

L.A. Times "Opinion"

LA TIMES OPINION

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The property tax is ~~on its way to becoming~~ the primary deterrent to ~~urban~~ renewing ~~the~~ fading central cities of Calif and the U.S. As buildings age ~~they yield less tax dollars;~~ <sup>the assessor lowers their tax valuations;</sup> but they require, not less, but more in public services.

So the central city has to raise its tax rate. This means anyone <sup>erecting</sup> ~~raising~~ a new building has to <sup>pay more taxes,</sup> ~~carry on his back~~ <sup>than new</sup> buildings ~~cover the fiscal deficits of the old.~~ <sup>carrying on his back</sup> ~~the owners of some old buildings~~ <sup>some of the</sup> ~~transfer costs that benefit old buildings for the old.~~ <sup>to public</sup> ~~burdens sloughed off by the owners of old.~~ Naturally enough, investors begin to look elsewhere, ~~where they are not required to carry on their new buildings do not have to carry on their backs~~ ~~the~~ They escape the fiscal drag of these old buildings by fleeing outwards to the suburbs. Thus the property tax acts to promote urban sprawl, and choke urban renewal.

As the central cities continue ~~into~~ to age without renewal they approach fiscal crises.

Sick cities, vicious circle.

Abolish property tax?

And then what? Close schools? Raise <sup>odious</sup> sales or payroll taxes? R.e. already enjoys very favored treatment under the inc. tax, which ~~tax~~ is growing more & more to resemble a payroll tax, & it seems wrong to let prop'ty. escape all taxes. Growing up. are saying

1 Better to civilize prop'ty. tax, can be modified

In present form, one of most destructive taxes, scorched earth  
Fines landowners for replacing old bldgs. by new; for bldg. quality  
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supplying at private expense ~~for~~ vertical transportation ~~and~~  
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fascinating possibility emerges that we can keep the property tax <sup>yet</sup> ~~and~~ attract investors  
remove its sting. ~~too!~~

Tax benefits without tax burdens!

The community + hat learns + hat recipe should become a  
spring harbor attracting investment from around the world.  
~~land, + the bldg. tax + have fines + have for it.~~

12

To convert the tax from a drag on progress to a <sup>propeller</sup> ~~prime mover~~,  
~~it~~ and modify it to accentuate the positive -- the land tax --  
and eliminate the negative -- the tax on new bldgs, especially.

The results would be dramatic far-reaching. In every site in  
town would be affected within a in time, ~~and~~ many of them

immediately. In an older city, Milwaukee, I have

estimated <sup>15-25%</sup> ~~that~~ of the land would be renewed forthwith  
if we lifted the tax threat <sup>from potential</sup> ~~against~~ new buildings -  
~~the absence of~~

It is not done with mirrors, but

I do not propose to eliminate taxes, but to eliminate the  
depressing effect of taxes on enterprise, by making the tax bill a constant amount.

measured ~~dependency of taxes on socially useful enterprise.~~ I do not even  
independent of the landowner enterprise. Taxes would vary with his opportunities, as  
reflected in the market value of his land; but not with his action in ~~improving his opportunities.~~  
~~proper to remove buildings from the tax base.~~ ~~But to~~  
At the same time, the proposal would increase his opportunities by removing the  
increase of taxes that now ~~one must come among the costs of building.~~ This enhanced  
tax ~~threat in a different way.~~ The ~~mod~~ ~~same~~  
opportunity would ~~not~~ ~~the land~~ ~~to carry a higher tax load.~~ In effect, the same  
real estate would carry the same tax load; it would

simply carry it in a different way. The land would

be assessed as though it were <sup>well</sup> improved -- and as a  
result it would be <sup>furnishing a tax base</sup> ~~the more~~ because the act of  
~~of tax assessment.~~ ~~Now they are a maximum when buildings are new, and fall over time~~  
~~under the land value system they are~~  
improving would not itself occasion any <sup>rise</sup> increase of

assessments. Neither would ~~work~~ the decay of bldgs. into shums, ~~or~~ their  
~~removal for parking lots and drive ins,~~ occasion  
any fall. In the life cycle of a building



**Sydney J. Harris**

## **Topsy-Turvy Tax Bites**

When I put some expensive improvements on my house, my real property tax goes up. If I let my property run down, my tax would be lower. I can't imagine a more inefficient and illogical way to run a community or government.

Much of what we currently deplore as "urban blight" is the result of this topsy-turvy state of affairs. It encourages speculators, slum owners, and absentee landlords. It discourages owners who want to improve their homes or their farms.

The real property tax is based on the market quality of the property. If I buy raw land and do nothing with it, waiting for the price to increase (as it inevitably must in our expanding population), I pay comparatively little in taxes. But the more I put into it, the more I must pay.

★ ★ ★

UNDER SUCH an Alice-in-Wonderland system, it is hardly surprising that the nation's urban complexes are filled with blight, sprawl and greedy speculation; and that any program of urban rehabilitation, construction and development is hamstrung from the beginning.

