

**An Alternative Reform**  
by Mason Gaffney

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What is the "message" of Proposition 13? Everyone was invoking it this past summer to fill his sails, but what was really blowing in the wind?

Howard Jarvis had been fighting property taxation for a score of years with minimal success. Philip Watson, until recently more prominent, led two property tax limitation initiatives to defeat. All these prior efforts were tax shifts, not tax limitations. In fact, Proposition 13 answers the same description, because, although it limits property taxes severely, it places only frail and specious limitations on state sales taxes and especially on income taxes. California's graduated income tax rate structure is not indexed so that it automatically takes a bigger share each year with inflation. But, those are only facts, and this is California. The *image* of Proposition 13 was that of overall tax limitation, and there may lie the difference.

This time around, Howard Jarvis allied himself with a band of ideologues represented by Paul Gann, who favors over-all tax limitation, and he seems to have taken them all into camp. Arthur Laffer, an economist at the University of Southern California, supported Proposition 13 with these words, "I feel equivalent reductions in either income or sales taxes would be markedly preferable. . . . An optional tax structure for California should most likely include higher taxes on property than on income or sales. To me, the need for income and sales tax relief is of higher economic priority than property tax relief." ("Revitalizing California's Economy," paid for by the United Organizations of Taxpayers, Inc., 6431 West Fifth Street, Los Angeles, California 90048; Howard Jarvis, State Chairman). Milton Friedman, editorializing in *Newsweek*, said, "The property tax is far from the worst tax."

Mr. Jarvis himself, in his many public statements, conspicuously avoided over-discussing Proposition 13 itself. His primary attack was against waste in government. He attacked symbolic and perhaps mythical waste: long black limousines, congressmen's salaries, teachers' meetings, and coffee breaks. I never heard him criticize any specific program (except the racially symbolic issues of busing and abortion). Thus he managed to work the act of the legendary congressman who stayed in office for 25 years by never voting in favor of a tax bill, or against any appropriation.

In this he was aided, of course, by the enormous state surplus which Governor Jerry Brown had unwisely accumulated and, for his own reasons, concealed, but which Mr. Jarvis, to his credit, divined. This let Jarvis play Santa Claus, promising reduced taxes without reduced services. New York City politicians had done the same thing by going into debt, and the logical difference between going into debt and using up a surplus is not mathematically very significant. Still, it was enough to win the backing of many economists of the "Chicago School," whose shibboleth is TANSTAAFL ("There ain't no such thing as a free lunch"). That is why the "message" of

Proposition 13 is so different from the text of the proposition, so confused and ambiguous. Proposition 13 was sold by talking about other issues and making promises that have not, or will not, or cannot come true. Here is a short list of Mr. Jarvis' firm affirmations before the election:

- Public schools would have the first call on state revenues. It turned out that the police and fire departments had first call.
- Reduced taxes would be passed through in lower rents. One must laugh it hurts too much to cry.
- Building and business would boom. This belief seems to have overstated the level of property tax rates in the state and also to ignore the existence of several public service bottlenecks as, for example, sewer capacity. It ignored the impact of reduced property tax revenues on the exclusionary motives of local zoning boards.
- Housing would be cheaper.
- Everything would be cheaper, because property taxes were believed to be borne 100% by consumers. "Not one nickel," said Mr. Jarvis, "is paid by the owner of business property."
- Howard Jarvis would begin a new initiative against sales and income taxation. Instead, he is now going national, while Paul Gann carries this burden. Mr. Jarvis' national crusade is against capital gains taxes, and against property taxes in other states.
- The power of state politicians and bureaucrats would be reduced. In fact, that power has increased, because of increased state subventions to local government with many strings attached.
- People who bought real estate between 1975-76 and 1978-79 would have their assessments rolled back to the 1975-76 level.
- Proposition 13 would not be a tax shift but a tax reduction. In fact, the unindexed income tax keeps rising automatically with inflation, and no legislation is required. In addition, there has been a large increase in charges for municipal services. (Legislative action subsequent to Proposition 13 moved partway toward indexing the state income tax.)

