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## THE TRUE PROPERTY TAX REFORM

Many thousands of people all over the United States have been engaged in campaigns to "reform" the property tax. Proposition 13 in California is of course the most spectacular example, but there are many others. While no tax is popular, it seems that people can be mobilized more easily against the property tax than against other taxes such as those on incomes and payrolls.

The tragedy is that all this effort on the part of so many people will not win this country a less oppressive tax system or help the average person, or make the economy work better. Yet that same effort, if it were properly directed, could produce just those results.

Today's property tax reform effort is misdirected because hardly anyone involved understands one basic fact about "the" property tax - that it is not one tax but two. These two taxes traveling under one name are ~~of~~ radically different in their effects on the economy: one bad, one good. When that difference is fully understood - and not till then - the nation will be able to start down to the road to true property tax reform.

This true tax reform, when it happens, will have a powerful effect on the nation. It will make the economy run more efficiently and more fairly; it will literally change the landscape. It will reduce the cost of constructing and owning buildings of all kinds, residential as well as commercial. It will bring into productive use a great supply of valuable land that is now vacant or underused. It will over time eliminate our current shortage of housing and will provide the incentive to rebuild our center cities - doing at no cost what massive amounts of tax money have failed to accomplish. Rebuilding the cities would reduce sprawl development and thereby save vast amounts of energy. The proceeds of the true tax reform can be used to reduce other taxes - notably, those on earned income and investment - that hobble our economy.

Those are bold claims. To sustain those claims, we must begin by understanding the difference between the two property taxes. The first and larger tax is on the value of buildings and other improvements made by human effort. The second and smaller tax is on the value of the land that lies unchanging under those improvements.

So what? one may well ask: the tax all comes in one bill anyway, buildings and land together; all that matters

is the total tax bite, not how they arrive at it.

It matters because the two taxes are so different in their effects on the economy and therefore on all of us, no matter what property we own, if any, and no matter what the tax we pay on it. (Of course, even those who own no property pay taxes passed on - in rent and in the price of goods - by those who do own).

The first tax - on buildings - is both burdensome to those who have to pay it and harmful to the general economy. For the great majority of homeowners and tenants, this is by far the greatest part of the property tax.

But the second tax - on the value of land - is that rare species: a good tax. It's good because it stimulates the economy to function better, for the benefit of all productive citizens. It is unique in this respect: it is a tax that is fairer when it is imposed than when it is not.

A building set on a plot of land is the product of human effort: people applied their labor and tools and capital to create something that did not previously exist. Without people, that building would not exist. The supply of buildings, therefore, depends on human effort; and that depends, in a free economy, on the incentives that people are offered or denied. A tax on buildings will reduce the

incentive to build and so will reduce the human effort put into building, just as taxes on work or capital reduce the incentive to work or invest. The supply of buildings will decrease and, given the same demand, the price will inevitably go up. The result - housing that is scarce and expensive - is painfully evident to anyone who's been looking for a home recently.

But the land on which that building rests is not the product of human effort. It was there long before any of us. The land endures with or without the human effort needed to create a building on it. So a tax on the land cannot reduce its supply. Quite the contrary: as we shall see, a tax on the value of land has the effect of increasing the supply that is available for human use.

The reason for this seeming paradox - taxation that increases the supply of land while reducing that of buildings - lies in the special nature of land and land-ownership.

Consider the landowner. He owns a good, made not by his efforts but by those of nature, of which the supply is forever fixed. (Making new land, for example by landfill, makes economic sense only in rare cases and in minute quantities.) The landowner cannot make more land if the

Price goes up. He can only decide how - and whether - to use what land he has.

In practice the surest, easiest, safest way to make money on land all too often is simply to hoard it: to hold it unused, or underused, against a virtually certain rise in price. This is so because the supply of land is fixed. It would make no sense, at least in normal times in a competitive market, to hoard man-made goods, because someone can always make more of those goods and keep the price down. But since no one can make more land, and since a rising population guarantees an ever-increasing demand for it, the price of land has nowhere to go but up. Then hoarding makes sense. And when the landowner hoards his property he is not only failing to use it himself - he is denying the use of a gift of nature to anyone else.

The evidence of hoarded land is all around us if we open our eyes to it. Even in the most densely populated areas there is much land that is either vacant or underused: a parking lot, for example, where high-rise office space is in demand, or a vacant tract where housing is short. All of the nation's housing needs could easily be met on such land in already settled areas without opening

new areas to development. The owners of these hoarded properties can afford to wait because the market value of their land will rise more year by year, even discounting for inflation, than it costs them in taxes to hold it: the property tax on land rarely exceeds one percent of its value.

