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Property Taxation Pro and Con

ACCLAIMED as a leading publication in the site value field is Property Taxation, Housing and Urban Growth, the 72-page report of a symposium moderated by Walter Rybeck, a former journalist from Ohio who was recently connected with the Douglas Commission. The conference was held last March in Washington, D.C. by the Urban Institute and co-sponsored by The Department of Housing and Urban Development (HUD) with 35 noted pro and con participants who expressed a wide variety of opinions. The booklet is available from The Urban Institute, 2100 M Street, N.W., Washington, D.C. 20037 at \$2.50.

Mr. Rybeck agreeably mentioned at the outset that he himself favored site value taxation, but his views were thenceforth withheld. Professor Mason Gaffney, the first speaker, a visiting scholar with Resources for the Future, delineated site value as a device for encouraging urban renewal without a subsidy—a flexible tool operating to facilitate the conservation of existing buildings, and a balancing mechanism of the market place. "Site value taxation, or, more specifically, exemption of buildings from taxation, tends to increase the density which is optimal," he said. Also it was termed an effective means of capturing the increment in value, a means of strengthening the hand of planners by integrating and synchronizing assessment increases with the extension of public works, and a proper way to tax capital gains.

Professor Manuel Gottlieb of the University of Wisconsin objected that density effects would accumulate and cities would be rebuilt under the influence of untaxing one factor and concentrating taxation on others. He believed the discussion should concentrate on first steps only but that it should be discussed totally in its pure form.

Professor C. Lowell Harriss of Columbia University spoke for the long term range and said, "we are not going to rebuild cities before

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the next election, no matter what people may promise . . . nevertheless . . . it would seem to me that shifting from the property tax base would contribute in different ways to getting better structures."

It was conjectured that any tax which was not increased when a new improvement was made would resemble a site value tax. Exemption of new buildings for a limited time of 3 to 5 years was proposed. Regarding land values and their ratio to buildings, Ted Gwartney who was then Assistant Assessor of Sacramento, reported on a ten-year study of increments in land value in Sacramento County. When the charge was made that assessments were erratic and discriminatory he said they had encountered no dissent in making their survey.

After an enthusiastic report by Ronald B. Welch, Assistant Executive Secretary for Property Taxes on California's State Board of Equalization, others agreed that undertaxing of land should be reversed and there should be annual revaluations. A great deal of discussion took place on a method for separating the value of land from the total property, and the extent to which that was important.

It was noted that assessors have a hard enough time as it is, and they have never been accustomed to assessing land separately, therefore a whole concerted resistance would be set up against such a proposal, whereas in Australia assessors have been regularly assessing land as a separate item and would find it unusual to do otherwise.

On the subject of land prices, Mason Gaffney said the expectation that buildings would not be taxed increases the bidding power of potential builders, and this protects the tax base from erosion. In a city like Newark, New Jersey, where most of the buildings are old, this should have a positive effect on land values. They should rise as a result of this factor even though you would not raise the same amount of revenue from the land base.

When someone suggested that the only way to institute site value taxation would be in a new city where all the land was owned by the government or a land bank, Dr. Gaffney made another plea for the aging city as the place where it was most urgently needed.

Some thought that so many holders of land would dispose of it that land prices would be kept down. Mr. Gwartney confirmed from his experience that this was not the case. Farm land might experience a decrease in value but that might have good social benefits. Referring to an earlier discussion of equity he said, "young people under thirty, in order to go into business . . . have to compete on a totally different basis than did these people that we're talking of protecting." If we have to pay increased income taxes on what we produce shouldn't the

landowners also pay taxes for some of their benefits which the community has provided and that they have enjoyed all these years? "My concept of equity," said the young assessor, "is that we all have an equal right to use those things . . . endowed to us by nature." The next speaker didn't go along with that view at all.

On political aspects there was the blunt reminder that "most people vote their pocketbooks," and politicians need quick successes. The question was asked, are you going to introduce site value taxation gradually (and have it stall as it did in Hawaii) or do it all at once? A builder from Virginia countered that differential taxation was more practical—"if you in any way compromise the income stream from real property tax . . . you're dead." He suggested however that tax emphasis be shifted to the land rather than the structure. Professor Frederick D. Stocker from Ohio State University proposed establishing a "sort of new single tax enclave" as an experiment.

Harold B. Finger, Assistant Secretary for Research and Technology said that HUD would try to evaluate the site value approach along with more modest proposals such as reforming the assessment process under the existing property tax structure, and other alternatives.

Dr. Gaffney thought the government had a real and present interest in land values with respect to the income tax, for the basic reason that you can depreciate buildings and you cannot depreciate land. He said the federal government is being cheated out of billions of dollars of revenue every year by people who are assigning a low value to land for federal tax purposes.

Mr. Gottlieb conceded that the prevailing underassessment of vacant land disclosed by three censuses is scandalous and should be corrected, and since local government cannot end land inflation the federal is the only hope. John Shannon (see page 13) suggested implementing the Douglas Commission report which called on the national government to encourage state tax departments to make annual assessment ratio studies and institute training programs.

In closing the report Mr. Rybeck pointed out that such a conference could not have taken place twenty years ago because there was not enough interest. He urged that the subject of site value taxation be explored further.

Spring classes beginning at New York headquarters the week of February 8th touch on money, the market, political economy, social problems and land. These are 15 week courses and the fee is \$20. There is no tuition charge for the basic classes, Monday through Thursday evenings, or Political Economy on Monday evenings beginning the week of March 1st.