But what if we took the tax off the improvements and put it on the land? Then nobody would be penalized for improving his property and adding to the value of the community; contrariwise, the incentive to speculate in land would be removed, and both the urban slums and the suburban sprawl would no longer pay rich dividends.

Every year, our living, working and playing space gets more cramped and more expensive. The population explosion is driving more and more people from little towns into the big cities; and from the heart of the cities to the peripheries, where suburban slums are now springing up.

The whole theory and practice of our real property taxes cut across the grain of American history and political economics. We grew strong and prosperous by encouraging people to own and cultivate their property, to make improvements, to add to the wealth of the community.

★ ★ ★

IF WE TOOK the tax off the improvements — as we take the tax off other activities we want to encourage, such as charitable contributions—then the landgrabber would no longer get rich by sitting on his property until the need for space is so great that the potential buyers are willing to pay almost any price.

And the speculator would no longer profit by squeezing the most housing into the smallest space, as so many of those shoddy suburban development firms have been doing.

Today, the more a landlord lets a building deteriorate, the less he pays in real estate taxes, even though he may be making unconscionable profits by converting three apartments into 12. And the owner who wants to rehabilitate such a building pays a high premium for restoring the community value. Wouldn't it be exactly the other way around in a well-ordered society?

# Committee on Taxation, Resources and Economic Development

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University of Wisconsin-Milwaukee

Milwaukee, Wisconsin 53201

Telephone: 414-228-4402

Antioch - 12/3/67

CHAIRMAN:  
ARTHUR P. BECKER  
Professor of Economics  
University of Wisconsin -  
Milwaukee

\* I have great difficulty understanding his English.

Dear Mase:

PAUL E. ALYEA  
Emeritus Professor of Finance  
University of Alabama

KARL FALK  
Professor of Economics  
Fresno State College

M. MASON GAFFNEY  
Professor of Economics  
University of Wisconsin-  
Milwaukee

HAROLD M. GROVES  
Professor of Economics  
The University of Wisconsin

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of Technology

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The Ohio State University

CARL MCGUIRE  
Chairman  
Department of Economics  
University of Colorado

WILLIAM S. VICKREY  
Professor of Economics  
Faculty of Political Science  
Columbia University

Knowing how gnawing waiting can be, I want to reassure you: your friends are working as constructively and as expeditiously as possible towards a good solution to the problem of financing the conclusion of the Prentice-Gaffney-Milwaukee study. I hope and expect that an interim report may be forthcoming early this coming week.

You may have noticed reference by me to a Dr. Shah, \* who is Joint Director of the Planning Commission in New Delhi. Dr. Shah has been at the U of Chi since March, working with Professors Schultz and Tolley, with field trips over large areas of the midwest, south and east. Among many many more, he has met Doving, Ackerman, Swanson, Sewell, Parsons, Ogg, Maddox, H. Muller, Garnsey, Gene Wunderlich, and Paul Kelly. Carl McGuire introduced me by letter. I have seen him twice. He has a copy of Extractive (I don't know how!). He is thrilled at your statement made at Pittsburgh. He is receiving Containment, Prop. Tax. & Freg and Dick's Land Econ. piece. He is leaving Chi on 12/8 for Stanford and Berkeley, Davis and L. A., where he is to meet John Strasma at the University around the 13. He is very anxious to meet you at that same time. Please give him a copy of the Henley '63 conference paper. (The other is not as clear.) I have spoken of the Cal. irrigation districts as the outstanding US application of lvt. I have ordered P&P and LVT Around the World for him. He will be at Taipei *for the Lincoln conference.*

Harold Groves will attend a TRED meeting in Chi after 1/15 and Art Lynn has a date with NTA Exec. on 1/27, so I'm scheduling TRED for 1/20. The '66 papers are in serious trouble, so this is an important meeting. Please circle it on your calendar.

I'll surely welcome you back to these parts!

✓✓

12/3/67

Business Week of 9/23/67 has an article on pp. 176-182 on The Irvine Ranch. This operation has fascinated me ever since I first heard of it in 1962, when I was in that area.

The article says: "Most land is leased, not sold, to developers and builders. The developers put in roads, sewers, utilities, and when the houses are sold, the homeowner's leasehold is with the Irvine Co.

"This gives Irvine a continuing source of funds. The company calculates its land rents at 6% of a house's fair market value. There are also tax advantages for both stockholders and builders. There are no land-sale profits to tax, leasehold costs are deductible, and normal depreciation can be taken on improvements. Real Estate taxes are paid by the lessee.

"Builders, moreover, don't have to borrow to buy land, eliminating many financing charges. As a result, competition is strong to get a piece of the Irvine action. For example, a recently offered gas-station site drew more than 200 bids. Even the homeowner benefits, since he has smaller downpayments and lower monthly carrying charges."

