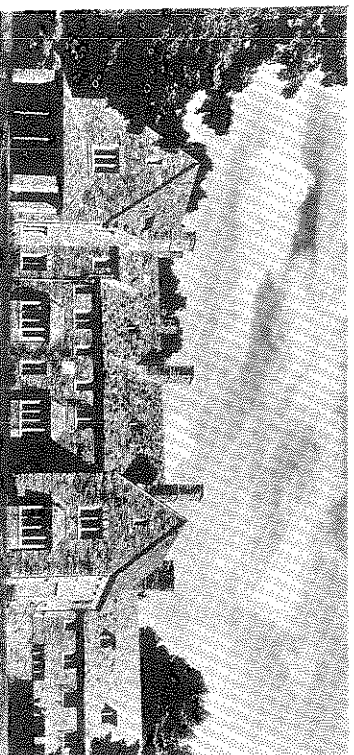


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WHY CREATE SLUMS?

That slums, or deteriorating areas in the Nation's cities, are breeding places for vice and crime seems to be generally acknowledged. That the spreading slums of America's expanding metropolitan areas may also be the breeding grounds for the vandals that in time will destroy our civilization is a disquieting thought, an idea by no means so fantastic that one is justified in dismissing it lightly.

Many well-intentioned people, within and without government, are determined that slums must be eradicated from the American scene. However, their way of solving the problem is similar to the method one might apply to cope with a natural disaster such as a hurricane or an earthquake. They rush to do something, the obvious thing of destroying slum structures and building others, as though that procedure must certainly solve the problem. Apparently, the thought that slums are being created faster than they can be destroyed never occurs to such good-hearted but ill-informed citizens. They never stop to ask in a particular instance, How does it happen that this slum exists?

We are convinced that slums are not natural disasters, slums are not like hurricanes or earthquakes except that longer time is required for the results to be seen. Slums are man-made; therefore, they present a problem that must be solved in an altogether different way from that used in coping with the effects of a natural disaster.

When a hurricane or earthquake destroys part of a city, the urgent desirability of immediately clearing the wreckage and rebuilding is obvious. But when a slowly spreading slum has become a blighted area of major proportions, the first step should be to seek the answer to this question: How does it happen that this festering sore of a blighted community exists; or, How are slums created? When this question has been answered, not only can the particular

slum probably be removed at minimum cost, but also the development of other slums can be prevented.

How Do We Create Slums?

In order to clarify what might otherwise be obscure, we invite readers to assume that they have become the elected managers of their respective cities. You are the city manager of Yourtown and have almost dictatorial power during your term of office.

First, reminding you that this is fantasy, we shall assume that you have the most evil intentions and that among your boon companions is a friendly devil who is amazingly astute, as devils presumably are. Below are some discussions between you and your devil friend held during the nightly excursions you and he have made around your city in search of more and better ways of achieving evil results.

"My friend," you said, "this is indeed a beautiful, in fact far too lovely a city. Since it was rebuilt after the great fire you kindled so successfully a few years ago, it has been reconstructed with more and better buildings than we had before. Can you not think of a more permanent way of creating a little hell on earth than merely burning a city? True, the effects of that conflagration were striking, but you will have to admit that they haven't lasted very long."

"Indeed," replied the devil, "I have been giving the matter serious consideration; I

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have a plan that will bring a more lasting hell to the midst of our city. The effects will not be apparent all at once, but they will be far more devastating than any fire. Moreover, whereas a disaster such as fire or flood tends to cultivate the bonds of human sympathy among men, make them considerate and helpful to their fellows, my scheme will divide our fellow citizens in such a manner that those in the hell we shall devise will, in the course of time, become virtual savages prepared to tear down all that our better citizens can build. In short, we can even breed the new vandals that perhaps will in the end destroy present civilization if we follow my plan."

"You make it all seem so easy. What is this plan?" you asked eagerly.

"Here it is," said the devil, "I shall describe it one step at a time so that you can reflect on its simplicity and effectiveness; all truly great ideas are essentially simple, you know."

"We now are in one of the residential parts of the city, but it is an older section that was not burned a few years ago. The houses are somewhat crowded, but they once were occupied by some of the leading citizens. Do you notice that an occasional building could stand repainting?"

"Yes, of course, but what of that?" you replied.

"Simply this. You arrange with the tax assessors to raise the assessment and therefore the taxes on any building in the city that is repainted, or remodeled, or improved in any way. Moreover, caution them to assess at full value, or more nearly full value, any new building that is constructed. You know that the power to tax is the power to destroy, or in this instance to inhibit. If this procedure is followed assiduously, and your tax rate is high enough, you soon will observe the following results:

a. Throughout the older sections of the city, buildings will at first not be painted

Continued on page two

WHY CREATE SLUMS?

