

APPENDIX A

Education Alone Could Fail

FOLLOWING are excerpts from an article with the above title by W. Rybeck that appeared in *Antioch Notes*, Vol. 41, No. 6, published in Yellow Springs, Ohio, March 1964, in response to the main thrust of the newly-declared War on Poverty.

Education is suddenly grasped as the magic key to unlock the jobs that 5 percent of Americans are unable to find.

Those who glibly say education will cure our high rate of joblessness might well recall the 1930s. Then PhD's by the score studied bread lines. Nobody suggests that hundreds of thousands of educated Americans somehow became uneducated and unfit to hold jobs. If college graduates happened to be Negro, it was not for lack of education that these scholars went begging for employment as day laborers or railroad porters.

Factories, businesses, and service institutions discovered during World War II that they could fit the most unlikely prospects – from the standpoint of schooling or experience – into semi-skilled and often skilled occupations. Training was accomplished on the job and with amazing speed. Wartime pressures and patriotism helped, but cold-cash incentives, spurring industry to produce at full steam, made management happy for the chance to hire any Rosie and train her as a riveter.

Planning an entire work force that is above average has a nice democratic ring to it – but it is mathematically impossible.

Education's most potent contribution today would be not mere

schooling, but throwing light on the causes and cures of shrinking job opportunity.

We might hint that the jungle of special privileges incorporated into our society would be a likely place to stalk some of these causes. We might note further that tracks leading into economic quagmires suggest that growing concentrations of corporate power, job restrictions by unions, and urban land tenure inequities are extremely ripe for penetrating studies. Surely exploitation and monopoly, for instance, will not vanish from feeding better educated victims to these job-destroying dragons.

Education can be sold on the basis of its own enduring values, not as a too easily punctured ballooning hope for bringing millions of new jobs into being.

APPENDIX B

Many Voices on Land Policy Reform Issues

FOLLOWING are brief excerpts from "HUD and the Property Tax", a collection of articles, letters and Congressional testimony presented by the author to the Department of Housing and Urban Development and to the White House. Although the views represented a distinct contrast to majority economic thinking at the time, they showed that a potent minority of thoughtful people were linking land and land tax issues to urban and economic woes in the 1950s and 1960s. Writers are identified by their positions at the time. The author's suggested federal actions to promote property tax modernization, offered in the presentation, conclude this appendix.

E.V. and E.G. Rostow, political science professors (in *The Urban Condition*, by L.J. Duhl): The [conventional] property tax ... is one of the most influential breeders of waste in the economy, including the movement of business and of people from the cities to suburbs which involve the premature abandonment and destruction of huge capital resources in the roads, sewers, gas mains, fire stations, houses, schools and electrical equipment of existing urban areas – investments which then have to be duplicated in the suburbs. The social and political consequences ... are even more serious than the economic wastefulness.

Congressman Thomas W. Curtis (R-Missouri): [T]he development of a modernized real estate property tax is the basic land reform

needed by almost all the so-called economically underdeveloped countries. A well-designed real estate tax is a discouragement to the greatest of all economic sins – to hoard rather than to utilize wealth.

Grady Clay, Editor, *Landscape Architecture Journal* (in memo to author, 9/16/1966): It is vital that a fair and equitable method be worked out to return to the public purse a larger share of the “wind-fall profits” in unearned land values. I therefore recommend that legislation should be prepared for introduction into Congress which will require – as a condition of all federal grants – that local property tax procedures be improved so as to speed up the application of increased property assessments on lands benefitted by Federal facilities. This requirement should be extended to land areas benefitted by Federally-funded highway construction; by Federal flood control and multi-purpose water development projects; by Federal open space and landscape grant programs; and by Federally-assisted urban renewal programs.

Lyle C. Bryant, economics professor, federal government economist and prime mover of the Rosslyn, Virginia property tax reform: Urban renewalists can expect to be a pretty frustrated lot until they grasp the point that through ill-conceived and poorly administered property taxes, which provide *perverse* incentives to private enterprise, most American cities are continuously creating the problems that the urban renewalists are devoting their lives to solving.

Dick Netzer, in *The Economics of the Property Tax* (Brookings, 1966): [I]t is difficult to find any flaws in the argument that the tax change [heavier taxation of site values combined with lower taxation of improvements] will tend to have favorable resource allocational effects.