On the other hand it says: "Not everything is going smoothly, of course. . . . Irvine . . . has sought relief by filing for an agricultural preserve of 12, 000 acres on which it has planted citrus trees. Under the contract with the county, Irvine agrees not to develop the land for 10 years, and the county agrees to a maximum assessed value based on agricultural use. and not the highest use to which the land might be put.

"Another annoyance has cropped up in industrial land. Irvine has had to sell some of it outright because some companies demanded it and threatened to go elsewhere if their desires weren't met. . . . .

"Recently, a small crack appeared in Irvine's plan to sell homes only under leasehold. Buyers of low-priced homes showed increasing resistance to leasehold, some financial institutions had turned down mortgages on this basis, and FHA financing was not available. So Irvine agreed to let one builder sell land along with 190 moderately priced houses in one inland tract."

Can you confirm these statements? ( rents @ 6% of the houses' market value; real estate taxes paid by the lessee. ) Is there a connection between these and the pressure to buy land outright?

W.

This is the second part of a three-part section consisting of 128 pages. The news summary and index will be found on Page 95. Society news begins on Page 89 and obituary articles will be found on Pages 86 and 87.

## 3 BUSES TO START NEW LINE IN WATTS

Vehicles From Queens Group  
Expected to Better Service

By NANCY J. ADLER

Special to The New York Times

LOS ANGELES, Nov. 11—On Nov. 1 a column of 12 nearly empty buses bearing signs reading "Watts, California Here We Come!," "NEGRO Self Help" and "Buy NEGRO Bonds" left New York for California.

Their destination was riot-scarred Watts in south central Los Angeles. Their mission: to alleviate the almost nonexistent public transportation system available to Watts residents.

The buses belong to the Blue and White Bus Company of Jamaica, Queens, a division of the National Economic Growth and Reconstruction Organization. NEGRO, an acronym of the group's name, is a civil rights, self-help group headed by Dr. Thomas W. Matthew, a neurosurgeon at the Interfaith Hospital in Jamaica, who is a consultant to the New York Boxing Commission.

### Eight Turned Back

When the caravan of buses reached Pittsburgh on the cross-country drive, weather forecasters were predicting tornadoes and heavy snowfalls for some Middle Western and Western states. Eight buses headed home.

The remaining buses continued to Springfield, Mo., where one bus was involved in a collision with a car. The crippled bus headed for home. Then there were three.

The buses, without further incident, arrived in Watts at NEGRO's regional headquarters, Vermont Avenue and 90th Street, on Thursday.

On Nov. 20 they will begin carrying some of the 34,000 residents of the Negro community here. Los Angeles covers an area of 463.5 square miles. Anyone without private transportation finds traveling around the city difficult and most residents of Watts cannot afford to own cars.

### Handicap Reported

In its final report last August, the McCone Commission, which for two years has been the chief "watchdog agency" on remedial activities growing

out of the riot in Watts of August, 1965, noted that "inadequate and costly public transportation currently existing throughout the Los Angeles area seriously restricts the residents of such disadvantaged areas such as south central Los Angeles."

"The lack of adequate transportation," it added, "handicaps them in seeking and holding jobs."

Bus service in Watts has been expanded with the help of Federal subsidies. However, residents feel it has not been very beneficial and the cost is beyond their means.

Now bus riders of the poverty-stricken area are faced with a possible curtailment of existing services. Last week the Brotherhood of Railroad Trainmen warned that unless its drivers were provided with the protection of "shotgun riders," its members would refuse to operate buses in the southern, southeastern and southwestern sections of Los Angeles.

The warning constitutes an ultimatum to the Southern California Rapid Transit District, the city, county and local law enforcement agencies, Charles Luna, the union's president, said.

"These men who have to operate the buses will refuse to do so on those routes unless they receive protection," he said.

The union has asked for protection by 300 on or off duty policemen, sheriff's deputies or private officers.

Since the beginning of the year one bus driver has been killed and another critically wounded. Others have been beaten, stabbed and choked in 343 holdups, according to Mr. Luna.

High incidence areas were identified as those running along Pico Boulevard, Vernon Avenue, Vermont Avenue, Central Avenue, Century Boulevard and on the Long Beach-Watts-Los Angeles route.

#### **Police Shortage Cited**

Capt. M. W. Howe, commander of the police robbery division, said a shortage of officers would preclude the assignment of 300 armed guards to the buses.

Many drivers of the Yellow Cab Company, Los Angeles's only public taxi service, refuse to accept rides into or within the area.

Thomas Ryan, associate director of NEGRO, said:

"Right now one-way bus fare costs a resident of Watts at least 35 cents if his place of employment is within the two-and-one-half-square-mile area of Watts. If it is outside the area, one way costs 90 cents and hours of lost travel time.

"The Blue and White bus when it goes into operation will undercut any existing public transportation rate. We will not use union drivers or mechanics, so our operating costs will be less. We will not be paying union wages.

Sick cities, vicious circle.