Continued from page one

and maintained; then some will become dilapidated; and virtually none will be improved or replaced.

b. Into this area will move the poorer families of the city. They will gravitate to this locality, not because most of them prefer to live in a slum, not because their taste has become so depraved that they could not enjoy life elsewhere, at least not at first; they will come to live in this area because our clever taxing method will prevent or at least limit the remodeling or new construction of housing that these families can afford.

c. Then, given another decade or two, as children are brought up in these depressing surroundings, our city will first have increasing problems of juvenile delinquency; then the former juvenile delinquents will become competent criminals and racketeers; and everyone can see that we need only enough of these individuals to overturn civilization itself."

But you were not convinced that the friendly devil's plan was as excellent as he supposed. You asked, "Is that all there is to your masterpiece of evil calculation? I confess it has some interesting and perhaps effective features, but is that all?"

"By no means," friend devil replied. "In addition to taxing all improvements heavily, you must reduce the taxes on land values, especially on land values in the slum areas. As the original buildings deteriorate and the neighborhood becomes a slum, encourage the landlords to apply for reductions in their taxes. Instruct the city assessor to disregard actual selling prices of land in the slum area and assume that the assessed value of the land should decrease as the buildings on it deteriorate. Thus you will encourage the slumlords to hold their properties for speculation on the future growth of the city. You will combine the maximum of discouragement to improvement with the minimum of discouragement to land speculation. Even when buildings are condemned and closed as firetraps or are in danger of collapsing, they will not be replaced. The tax remaining will be so small that the owner will not be forced to sell to someone who might build. The owner, unless he is pressed for funds (and professional slumlords usually are not), will simply wait until the further growth of the city makes it practicable for someone to pay a price that will yield a tremendous profit. How large such gains may be can be seen by reference to the prices being paid today for land held by slumlords in areas to be redeveloped."

NOTE: In *Economic News* we omit references to sources and technical analyses in order to save space and because most readers are not interested in them. However, any reader who desires to know the sources of factual information or to have more detailed technical explanations of statements may obtain them on request.

To Expedite Slum-Making

"I am nearly convinced that you have a useful scheme that will serve our evil purposes well," you said. "However, if you really put your mind to it, could you think of some improvements in it; perhaps ways of extending slum areas more widely or bringing the anticipated results more quickly?"

"Well," replied the devil, "I do know of a subtle modification of this scheme that has produced gratifying results. In parts of England, the principles I have mentioned have been carried to their logical extension. When a property becomes so dilapidated that it is no longer used, or even when the slumlord simply chooses not to rent it, taxes are canceled altogether. Thus there is nothing to prevent the speculator from holding property off the market indefinitely. It is most encouraging to slumlords not to have that nagging annual payment, however small it might be. My friends abroad tell me that England has some of the most impressive slums anywhere to be found. Vast areas of London and the industrial midlands are such hells on earth that they put the subterranean master of our profession to shame. Think of it, he is the monarch of all that perpetuates fire and brimstone, yet he contrives only a brief sizzle as another soul enters his dominion, whereas the tax system and slumlords in England have developed a hell that lasts for a man's whole lifetime, corrupts his children, and damns his earthly hopes. There is an achievement worthy of emulation by all who would foster evil wholesale instead of piddling around in the retail business of tempting individual souls to their destruction."

"Then why not try the same scheme here?" you asked.

Friend devil replied with some dignity, "I think you know me well enough to realize that neither lack of boldness nor any fondness for humankind have impelled me to suggest no more than I have. We must remember that you will be coming up for reelection in a few years. Anything that the public is accustomed to is accepted as right and just. Already your city is applying my scheme in substantial part; you need only tighten up a bit here and there, urge the assessors to seek more vigilantly for all improvements such as modern bathrooms in existing tenements, etc. If you introduced a completely new idea such as that applied in England, you might encounter resistance, because all new ideas are suspect as you know."

But you still were not completely satisfied; consequently, you questioned further: "Good friend devil, or rather friend devil (I do not mean to insult you), I see that you are right and I begin to understand how it happens that nearly all cities in the United States have their steadily growing slums. The scheme as you outline it is indeed convincing; but, I wonder, do you have any further proof of its soundness than the

obvious results of experience with it to date?"

"Yes," the devil replied, "I can offer the most convincing proof. In many cities of the world the opposite of my scheme has been applied. All improvements in those cities are exempt from taxation, and only the land values are taxed for all community expenditures. The results have been as follows:

1. Such cities have no slums worthy of the name.
2. Even the poorer citizens have no difficulty in renting adequate housing.
3. New construction is greatly encouraged; in fact those cities, in Australia for example, seem to enjoy a never-ending progression of building and remodeling.
4. Industries come to those cities, because companies are taxed only on the value of the land they occupy (this value of course largely reflects the services provided by a city) rather than on their plants, equipment, and subsequent increase of those facilities.
5. Surprisingly enough, in many such cities where the landlords were the only citizens entitled to vote on land-value taxation, they voted for it. Although their taxes as owners of land were increased, the great benefit to the community of this method of taxation so increased the demand for land in the community that land values also rose."