I conclude from all this that shifting the tax burden from property to other tax bases is not by itself a viable issue. It has a definite constituency, of whom Neil Jacoby seems to be a type; but in order to win, it had to be diluted and disguised. Philip Watson, who lost when he did not disguise this proposal, calls Howard Jarvis a "demagogue." That seems to be a tribute from the purist, who lost, to the opportunist, who won.

Looking at the nation, the California phenomenon has been greatly overpublicized, partly because it is California and partly because Howard Jarvis is typogenic, like Huey Long. In other states we see more balanced tax limitation proposals and legislation, as in Tennessee and Colorado whose spending limitations are by no means aimed exclusively at the property tax or

local government. Another special factor in California is the state's high percentage of retirees. Yet, even Florida — another haven of the retiree — has not, thus far, lined up with the Jarvis camp.

**PROPOSITION 13 (The "Jarvis-Gann Initiative")**

Section 1. (a) The maximum amount of any ad valorem tax on real property shall not exceed one per cent (1%) of the full cash value of such property. The one per cent (1%) tax to be collected by the counties and apportioned according to law to the districts within the counties.

(b) The limitation provided for in subdivision (a) shall not apply to ad valorem taxes or special assessments to pay the interest and redemption charges on any indebtedness approved by the voters prior to the time this section becomes effective.

Section 2 (a) The full cash value means the County Assessors' valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment. All real property not already assessed up to the 1975-76 tax levels may be reassessed to reflect that valuation.

(b) The fair market value base may reflect from year to year the inflationary rate not to exceed two per cent (2%) for any given year or reduction as shown in the consumer price index or comparable data for the area under taxing jurisdiction.

Section 3. From and after the effective date of this article, any changes in State taxes enacted for the purpose of increasing revenues collected pursuant thereto whether by increased rates or changes in methods of computation must be imposed by an Act passed by not less than two-thirds of all members elected to each of the two houses of the Legislature, except that no new ad valorem taxes on real property or sales or transaction taxes on the sales of real property may be imposed.

Section 4. Cities, Counties and special districts, by a two-thirds vote of the qualified electors of such district, may impose special taxes on such district, except ad valorem taxes on real property or a transaction tax or sales tax on the sale of real property within such City, County, or special district.

Section 5. This article shall take effect for the tax year beginning on July 1 following the passage of this Amendment, except Section 3 which shall become effective upon the passage of this article.

Section 6. If any section, part, clause, or phrase hereof is for any reason held to be invalid or unconstitutional, the remaining Sections shall not be affected but will remain in full force and effect.

One theory to explain the passage of Proposition 13 is that California's legislature was derelict in failing to provide timely and adequate property tax relief along more selective and defensible lines. That may be, but let us survey the adjustments that California had already made.

- California had increased other taxes a great deal, notably the graduated income tax. In the last eight years, the percentage of state and local revenues secured from taxes on property had dropped from 38% to 34%. This merely continued what has been a secular trend dating from the 19th century, when property taxes comprised some 90% of total tax revenue. Furthermore, there is no *a priori* reason why property tax "relief" should be welcome when the price has to be an increase in income taxes.
- The property tax rate in California is only moderate by national standards. It is around 2%, give or take some margin of error. That is below the rate in Massachusetts, New Jersey, and Wisconsin, for example. It is higher than the rate in Alabama and Georgia. It is pretty close to the national mean. But, 2% is simply the official statistic. As a buyer of income properties in and around Riverside, California, my observation is that the actual rate is closer to 1%. Only in some areas has the assessor brought values up-to-date. Most real estate has not been reassessed in this rising market; therefore, it is being taxed at substantially less than 2% of current market value.
- The Property Tax Relief Act of 1972 (S.B. 90) placed a 6% annual limitation on increases of school levies. The property tax rate is virtually frozen for purposes other than schools (although, of course, assessed values are not).
- A two-thirds majority is required to approve general obligation bonds.
- There is an owner exemption of \$7,000 on the market value of homesteads.
- There is a circuit breaker, or tax abatement, for persons over 62.
- There is a deferment option for the elderly, bearing only 7% interest (which is about the annual rate of inflation). In California, as also in Oregon and British Columbia, hardly anyone takes advantage of this deferment option. This fact, it seems to me, rather calls the bluff of those who so freely allege that the woods are full of widows with insoluble cash-flow problems, widows who are losing their houses to the sheriff and whose heirs presumptive, will not help keep the property, which they will eventually inherit.
- There are several laws granting preferential assessment to alleged farmland, timberland, golf courses, and so on.
- Business inventories are half exempt and were scheduled to become completely so, subject to the defeat of Proposition 13.
- Along the line of modern amendments to the property tax, about all that California lacked was a circuit breaker for those under 62. One could argue the position, as the California Tax Reform Association does, that a general circuit breaker would have made all the difference. But one could equally argue that there were already too many loopholes and preferences so that homeowners were rebelling against paying the freight for timber

