

COMMUNITY LAND TRUSTS

(a monthly feature)

THE OLD SHELL GAME

Morgan Harris

This month we're devoting our land trust space to the America's first great land reform movement, the single-tax movement founded by Henry George. Morgan Harris here applies Georgist principles in a creative way to the tax inequities frustrating creative innovations in the city and the countryside alike. —Ed.

YOU KNOW THE GAME: The con artist has three half walnut shells upside down on the counter. He lets you see him put a pea under one of them, then he moves them around each other, challenging you to keep your eye on the one with the pea under it.

You watch it closely. When he stops moving the shells, you point it out and he lifts it up. No pea under it!

Yet you are sure you took your eyes off that shell. Of course you didn't. That is the same shell. There never was a pea under it. When you thought you saw him put the pea under the shell, it just looked that way. He palmed the pea.

The important thing to the con man is that you should keep your eyes on that shell so closely that you don't realize his accomplice is behind you picking your pocket.

So it is with tax reform. Just so.

EMPTY WALNUT SHELLS

Similarly, those who are benefiting from the present methods of tax assessment offer the public this walnut shell and that walnut shell — this tax reform idea and that tax reform idea. They do not much care which idea it is, or whether it eventually wins or loses if it comes to a voting referendum.

As long as they can keep the attention of homeowners and taxpayers focussed on some seemingly reasonable proposal, people won't notice how their pockets are being picked. They won't realize how the tax rip off actually works.

One such proposal is to stop the periodic re-assessment of residential property. To only re-assess commercial property. This is reminiscent of the young man who said, "I've figured out how to avoid getting any more parking tickets — take the windshield wipers off my car."

Discussing such alternatives will merely distract from dealing with the real problem.

A more sophisticated version of the same idea is to assess residential property at a lower figure than apartment houses and rental units, and commercial and industrial property assessed at a still higher rate. The basic objection to this proposal is that — like most other tax reform proposals — it assumes that any income is fair prey for the tax collector. It fails to distinguish between earned and unearned income.

Taxing earned income is unjust. It is also uneconomical: it wrecks the economy. I'll quote some authorities on that later.

But "unearned income"....that's how you pocket is being picked.

So who are these beneficiaries of the system I have called con artists, pickpockets? They are upright, respected citizens of the community who have brainwashed the people of this country so thoroughly that almost no one ever questions their economic function. It is taken for granted — that's the way things have always been, therefore that's the way they should be.

In fact, the brainwashing is so thorough that many of them — perhaps most — do not themselves realize they are beneficiaries of a rip off. It's the system that is wrong — not the individuals.

So where is the pea?

POLITICS OF LAND

In 1970 a Ralph Nader task force comprised of 26 native Californians made a study and issued a report called *Power and Land in California*. The report was condensed into a 700-page paperback called *Politics of Land*. Here one can find the stories of the biggest beneficiaries of the tax rip off. The report lists 18 California families who received \$9 million in crop subsidies in one year. This is a welfare check of half a million dollars each — for not planting land they own.

These people have got it made. The average homeowner pays taxes to the government because he owns property. But these people have the government pay them because they own property. And where does that money come from? Taxes paid by other people.

According to this report, J. G. Boswell received

\$5 million — in one year. For not growing crops. For not doing anything. That's unearned income. If homeowners want their taxes reduced, one way is to get rich landowners off welfare.

I talked on the phone recently with a woman in the Office of Agricultural Stabilization and Conservation in Fresno, California.

She told me that I could buy a list of *hundreds* of landowners in Fresno County alone who received over \$5,000 each in 1973. For not growing crops. For not doing anything. Just because they own land.

Politics of Land has 700 pages of facts and figures showing how the rip off works, who benefits from it, and who pays.

While this information is available to you — for \$5.95 — why let your attention be focussed on empty walnut shells?

There are a great number of ways landowners and land speculators rip off other taxpayers, but let's look at the four chief ones.