"There is the proof that my scheme is sound," the devil insisted. "Apply it, and we get the slum bells we want; reverse it, and the slums are eliminated in a few short years at no cost to the community. What more proof do you need? Just keep the system we now have and accentuate its most effective features as I have suggested. Then you can rest assured that slum bells will keep spreading more rapidly than redevelopment programs can remove them."

* * * * *

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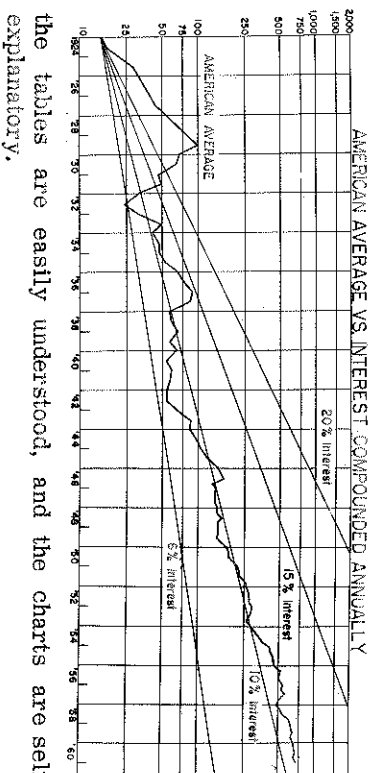
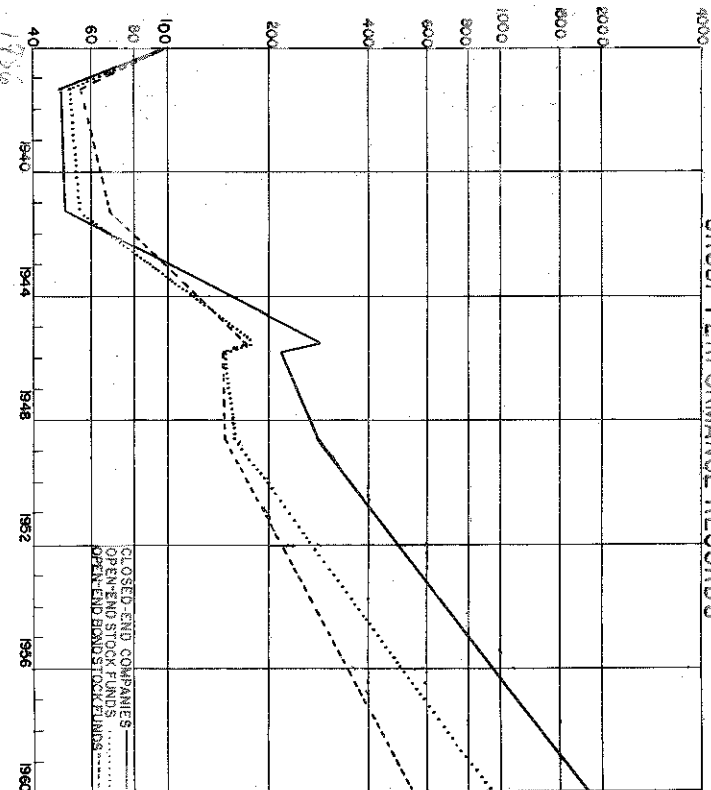
INVESTMENT TRUSTS AND FUNDS FROM THE INVESTOR'S POINT OF VIEW

If you are making investments or considering making investments, you should know something about investment companies (also known as investment trusts or mutual funds). General information about them as well as a study of the performance records of particular companies will enable you to make important decisions concerning your present and future financial plans.

Many investors fail to get the most for their money because they lack knowledge about the more profitable investments. Some, who have all their extra money in a savings bank, misunderstand the role of safety in an investment program. Others have been confused by conflicting advice from brokers or agents who sell investment-trust shares.

The Institute publication, *Investment Trusts and Funds From the Investor's Point of View*, is a nontechnical but thorough discussion of investment companies especially intended to help investors decide whether or not they should purchase the shares of investment companies and which companies to select. All types of trust plans are examined in this booklet and discussed from the investor's point of view. The language is nontechnical and simple.

GROUP PERFORMANCE RECORDS



the tables are easily understood, and the charts are self-explanatory.