owners, farmers, land speculators, the Irvine estate, lessees on federal lands, and many others.

In spite of California's moderate property tax rate, the share of California revenues from property is above the national average. What accounts for this anomaly? It is that the value of property per capita in California is far above the national average. The high price of California residences is well known and, of course, its current skyrocketing increase is a modern legend. But owner-occupied homes constitute only about one-third of the property tax base in California. One could not establish an argument that California homeowners were carrying the rest of the state, at least not by means of property tax payments (homeowners pay much higher shares of the state income and sales taxes than they do the property tax).

In spite of all that, it is still possible that for unworthy rhetorical purposes and emotional reasons the property tax might fare better politically with a low preferential rate for homes, as under Minnesota's classified tax; or with generous homestead exemptions, as in some southeastern states. That would, however, be an exercise in the politics of symbolism, deception, and imagery. The factual economic grounds are not convincing.

What, then, is the way to go for men and women of good will who see some merit in having property contribute to public revenues? I have some suggestions.

**First, we should stop maligning the property tax.** We have the curious spectacle of George McGovern, Jerry Wurf, State Senator Nicholas Petris of California, the California Tax Reform Association, and others along the Americans for Democratic Action position who tell us the property tax is a bad, regressive tax, and then are dismayed when the voters throw the tax out under right-wing leadership. Their position is so hard to follow, I am tempted to suspect it is they who are confused. Or perhaps they never really meant we should lower property taxes; perhaps they really meant we should raise income taxes. But now that the voters are in a mood to lower any tax whose support slackens, the A.D.A. troopers had better get their act together and look for the good in the property tax if they really want to save it and the social welfare that it helps to finance.

**Second, we need to marshal the arguments in favor of the property tax,** something that hardly anyone has done for years. Here are a few:

(1) **We hear a lot these days about cutting the fat out of the public sector; but there is fat in the private sector too.** I interpret "fat" to mean paying someone for doing nothing, or for doing nothing useful. Most economists agree that payments to people for holding title to land is nonfunctional income, since the land was created by nature, secured by the nation's armed forces, improved by public spending, and enhanced by the progress of society. "Economic rent" is the economist's term, but in Jarvis-talk we may call it the fat of the land or "land-fat." It has also been called unearned increment, unjust enrichment, and other unflattering names. Howard Jarvis has said that the policeman or fireman who risks his life protecting the property of others has his "nose in the public trough." But it has seemed to generations of economists that the owner whose land rises in value because public spending builds an 8-lane freeway from, let us say, Anaheim to

Riverside, and carries water from the Feather River to San Diego, is the first to have his nose in the trough. Nineteenth-century English economists who worked this out were more decorous. They said things like "landlords grow rich in their sleep" (John Stuart Mill), or the value of land is a "public value" (Alfred Marshall) because the public, not the owner, gives it value.

Some 43% of the value of taxable real estate in California is land value. When we lower the property tax we are untaxing not only buildings, but also land-fat.

