

What will you do to help?

Names and addresses of others who
may be interested:

**BUILDINGS
OR
VACANT LOTS**

?

Which
Help Business and Employ Men
and Capital?

Which
Solve the Housing Problem?

Which
Do YOU Want?

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HOUSES or VACANT LOTS?

Which do we want? Which do you want? Which create markets and give employment to labor and capital? Which meet the needs of our people, new buildings or lots—vacant or encumbered by old vermin-infested, disease-breeding rookeries and fire-traps? It is the use of land and not mere land itself which makes business, promotes progress, houses our people and brings profit to all. The vacant lot produces nothing and consumes nothing: it employs no one and houses no one: and it profits no one but the speculator.

The nation needs housing and needs it badly and there is plenty of money available for building if it can be invested safely and profitably; one insurance company alone announces that it has a hundred million dollars waiting. And such investment can be made profitable, but not by roundabout expedients, makeshifts, credit schemes or public subsidies. If we put money into unsound ventures, no matter how funds are obtained, somebody must get hurt and, if it is the government, that means all of us. A third of our people are living in abominable habitations only because they can not pay for decent homes—but it does not help a particle to make them pay, through taxation,

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for what they can not afford. Make housing investment profitable and plenty of capital will be attracted and the stimulus to building trades and a long line of associated industries will go far to solve the twin evils of housing and of employment.

To bring decent homes within the means of the multitude costs of building construction and maintenance must be drastically reduced and this is to be achieved, not by fanciful or freak methods but by applying plain common sense to the elimination of a very big item of costs. If we want houses and vacant lots the answer is obvious—**tax the lot and not the house.** Tax the thing we don't want and untax the thing we do want: tax the building less—ultimately not at all—and shift the tax burden to land values.

The Method

Assess land and buildings separately—already a common practice.

Reduce the tax on buildings, new or old, ten percent a year for ten years, automatically and simultaneously shifting the tax which they escape to land values.

To avoid complications during the change in transition, raise the same aggregate sum by taxation of real estate as a whole. Tax land and buildings alike the first year; the next year tax buildings on 90% of present assess-

ments, the next year on 80%, and so on until the tenth year when buildings will be entirely exempt and real estate taxes will be levied on land values.

If, for statutory reasons, buildings must be kept on the tax roll, tax them at a nominal rate, say on one percent of present assessments.

And it might be wiser to move faster, making the entire shift in five years, at the rate of twenty percent a year, for conditions are acute today.

As taxes are reduced on buildings they must increase on site values, the ratio depending on relative values of land and buildings in the community. In New York City these are practically equal so we shall have to double the rate on site values to provide the present public revenue. This means that the owner of a building which exceeds the value of the site would pay lower taxes while the owner of the building worth less than the site would pay more. Clearly such policy would encourage improvement of property and give impetus to building.

You may ask how owners of real estate would benefit as a whole, if their total aggregate tax bill remains unchanged. The answer is that they will benefit by the opportunity to build and to use their property profitably without being penalized by added taxes, as they are today. Today increased taxes eat up all the gain but,

under the proposed plan, taxation takes no more from house and lot than from lot alone. The speculator who persists in holding land out of use will face a mounting tax bill but why worry about him? He does nothing to help your business, any business or the community.

There is a lot in Chicago which a century ago could not be sold for a dollar and today is capitalized at \$53,000,000 and leased on that basis. The owner has had the use of that site for all these years—more than ample compensation for the taxes paid. The enormous increase in value has resulted from nothing which he has done but from the growth of a pioneer trading-post to a great metropolis: It is the product not of the industry of any one individual but of the growth and progress of the city. Is it not just to collect a goodly part of this vast increase for the support of the city which has brought it about? Is it not wiser to levy on such a value rather than to take in taxation a large part of the profit of a building erected by the toil of men—a part so large that the mere threat stops the erection of many a building

Some Questions

Objections is sometimes raised on the ground that this change will lead to over-building. Doubtless men will continue to make mistakes and to err

in judgment in the future as in the past but no one will build, under any system, unless he foresees a probable demand at a price which will make his enterprise profitable.