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Don Thomas

800 - 1000 words

To James Bennett

L.A.T.

T-Minus Sq.

90053

UNIVERSITY OF CALIFORNIA

To *Dr. Gaffney*

Date *Dec. 8* Time *9:40* A.M.  
P.M.

WHILE YOU WERE OUT

Mr. *Don Thomas*

Mrs.

Miss

From *LA Times*

- ☐ Telephoned ☐ Will phone again ☒ Please phone  
☒ Came to see you ☐ Will come again ☐ Rush

MESSAGE

Phone party at *MA 52345*

Taken by *Pat (ask for editorial board)*

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Dr. Jeffrey -  
Pls. call

Don Thomas  
Editorial Board  
L.A. Times  
Ma 5-2345

Don Thomas

1200 - 1500 words, \$150. LVT

No deadline

Jim Bassett

L.A. Times, Ed. Page.

They have supported it editorially.

Testimony of Mason Gaffney at Hearings of the President's Commission on Urban Problems, Pittsburgh, Pa., June 11, 1967, Senator Paul Douglas presiding.

MR. GAFFNEY: Thank you, Senator Douglas, and especially for your moving reference to the memory of my father. He was not only beloved by his community but by his family, you may be sure.

I am going to assume, I hope correctly, that all of you have read the material which Allen Manvel circulated and I will speak informally in expansion of the remarks which I made to the National Tax Association three years ago.

I also assume that you read what Dr. Woodruff wrote about Australia.

The State of Israel has recently given us a graphic demonstration of the advantage of going it alone rather than waiting for your rich uncle to solve the problem for you when your rich uncle suffers from over-commitment.

In that spirit, I believe today we are talking about what cities can do for themselves. Most of our central cities ~~as is now well known~~, are threatened by a vicious circle <sup>of</sup> ~~which is related to~~ property taxation.

As buildings become older, they ~~tend to~~ become fiscal deficits, requiring more in cost than they return in taxes. As ~~the~~ central cities age, ~~the~~ buildings become old, and <sup>generate</sup> ~~fiscal deficit generators~~. This requires the central city to increase its tax rate.

The place to begin this reform is in the assessor's office. Every assessor has ~~enormous~~ <sup>much more</sup> latitude than he likes to admit. Most of them have been exercising it the wrong way. The way to be sure they are assessing land value correctly is to be sure they make, use, and make public a map of land values, in which, <sup>the assessed value of,</sup> each ~~each~~ ~~value~~ parcel is closely and logically related to its neighbors. You'd be amazed at what <sup>disparities</sup> ~~they~~ would show up, and what changes would be quickly forthcoming.

The higher tax rate in cities drives investors elsewhere, ~~both home builders and industry~~, because whoever puts up a new building under this state of affairs tends to become a **fiscal** surplus generator, and no one really wants to be that: it means you pay more in taxes than you get back in services.

Since there are many competing jurisdictions, investors do not have to be fiscal surplus generators, as they can find a warm welcome in outer communities at lower tax rates.

So, as the central cities move into the downspin of this unfortunate circle, they tend to lose industry and, as a result, lose employment opportunities; at the same time they tend to gain old dwellings which attract people with low incomes who increase welfare costs. They are left with a high percentage of old buildings, which generate fiscal deficits, and fewer and fewer surplus generators with which to meet them.

Now if, ~~to solve this problem~~, cities slash services ~~in order~~ to lower tax rates, ~~they find cutting services and reducing the quality of schools~~ also drive away ~~population and~~ income and industry.

What the cities need are more revenues without increasing the burden of taxation.

One way to go about this is to reapportion the State Legislatures, and get more back from the state, which cities richly deserve. I am sure we all applaud the recent tendencies in that direction, weak and halting though they may be. Reduced Federal farm and military and "moondoggle" programs would also help.

~~The second way, the one we are discussing this morning,~~ is for cities to get more of their taxes from the land base rather than the building base.

In that manner, it is possible for a city to get as much tax revenue as it wants without driving away the capital it must attract and hold. If land becomes the tax base rather than buildings, the conflict which we think we see today between the low taxes necessary to attract capital, and public services themselves, is no longer a conflict. It is possible to raise services and still make a tax environment attractive to capital.

Some fear that by exempting buildings from taxation, a city would reduce its tax base. I do not believe that is so. In this respect, I agree, at least partly, with Professor Richman. We always seem to agree "partly" -- I look forward to the millenium when it will be "wholly."

The tax on buildings ultimately is borne by the land owner in the form of lower land values. Nominally, the tax appears to fall on capital. However, since capital is migratory investors don't have to accept a lower rate of return in the jurisdiction that taxes them. Therefore they can and do shift the tax.

Now, as I used to see it, they shift it to the tenants; and, indeed, some of that occurs. Anything that reduces the supply of a commodity increases the price. If you reduce the supply of buildings, you can raise the rent. However, tenants are also migratory -- less than investors who move through well paved ways in search of higher returns -- but in the long run they also are migratory, and increasingly so in this age of auto-mobility.