Paul Ylvisaker, Director, Public Affairs Program, the Ford Foundation: Tax incentives ... go to the jugular vein of private decisions and have the combined effect of both carrot and stick. Both the local property tax and the federal income tax can be adapted so as to reward the man who maintains his property rather than the slumlord who exploits it and the slothful owner who lets it go... Stiff taxes might be imposed on those who pollute air, land or water.

Harlan Trott, Pacific News Bureau Chief, *Christian Science Monitor* (letter to author, 9/19/66): The way to rebuild our cities is a) stop federal windfall financing, and b) reinstate federal land taxes such as were used during the first hundred years of the Republic (*Financial History of America*, Davis Rich Dewey).

Richard W. Lindholm, Dean, School of Business Administration, University of Oregon, from paper given at 41st annual conference, Western Economic Association: The introduction of a state land value tax to support public education would permit all local governments to sharply cut ad valorem property tax rates on buildings and personal property.... The increase in the portion of property taxes resting on land values and the administration of the tax on a state-wide basis at a uniform rate would definitely place the property tax on the side of metropolitan unity instead of disunity as is now the case.

Max S. Wehrly, Director, Urban Land Institute, reported in *Dayton Daily News*, 9/25/65: In Boston, buildings were taxed so heavily that the wealthiest entrepreneurs could not take part in urban renewal without special tax exemptions. The system's a mess. The ad valorem tax today puts a premium on neglect across the board.

Edwin P. Neilan, President, Bank of Delaware, Past President, U.S. Chamber of Commerce (letter to author 9/13/66): The Federal Government might well write some standards for land or site value taxation as one of the prerequisites for urban renewal projects.

Mason Gaffney, Chair, Economics Department, University of Wisconsin-Milwaukee, in "Property Taxes and the Frequency of Urban Renewal," National Tax Association: If they [land taxes] simply raise revenue without doing much damage, they are a great improvement over what we have now... It lets us escape from the folly of taxing improvements.

Robert F. Steadman, Director, Committee for Economic Development (letter to author, 9/2/66): Our recent policy statement noted that real property assessments in most parts of the country "may be accurately described as inequitable, inefficient, incompetent, or corrupt." If local governments cannot even administer their primary

revenue source more fairly, in accordance with law, what major responsibility can we expect them to perform effectively?

Robert M. Hutchins, President, Center for the Study of Democratic Institutions, in "Our Ramshackle Tax Structure", *Los Angeles Times*. 1/11/64: The tax system almost compels the buyer of land to become a speculator. If he improves his land, his property tax will rise. If, on the other hand, he sits on the land, does nothing with it and sells at a great profit, he will pay little by way of property tax and will be taxed on the profit at favorable rates applied to capital gains.

Bill Burns, Editor, *San Diego Labor Leader*, "Land Speculation Major Source of Evil", 8/22/63: As long as slums remain that profitable, they will continue to grow despite subsidized urban renewal programs – unless something also is done about increasing land taxes and reducing taxes on improvements. Such an approach... would take the profit out of slums and provide a powerful lever on owners of blighted areas to tear them down and build anew.

John R. Fuchs, Judge, 22nd Judicial District, New Braunfels, Texas, in *Land and Liberty*, London, July 1958: What is this thing, this value, this fund or intangible asset that is created by the people and by the government which belongs to all the people? Is it not the annual value of land – ground rent – or the "economic rent" as the economist calls it? ... [T]here is still one basic God-given right which we have not fully recognized. It is the right of the people to the use of a part of the earth given to them – the children of man – from which and by which alone they can live.

A Tentative Strategy for HUD

1. Assist in upgrading the professionalism of state and local property tax officials.
2. Let local property tax modernization be a condition for obtaining federal grants.
3. Offer to hold states and localities harmless from fiscal loss when they shift property taxes off buildings on to land values (even though such loss is unlikely).

4. Promote research on impacts of both the conventional and two-rate property tax.
5. Halt federal tax policies – depreciation allowances, capital gains favoritism applied to land value gains, and certain deductibles – that encourage land speculation.
6. Reinstate federal land taxes to recapture values created by federally-funded infrastructure.
7. Make property tax modernization a major feature of foreign assistance programs.
8. Coordinate land use and land tax policies with other agencies – Defense, Agriculture, Commerce, Interior, Transportation and so forth.