The history of investment companies is outlined in the booklet, in order that investors may be familiar with the reasons for losses in the past and with the regulations and laws that can be expected to prevent similar losses today. Moreover, every domestic, and some of the foreign, investment companies that offer shares to the public are listed with comments indicating why we believe each one is or is not suitable for the average investor. The long-term performance records of the leading companies are up to date and are clearly presented in chart form. Finally, from the many well-managed companies with good performance records, the most outstanding are specifically recommended.

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Two of the charts from *Investment Trusts and Funds* are reproduced on this page. In one, the "American Average" of investment companies (at present this average includes the performance data of 45 companies) is compared with several interest rates compounded annually. Note that in recent years the American Average has nearly paralleled the 10-percent line. The other chart compares the results obtained from three types of funds. The open-end funds have been divided into two groups on the basis of their portfolio distribution.

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What To Do About Our Urban Land Problems

The prevention of slum development rather than mere reclamation of existing slum neighborhoods, important though that is, is a matter of concern to all thoughtful citizens. In the belief that many people will want to read more about this and related subjects, we urge readers to send to the Schalkenbach Foundation for a reprint from the August 1960 issue of *House & Home* (a special issue on land), published by Time, Inc.

This reprint of 87 interesting pages is illustrated by many photographs. It analyzes the critical problem of today's land costs but points out that "Most land shortage talk is nonsense." It describes answers to the problem that are being found in other countries; it discusses slums and taxation ("Today's taxes make misuse of land more profitable than good use"); and it explains what individuals and communities can do right now to make better use of the land. The reprints may be ordered from Robert Schalkenbach Foundation (50 East 69th Street, New York 21, New York) at 50 cents each. We suggest that you send a dollar for two copies in order to have one to give to a friend who may be interested in this vital matter.

Articles by Frank Chodorov ("Land Robert Schalkenbach Foundation, 50 East 69th Street, New York 21, New York. From the same source, a modern edition of Henry George, *Progress and Poverty*, the classic analysis of economic problems with special emphasis on land-value taxation, is available at \$1.50.

Speculation Endangers the Economy") and by Raymond Moley ("One Reason We Have Slums") in the December 15, 1960, issue of *Human Events* explore aspects of the same subject. The former writer points out that the great increases in land costs during the past decade are the direct result of the almost incredibly favorable tax treatment accorded land speculators, and he indicates the many adverse effects of such speculation on the economy. "Land speculation is a barrier to the building of houses and therefore a block to progress * * * To add insult to injury, the taxpayer, under our Federal housing program, is asked to help meet the price demanded by the land speculator. Where the government foots the bill for the construction of some housing project, it is the taxpayer who is required to dig down into his jeans for the price of the land."

Raymond Moley's article mentions that a study was made recently in New York City by a special committee under the sponsorship of the Citizens' Housing and Planning Council. The committee found that the government (in buying land for twelve housing projects) had paid 70 per cent above the values at which the same government had assessed the property.† Similar studies have been made elsewhere, and some tax reforms have been undertaken, notably in several Pennsylvania cities. In this connection, two booklets that may be of interest to readers are the following: Gilbert M. Tucker, *The Self-Supporting City*, Robert Schalkenbach Foundation (publisher), 50 East 69th Street, New York 21, New York, 1958 (\$1); Eli Schwartz and James E. Wert, *An Analysis of the Potential Effects of a Movement Toward a Land Value Based Property Tax* (a project of the Institute of Research of Lehigh University) published by Economic Education League, Albany, New York, 1958 (\$1).

A later issue of *House & Home* (February 1961) carries an editorial that makes a strong case for reforms in the assessment and taxation of urban land. In referring to the Kennedy conference on urban affairs (held last October), it points out that the assumption that cities cannot raise enough money to prevent decay and must therefore be subsidized by the Federal Government is "highly questionable." The editorial continues: "As late as 1914 land carried nearly half the total tax load—local, state, and national. Today the land values in our cities and suburbs add up to something like over a quarter of our total national wealth, but land is so underassessed and undertaxed that it pays less than one-twentieth of the total tax bill, and more than half that twentieth is deductible from the landowners' state and federal income taxes.

"Undertaxation of land is the No. 1 reason most cities are in financial trouble. It is the No. 1 reason slums are still spreading despite the billions of federal subsidies spent to clean them out. It is the No. 1 reason city land prices are so high that private enterprise cannot meet the need for good low-income and middle-income housing in big cities without a big subsidy from someone. And the undertaxation of land leads to the overtaxation of improvements, so the undertaxation of land works two ways to perpetuate slums and retard urban renewal."

To summarize his argument, the House & Home editor states: "Until cities and towns start setting their own tax house in order, pouring bigger federal subsidies into the city coffers will be pouring money down a rat hole."

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