1. The first one we have just mentioned — they draw cash payments from the government for hold-land.

2. Their second method is to have expensive improvements put in which increase the value of their land, and have other people pay for those improvements. For instance, the California State Water Project, sometimes called the Feather River Project. According to the Nader report, this boondoggle will cost every man, woman and child in the state of California \$500. And who does it benefit? *Politics of Land* says: "This scheme...benefits a few corporate farms in the San Joaquin Valley, a handful of landowners, speculators, developers, and water-using industries in southern California — and the Project's builders."

Another instance: The proposed Southern California rapid transit system will increase tremen-

dously the value of land along its route — particularly around the stations. A sound tax policy could capture this increase and use it to pay part of the cost of the system. But is that being discussed? Not by Nate Holden, chairman of the Senate Subcommittee on Southern California Rapid Transit. A questionnaire he mailed to his constituents in June asked them to check off their preference among several ways of financing the proposed transit system — all of them empty walnut shells. The proposal to collect in taxes the *unearned* increment in land values around the stations was not one of the choices.

I wrote asking him why he did not offer voters this choice. He didn't answer my questions but he said, "...the expense of construction should be borne by all those who will gain by its completion..."

I then wrote asking, "Does this mean all those who will gain *financially* by its completion? If some people who own land along the route of the transit system gain financially — while other people do not gain financially — do you feel it is fair and just to have other people pay the cost of the transit system which puts money in the pockets of said landowners? It looks to me as though this is merely using the taxing power of government to transfer money from the pockets of some citizens to the pockets of other citizens."

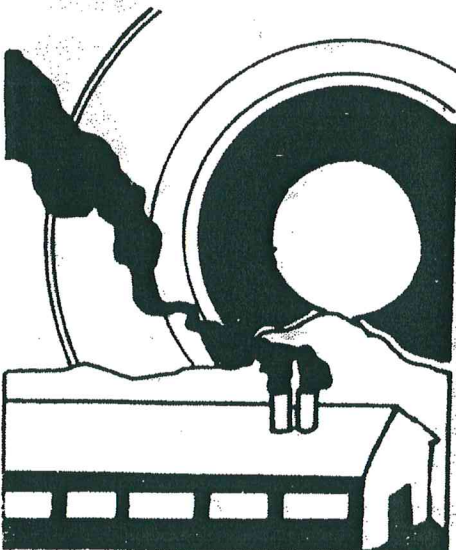
This is probably the biggest rip off of all. (Incidentally, I have received no reply from Senator Holden.)

3. The third way landowners and land speculators exploit other taxpayers through the tax system is simply not paying their share of taxes. They see to it that their land is not assessed at the same rate as other property. In many cases idle land and land that is under-used is not assessed at 25% of its market value, as provided by law. This means the landholder pays less than his share of taxes. Which of course means that homeowners and other taxpayers pay more than their share.

James S. Clarkson, Mayor of Southfield, Michigan from 1961 to 1969, says, "Just correcting the gross underassessment of idle and underused land enabled us to reduce taxes on many homes by as much as 22%."

4. The fourth device by which landowners and land speculators rip off homeowners and other taxpayers is by burdening them with every imaginable tax — anything to keep *land* from bearing its just and proper share of the cost of government.

The average citizen's money is taxed coming and going — with an income tax when he receives it, and a sales tax when he spends it. In between getting and spending he is loaded down with license taxes, excise taxes, hidden taxes, gasoline taxes, trash and garbage collection taxes, payroll taxes, bed taxes in hotels and motels, tariffs, and



taxes on personal property, buildings and improvements.

"ALL I DO IS TAKE THE RENT TO THE BANK"

When I was teaching college economics courses I would ask my students, what economic function do landholders perform? They are paid handsomely — what are they paid for? What does the landholder do?

My students were baffled by this question. They were unable to find any significant economic function that the landholder performs. They realized that he allocates the land as between various individuals who might like to live on it or work on it. But once he has chosen his tenant, all he has to do is to keep away. If he works on his own land, his function is that of labor and the income he produces is termed 'wages.' But as a landholder he is paid rent — for what? The students finally realized that he is paid not to interfere with the productive work being done on the land. He is paid for doing nothing.