APPENDIX C

Douglas Commission Testimony

TRANSCRIPTIONS OF HEARINGS held in 18 cities across the nation were printed in *Hearings before the National Commission on Urban Problems* (Vols. 1-5, Government Printing Office, 1968, Library of Congress No. 68-60024). The publication is a goldmine of information about a range of that era's urban problems, many of which still persist. A minute sample of testimony pertinent to the subject of this book follows.

James W. Rouse, developer of the new town of Columbia, Maryland: When Pittsburgh did the Golden Triangle, it was the first time anybody had really gone in and done anything about the ragged edge of any downtown area. From all over the country people have come to Pittsburgh to see the Golden Triangle. And this really became the father of commercial redevelopment. It worked.

Joseph M. Barr, Mayor of Pittsburgh: Gateway Center at the base of the Golden Triangle was financed privately in its entirety, except for the construction of publicly-owned streets and property... [Taxing] land at double the rate of buildings has generally helped to encourage the improvement of real estate, especially the building of large commercial buildings. I also believe the system has been particularly fair and beneficial to homeowners.

Rev. Sidney Daniels, President, Harlem Park Neighborhood Council, Baltimore: The tax base on slum housing is so low that it makes slum housing extremely profitable. Many landlords, therefore,

avoid their responsibility in the proper maintenance of housing. Deterioration is thus caused by inadequate maintenance, decreasing the annual tax. The fact of less taxes makes the property more profitable to rent.

Howard Offit, President, R.S. Construction Co., and President, Property Owners Association of Baltimore: I would like to recommend some consideration to the [high] tax assessment of residential property owners who spend sizeable sums of money on rehabilitation. Some moratorium might be given these owners as an incentive to do a good job or as a reward for their contribution to the community.

Juanita Mitchell, President, Maryland NAACP: If you cut down the tree of blight and leave the roots, no matter how many millions of tax funds you spend in building and improving the physical accommodations, you are going to have the burgeoning of the old tree of blight – the same situation that you spent millions to eliminate.

Hortense Gabel, New York City housing official: There are many major [slum] problems we have only recently begun to identify. These are the high cost of land and buildings; the high cost of money; the lack of development funds to cover preliminary legal, technical and acquisition costs; antiquated technology; and the failure to understand the links between standard dwellings and education, jobs, transportation, sanitation and other required services... We need to give some hard thinking to finding the incentives that will bring new forms of private investment to new and rehabilitated housing.

Richard L. Steiner, Director, Baltimore Urban Renewal and Housing Agency and Special Consultant to the secretary of HUD: I am increasingly convinced that much can and should be done to facilitate residential rehabilitation through modifications in taxation, both locally and nationally. Some property owners have been faced with increased real estate assessments as the reward for their cooperation with rehabilitation efforts. This sort of penalty for cooperation should be ended.

Richard E. Lee, Mayor of New Haven: [T]oo many cities are confined in their income from their tax base by the antiquated

property tax, which is regressive and restrictive, and cannot be expanded to meet the expanding needs of the city and its people.

Jack Meltzer, Director, Center for Urban Studies, University of Chicago: The inability of the current urban renewal practices ... to guide and influence the character of non-acquired clearance and conservation areas results in a distortion of the public goals that motivated substantial public expenditures. The reliance on city zoning and housing and building codes to deal with these segments has largely proven ineffective. One possible corrective is the use of benefit assessments in renewal areas, as obtains in Britain, in which accretions in land values resulting from public programs are retained by the public or distributed to those who are disadvantageously affected by the public programs. This would also suggest examination of the land tax and of differential taxation.

Mitchell Sviridoff, Vice President, National Affairs, The Ford Foundation: As to resources, we are close to making a mockery of our lofty goals. New York City's guideline for community action programs this year is \$17 million. With an estimated two million people in the city living in poverty, this means eight dollars and a few cents per person. To make a comparison [with the Depression of the 1930s] I quote Prof. Howard Zinn: "The poverty program draws on one-fifth of one percent of the gross national product. In 1938, FDR was spending fifteen times this percentage on public works alone, and that was not enough."

Columbus Kiensler, New Haven citizen: I heard Mayor Lee talking about housing projects. Where? I haven't seen them. He talked about tearing down old places. What do you have there now [where approximately 5,000 people lived]? You've got a hospital and a throughway. He's pushing us completely out, and in a way that he don't know - or maybe he know how he's doing it but he thinks other people can't even see it. Why don't you give me a decent place to live? I'm not asking for a million dollars. Mayor Lee is saying, "Build, build, build." What is he building? Parking lots. Ride through the city. You will see more parking lots than apartment houses.