If taxes are not shifted forward to tenants in higher rents, that leaves the non-migratory element, the land, to absorb the tax, as Professor Richman pointed out.

So the effect of the tax on buildings is to lower the value of land on which those buildings might be placed. ~~Conversely~~, to remove the tax on buildings is to create a benefit to the land owner which should be capitalized into higher land values.

~~Therefore~~, when you remove the tax from buildings and shift it to land, you do not reduce the tax base. You are basically taxing the same real estate, just differently. The tax is no longer contingent on the owner putting up a structure. The tax is determined by potential value -- if the assessor does his job well -- and not on actual use.

I go further and say as a result of removing the tax from buildings and levying the property tax on site value alone, the tax base actually should increase.

One reason is what economists like to call the "excess burden of indirect taxation."

Suppose I would build a 30-story building, in the absence of taxes. The fact that my tax bill goes up when I put the building up makes the upper stories sub-marginal. This is one of those points on which I disagree at a fundamental level with Professor Richman who, in his paper, says there is little marginal land in the city. Land is space, and space has a third dimension. Think of urban space as being subdivided into strata. On every site, however high its value there is a marginal stratum. The top story of a high rise building occupies the marginal stratum of space.

The top story which would be just marginal without taxes becomes sub-marginal in the presence of a tax on buildings. Several layers below, a story

which would be better than marginal in the absence of taxes becomes just marginal. Those stories in between, which are better than marginal in the absence of taxes, are destroyed before they are built, i.e., not built at all, because of the threat of taxes. These would have yielded a surplus above cost, adding to ground rent and land value.

To remove taxes on buildings therefore is to permit each site to be developed more intensively and generate additional rents over and above what it does under the threat of taxes on buildings.

A good way to look at this is to think of there being two equities in land, a public one asserted by taxes and a private one taking what remains. The best use of land, from a social viewpoint, is the use that maximizes the sum of the public and private equities. But the decision-maker is the private owner, whose motive, of course, is to maximize the private equity alone. A good tax is one so structured that the private decision-maker, in maximizing his own equity, also maximizes the sum of the private and public equity. The building tax is a bad one because the private income after taxes is maximized at a much lesser intensity than would maximize the sum of private and public income. Thus it creates an artificial conflict between private interest and public interest. The site-value tax, in contrast, is free of this fault.

A second aspect of "excess burden" has to do with the timing of urban renewal. You can think of the margin of land use in terms of time, as well as space: i.e., in the 4th dimension as well as the 3rd. Advancing the date of site renewal toward the present by ten years is moving into a reach of time that is made submarginal by imposition of a tax on new buildings.

Of course, when you put up a new building, your property tax bill goes up by a very large factor. That tends to retard the optimum date of site

renewal from the viewpoint of the land owner who, of course, is interested in maximizing his equity after taxes. If this point is not obvious, please refer to the excerpts of my talk to the National Tax Association which Allen Manvel has distributed. The matter is spelled out there in some detail.

Untaxing buildings will also make it possible to lower certain public costs, making the tax base go further. As one example of this, consider vertical transportation. Vertical transportation is a substitute for horizontal transportation -- not that it gets you to the same place, any more than lateral streets get you to the same places as longitudinal ones, but it taps new strata of space that can be linked into the urban nexus with much less increase of load on streets in the first two dimensions than if more horizontal space were tapped. That is self-evident geometry.

We hear a lot these days about 'intermodal bias,' referring to the public subsidy in auto transport. We should also be thinking about interdimensional bias. We subsidize horizontal transport, but we tax vertical transport by the building tax. Vertical transport is almost always supplied privately. Something like one-third of the cost of a high rise building consists of the elevators, utility core, stairways, and other elements that come under 'vertical transportation.' Private builders supply this at their own expense; and then we tax it besides. If there were more of it, we should need less public outlay on streets and utilities.

Untaxing buildings should also reduce welfare cost. A tax system which accelerates renewal causes old buildings to be replaced by new ones. The inhabitants of new buildings throw less of a load on the welfare rolls than the inhabitants of the old. From a purely local point of view the benefit is obvious and the argument overwhelming -- and we are discussing a local tax policy.

From a national viewpoint the argument requires more thought, but is equally compelling.

You frequently run into opposition to urban renewal from those who don't want to displace the people in the area being renewed. It sometimes seems the city is dumping welfare problems on the rest of the world.

I don't believe that is a correct analysis. There is no solution to the housing problem for poor people without building more buildings. The ultimate thing that will improve the housing conditions of the poor, and everyone else, is to increase the supply of quality buildings, which in the main means new buildings, the idolaters and collectors of antiquity notwithstanding. In the process, you frequently tear down old ones and replace them with new, better and at higher density. The net result is increased supply. This lowers the price, making better housing available for poor and rich and middling alike, and creating new employment opportunities in building, and operating buildings once built, to pull people off welfare.