Neil Jacoby, in an article circulated by the Jarvis committee, says that most economists feel the property tax is overworked. As his authority, he cites an article by Dick Netzer. Here is Netzer's conclusion: "... my ideal system of local finance would comprise user charges and land value taxation, period." (Dick Netzer, "Is There Too Much Reliance on the Local Property Tax?" in George Peterson [ed.] Property Tax Reform [Washington: The Urban Institute, and The Lincoln Institute, 1973]). I will later agree with Netzer (and, I presume, Jacoby) that this could be a viable way to lower property taxes: that is, instead of reducing the rate, exempt the buildings.

**(2) The ownership of property is highly concentrated, much more so than the receipt of income.** Economists in recent years are increasingly saying that the property tax is, after all, progressive because the base is so concentrated, and because so little of it can be shifted. But this message has not yet reached many traditional political action groups who continue to repeat the old refrains. Two remedies are in order.

- One is to collect and publish data on the concentration of ownership of real estate. The facts are simply overwhelming and need only to be disseminated.
- The second remedy is to note how strikingly little of the Proposition 13 dividend is being passed on to renters. This corroborates the belief of economists that the property tax rests mainly on the property owner where it originally falls, and not on the renter.

**(3) A high percentage of the property tax base consists of land.** In California, as mentioned, it is about 43%. There is a common belief that the land percentage is higher in rural areas, but I do not believe the facts support this. In British Columbia I had an opportunity to run an analysis of the entire provincial property tax roll. The land percentage was well over 50% in Vancouver and ever so much lower in the smaller, rural municipalities and regional districts. The land share in each local district was higher in "commerce" than "farming," and higher in large farms than small.

The whole farm-and-city antithesis is a red herring. Rural land and urban land are both heterogeneous, and the differences within each class are much greater than the differences between them. The point is that in farming, as in every other industry, some people grabbed off the best resources, and others are stuck with the leavings. The property tax on land operates to even things out.

**(4) A high percentage of real property is owned from out of state and even out of the country.** The percentage is much higher than we may think. It is not just Japanese banks and the

Arabs in Beverly Hills. It is corporate-held property which comprises almost half the real estate tax base. If we assume that California's share of the stockholders equals California's share of the national population, then 90% of this property is absentee-owned; the percentage may be higher because many of these, after all, are multinational corporations with multinational ownership.

The "No on 13" leadership failed to capitalize on this point. Governor Jerry Brown was the leader, and he talked about business securing the lion's share of benefits. But most voters are not so dumb as to be against business indiscriminately. It depends on whose business and what business.

No one seems to have seized on the fact that half the taxable property in California is owned by people not voting in the state. Senator Russell Long has suggested the following principle of taxation: "Don't tax you, don't tax me, tax that man behind the tree." Property tax advocates have done well in the past and should do well again in the future when they make their slogan: "Don't tax you, don't tax me, tax that unregistered absentee. Don't tax your voters, they'll retaliate; tax those stiffies from out of state." Chauvinism and localism can be ugly and counterproductive, as we know; but here is one instance where they may be harnessed to help create a more healthy society. The purpose of democracy is to represent the electorate, not the absentee who stands between the resident and the resources of his homeland.

California's legislative analyst, William Hamm, estimates that over 50% of the value of taxable property in California is absentee-owned. This is such a bold, bare, and enormous fact it is hard to believe that Californians will long resist the urge to levy taxes on all this foreign wealth. They may be put off by the argument that they need to attract outside capital, but that carries no weight when considering the large percentage of this property which is land value.

Some half of any reduction in California property taxes leaks to out-of-state owners. Nor is this the only leakage. Net federal income tax payments will rise by \$1.5 billion, until other deductible taxes rise to replace lost property taxes. Matching grants from the federal government will decline, as will maintenance-of-effort grants. So great is the complexity of federal programs that no person dares to estimate the amount of loss, but it will be substantial. Sales of local general obligation bonds have stopped and will stay stopped. When revenue bonds are sold instead, the interest rates are higher. Fire insurance rates must rise. And private spending substituted for public spending will have a higher propensity to import.