Lawrence M. Cox, Executive Director, Norfolk (Virginia) Redevelopment and Housing Authority; President, American Society of

Planning Officials: Speculation [from urban renewal owned sites] could be avoided, and it should be avoided, by providing that any excess realized from the ultimate sale or lease of the land beyond the original investment, plus a reasonable interest or carrying charge, would be returned to the federal and local government on a two-thirds, one-third basis.

Lawrence DeNardis, Political Science Professor, Albertus Magnus College, speaking for the Ripon Society: A major barrier to adequate housing in the United States exists because of the property tax. As long as cities are compelled to rely on the [conventional] real estate tax that they can collect within their own confines, they are going to be encouraged, if not compelled, to seek industry and other heavy users of land that will pay high taxes in order to support schools and community services. Therefore, the pressure to increase the yield from real estate taxes compels cities to get out of the housing market and into the industrial-commercial one. And if they must "house", it is certainly not low-cost housing.

Edward J. Logue, Boston Development Administrator: If you look at what happens to a slumlord on the South Side of Chicago or in Harlem today, that slumlord can have a hundred violations on his property; he may not have put a dime into maintenance; but every year he can deduct depreciation. The Internal Revenue Code is helping him... The most effective way to collect revenue is through the federal income tax; the least effective way is to assess property here. The mayor of Boston has got to be very careful how much he tries to get out of real estate because the investment is mobile. The governor of Massachusetts has to be very careful because the governor of Arkansas keeps sending that [promotional] literature up here.

Barnet Lieberman, Executive Vice President, Philadelphia Housing Development Corporation: At the present time, at least in Philadelphia, our public assistance grants for shelter are subsidizing slumlords... Why do you have to build high-rise apartments [for public housing] in Philadelphia? It is because the cost of land is so high now. Philadelphia is a city of row houses, of homes.

George Romanos, Boston realtor (responding to a question about whether he had described himself as "the biggest slumlord in town"):

I have been described that way, so I accept it... It seems to be the policy that nonprofit groups should be designated as developers versus private enterprise, even though I have yet to find where nonprofit groups can even come anywhere near competing. Their construction cost is certainly about 40 percent more.

Mason Gaffney, Economics Professor, University of Wisconsin-Milwaukee: You can tax the very all out of a piece of land and it will never get up and walk out of town... The [conventional] property tax is calculated to inhibit, penalize and discourage whatever is new.

Arch M. Woodruff, Chancellor, University of Hartford: Where experience with this tax [a property tax based on site value only] has been substantial, the public accepts it.

Commission Chairman Paul H. Douglas: *Does not the owner of land appropriate the values we have created by expansion of population, labor and capital?* (Answer) **Jerome Rothenberg, Economics Professor, Massachusetts Institute of Technology:** That is what I am emphasizing and suggesting. **Douglas:** *You were all trying to avoid saying you believe in taxing the increase in rental land values. I believed it for 40 or 50 years. If I am wrong I would like to be set right.* (Answer) **Seymour Buskin, Law Firm Partner, Real Estate and Mortgage Counsel to Western Pennsylvania National Bank:** I think ultimately, land is a public ownership interest. **Douglas:** *I am not ready to go as far as that. I am a moderate. I would simply say the community is entitled to get a very large portion of this increase in land values.*

Raymond L. Richman, Professor of Economics and Social Development, University of Pittsburgh: Few if any economists challenge the conclusion that land taxation discourages the holding of land in idleness and penalizes land speculation. The tax encourages efficient land utilization ... it does not impede in any way the optimum use, or the optimum improvement, of the land.

James Carbray, National Council of Senior Citizens, Los Angeles: What we are doing by the present taxing policies of the city, county and state is creating slum areas at a faster degree by virtue of those

taxing policies than we are eliminating them as a result of urban redevelopment.

Lawrence Weinberg, Beverly Hills homebuilder: Land in 1950 cost us \$3,000 an acre. Today [13 years later] it is costing us \$30,000 an acre. The finished lot back then represented 17.5 percent of the sales price. Today it represents 32 percent.

Elmer E. Botsai, Chairman, Building Code Committee, California council of the American Institute of Architects: [T]o support Mr Weinberg's statement [above] ... it is a commodity bought and sold on the open market. It fluctuates with the cost of land speculation and the causes of this property speculation include property taxes, advance zoning [zoning more land for higher use than market demands justify], and low taxation on unimproved property.