It is a fair criticism of the present Federal Urban Renewal Program that it chronically clears and sterilizes more land than it renews, adding something to its bombed-out inventory each year. That really does dump welfare problems, and reduces net housing supply. The criticism and resentment generated by that problem should not, however, be directed against a proposal to untax new buildings. For this, the present proposal, stimulates demolition only by increasing the positive incentive of builders to salvage derelict lands for immediate renewal.

Another general reason why the land tax base would be greater than the present property tax base is really a set of reasons which may be summed up in such expressions as "the economies of urban agglomeration," or urban "linkages" or Adam Smith's dictum that, "The division of labor is limited by the extent of the market."

My conclusion follows in four steps: 1) Cities exist to bring people together -- for cooperation, mutual aid, sociability, cost-sharing, specialization, diversification and stability, exchange, etc.; 2) These collective benefits are captured in the rent of urban land and capitalized into land values; 3) Each new building not only develops the potential rent of its own site, but on balance, adds to the potential rent of neighboring sites, whose development in turn feeds back an added potential rent on the first site; 4) Taxing buildings inhibits new buildings and quality building and intensive building and so prevents full realization of an enormous urban potentiality above and beyond the simpler 'excess burden' I described earlier.

I could sing the praise of urban linkages for much more than my 20 minutes, and so will rest with two examples. For one, in a larger market, most facilities enjoy higher 'load factors,' that is the ratio of mean load to peak load capacity. Facilities get used around the clock and the calendar, so capital need not be dead most of the time as it is in small towns and remote suburbs. For the other, almost everyone observes it is usually better to have a new building as your neighbor than an old one. New buildings not only generate fiscal surpluses themselves, but radiate external economies which bolster the value of nearby property.

For those general reasons, then, I don't believe there is any danger of losing the tax base by exempting buildings. And if I should be wrong (which is barely possible -- I dimly remember it happened once) an additional advantage is you can go right ahead and increase the tax rate as much as needed without doing any damage whatever to the profit motive.

You can tax the very all out of a piece of land and it will never get up and walk out of town; whereas, if you do the same thing to buildings placed on the land, they won't walk out of town today but as they get old the sinking funds to replace them will be reinvested elsewhere, leaving your city with the fiscal deficits while the surplus generators are off taking the sun in California or overseas.

I will briefly mention distributive equity. The site value tax automatically solves certain perplexing problems. When you grant the favor of intensive zoning to one land owner and deny it to another, you are redistributing wealth in a very heavy-handed manner. Under the site value system, favorable zoning would also be favored with the equipoise of heavier taxation because the right to develop land more intensively makes land more valuable.

The rent surpluses of the central cities, which are capitalized into the highest land values per square foot in the world, would also be tapped and spread around, and in a manner compatible with economic efficiency. Please don't tell me this is unjust to vested interests, because we already do a good deal of this sort of thing today through our utility pricing practice which charges everybody the same rate no matter where he is located, even though by this means the rich central territory is carrying the lean, low-density peripheral areas of urban sprawl. The site-value tax achieves the same distributive goal as our utility pricing practices, that is it taps central rents to benefit everyone, spreading the rent thin. But it does the job compatibly with economic efficiency, while our uneconomical utility pricing practises destroy half the pie in the process of sharing it.

Another advantage of the site value system at the National level, and also at the local level, would be to increase employment opportunity: in the construction business first, and through reverberating effects in all businesses. By removing taxes from buildings, you would encourage more frequent renewal. The effect is somewhat the same as lowering the interest rate paid by builders when they borrow. Thereby you would increase employment opportunities, and that lowers welfare costs.

Yet another advantage of the site value system is the advantage it offers to small business. This may best be understood through the phenomenon of credit rationing. Under the present system, when we put up a new building, we are immediately hit with our heaviest taxes which add greatly to the risk and credit requirement. This helps to ration out those firms which have a particularly hard time to raise money. These tend to be the small firms, the competitive cutting edge of our economy which make the free market work the way we like to preach that it does.

A tax on site values, by contrast, begins at a low level and does not go up at the moment of greatest capital need. It remains at the same level it was before. It might be construed as a loan from the city treasury to the builder -- a loan which he pays back in the later years of the building. Thus it favors the credit-weak over the giant corporations which have had such a big piece of the little action in urban renewal we have had thus far.

Thank you for your time and attention.

This presentation was followed by questioning and dialogue among the Commissioners and the speakers, (M. Gaffney, Ray Richman, and Arch Woodruff.) This repartee will be published with the Hearings early in 1968.)