Sometimes it is said that, in cities where housing needs are acute, there is little or no vacant land but this simply is not true; in all large cities there is a vast area either vacant or so inadequately used that it is virtually vacant. One can hardly maintain that an old four-story house in a good location, with a fly-by-night tenant in part of the basement and a caretaker in the attic, is very different from a vacant lot, either in service to the community or in the return it brings the owner. There is a formula by which the percentage of occupancy can be computed and observers say that often metropolitan land is used to only about twenty-five percent of its potential usefulness but, whether we accept or reject such estimates, there is no doubt whatever that much city land is virtually idle.

But the Mortgage Owner?

It would generally make his position more secure, for it would reduce the tax costs on adequately improved property, and these charges come prior to every other claim. Note, in the illustration given later, how the tax overhead on a \$60,000 property would be

reduced by \$1200 a year, and this reduction of a lien, which must have precedence over mortgage obligations would materially enhance the safety of the mortgage: indeed often the saving in taxes would go far to meet interest payments. On vacant lots, or on inadequately improved holdings, the mortgage position **might** be weakened but, in a practical way, even such situations might be strengthened for owners would be far more inclined to keep up and improve properties if the slightest expenditures, even for a coat of paint, did not mean increase tax bills, as is often the case today.

The Justice of the Plan

To anticipate objections which may be raised on the grounds of abstract justice, one might revert to the Chicago tract already cited and to the factors which have brought about its increase in value. Or we might digress into theoretical discussion of the difference in the nature of our claim to what we produce and titles to land, the gift of the Creator, the product of no man's toil and the first essential of life. But abstract discussion has no place here and perhaps the best answer is the simplest and most practical.

Everything we have and everything we need must ultimately come from the resources of the earth and these things are obtained and made useful

only by human labor, even though it be of the simplest—nothing more than picking the wild fruits of the earth, catching the fish in its waters or trapping its game.

Government must be supported and must have revenue to provide for the common needs of civilized life. There are just two things we can take, the God-given resources of our planet (which, for simplicity, we call land) or the products of man's labor on land. Today the burden falls on the latter for taxation of bare land values, devoid of buildings and improvements, is small compared with the terrific load placed directly or indirectly on the products of man's labor. The whole scheme of taxation is such that it falls on the **production** of wealth, letting the parasite, who produces nothing and merely holds land to profit by the industry of others, escape. But we do not blame the drone nor do we mean to abuse him; it is the system which is at fault. We put the premium on idleness and speculation, the penalty on productive enterprise: can we blame one who profits by our folly?

Since we must tax either the land or the labor expended on it the landowner can not escape a tax. Today we penalize him if he uses it: would he suffer if its use and production were freed from all taxation even though the tax on land itself were increased?

The effect would be to benefit the one who uses his land wisely and to penalize those who hold it out of use; and surely it is better to put the premium on industry rather than on idleness. To imagine that the landowner would suffer is just as fallacious as to suppose that car owners would gain were we to exempt automobiles from taxation but impose a heavy tax on every mile driven. The owner whose car never leaves the garage would benefit but the real motorist would suffer, for he would be forced to cut his driving to the barest minimum. So today, by crushing taxation on use and improvements, we deprive the landowner of the benefits which land may bring. And, just as the driver who covers many miles makes demand and market for gasoline, oil, service, tires and even "hot dogs" and tourist cabins, so the landowner who builds creates a market for brick, steel, lumber, cement, paint, wall-paper, furniture, gadgets innumerable and endless labor. Why penalize him?

A Few Figures

Perhaps the readers would like to trace out the operation of this program and see just how it would affect property owners.