Shifting the property tax <sup>2/</sup>into the land would change all that. The incentives built into the present system would be reversed. Once the tax on vacant land exceeded its annual increase in value, it would no longer pay the owner to keep it idle. Unless he wants to go broke, he would then have only two choices: ~~to~~ put the land to use himself or sell it to someone who would. That is how a tax on land value would increase the supply available for productive use.

The other half of the true property tax reform - taking all or most of the tax off buildings - would of course greatly increase the incentive to use the land made available by the land value tax, to put up whatever housing or commercial or industrial buildings the public asks for through the marketplace. The carrot and the stick, less tax on buildings and more on land, would set off a con-

struction boom that would soon rid us of our chronic housing shortage.

The true property tax reform will make the economic system work more efficiently. It will also make the system fairer to all of us. This was the point of view set forth so eloquently more than a century ago by Henry George in Progress and Poverty and many other writings.

George questioned the landowner's title to his property. He holds one of the two factors from which all the good we use are made. The other, of course, is human effort. No one this side of the Emancipation Proclamation would question the right of each of us to the products of his own labor. But the landowner, unlike the laborer, did not make his property. The gifts of nature were not made by anyone - no one human, anyway.

Nor, George argued, does the landowner give his property its value. The resources of nature in themselves have no economic value; what they will bring in the market is determined by human need. The value of land, and therefore owner's income, rises not through any effect<sup>ort</sup> of his but because a growing population needs more space and because society pays for improvements like roads and bridges that also add to the value of privately-owned land.

The value of land, then, is created by the public, by us. And if we created that value, George said, are we not entitled to whatever return it brings, just as we are each entitled to the return on our labor? The land value tax was how George proposed to collect that return. This may sound like a case for government ownership of land, but in George's mind it was not. George was a devout believer in Adam Smith's free market, thought free individuals could manage property better than government, and distrusted concentration of power in the state as well as in private hands. Most important, George believed that we, the public, need not hold title to the land in order to collect the value that is ours by right. George proposed that if we simply view the landowner as a tenant on our commons - the commons being the value we created - we can treat him as any landlord would: make him pay the rent, in the form of taxes.

In the Georgist perspective this is the fairest of all taxes. Indeed it is scarcely a tax at all, since we the public are just collecting the return on our own creation. In fact, it is the only tax that is fairer when it is imposed than when it is not. A tax on the earnings of labor seems in comparison inherently unjust, for it deprives the indivi-



dual of what is rightfully his, the fruits of his own efforts. Similarly, the failure to collect the land value tax is inherently unjust, because it deprives us of the return on what is rightfully ours; we are cheating ourselves.

Such in essence is the case for the true property tax reform. A number of questions are bound to be raised by those interested in the concept. We attempt to answer some of them below.

Q: Why raise the tax on land? Why not just reduce all taxes on property, which is what most people want?

A: First, because the tax on land serves to discourage hoarding and - if you accept the Georgist interpretation - serves to return to all of us revenue that is rightfully ours.

Second, because it is naive to think that one tax can be substantially reduced except at <sup>some</sup> the cost of ~~an increase~~ in another tax. In California, the price of Prop 13 was giving up the opportunity to reduce income or sales taxes. The political reality is that the total tax burden is unlikely to change significantly (except perhaps upwards)

in the foreseeable future. Since the land value tax, unlike most, has a healthy effect on the economy it makes sense to keep it and reduce the harmful taxes instead: those on sales or income or investment.

Q: If taxing land value only is such a good idea, why isn't it being done already?

A: It is. More than two-thirds of Australia's municipalities tax only the value of land for local revenue, and 80% of New Zealand's municipalities do the same. The results are impressive. The great majority of the cities and towns that tax only land value have enjoyed greater construction and therefore overall economic activity than nearby municipalities that also tax buildings (though the total tax is no <sup>higher</sup> ~~lower~~ in the latter places). Perhaps that's why land value taxation is spreading in those two nations. By the way, the decision in each municipality is made by a referendum in which only property owners can vote.

There are other examples. Half the cities in South Africa, including Johannesburg, tax only land value. In Western Canada a number of municipalities tax buildings at a lower rate than the land.

Q: Those places are pretty far away. How about the United States?

A: Four cities in Pennsylvania - Pittsburgh, Scranton, Harrisburg and McKeesport - tax buildings at a lower rate *are pleased with the results, since when they* than land. Evidently they *have* had to pay for higher budgets they increased the land value tax rather than taxes on buildings or wages.

Q: Don't some American cities exempt new buildings from taxes and doesn't that amount to the same thing?