This substantial leakage of economic base will result in multiple declines in state income. In the short run this has been forestalled by distribution of the state's surplus. In the long run Jarvisites have promised an inflow of investment attracted by the drop in property tax rate. I do not foresee that inflow for at least two reasons.

- One is that California's property tax rate has not been high enough; thus even the substantial cut of Proposition 13 will not make much difference to incentives. Furthermore, under Proposition 13, the major cuts go to property already here. New investment, on the other hand, will be assessed at its current value; its owners will pay the maximum in property taxes. To attract new investment, California would

have to assess land higher and new improvements lower. Proposition 13 does the opposite. It is designed not to attract new investors, but to cut a melon for the old.

- My second reason is that there are many infrastructure bottlenecks. This is ironic, since California is badly oversupplied with certain kinds of extravagant public works, while in some jurisdictions sewer capacity is limiting, and in others, new schools are needed. Proposition 13 has destroyed the general obligation bonding capacity of local governments in California. Even where local governments could eke out their operating costs through user charges and various state and federal grants, there will still be a bottleneck in the financing of capital outlays. New districts cannot have any tax base because it is all claimed up. It is an ill wind that blows no good, and this may encourage better infilling of existing patchwork developments. However, reduced land taxes on speculative holdout landowners means that this process will necessarily be slow and painful to those who must buy the land.

On balance, then, it seems that California will suffer a substantial decline in its economic base which, in a few years, will cause the state either to sink into an Alabama-like desuetude or to repeal Proposition 13.

**(5) Property income is generally more beneficial to the receiver than is the same income from wages or salaries, because the property owner does not have to work for it.** Yet, property income is virtually exempt from the sales tax. There is no sales tax on rentals and certainly none on the imputed income of owner-occupied real estate. As to income taxation, walk into any real estate office with some spare cash and you will be advised that you need a good tax shelter, and that there is nothing like real estate income property which remains one of the great income tax loopholes. The property tax is all we have that moves in on this unpre-empted tax base.

**(6) Property, particularly land, has been bought and sold for years on the understanding that it was encumbered with peculiar social obligations.** These are, in effect, part of our social contract. They compensate those who have been left out. Black activists have laid great stress in recent years on the importance of getting a few people into medical and other professional schools. Does it not make more sense that the landless black people should have, through the property tax, the benefit of some equity in the nation's land from which their ancestors were excluded while others were cornering the supply?

A popular theme these last few years is that property owners should pay only for services to property, narrowly construed. Who, then, is to pay for welfare — the cripples? Who is to pay for schooling — the children? Who should sacrifice for the blacks — Allan Bakke? Who should finance our national defense — unpaid conscripts? The concept that one privileged group of takers can exempt itself from the giving obligations of life denies that we are a society at all.

**(7) Howard Jarvis was fond of referring to the "dictator countries."** Heavy property taxation leads us right into their pattern, he alleged. No one at all familiar with conditions in Guatemala, Nicaragua, Colombia, Peru, or Ecuador would give any credence to this peculiar reversal of



truth. The fact is, these countries have been dominated by centuries of oligarchies whose primary motive has been to prevent any substantial taxation of their property. Indeed, to predict the long-term effects of Proposition 13, we could do no better than study these "dictator countries," which have had "Proposition 13" for most of their history.

Jarvis also stressed the importance of saving America from the "English disease," which he associated with high property taxes. Again, he did not observe the actual situation. England has no property tax at all, as we know it. It has a system called "rates," which is based on imputed rental value of improved land and which exempts vacant land altogether. There is an "English disease" all right, but it consists of extremely high income tax rates on wages and salaries. Property in England is treated more deferentially than in most other leading countries of the world, under both "rates" and the English income tax. (Jarvis' new national campaign is to make the U.S. income tax more like the English one by exempting capital gains. The dedication to unearned increment and concentrated wealth remains his trademark. If this be "populism," William Jennings Bryan was a hard-money atheist. This is imported English disease, lacking only the redeeming graces of noblesse oblige.)