John W. Dyckman, Chairman, Center for Planning and Development Research, University of California-Berkeley: [L]eapfrogging of development over potential building sites into the more unspoiled countryside [reflects] the tendency of landowners in the near-in urban area to value their land at a very optimistic expectation of future price. They feel that their land's accessibility to the central city enhances its value compared with more remote holdings. As a result, developers who are aiming at lower-price developments will jump over the more expensive land in search of cheaper land.

Samuel E. Wood, Executive Director, California Tomorrow: Assessors throughout California are undervaluing land in relationship to improvements, contrary to the state constitution. In Orange and San Diego Counties vacant land is assessed about one-fifth the level at which homes are assessed. This land is then picked up by the speculator and developers are forced to skip over it and build urban islands beyond.

Chairman Douglas: *Mr Wood, [in your statement] you used a word which was unfamiliar to me. How would you define "slurb"?*
(Answer) Wood: Alfred Heller and I invented that word when we were trying to describe the uncontrolled growth taking place in California. We combined urban and slum to get slurb. It simply stands for our sloppy, sleazy, slovenly sort of cities.

Allan Temko, Director, Study of Industrialized Environment, Twentieth Century Fund, urban historian: The chief physical fact of the West is that it is a desert. Water is common wealth – or should be common wealth. That was the spirit of the Reclamation Act of 1902, the greatest planning instrument we ever had. The state of California has circumvented that law – I believe illegally... When subsidized water is brought to parcels of 25,000 acres, this is an unconscionable enrichment of unearned increment for the large landowners.

Nathan Glazer, Sociology Professor, University of California: The major problem in the slums is not housing for the poor – it is income for the poor. We should look ahead to a time when the poor ... have enough money to fix housing up on their own.

William Sluis, reporter, Santa Barbara New Press: [In Santa Barbara] land was assessed at 22.5 percent of market value, improvements at 45 percent. There was simply no incentive to improve the structures to meet city code standards because each improvement was slapped with a 45 percent assessment. The split assessment ratio resulted in an incentive to keep existing shacks on the land.

Hans Schiller, Mill Valley, California, planning consultant: I advocate the development of a new land ethic. Land ownership at this point in history is largely a salacious concept, a futile concept hardly in keeping with democratic philosophy. Historically, it has been the large landholdings which have had the most retarding effect on the promulgation of human rights and social equity.

John C. Weaver, Program Director, Allegheny Roundtable: It is very common to hear people saying there is something wrong with a system that brings the assessors, as soon as a permit is issued for a building, even a small addition to a property, to “punish us for committing an improvement”.

Leslie Carter, member, Neighborhood Youth Board No. 4, Manhattan: We want jobs. We have been unemployed for years, hundreds of years, and we are tired. So you can make all the plans you want. It will blow back in your face. You talk about slums. Do

you know what creates slums? You know what slums is, and what creates it. You want to build. You must start building a person first. A person is more important than the house. We believe in the person first, economically, socially, physically and spiritually.

Leon Seidel, small business owner, Manhattan (referring to witnesses for cooperative housing): They completely forgot to tell you what happened to the people who live there, what happened to the businesses. They didn't tell you that the nonprofit United Housing Foundation has a wholly owned private corporation that is making a heck of a lot of money. These pious men have just come up here to give you a bunch of poppycock. They didn't tell you what happened to the 3,200 families dislocated, or the several hundred businesses that were dislocated.

Catherine Brooks, grassroots representative, the Bronx: I speak for a majority of the minority. We are not concerned about integrated housing. We are concerned about adequate housing. There is rats and roaches everywhere, and no reason why we have to pay the same taxes. There is no reason why our children have to be brought up under these conditions.

Franz Lichter, political party district leader, Manhattan: Housing Code enforcement [in New York City] under two administrations – Democratic and Republican – has been a complete failure. Before your Commission, leader after leader – very learned gentlemen – say, “What we have to do is really bring in private capital.” I do hope we are not going to bribe the rich so we take care of the poor. I don't think the question of housing can be solved by taking care of our friends in Chase Manhattan. I think it's a problem of more government effort, more government spending.