A: Yes they do and no it doesn't. For one thing, these exemptions are usually temporary and always selective. When only new buildings are exempt, their owners are given an unfair advantage over the owners of existing buildings that are not exempt, and in fact have to pay more to make up the difference. The result is that while new construction goes on under the exemption, other tax-paying buildings are being allowed to deteriorate to the point of abandonment. If the latter were also exempt, they would have an incentive to keep up their properties. Besides, an exemption on building does not provide the incentive of the land value tax.

Q: Isn't it impossible in practice for an assessor to separate

the value of the land from that of the improvements on it?  
After all, an improved property is sold as a unit, not as two separate pieces each with its own value.

A: Assessors do it all the time. Some taxpayers currently get bills that separate the land from the improvement value. Even if they get a single bill, the assessor has made a separate calculation for the land value of their property. In fact, assessing land is a lot easier than assessing improvement, because the latter change frequently and are often hidden within the building. Assessing the land alone, which can be determined from sales data, would make the assessor's job a lot easier and his results more accurate, while removing the need for any snooping around peoples's homes.

Q: What are the politics of what you call the "true" property tax reform? Who wins and who loses if it happens?

A: Even in the short run, the great majority of Americans would pay a lower property tax. That includes almost all homeowners except those who own large estates, and the great majority of business people, especially those who operate small businesses. As for tenants, the tax reform would stimulate the construction of apartment buildings and therefore increase the supply - and hold down the price - of rental housing. The

only ones to pay a higher tax would be those who own valuable sites and do not use their property to earn an income commensurate with its value - a very small and unproductive minority. And even they can recoup by putting their property to more effective use. All that is in the short run. In the longer run the stimulus to the economy would be such that everyone can benefit. After all, a growing pie fairly sliced means more for everyone.

Q: But aren't some people still going to be hurt? For example, a retired person on a fixed income who owns a small house on land that has suddenly become valuable?

A: First, someone who owns land valuable enough to be heavily taxed is by definition wealthy and so is not a welfare case. All he has to do is make that wealth produce income and he'll be better off than many of us. Second, whatever rare cases of real hardship might arise can be taken care of through a mechanism that already exists in many states: the so-called "circuit-breaker" under which low income homeowners are exempt from a given amount of property tax.

Q: It may be a good idea in theory, but such a drastic change in the tax system is bound to be dislocating. How would you go about it in practice?

A: The true tax reform isn't an all-or-nothing proposition. It can be implemented in gradual stages to avoid dislocation. Here are three possible stages:

- 1) Better assessment of land, especially land that is vacant or underused. This could be done immediately, and would have substantial healthy effects. Assessors today tend to assess land according to the income it produces, rather than the income it could produce as measured by its market value. So the owner who uses his property effectively is taxed to subsidize the owner who leaves his land idle. If land were assessed and taxed according to its true current market value, two things would result. First, taxes on improvements could be reduced. Second, owners of underused and vacant land would be motivated to put it to use. This is just what has happened in the rare places that have improved land assessment. Examples are Southfield, Michigan, and ~~other examples?~~ Alexandria, Virginia
- 2) Shift the property tax entirely off improvements and on to land. Today about one-third of the property tax is collected from land and rarely exceeds one percent of the value of the land. The shift would, of course, make all buildings tax-exempt;

the tax on land would go up to around three percent of market value. The shift could be instituted in steps over a number of years. If, for example, it were to be implemented over ten years, in each year the tax on improvements would be reduced by ten percent and the tax on land value increased by the same amount. This would give landowners time to put their underused property to better use. Note that the shift can take place independently of any decision about the level of property taxes.

3) Reduce other kinds of taxes - on sales and earned income, for example - by applying a full land value tax not only to land as we think of it, but other natural resources such as fossil fuels and minerals that like land are gifts of nature rather than products of human effort. That is what Henry George had in mind when he advocated a tax that would in effect remove the unearned profit from the ownership of land. In his time such a tax would have made it possible to eliminate all other taxes - hence the "Single Tax" that is associated with George. Even today, a fully applied land value tax, falling entirely on unearned income, would enable us to drastically reduce all taxes on income that is earned. Obviously this is a distant goal that in all probability would not be seriously considered

until the second state of the true tax reform had been successfully implemented. However, some parts of it - how to tax fossil fuels or even use of the airwaves for radio and television - might well be debated today.

Q: Okay, you've got me interested. How can I find out more?

And how can I get in touch with other interested people?

A: See the list of readings below. All are available from....

Or, call or write us:

Courses on the Georgist philosophy and the practical aspects of land value taxation are available at Henry George Schools in the following cities:

We also keep track of local groups that are working for the true property tax reform. Tell us where you live and we'll put you in touch with the nearest one. Or, if you are already active in property tax reform and just need more materials, let us know what you need and we'll supply it if we can.