

The Biggest Subsidy

by PERRY I. PRENTICE

YOU just plain can't afford to go on year after year taxing yourselves and bonding yourselves to subsidize the land speculation and the land price inflation that is now the worst part of today's over-all inflation—the land price inflation that threatens to price good new housing out of the market, the land price inflation that is doubling the subsidies needed for urban renewal, the land price inflation that is proliferating sprawl as home builders leapfrog further and further into the countryside to find land they can afford to build on, the land price inflation that is forcing cheaper construction standards on every new building, the land price inflation that is frustrating good land planning everywhere.

This is the subsidy nobody seems to know. It's a hidden subsidy, so well hidden that it never gets on the government's books. It's so well hidden that the beneficiaries are never named, so well hidden that they never get a government check for their subsidy payment. It's a secret subsidy worked, not by sending subsidy checks to the beneficiaries, but by tax treatment so extremely favorable that (in Fortune's words), "It almost completely exempts land speculation from the ordinary working of the law of supply and demand." It is worked by taxing the owners of unused and underused land so lightly that they pay only a trifling share—perhaps 2 or 3 percent—of the truly enormous cost other taxpayers must absorb to pay for the public improvements that multiply the value and selling price of their underused land.

Unless I am very much mistaken this hidden subsidy—this subsidy of public improvements for private profit—is the biggest subsidy of all—far bigger than the shipping subsidy, bigger

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even than foreign aid, bigger even than all the federal farm subsidies, which, not so incidentally, the federal government's own report on the causes of rural poverty has now identified as mostly a land subsidy that has "created a class of rich rural landowners but done little to improve the condition of the rural poor." It has made more Americans rich at the public expense than all our oil wells and all our gold mines.

Once in a blue moon this subsidy becomes so obvious that it arouses public protest. For example, when you bonded yourself for nearly a billion dollars for Bay Area Rapid Transit the windfall for landowners around its stations was so big and so obvious that Lady Barbara Ward, the world-famous editor of the London Economist, heard the report 5000 miles away in England and urged you to get busy and recover some of that windfall from the landowners. We have had a similarly obvious example in New York, where the landowners on Staten Island are happily pocketing a \$700 million windfall because other taxpayers put up \$350 million for a bridge that will make their land twice as accessible; and in New York we are amazed to hear tales that along with enriching many other landowners you Californians seem willing to enrich one single California family with a \$200 million windfall as a direct result of your bonding yourselves for \$1,750 million to bring Feather River water cheap to irrigate 400,000 arid acres on the way to Los Angeles!

But most of the time the subsidy for land speculation and price inflation is so well hidden that I've got to confess that even after sixteen years at the very heart and center of the building industry as editor of its biggest architectural magazine and editor of its biggest homebuilding magazine I had no foggiest realization of how many different subsidies are compounded in the total subsidy and how big the total subsidy for land speculation must be.

What opened my eyes was a research report from the truly excellent Regional Plan Association in New York spelling out in detail that for every family added to the Metropolitan population the taxpayers will have to pony up an average of \$16,850 for the capital cost of the infrastructure of new schools, new highways, new mass transit systems, new water systems, new sewage systems, new pollution controls, new police facilities, new parks, new fire protection, etc., that will be needed to let that added family live there—all this over and above the on-site improvements the builder or developer pays for himself. Change one word in that sentence to read per lot instead of per family and you get the truly shocking figure that other taxpayers will have to pony up an average subsidy of \$16,850 per lot to make it possible for the owner of a lot to sell it to a new family for, say, \$8000!

I've never seen a comparable analysis of how big a subsidy you California taxpayers are having to pony up to enable your California landowners to get such fancy prices for land that would be worth only a fraction as much without this huge investment of other taxpayers' money. Maybe your California subsidy would be only \$12,000 of other taxpayers' money to let California landowners cash in for \$6000 a lot. But whatever your exact figure may be here, the subsidy is still a lot more than you can afford to go on taxing and bonding yourselves to provide.

This proves that owning land is the bonanza way to make money because under today's property tax breakdown other people—mostly other taxpayers—put up most of the money needed to make the land more livable, more valuable and more richly saleable—but *only the landowner can cash in on that huge investment of other people's money!* And that's why, in the words of Economist John Stuart Mill, "landowners can get rich in their sleep."

A hundred and sixty years ago that father of classical economics David Ricardo spelled out a simple truth that is still almost unchallenged. "The interest of the landowner is directly opposed to the interest of every other element in the economy." In other words, what's good for the landowner is no good for anybody else, and today's subsidized land price inflation that is so good for today's landowner is bad for everybody else, including specifically bad for the homebuyer, bad for the homebuilder, who has to pay too much for land to build on, bad for the land developer, who has to pay too much for land to develop, bad for the mortgage lender who finances the inflation, bad for the realtor who has to sell the inflated price, bad for the architect, who has to cheapen his design because the landowner has taken too big a profit out first, bad for the land planner whose planning is frustrated by high land costs, and for all me bad for General Motors.

So it beats me why we should single out the landowner whose interest is so opposed to everybody else's and reward him with the costliest subsidy of all. And it beats me that you Californians are actually thinking of increasing the subsidy to land speculators and land speculation by putting on your ballot a proposal to reduce the land tax still lower instead of increasing it to get back in taxes a little more of the unearned increment you are now subsidizing.