In and under LVT the tax will be about the same on both properties as it is now on one. But the LVTax on the dwelling alone will be so much lower than before that many might be inclined to let the vacant lot go. Actually, most of the vacant areas are being held by land speculators, and the only thing that enables them to rip us all off is our low tax policy on unimproved land. Civilization is now joined in a battle against land monopoly. There are other forms of monopoly such as the "Bull and Bear" game on Wall Street, but they are all insignificant compared to the monopoly on land. As Winston Churchill once said, "Land monopoly is the mother of all monopolies."

Very cordially yours,

W. Hughie Young
for Councilman Tayoun and
The Incentive Tax League.

1891