The *Los Angeles Times* for September 5th carried a story about federal judge M. D. Crocker of Fresno, who owns 70 acres of land which he has leased out. In a case involving agricultural unions he was asked about a conflict of interest. He said, "I employ no farm workers. All I do is take the rent to the bank."

No economist could have said it better. The landholder, like the land speculator, employs no laborers and does no labor. All he does is take the rent to the bank. Winston Churchill observed this. He wrote: "The landowner renders no service to the community, he contributes nothing to the general welfare, he contributes nothing to the process from which his own enrichment is derived. His unearned increment is too often in direct proportion to the disservice he has done the community by holding his land off the market when it was needed for orderly development."

John Stuart Mill, noted economist of the last century, wrote: "Landowners grow richer in their sleep without working, risking, or economizing. The increase in the value of land, arising as it does from the efforts of an entire community, should belong to the community and not to the individual who might hold title."

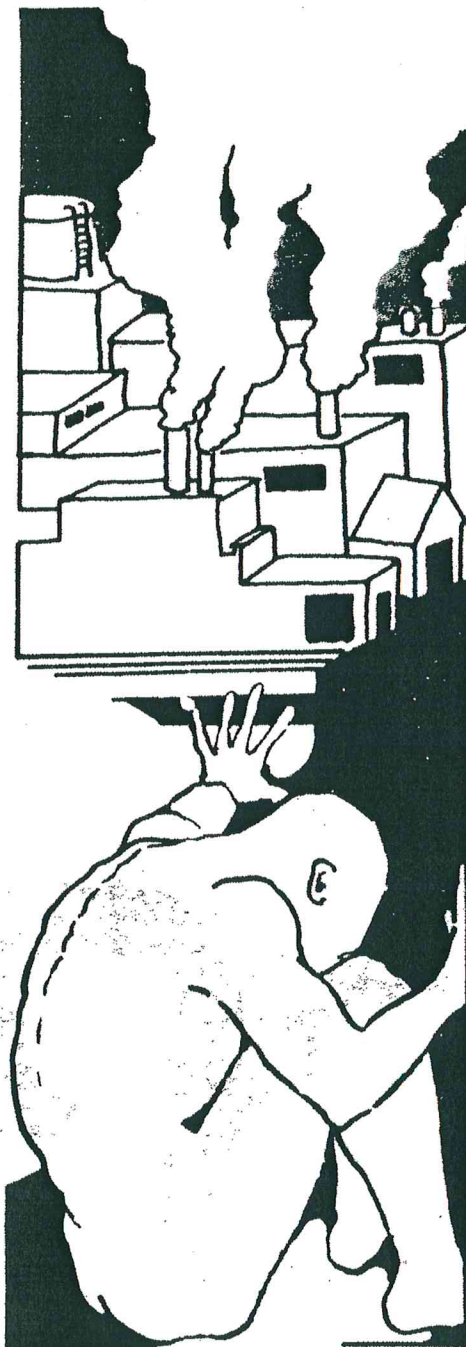
David Ricardo was even more blunt: "The interests of the landowner are directly opposed to the interests of every other element of the economy."

Is it any wonder, then, that landowners tend to maintain a low profile and like to keep the attention of taxpayers focussed elsewhere — on this walnut shell and that walnut shell, this tax reform proposal and that one — anything that will keep them from discovering who is ripping them off and how? The rent that Judge Crocker and other landholders take to the bank is the pea, and it's

not under any of the walnut shells. It's right out in plain sight. It's unearned income. It arises from the land itself and not from anything the landholder does.

Dick Netzer, Dean of New York University's Graduate School of Business, said, "Land values rise mostly because of other peoples' and other taxpayers' investment, community development, and population growth — not because of any actions by the owner. The community creates the unearned increments, and has every right to recapture them by taxation."

Government expenditures for education, for



parks, for roads and streets, for water and lighting, for police and fire protection, create the value of land and the unearned income flowing into the pockets of landholders and land speculators.