Labron K. Shuman, council for Local 332, Philadelphia: We've got plenty of studies. I'll bet you could almost fill this room up with studies of North Philadelphia – the housing problems and all the other problems that go with it. But where's the action? That's the only thing that's going to cure what is a truly sick society.

Lee Datts, Jr, Philadelphia citizen: I represent the poor. We're not looking for you to do everything for us. We're looking to do

something for ourselves. You can take this anti-poverty thing and drop it in the lake. You have only built up another lawyer, another minister. Until you get one of the poor out of the gutter and let him help his people, you have done nothing.

APPENDIX D

Starcke's Unique Sermon

VIGGO STARCKE, leader of Denmark's Justice Party and minister without portfolio of his country's cabinet, toured the United States. Speaking at the Unitarian Church in Columbus, Ohio, he gave a sermon entitled "Our Daily Bread". Using little buns or loaves of bread that he had in his pockets, Starcke creatively illustrated fundamental economics. The following brief extracts and summary give the essence of the sermon, although the good humor and deep philosophy of Starcke's talk are only found in the full text (published as a pamphlet by Land and Liberty, London).

When, after plowing the field, sowing the seed, harvesting the wheat, grinding the flour and baking the bread (he takes a tiny loaf from his pocket), a voice within you says, "*My bread is mine,*" this is the beginning of **justice**.

If you are interested only in your own bread, that is **self-righteousness**.

If a voice within bids you to follow the Golden Rule so rights you enjoy apply to others, **righteousness** and **love** lead you to say (he takes out another loaf), "*Your bread is yours.*"

If someone takes what you produced, saying, "*Your bread is mine,*" that is **theft** and **injustice**. This is so even if the law permits it, as when others withhold the land and workplace you need unless you agree to give up to them some of the fruits of your labor (he breaks off chunks of both loafs, dropping them on the floor).

If a neighbor's harvest fails, or he becomes ill, and your heart leads you to say, "*My bread is yours,*" that is **charity** (he takes out

another loaf and tosses it to a man in the front row). Starcke then talks of dangers, to both givers and receivers, if charity becomes a substitute for justice.

Using more loaves, he goes on to reveal in everyday terms critical aspects of social welfare, community, communism and equality. Noting that people hunger and thirst while the world produces more than we can eat or drink, he concludes:

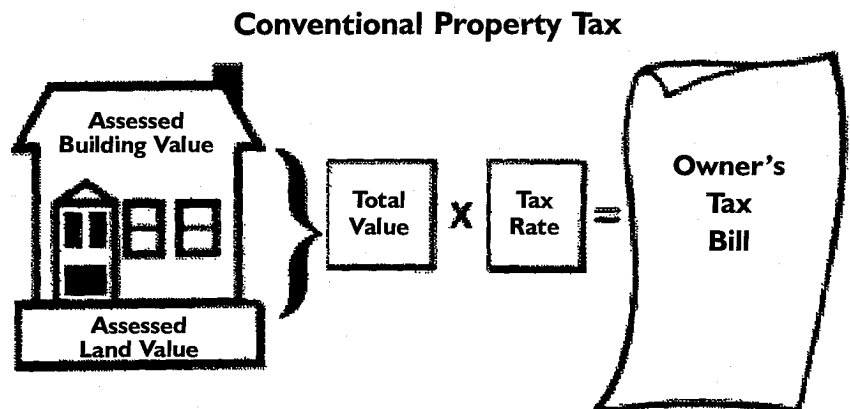
The bread you produced is *yours*. The bread I produced is *mine*. But the prerequisite for every form of daily bread is that which none of us has produced – the riches of the earth and the powers of nature revealed in the value of land. It is *ours* and must belong to all of us.

APPENDIX E

A Property Tax Primer

FOLLOWING is a brief discussion of the basic aspects of the property tax.

The *conventional property tax*, also known as a real estate or *ad valorem* tax, is common throughout the United States and much of the world. It is based on two main components, the value of the *land* and the value of *improvements* on the land. These improvements are the man-made additions to the site such as a house, commercial building, factory, barn, orchard, hut, or skyscraper.

