Land as an Inflation Hedge

by SELIM N. TIDEMAN

THERE is no use in opposing the inevitable. The sensible procedure is to give an inevitable situation some study and try to manage so as to be able to live with it.

Within the foreseeable future, the graduated federal income tax comes under this classification. How does it infringe on our program of land values taxation?

The general property tax now is so heavy that the portion falling on the land, taking honest assessments for granted, is about equal to one half of its annual rental value. This would place the United States ahead of any other country in the world in the progress of our reform, if it were not for the fact that taxes are deductible from income for tax purposes. Because of this, the owner of land, whether vacant or improved, who is in the 20 percent tax bracket, really pays 80 percent of the assessed tax, while if he is in 80 percent tax bracket the real estate tax only costs him 20 percent of the assessed amount. If the tax rate is 4 percent of the assessed valuation, the cost to a taxpayer with $400,000 income is only 36 cents per 100 dollars valuation. This is far less than the established trend of inflation of prices; consequently, vacant land becomes an ideal inflation hedge. Acquisition of land becomes a natural alternative to additional capital investment when income is in the higher tax brackets. It is my observation that this relationship is gaining recognition, and vacant land of a promising nature is slipping into the hands of great wealth. Its special value as an inflation hedge has found expression in unexpected high prices for land suitable for subdivision development. This demand for land as an inflation hedge has resulted in increased prices for land suitable for subdivision for residential or industrial purposes even before effective demand for such land has developed. Suitable areas are being withheld from the market, compelling professional builders to go increasingly farther from our cities. This situation results in increasing costs to provide these outlying communities with necessary public utilities, especially water, sewerage, and roads. As now, clearly developing in the Chicago area and probably around every other large city, the cost of these unnecessarily extended utilities falls back on the community at large. Large bond issues are proposed that must be liquidated by general taxation.

If general property taxes were not deductible from the income tax base, 4 percent on the market value of land, vacant or otherwise is a considerable deterrent to land speculation and would be quite effective against using land as an inflation hedge. The current legal rate generally approaches the above percentage, or soon will, despite all efforts to the contrary.

There are many sound and understandable reasons for amending the income tax law to this effect. To be sure, the home owner (and we now have a great number of them) would have to be made to understand that his income tax rate would be reduced to the full value of his tax deduction—that the change would not cost him anything. The same amount of money would have to be raised by the government and, with a broader tax base, would be done with a lower rate on the income.

The first question the reader may ask is: Why not restrict the deduction privilege to that portion of the real estate tax applying to land value only? This would be practically impossible without the cooperation of the tax department of every community. It would result in cheating and restrict the possibilities of ultimately freeing improvements from taxation.

The public at large compensates for all deductions from taxable income by paying at higher rates. The budget must be satisfied.

If any community is successful in having property taxes shifted from improvements to land values and land value tax can be used as an income tax deduction, the results will be very disappointing.

The Georgist has an important mission and today many problems show themselves that were not present when Henry George first presented his philosophy. If he were alive today, he would rationalize these problems, but since he is not, our attempts to do so, must not be regarded as heterodoxy. A live presentation of the fact that persons of great wealth are acquiring a monopoly of our land resources, at no penalty for holding them, will open many minds to the importance of segregating land from improvements for the purpose of taxation. The addition of capital wealth to holdings measured in millions is of little interest because the income is taxed away.

Noah D. Alper's Brief Cases

"NOW, CAN YOU 'SEE THE CAT?'"

"The housing situation is so tough in Mexico City they are even raising the rent on caves," according to an A.P. dispatch.

"The outskirts of the city are ringed by barrancas, or ravines. In them are many natural or man-made caves. Owners of the land rent them to the poor.

"Santos Olvera told a district court he was paying 40 pesos ($3.20) a month for a one-room cave, but that the owner was trying to boost the rent. Olvera objected, pointing out that rents are legally frozen. The owner had him arrested on the charge he was a squatter. The court tossed the case out and Olvera moved back to his cave."

BELIEVE IT OR NOT—RIPLEY

"Don Juan Temple, owner of the Los Cerritos Ranch in California, sold its 24,054 acres in 1860—accepting $20,000 for an area that today has a taxable value of $1,000,000,000! The ranch included the present city of Long Beach, the Signal Hill oil fields and harbors of Wilmington, Los Angeles and Long Beach!

THE GOLD BRICK RUSH

"Sponsors and supporters of the Kaskaskia Valley project involving the Carlyle-Shelbyville dams expect it to bring in new industry and attract thousands to the recreational areas that will be provided," states the St. Louis Globe Democrat in an article on Southern Illinois dams.

Officials of industrial plants seeking new locations are vitally interested in having recreation facilities nearby for employees. This not only makes the job location more attractive but cuts down on lost time that comes about when employees drive several hundred miles and are often absent from work because of accidents and traffic delays.

Thousands of vacationers and tourists are expected to be attracted to the valley assuring millions of dollars in business.