**(8) We can ask that a single standard be applied to owners troubled by higher taxes and to tenants troubled by higher rents.** When widow A is in tax trouble, it is time to turn to hearts and flowers, forebode darkly, curse oppressive government, and demand tax relief. When widow B has trouble with escalating rents, that touches a different button. You have to be realistic about welfare bums who play on your sympathy so they can tie up valuable property. You have to pay the bank, after all. A man will grit his teeth and do what he must: garnishee her welfare check. If that is too little, give notice. Finally, you can call the sheriff and go to the beach until it's over. That's what we pay taxes for. Welfare is their problem.

Anyway, widow B is not being forced out of her own house, like widow A and so many like her. Jarvis said that taxes are forcing three million Californians from their homes this year. But in truth, while evictions of tenants are frequent, sheriff's sales of homes are rare. Those who do sell ("because of taxes," they say, as well as all their other circumstances) usually cash out handsomely, which is, after all, why their taxes had gone up.

Still, rather than needle people for hypocrisy we might better seize upon the kernel of truth in the Puritan ethic underlying the double standard and turn it to a constructive end, a theme which I will develop later.

**Third, historical experience with assessment freezes, as found in Proposition 13, shows them to be a can of worms.** They are as bad as rent control. In the case of Proposition 13, they are worse because it now seems we will get both, the assessment freeze having created a new demand for rent control. About 10 years ago, W. A. C. Bennett, the Premier of British Columbia, slapped a 5% ceiling on annual increments to property assessments. In just a few years, this produced such glaring inequities and anomalies that last year British Columbia moved manfully out from under it and went back to current market valuation. Its experience and its failure is there for all to see. It is probable that in California, under Proposition 13, in 10 years homeowners,

who now pay one-third of the property tax, will pay two-thirds, because of the higher turnover of owner-occupied homes than corporate lands. It is inevitable that the assessed value of land will fall relative to buildings, because buildings must be replaced every few decades whereas land never must, or can be.

**Then there is the fruit tree anomaly.** Under Proposition 13, a tree can only be assessed at its value when planted, with a 2% annual increment. The value of a seed thrown in the ground or even a sapling planted from nursery stock is so small compared with the mature tree that this is virtual exemption. This anomaly rather graphically illustrates how Proposition 13 automatically favors any appreciating property over depreciating property. The greatest gain here goes, of course, to appreciating land.

The technical complications are endless; uniformity will be the victim. Property is to be reassessed when transferred. What happens if I own a one-quarter undivided interest in real estate and sell it? What if I incorporate my real estate and sell shares to avoid its being reassessed? You may be sure the lawyers are preparing many loopholes. Let us get the word to all the defenders of the market mechanism, the believers in neutrality and uniformity in taxation, many of whom were so prominent in support of Proposition 13. Is this the kind of tax system that free enterprisers believe will create an efficient allocation of resources? They owe us more consistency with their ideals and professions; or else the candor to say their allegiance is to wealth first, and to efficiency when it is convenient.

**Fourth, experience suggests that property tax defenders had best promote stability of land values.** In the 1930s we had property tax revolts because the value of property dropped so low. In 1978 we had a revolt because property values rose so high. For decades people put off tax reform saying it is all right to tax away the unearned increment of those who have owned property whose value rose, but it is wrong to raise taxes on people who have just bought at a high price. But then, when prices actually rose, the winning theme was just the opposite: people whose property rose, "through no fault of their own," should not be burdened with increased taxes. Many Californians like me have made more money in the last two years from the increased value of their homes than they have working for a living. And yet, most of them turned angrily against the incumbents for the small increase in taxes that was asked in return. It reminds one of the sergeant's lament in World War II: "The trouble with youse guys, you never had it so good before."

What can a legislature do to stabilize soaring land values today?