Suppose there are three lots, each worth \$10,000, the first vacant, the second occupied by a building worth

\$10,000, and the third by a \$50,000 structure. Today, with land and buildings taxed alike at three percent, the taxes are,

On the first, the vacant lot	\$ 300
On the second, \$300 on lot and \$300 on building	600
On the third, \$300 on lot and \$1500 on building	1800

As a result of having built, the owners of the second and third pieces have their taxes increased by \$300 and \$1,500 respectively so, to justify building investments, their properties must earn these sums beyond what would be a normal return on capital invested in building. Therefore, if a return of 6% would have justified such investments, tenants must now pay enough to gross 9%, in order that builders may net 6%—and this is the fundamental reason for the present housing situation: tenants can not afford to pay half as much again to landlord, as they must if building is to be profitable. As for the owner of the vacant lot he may as well continue to hold it vacant for, if he builds, he will have his tax overhead increased and will be unable to break even when tenants can not pay enough in "rents" to gross 9% on building costs.

Now consider the effect of transferring the taxes to land values. If we exempt buildings the tax rate on land values must be doubled—6%, or \$600

on each property. The carrying charge will be the same on the \$60,000 holding as on the vacant lot for the building adds nothing to the tax bill. So, however we tax land, it will pay the owner of the lot to build, if tenants will pay enough to return a fair income **on the cost of building**, regardless of the tax on land for that tax will have no effect on the profits of building.

Objections may be raised to our illustration for the three properties instanced yield today a total tax return of \$2,700 while, under the plan proposed, a tax of \$600 on each lot will total only \$1800 or \$900 less than is collected today, and we have assumed that the total levy on real estate remains unchanged. For simplicity we have instanced only three properties but we would have a fairer picture of conditions were we to take a larger number of holdings more varied in character. Consider

1 vacant lot paying	\$ 300
2 with \$ 2000 houses (\$360 each)	720
3 with 5000 houses (\$450 each)	1350
3 with 7000 houses (\$510 each)	1530
2 with 10000 houses (\$600 each)	1200
1 with 20000 house	900
1 with 50000 house	1800

If the reader cares to check he will find that we have thirteen properties, the land worth \$130,000, the buildings worth \$125,000. The total tax yield is \$7,800, just what would be collected

on land values alone at 6% or \$600 a lot.

But the Renter?

We have seen how such a shift in taxation will mean a larger net return, on building investments, though the gross return remains unchanged, and this shows how the influence will be to lower what we call rents, but we must qualify that word for what the tenant pays is seldom all true rent. It is made up of two components, true or ground rent for the land, and interest on capital in the form of a building, for "rent" of a building is no more true rent than is the payment made for the use of a row-boat, a typewriter or a dress-suit. It is interest on investment, as we see when we hire land and build with borrowed money: then pay rent for the land and interest on the cost of building. Perhaps this will show the reader the fundamental difference in the reaction of taxes on land and on improvements. The former do not curtail production or diminish supply and have no effect on price, whereas a tax on a house, or on anything made by man, increases costs and must be covered in price, or production will cease until supply is checked and prices rise. A tax on improvements must therefore increase what we call rents, while a tax on land values is a direct tax and comes out of the pocket

of the landlord, who nevertheless receives his compensation in freedom to use his property with profit, a freedom now denied him. Hence this change will mean lower "rents" to tenants but larger net return to landowners. This may not be apparent at first glance but is conceded by practically all economists.

But it may be said that, to make ownership of real estate attractive, it must earn a fair return on total investment in both land and buildings and cover all taxes however assessed. We remind the reader that we are not concerned with making all land holdings attractive nor are we concerned with securing big returns to the speculative holding of idle lands—quite the contrary! Our interest lies in making profitable the ownership of improved real estate with buildings commensurate with site values and community needs. Make it profitable to use land and not to hold it idle, but do not worry about the dog in the manger who persists in holding it out of use; he can profit, if he will, by building upon land now eating its head off in taxes. He can build or sell to somebody who will, for the overhead on a \$50,000 building on a \$10,000 lot will be cut from \$1800 to a third of that sum. If today he can gross \$5400, netting him \$3600, that income will net him 9% in building costs against 6% today. He can there-

fore reduce "rents" very materially, if necessary to secure tenants, and be just as well off—probably better off for he will have a full house instead of one half vacant.

