

The Problem of City Taxation

By William A. Black.

Men are racking their brains over taxation. Statistics are piled up mountain high to prove or disprove theories. The most persistent efforts are how to reduce the total tax burdens of State, counties and cities. Efficiency in government is over-worked. Consolidation schemes have caught the public fancy, losing sight of social and economic effects such schemes would have if carried out. President Roosevelt has lent his voice to this program. "I favor a National movement to reorganize local government in the direction of eliminating some of the tax burden which now bears so heavily on farms. There are too many districts; too many local units of government; too many unnecessary offices and functions. The governmental underbrush which has sprouted for years should be cleaned away." This is a very sweeping statement and if carried into practice would destroy the very fundamentals of democratic society. The preservation of our liberties depends on the direct action of our people in the affairs that touch the daily life, intimately and closely.

We can check up on our schools, police and fire departments, sanitary regulations and street cleaning. Every citizen can inform himself how our cities are carrying on the services they render. It is far more difficult for the average man to check up on the State and utterly impossible to follow the intricacies of the Federal government the past year and keep a sane mind, yet we approve of this rapid tendency toward centralized bureaucratic control by our silence.

Some years ago Dr. Fred Howe wrote a book entitled, "The City, the Hope of Democracy." The title itself challenged attention. It was published about the close of our "muckraking" era, when our large cities ran riot with business corruption. We are still waiting for a model city but a candid survey of the past thirty years will disclose the fact that our cities are better managed and the people getting more for the money than they did in the era of the muckrakers.

I have chosen Houston as an example of all our Texas cities. They all have the same functions; the same problems and like peoples. All are organized to render similar services, so the facts touching Houston can in a measure be applied to all the cities of our State. While Houston spends more money per capita than any other city in the State she has decidedly the best tax set up of any. For twenty years and more Houston has collected a larger percentage of her revenues from her lot values and proportionately less on improvements and personal property than

any of them. This has been to the good. In 1914 lots made up 71 per cent of the total assessed values. For a few years following the percentage of lot values reached from 62 to 68 per cent. From 1920 till now there has been a steady decline in this percentage until current assessments now carry but 47.3 per cent of the total. However, Houston has remained wise as to the load imposed on personal property. In these twenty years the highest percentage that personalty has borne to the total assessed values is 18 per cent. It has been as low as 13 per cent and this year it is only 13.4 per cent. Dallas and San Antonio both are harder on business than Houston, rarely getting less than 25 per cent of the assessed values from that liquid type of wealth. I wish it were possible for every adult in Texas to study and understand the present Houston tax set up and a corresponding set up for every other city in the State.

Houston Assessments 1933.

		Per Cent of Total
Land	\$139,265,370	47.6
Improvements	113,879,050	39
Personalty	39,036,250	13.4
Total	\$292,180,670	

It is difficult to make men understand that a tax on lots is literally no tax at all. It is merely a part of the rental value of a site taken for public use and the only effect is to lower the selling price. The people are taking for their common needs what belongs to them. The wise real estate man knows what makes lot values. Mr. M. H. James recently in an address to the Houston Real Estate Board reciting the many favorable factors that make for Houston's growth said: "In many cities where a decrease in population has been experienced land values have also decreased, but on the other hand where a city has had steady increase in population it is very difficult to sustain an opinion that land values have decreased. Instead naturally they would enjoy a potential value that might offset to a large extent any temporary decrease in lot value due to the Nationwide economic conditions." These "potential values" are alluring to the real estate speculator and a dead load for business to carry. There are potential values in every growing city and those values belong in the public treasury, as they are produced by the presence and activity of the people.

On the other hand a tax on improvements necessarily discourages improvements and a tax on personalty even more than on improvements enters into the cost of living and consequently reduces our purchasing power. These are harsh facts but they are in accord with economic law that no man or set of men is able to repeal or ignore.

Now suppose we speculate a little on what might be. This hypothetical speculation is an interesting pastime with some profit from it. If we divide the \$139,000,000 lot values into the \$9,218,300 taxes charged out we find that it would require a 6.6 per cent levy on lots only to raise the required revenues, but that is only 3½ per cent more than is now collected from the lots and the effect is quite worth considering.

Compare the result of a 6.6 per cent rate on the land values of nine large Houston industries, with the effect on two central city blocks. These nine industries pay taxes on \$4,943,850. At 3.15 per cent rate their taxes are \$161,978. The land of these nine industries is assessed at \$491,500. At a 6.6 per cent rate their taxes would be but \$32,432, a saving to these very enterprising institutions of \$129,546.

Now for the two central city blocks. The total assessed values are \$3,961,120. At 3.15 per cent the total taxes are \$124,973. Here is where lot values come in. These two blocks are assessed at \$3,153,860, which at 6.6 per cent rate would have to pay \$208,154. Increase of \$83,181.

These figures may seem difficult to some, but they are important enough to turn over to the cost accounting experts if nothing else. The \$129,546 saved to these nine industries would be dis-

tributed in three possible ways. Each concern would keep all it could for increased dividends or betterments. They might have to pay better wages or render improved service at lower cost to the customers. Any and all of these is now needed.

What about these poor lot owners? First they will be encouraged to build better. They would have to write off the capital value of their lots, but the merchants would have more business and relieved from taxes on their personal property would be able to pay their rents and employ more people at better wages. I might add that this method of raising city revenues would lower the direct taxes on at least 60 per cent of the homes.

It is impossible to apply this method of taxation in Houston or any other city under our present constitutional set-up, so for the present it is only interesting speculation. For the time those two central city blocks along with a hundred other like lots will be saved a few million more added taxes. Likewise these nine industries along with hundreds of others, large and small, will continue to pay a few million added burdens that will have to come out of wages and interest.

Some of these business men are going to think things through. They expect to be in business for years to come and are really anxious about what is ahead of them. Small business and wage earners have a hopeless outlook unless a change like that suggested above is brought about. Then this arrangement is very simple and would avoid the necessity of having supermen regulate our every day affairs.

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