- It can avoid policies which lock up valuable land in cold storage, policies like the Coastal Zone Commission Act, the Williamson Act, and the California Timber Preserve Zone Act (the last, little known, bases timberland assessments on their low use value — growing timber — rather than on their market value, often based on demand for recreation).
- It can distribute state subventions strictly in proportion to population, thus discouraging exclusionary zoning policies. The social costs of these policies are

high, and there is no gratitude from the beneficiaries, the owners of enhanced land values. So avoid them.

**Fifth, legislators should carefully explain to their constituents how the property tax system works.** When California moved toward partial compliance with the Serrano decision, something called "slippage" came into school finance as a partial move toward power equalization. It meant that in some school districts, as assessed values and taxes rose for schools, the voters could not see any comparable improvement in their schools because part of the added taxes were going elsewhere. This, in turn, made local school administrators look bad and thrust on them the burden of explaining the system to a skeptical public. The California legislators, meanwhile, were too clubby; they kept talking to each other. State officials developed an inside language of acronyms, abbreviations, and recondite terms. Voter alienation was inevitable.

**Finally, build no surpluses.** Surpluses attract raiders and raiders are often organized landowners. "Property never sleeps," said the jurist Sir William Blackstone. "One eye is always open." Even though the surplus was built up by taxing income, Howard Jarvis made it seem the most righteous thing in the world that it should be distributed to property owners. He was geared up for this because his landlord patrons kept him constantly in the field.

This, then, is a list of lessons that property tax supporters may learn from California's self-inflicted wound. But there is, I believe, an even deeper lesson to learn. It is that there actually are some warts on the property tax, and we might make an even stronger case by reforming that tax. The property tax does penalize people for creating and importing capital. It does penalize people for improving their homes. It does slow down urban renewal. It does bias landowners against improving land to its highest and best use. But all these and other faults may be corrected simply by modifying the property tax base to exclude improvements and include only land value. Economists of many generations even before Adam Smith and continuing to the present — have preached on the advantages of land as a tax base. Let me enumerate a few of those.

- **A tax on land value is the only tax known to man which is both progressive and favorable to incentives.** One can wax lyrical only about a tax that combines these two properties, because the conflict between progressivity and incentives has baffled tax practitioners for centuries, and still baffles them today.
- **A land tax is progressive because the ownership of the base is highly concentrated, much more so than income and even more so than the ownership of machines and improvements.**
- **Also, the tax on land values cannot be shifted to the consumer.** The tax stimulates effort and investment because it is a fixed charge based merely on the passage of time.
- **It does not rise when people work harder or invest money in improvements.** Think about this. It is remarkable. With the land tax, there is no conflict but only harmony

between progressivity in taxation and incentives to work and invest. In one stroke it solves one of the central divisive conflicts of all time.

The land tax does that because it cuts only the fat, not the muscle. It takes from the taxpayer only "economic rent," only the income he gets for doing nothing. If people could grasp this one overriding idea, then the whole sterile, counterproductive, endless impasse between conservatives who favor incentives and liberals who favor welfare would be resolved in a trice, and we could get on to higher things.

The property tax levied on land values makes the landowner compensate the landless for the latter's exclusion in three ways.

- First, the landowner supports government.
- Second, he has to use his land to produce goods and services for consumers.
- Third, he has to offer jobs to workers to use his land.

This combination seems hard on the property owner. On the other hand, exempting improvements satisfies the need to reward people for saving and accumulating capital. Liberals may scoff at the latter, thus alienating potential friends. But this is both a cultural and an economic need. It is a cultural need because of the Puritan ethic. The elderly homeowner with a cashflow problem is seen as a sympathetic figure rather than a "welfare bum" because the possession of capital is the evidence of a good, responsible life. The person once had the self-denial to consume less than his income. It is an economic need because creating capital is functional, unlike collecting "economic rent" or "land-fat."

The list of economists who see merit in this approach is several pages long. There is an extensive literature which I commend for study, with one warning: whereas some of the later 19th century literature is messianic, the modern scholastic style overreacts and is too timid or pedestrian to signalize the remarkable qualities of a tax which is both progressive and favorable to incentives.