Effect on Home Owners

While this program will clearly promote both building and home ownership, there is another interesting angle. While practically all will profit, the greatest benefit accrues to owners and builders of modest homes for the reason that these generally show the highest ratio of house value to land value. A great office building worth \$3,000,000 stands on a lot worth \$1,000,000, at ratio of three to one. Obviously the owners will benefit by the exemption of the greater element even though the rate we doubled on the lesser. But it is not unusual to find a house worth \$3,000 on a lot worth \$300, a ratio of ten to one, and such an owner benefits far more than will the owner of the sky-scraper, although both gain materially. This explains why such a change results in lower tax bills on homes and encourages home ownership, a thing heartily desired on every count.

The Humanitarian Argument

We have tried to state our case in a direct and practical way without sentiment or charitable appeal for,

without being cynical, self interest is an impelling motive. However, we must not forget the humanitarian aspect for, even if some can view the appalling situation of today as it affects our fellow-man, without compassion, just as a cold-blooded business proposition we can not afford to let this blight continue upon our national life. Whether we like it or not, we must pay the price for tolerance of a burning disgrace. Sociologists tell us that decent housing reduces the incidence of sickness, delinquency, prostitution and crime by two-thirds—and this terrific price of blindness must be met in the costs of relief, sickness, death, dependency, courts, prisons, asylums and charities. We must remedy these deplorable conditions or society will be overwhelmed and this program is the only one advanced, based on common sense, economic law and justice.

Where the change advocated has been made, in whole or in part, it has worked out just as would be expected from theoretical reasoning. In Pittsburgh they have gone a small part of the way, unfortunately not far enough to prove very much conclusively but real estate speculation has been checked, building encouraged, home ownership stimulated and home owners particularly have benefited in lower tax bills. Where the program is in full effect, as it is a number of countries, it

is an unqualified success. In one small Canadian city, where the plan has been in operation for many years, it is interesting to note how unconcerned are property owners about taxes when levied only against land values. A referendum on tax reduction, when municipal revenues were in excess of needs, resulted in an overwhelming vote not to reduce the rate. Taxes were not in the least onerous and voters preferred to spend the city's surplus in making their thriving little town a still better one. The result? A municipal hospital with free hospitalization for the city's sick.

What Can You Do?

The principles advocated have long been accepted by many eminent thinkers and are attracting increasing support. There are literally many thousands of earnest adult students studying these principles in class-rooms of a school chartered by the State of New York, and by correspondence and there are many organizations working to put this program into effect. A committee of the American Institute of Architects has studied and approved these principles and, if those in construction and affiliated trades will give active backing, the program can soon be made a reality. It behooves especially those who stand to profit in a direct business way to unite for

action to secure the necessary legislation but working with them should be the thousands who are striving, from unselfish motives, to remove from our civilization one of its blackest spots.

Individual support is to be desired but associated effort is more effective. Will you give this proposal serious thought and bring it up for discussion in trade associations, chambers of commerce and in trade papers. Will you use your influence to get time at conventions and dinners for a speaker? Will you get committees appointed to study the question and to bring in recommendations? Will you bring it to the attention of the larger concerns from which you buy materials and equipment and will you ask your own employees to bring it before their labor unions? Literature, information, speakers, cooperation and study courses are available at nominal cost, any small profits being devoted to advancing the program.

As a first and immediate step send for a supply of copies of this booklet and get it into the hands of those with whom you have contacts, associates, competitors, employees and those of whom you purchase—lumber, cement, heating, plumbing concerns and the many specialty houses and sub-contractors. Send a copy, with a personal line asking consideration and comment, to your trade journals and home

newspapers. Wake up your luncheon clubs and other groups. We are in a very serious situation today and things are getting no better. We must build from the bottom up, on sound principles and on justice, for palliatives and crack-pot schemes will get us only into a worse jam. Will you do your share?

A letter of comment, on your letter-head, will be much appreciated but, if this is impossible, please fill out and return this blank, to

The Graded Tax Committee

11 Park Place, New York City

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