- Tax policy very important part of
- 1 ~~That~~ is part of bigger problem, can make a big contrib. to it.
  - 2 Central  
Cities are decaying.
  - 3 In ~~large~~ part a tax problem, due to <sup>perversity</sup> ~~peculiar nature~~ of property tax.
  - 4 Hits new bldgs, <sup>hard, is very easy on old. Is spread over time, but if paid all at once,</sup> ~~not at all~~. 50% ~~of~~ sales tax paid on the installment plan.  
Reduces supply, passes on tax to tenants in form of higher rents.
  - 5 Fiscal deficits or dependents; vs. fiscal patrons a surplus generator.  
Anyone who builds new becomes a fiscal patron - no one wants that
  - 6 ~~Cities raise tax to maintain services - drive away new bldgs, no one wants to be a surplus generator; cut services, also drive away bldgs.~~
  - 7 Some suggest abolishing property tax altogether, replace w. sales or income taxes.
  - 8 Not in the cards -- much too jinxing a tax base. (Not a good idea anyway - sales & <sup>payroll</sup> ~~inc.~~ taxes have problems of their own)
  - 9 Not is it equitable to let property go. For techn. reasons, even inc. tax does that.
  - 9 Is also to overlook ambivalence of property tax. 2 taxes.  
Bldg & land. Tax on new bldgs. is what hurts renewal.  
Tax on land spurs dev't, as we see all time in outlying areas.  
No other tax can make that statement.
  - 10 So modify property tax. <sup>Exempt new bldgs.</sup> ~~Hit~~ Hit land base. Not walk out of town.
  - 11 Thus finance services, & ~~also~~ at same time ~~make~~ attract pvt. capl.

## Is the U.S. Pricing Social Security Out of Business?

BY RAYMOND MOLEY

President Johnson and his boy, Gardner Ackley, don't like the rise in steel prices. Neither do the companies, the steelworkers and that perennial victim of inflation, the American consumer.

But this is the same Mr. Johnson who demanded big increases in Social Security benefits and the taxes to pay for them. Those increases are now made certain by the actions of the House and Senate and the conference committee, which may well report before this session of Congress ends for the holidays.

I realize that the increased cost of production which made a steel price rise inevitable was not solely the result of Social Security taxes. But they were a factor, and a very considerable one.

Earlier I cited certain figures about the cost of workers' security in the iron and steel industry. But to make my point here, it is well to restate them, for they are fairly illustrative of what most big industries are already paying for the security of workers and their families.

In 1940 in the iron and steel industry, employee benefits cost approximately 5 cents per hour for each employee. By 1966 this cost had risen to 66 cents per worker-hour.

ments between the company and the unions. In that sense they are collectively a matter of the workers' choice. And they are a mark of increasing enlightenment in management-labor relations.

However, as has been pointed out by responsible company managers, these company pension plans are gravely threatened by the yearly and politically inspired rise in Social Security taxes. As management and the unions well know, the omnipotent government must be paid, and the voluntary pension provisions must come out of what is left.

There are certain advantages in these pension plans over the present monolithic system of Social Security. One is that they are flexible and can be adjusted to the special needs of each company and its workers.

For example, one company may be "maturing" and concerned with eliminating or consolidating some operations to meet competition. It therefore must anticipate displacement of employees. For that reason its pension plan must provide for early retirement and supplemental benefits.

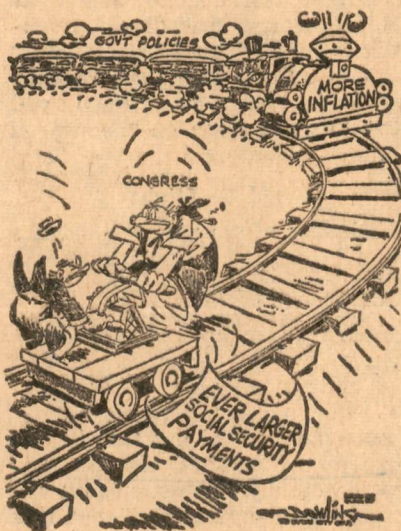
Another company is new and in a growing industry. It is concerned with attracting new employees and retaining old ones. Hence, more emphasis is placed on keeping employees as long as possible.

Pension plans can be adapted to fit each of those companies needs.

Another advantage of private pension plans is that their reserves are invested in capital-creating securities. This means provision for more production and more jobs. Social Security reserves, on the contrary, are entirely in U. S. government bonds and the current revenues are spent only partially and indirectly in creating new capital.

Another advantage is that private pension reserves to a large degree are invested in common stocks and mortgages. Thus, in such investments there is a considerable hedge against inflation. No such protection is in the Social Security system. The income on its reserves is fixed, and the only relief for prospective beneficiaries is in constant increases in benefits which must always be protected by further rises in taxes. And that, as we know, creates a constant spiral of inflation.

Finally, private pension plans provide a supplement to what a retired worker gets from Social Security. But with the prospect of higher and higher living costs, every retired worker will have less in real spending money from his Social Security payments. He now needs and will need more to make ends meet. And that need is measurably met by private company-paid pensions.



The object is to stay ahead of the villain.

Cartoon by Dowling

Under the new law, that figure will increase several cents more. Included in these figures are the employers' part of Social Security, supplemental unemployment payments, savings and vacation benefits, medical and health insurance and company-paid pension costs.