Let us, rather, look at some objections.

- A frequent one is that such a change in the tax system is too great a shock. In the present context, forget it. Proposition 13 constitutes a much more massive redistribution of wealth, and the voters, faced with this choice, simply said, "Whoopie!" The electorate is asking for big changes, so let's not pretend that this is a barrier.
- People have objected that exempting buildings would reduce the tax base. Again, in today's context, forget it. People are asking that the tax base be reduced. Public bodies may take comfort in the fact that the tax reduction caused by exempting buildings is much less than might at first appear because the exemption of buildings from tax is capitalized into higher land values. And there is no economic limit on how high the land tax rate may go, once the public accepts the system.

- People have objected that it is too late to shift to the taxation of land values because people have bought at high prices and society owes them a return on this investment. In today's context, forget it. For one thing, we are talking here about exempting buildings, not necessarily about increasing land taxes (although I personally favor that). For another thing, Proposition 13 was justified not for the sake of those who bought at high prices, but the reverse. It is deliberately rigged to impose higher assessments on recent purchasers than on ancient possessors. The voters did not ask for better treatment for recent buyers. Also, most owners of unimproved land whose taxes would not fall and might rise in my proposed land tax program, can do something about it by subdividing or improving their land, with no resulting increase in their taxes.
- People used to object — some still do — that farmers might be penalized in a land-tax program. While in some rural states farmer power will not let us forget this, the argument has little real force. The main answer is to collect and acquaint oneself with the facts about the ratios of land to improvements for various classes of property. Both urban land and farmland are heterogeneous. As to land-capital ratios, the differences within these classes are much greater than the differences between them. Again, the farmland owner is quite likely to live in the city, and the banker or matinee idol is quite likely to own several farms, so the idea that we have a class of citizens called "farmers" who require special treatment is obsolete. The latest United States Department of Agriculture estimate shows that "farmers" are now reporting nearly half again as much non-farm income as farm income.

In my analysis of British Columbia's assessed values, I find that the ratio of land to building values is much higher in Vancouver than anywhere else in the province, and quite low in the rural areas. Within the Vancouver regional district, the ratio of land to building values is much higher for commercial land than for farmland. The ancient antipathy of "farmers" to land taxes is based on empty rhetoric, misinformation, and confusion, not on fact.

- A more substantial objection is that new developments may cost cities more to serve than they return in taxes. The property tax on buildings is viewed by many as a kind of user charge to compensate for the loads which new residents place on community services and facilities. To the extent that this approach has merit, however, a tax on the value of buildings is only the crudest surrogate for a user charge. Many generators of fiscal deficit get in under this radar. Old decaying houses are an obvious example. As to trailers and tract homes, one reason they may generate fiscal deficits is that the lucky landowner is allowed to walk off with most of the potential surplus in the absence of adequate land taxation. But, more generally there is a large and rapidly growing problem of local awareness of its fiscal bookkeeping problem which, in my opinion, can only be met by distributing state revenues on a per-capita basis regardless of the mode of property taxation.

Summing up, Walter Rybeck, an administrative assistant for Congressman Henry Reuss of Wisconsin, and head of the League for Urban Land Conservation, has sagely suggested that we

distinguish two functions of business: wealth-creating and resource-holding. A good tax system will not make people pay for creating wealth but simply for holding resources. Most taxes wait on a "taxable event" — they shoot anything that moves, while sparing those who just sit still on their resources.

If we really want to revive the work ethic and put the United States back on its feet, we had better take steps to change the effect of taxes on incentives. Legislatures have got in the habit of acting as though persons with energy and talent, and with character for self-denial, should be punished, as if guilty of some crime against humanity. We cannot study the tax laws without inferring that Congress regards giving and receiving employment to be some kind of social evil, like liquor and tobacco, to be taxed and discouraged by all means not inconsistent with the rights of property. Little wonder the natives are getting restless. If we tax people for holding resources rather than creating wealth and serving each others' needs, we will be taking a giant step toward a good and healthy society.