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OPINION

Why Ohio must keep the property tax: William S. Peirce

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The Ohio House during a July debate on whether to override Gov. Mike DeWine's vetoes related to property-tax provisions in the two-year state budget. (Anna Staver, cleveland.com) Anna Staver, cleveland.com



By [Guest Columnist, cleveland.com](#)

Everyone hates taxes, but we do need some government. You can ask whether a dollar provides more benefit in the government budget or in your own pocket. You can also ask whether a dollar provides more benefits in the schools or in the police department. But the issue that Ohio voters may need to decide soon is whether to abolish the property tax. Most of those who want to retain the property tax have argued that particular government functions, such as education or county services, are very important. That is correct, but here I want to discuss taxes.

The big three taxes for combined state and local government in Ohio are general sales, income, and property. Each has typically provided about one-quarter of state and local revenue (that excludes federal aid), with the other quarter coming from a patchwork of fees for licenses and services and specific revenues from gambling, tobacco, alcohol, etc.

All three major taxes damage the economy. We hope that the benefit from the government services exceeds the damage from the taxes, so it is important to rely on the least damaging tax. The standard rule in tax theory is that, if you tax something, you will get less of it. If you tax income, the rich move to Florida. Those who stay work inefficiently on their own houses and cars, rather than more productively in the market. People may work for cash or barter to evade taxes. Anyway, why would government want to discourage work?

The same argument applies to sales taxes. Nearly everyone wants to consume more. Sales can also move away. Do you pay your user tax on everything you buy in states that have no sales tax? Some sell for cash to evade the tax. The easiest sales taxes to collect are the taxes on the sales of the large stores where the poor buy their necessities.

Analysis of the property tax is more complicated because it consists of two separate taxes. A tax on the value of land and a tax on improvements, including buildings. The land-value tax does not damage the economy because land cannot move away and the tax must be paid even if the land is unused. The building that is taxed too much will move away as depreciation funds are invested in other states or countries, leaving only the decaying shell of a building where once a thriving enterprise or family flourished. The Ohio Constitution forbids taxing only the land value, and the property tax as currently administered has many other defects that should be addressed.



William S. Peirce, a Professor Emeritus, taught economics at Case Western Reserve University from 1966 to 2001 and ran for governor of Ohio as a libertarian in 2006. Nynke Peirce

Even in its current defective condition, however, the property tax is the only one of the three major taxes that works tolerably well for the overlapping tangle of municipalities and districts of all sizes, shapes, and functions in this state. It is the only way that taxpayers can vote on new spending. Without the property tax, every jurisdiction would have to beg the state legislature and bureaucracy for every penny.

The effect on real estate prices would be disastrous were property taxes to be abolished. House prices would quickly rise. The buyer with a budget of \$2,500 per month knows that property taxes of \$500 per month leave only \$2,000 for the mortgage. If the tax is eliminated, the family can offer more for the house, but so can everyone else. Soon, the market would resemble California since its own property-tax limitation. Old families live cheaply in big houses, while the young pay huge rents to live in garages.

Peirce, a Professor Emeritus, taught economics at Case Western Reserve University from 1966 to 2001 and ran for governor of Ohio as a libertarian in 2006.

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