In the same period of 27 years, employment costs per hour rose from 90½ cents to \$4.82. Thus with higher pay there were higher benefits.

A company's pension plans have been created by periodical agree-

### THE GALLUP POLL

## Canada, Israel Rise in Esteem

BY GEORGE GALLUP

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N.J. — Events of higher regard for Canada one year

of all persons interviewed Israel a "highly favorable" the proportion today the same period

## INCOME LEVY PUSHED

# Property Tax Substitute to Be Raised at Hearing

BY ERWIN BAKER

Times Staff Writer

A legislative hearing that could have a critical bearing on future Los Angeles city and county property tax rates—and bills—is scheduled to be conducted here Thursday and Friday.

Possible alternatives to the property levy as primary sources of revenue are due to be explored by the Assembly's Revenue and Taxation, and Municipal and County Government committees.

In recommending the inquiry, Assemblyman John G. Veneman (R-Modesto), chairman of the Revenue and Taxation Committee, cited a possible need for broadened taxing authority by cities and counties to cope with mounting fiscal crises and to provide "fair and meaningful property tax relief."

Veneman said he was "alarmed" by reports that local governments would be forced to increase property taxes substantially this year. And it would be "shortsighted" to consider drastic revision of the state's revenue structure without including local requirements, he observed.

As part of a study of possible expansion of local taxing jurisdiction, the Legislature directed the committees to examine the "feasibility and desirability" of a plan which would permit local governments to levy an income tax as a percentage of the state income tax.

### Proposal for Sharing

This is the key feature of a so-called "shared" state-local income proposal recommended by a group of tax experts at a series of council Revenue and Taxation Committee hearings last spring.

Top city officials scheduled to present their views on the local financial dilemma are City Councilman Edmund D. Edelman and City Administrative Officer C. Erwin Piper.

Need of state aid in alleviating the city's fiscal predicament was underscored by Piper's forecast that Los Angeles faces a \$50 million annual deficit by 1971-72 if revenues are limited to existing sources.

Edelman, as chairman of the Revenue and Taxation Committee, has had the thankless task of recommending new revenues to meet the demands of Mayor Sam Yorty's steadily growing budgets.

The current inquiry was instigated mainly on the pleas of Edelman and Councilman Billy G. Mills, who went to Sacramento last spring to impress upon legislative leaders the urgency of state legislation opening doors to greater local revenues.

Edelman has proposed a long-range 7-point program which he contends could make up the \$50 million deficit in an orderly, sound manner during the next five years, and simultaneously reduce property taxes on homeowners.

It includes a municipal income tax, but collected by the state on a uniform basis, plus substantial economies, increased fees and added reimbursements from independent departments, especially Water and Power

Piper's studies have demonstrated that additional revenue sources must be tapped, Edelman said, if the city is to satisfy the accelerating demands of urbanization — police and fire protection, recreational facilities, libraries and street maintenance being a few.

In recommending an income tax, Edelman said he has two objectives:

1—Reduce the city's reliance on the property tax as the primary source of revenue.

2—Derail the proposal for a city payroll tax, which "has serious defects."

As submitted to the council last year, where it was defeated, the payroll, or occupational tax, would be imposed only on people working in Los Angeles, "having the effect of driving business and industry from the city," Edelman claimed.

Another major drawback, he asserted, is that it would only hit wage earners—"those least able to pay"—and would not touch income from real estate investments, stocks and bonds.

In addition, Edelman said he is opposed to any income tax proposal that would only involve the city of Los Angeles.

"We need a unified approach, and the state has recognized this by banning the income tax on the local level," the councilman said. "It must be done on a statewide basis so that no city will suffer by going it alone."

Edelman warned that unless the state recognizes that it must take cities out of a "financial straitjacket" and assist them with their revenue problems, many councilmen will want to go it alone on the payroll tax.

### Could Be Higher

Estimates of the annual yield of a 1/4 of 1% payroll levy, with the first \$4,000 in earnings exempted, range upward of \$10 million.

Edelman contends the revenue from an income tax would be at least that, and probably higher because of the additional sources.

Edelman pointed out that he has resisted the payroll tax for two years—actually two years ago it was approved, then rescinded—but that he couldn't "in good conscience continue to just say no without coming up with reasonable alternatives."

Under the proposed shared income tax, the city would set the rate, but the state would administer it.

Edelman said he hoped this week's hearings would set the stage for continuing discussions.

The State Revenue and Taxation Committee has set a deadline for submission of its report to the Legislature by January, 1969.

Edelman, however, makes no secret of his hope that action will be initiated before that date.

Shortly after the first of next year, he said, he plans to sit down with "the governor's people" so that any tax reform program submitted to the Legislature in 1968 will reflect an awareness of the city's needs.

## FOUR TO BE SEALED IN CABIN

# Water Reclamation in Space Will Be Goal of 60-Day

BY MARVIN MILER