For the government to collect as taxes on land the income society as a whole has created is the most practical and reasonable way to relieve homeowners of their unfair burden of taxation. This does not take from any person the product of his labor. Other taxes bear on the back of labor; the tax on land bears only on the land.

WHAT CAN BE DONE NOW?

So what can be done about it?

Many things can be done. Let's look at four of the most important.

1. First, enforce the law. Homeowners and voters can see to it that land is assessed at its rightful value and bears its fair share of taxes, as provided by law. The League of Women Voters is making a statewide, two-year study in California of assessment practices and they'd welcome assistance.

2. Second, citizens should see to it that improvements made by government pay for themselves out of the income they create. This means that government will have to collect, through its taxes on land, the increased value of land which results from government-financed improvements. Every sales tax proposal should be defeated at the polls, as was recently the proposal to finance Southern California's rapid transit system that way.

3. The third thing homeowners can do to defend themselves against being ripped off is to unite with apartment owners and renters, consumers and businessmen to resist and stop any and all other forms of taxation that bear unfairly on taxpayers. This includes voting down every proposed tax (except a tax on land) and all so-called tax reform proposals that are just empty walnut shells without a pea under any of them.

4. The fourth thing that can be done — and this is the most important one — is to remove taxes from buildings and improvements. Houses should not be taxed at all. At present, if you landscape your property, or just keep it up, you're penalized by higher taxes. If you add a room to your home you're penalized by higher taxes. If you build a home you're penalized by higher taxes. Last year in California, State Senator Albert Rodda introduced a State Constitutional Amendment which would gradually remove taxes on improvements over a five year period. The state legislature did not see fit to put it on the ballot for the voters to improve, but Rodda plans to introduce it again in January. This measure would increase taxes on land and abolish taxes on houses. The total tax bill of most people would be substan-

tially lowered because the tax dodgers — landholders and land speculators — would be paying their share.

As the taxes on idle land increase, landholders will put the land to use or sell it to someone who will use it. This will create jobs and thus take people off the welfare rolls.

There is vacant land next to where I live and every few months someone knocks on the door and asks me if there are any vacant lots in the area they could build on. An increase in the taxes on idle land will encourage the owner to put that land on the market at prices people are able to pay.

Of every 100 people employed in construction, 157 people are employed in related industries. Senator Edmund Muskie has said, "...cities are decaying precisely because the property-tax structure discourages modernization, rehabilitation, and replacement of existing buildings."

Robert Hutchins, President of the Center for the Study of Democratic Institutions, put it, "The real property tax...encourages urban blight, suburban sprawl and land speculation. It thwarts urban rehabilitation. ...As a start, we should remove the tax from improvements and put it on the land. In this way, each man would pay his fair share of what the community was doing for him and would not be punished for what he is doing for the community by putting his land to good use."

In those cities of the world where only land is taxed, and there is no tax on improvements, property owners themselves have carried out urban renewal and eliminated slums, at no cost to government or the taxpayers.

In many programs for social or economic reform, we are asked to sacrifice our own interest for the public good. In *this* program we can be absolutely self-motivated and still be good citizens. By doing what is best for ourselves we will be doing more than can be done in any other way I know of to realize the American dream of liberty and justice for all.

MORGAN HARRIS is a writing consultant and the executive director of the Metropolitan Civic Council of LEAF in Los Angeles. LEAF is an organization devoted to promoting Georgism.

SHARE OF NATIONAL WEALTH HELD BY RICHEST ONE PER CENT OF PEOPLE, 1969

| Asset | Share held by richest 1.0% | Average Amount held by a Member of Richest 1.0% |
|-----------------|-------------------------------|--|
| Trust Funds | 91.6 | \$ 31,800 |
| Corporate Stock | 50.8 | 208,500 |
| Bonds | 35.9 | 35,200 |
| Real Estate | 14.4 | 84,100 |
| Bank Accounts | 14.4 | 34,900 |
| Total Net Worth | 24.9 | 367,500 |

Source: J. Smith & S. Franklin, "Concentration of Personal Wealth, 1922-69,"
Proc. Amer. Econ. Assoc., May '74.