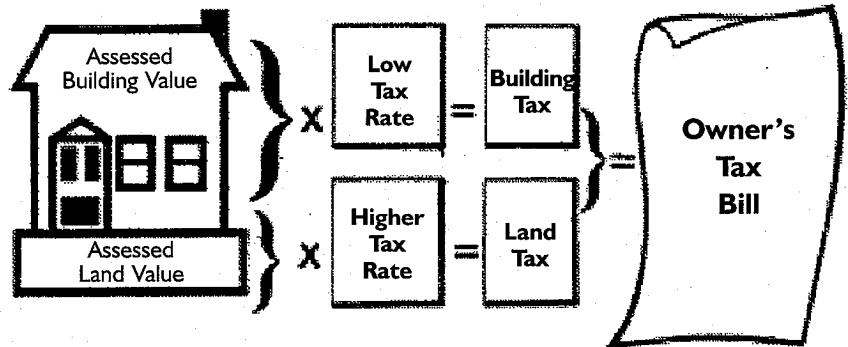


As shown in the graphic above, the assessed values of the land and improvement are added to show the *total value*. An assessor's

job is to determine these two values for each lot or parcel in the city, county, township or other taxing jurisdiction. These total values are then multiplied by the jurisdiction's *property tax rate* to produce the *annual tax bill* owed by each property owner.

Under a *pure land tax*, as used in parts of New Zealand and elsewhere, only the socially created or naturally created land values are taxed, so there is no tax on the man-made improvement values.

Two-Rate Property Tax



The *two-rate tax* pioneered in Pittsburgh, Pennsylvania has many names – graded tax, two-tier tax, split-rate tax, land value tax (LVT) and site value tax (SVT). As shown in the graphic above, each property's land value is multiplied by the jurisdiction's land tax rate to produce its *land tax bill*; each property's improvement value is multiplied by a lower improvement tax rate to produce its *improvement tax bill*; the sum of these two bills is the *total annual tax bill* owed by each parcel owner.

How are land and improvement values determined? The short answer is *the market*. A property's market price is what is agreed to by a willing buyer and a willing seller, neither being under unusual pressure or influence, as in the case of a trade or exchange with a family member.

Only a small portion of properties are sold annually, so appraisers (who perform valuations in the private sphere) and assessors (who perform valuations for public bodies) use a range of tools to assign values to land and buildings. These include comparisons with

similar properties that do exchange hands, replacement costs of structures, capitalization of rents from income-producing properties, and so forth.

Some claim that the value of a site cannot be separated from the total value of the property. Yet commercial appraisers commonly arrive at these separate values to the satisfaction of their clients, who purchase or sell only the land and not the building, or vice versa. Assessors in places that tax land only, or that tax land and improvements at different rates, devise ways to distinguish their distinct values that are accepted as fair by citizens and businesses alike. It should be emphasized that expert assessing is essential to assure equitable treatment under any form of property tax, and that their professional job remains the same whether the conventional tax or the two-rate tax is being used.

How are property tax rates determined? A city or county, for instance, estimates its anticipated revenue from its other taxes and fees and aid from federal and state agencies for the coming budget year. It subtracts this total amount from its projected budget expenditures. The difference or shortfall typically is what it decides to raise from the property tax. Under the conventional system, the taxing jurisdiction divides this target figure – for example, \$10 billion in a large metropolis – by the total property value in its borders – say \$500 billion. This yields the necessary tax rate for the year – in this example, a 2 percent rate – which is then applied to each taxable property in the district.

In the case of a pure land tax, only the total land value in the jurisdiction – say \$200 billion – would be used and the city-wide rate of 5 percent would be applied to each property owner's land value. Their homes or other improvements would be exempt from the tax.

In the case of a two-rate tax – sticking with the same example of \$200 billion of land value and \$300 billion of improvement value – local officials decide how much higher the rate should be on the land than on buildings. They may start with a modest differential in deference to political considerations, or a fairly high differential if a community is desperate to halt land speculation and spur wholesome growth.

Assessed values are often set at a fraction of market value, unwisely in my view, because they confuse taxpayers and hide inequities. A dollar of value should be a real dollar. If gas stations

began calling half gallons a gallon, would we think the price of gas had been cut in half? Yet fractional assessments are not uncommon. Further complexities arise in jurisdictions that have a *classified property tax* – that is, with differing tax rates for residences, commercial properties, hotels, agriculture and the like. In extreme cases, this leads to owners of vacant lots in a huge metropolis trucking in one cow every day to win favorable farm tax rates. Even in less strange cases, classified taxes distort the market.

Finally, mention should be made of taxpayer appeals mechanisms. If properly operated, these become essential to preserve equity among taxpayers and to prevent errors, unintentional or otherwise, in the valuation of properties.