

the center would satisfy most of the demand that is now proliferating sprawl, thereby making land available for low density living less than half as far out as now.

"If you want to hold down the cost of municipal services, it is foolish to undertax underused urban land and so encourage sprawl, for almost all municipal costs - water supply, sewage disposal, garbage collection, streets, school bussing, fire, protection, police protection - are multiplied by distance.

"If you want to get rid of slums, it is almost unbelievably foolish to subsidize slums by assessing and taxing slum properties only half or a third as heavily as good housing with the same market value.

"If you want to speed up the replacement of obsolete buildings such as now pre-empt so much of the downtown land in every city, it is foolish to keep them standing and profitable by taxing not only the aging buildings, but also the land under them, less and less as the buildings get older and more and more rundown.

"If you want to check the land-price inflation that threatens to price good new homes clear out of the market, it is foolish to subsidize that inflation by assessing and taxing land lightly and then penalize the homebuyer who has just paid too much for his land by taxing him too much on his house.

"In brief," the round table concluded: "there is hardly an urban problem today that is not made worse by today's practice of undertaxing land and overtaxing improvements."

And that's why the 1973 president of the National Tax Association reports that "Practically all competent economists who have studied the problem are now agreed that land should be taxed much more heavily and owner-paid-for improvements should be taxed much more lightly if at all."

Only Two Sources

"A TAX is no more a *source* of Public Revenue than a pump is the source from which it pumps, such as a lake, watershed, spring, etc." writes Noah D. Alper in his latest pamphlet, *The Manufacturer vs. The College Professor on Taxation*.

"A tax is like a pump. This truth alone, when recognized, will go far in causing a reorganization of economic instruction in our institutions of higher learning."

Mr. Alper is president of the Public Revenue Education Council, of St. Louis, Mo. He contends that there are only two *sources* of public revenue, viz., (1) the rewards of human effort, and (2) RENT-of-land. His perception of this truth, for such it is, is nowhere surpassed. With deep insight, impeccable logic and painstaking care he has mentally traced the results which flow according to which source is "pumped" by taxation. Most of his writings—and the present pamphlet is no exception—are undertaken with an earnest desire to help others to see and understand this basic issue. With good cause, he is scornful of the inept and distorted teaching of the economics of taxation in American colleges and universities.

Preoccupation with *taxes* rather than with *sources* is, in Mr. Alper's view, the most harmful of all economic errors. It causes endless squabbling and squawking by both capital-owners and labour (who have common basic interests in taxation) and keeps people in a continuing state of excitement about schemes that stir up but do nothing to remove the tax mess.

(FROM JUNE, 1958 ISSUE, LAND & LIBERTY, ENGLAND)



Will we and the other peoples of what we call the "free nations", forever fail to understand how the RENT-of-land differs from the earnings of labor and capital? Will we — and they — continue to tolerate and participate in the maintaining of substantial barriers against effective operation of the incentives on which the free private enterprise system must rely? And will the future, perhaps, therefore belong to the socialized nations of the communist bloc, instead of to freedom and to us?

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HARNESSING THE PROFIT MOTIVE TO BETTER LAND USE

A Talk Before The COUNCIL FOR URBAN ECONOMIC DEVELOPMENT CONFERENCE

on

"THE FRONTIERS OF GROWTH: THE FUTURE OF THE LOCAL ECONOMY"

by

PERRY PRENTICE *

November 25, 1974

(*) Mr. Prentice was for 25 years Vice President of Time, Inc., and was formerly editor and publisher of House and Home, the world's largest building trades magazine, and of The Architectural Forum when these were published by Time, Inc.

The last time I spoke at the American Institute of Planners I told the planners very sympathetically that if I were a planner I would be so discouraged and frustrated that I'd be tempted to just go jump in the river.

Planners spend their lives making great plans for better land use, plans for better cities and better suburbs, plans for saving the countryside from sprawl and premature subdivision, plans for reversing urban blight and decay, plans for making our cities so attractive that taxpayers will want to move back to them instead of running away.

But year after year nothing much comes of these great plans, and that's why I was asked to be with you here today.

For I don't believe there is a chance in the world we can achieve the better land use the other speakers have been talking about unless and until we stop subsidizing bad land use by undertaxation and stop penalizing good land use by overtaxation. I don't believe there is a chance in the world we can achieve good land use and good planning unless and until we make the tax changes needed to harness the profit motive to what we want instead of harnessing it (as now) to so many things we don't want.

The importance of these tax changes is spelled out at length in the careful research reports of Dr. Lowell Harriss for the United States Chamber of Commerce and the Tax Foundation, of Dr. Dick Netzer for the National Commission on Urban Problems and the Brookings Institution, and Dr. Mason Gaffney for the Urban Land Institute, the Lincoln Foundation, and the Schalkenbach Foundation. It is put into simple but authoritative words in the consensus of the outstanding urban experts at two Round Table conferences variously cosponsored by the National League of Cities, the Council of State Governments, the American Institute of Architects, the Conference of Mayors, the National Association of Counties, and the Luce magazines, and to avoid

wasting your time listening to my own opinions I'm just going to read you a few paragraphs from what these experts had to say about why land should be uptaxed and improvements should be downtaxed.

"Wisely applied, the property tax on which local governments depend for 83 per cent of their tax revenue could be one of the wisest and fairest of all taxes; but as most cities apply it today it may well be the very worst - a weird combination of overtaxation and undertaxation, an incentive tax for what we don't want and a disincentive tax for what we do want. It harnesses the profit motive backward instead of forward to both urban renewal and urban development. Too often it makes it more profitable to misuse and underuse land than to use it wisely and fully, more profitable to let buildings decay than to improve them or replace them.

"Too few tax leviers seem to understand that the property tax is not just one tax; on the contrary, it combines and confuses on one tax bill two completely opposite and conflicting taxes, and it would be hard to imagine two taxes whose consequences for our cities, our suburbs, and our open country would be more different.

"One of the two conflicting taxes fused and confused in the property tax is the tax on the improvement - the tax on what past, present, and future owners of the property have spent or will spend to improve it. And it must be obvious - repeat, obvious - to anyone that heavy taxes on improvements are bound to discourage, inhibit, and often prevent improvements.

"The other levy confused in the property tax is the land tax - the tax on unimproved location value of the site, the tax on what the property would be worth if the owners had never done anything or spent anything to improve it, the tax on a value that derives mostly from an enormous investment of other peoples' money and other taxpayers' money to create the community around

it and make the location accessible, livable, and richly saleable."

"And it must be obvious - repeat obvious - to anyone that heavy taxes on the location cannot discourage the owner from improving it; on the contrary, heavy taxes on the location could put effective pressure on the owners to put their sites to better use so as to bring in enough income to earn a good profit after paying the heavier land tax.

"All this is so obvious - repeat, obvious - that you would think every city would try to tax land heavily and tax improvements lightly if at all; but just the opposite is the case. Almost every city collects two or three times as much money from taxes on improvements as from taxes on land. In fact, many cities tax improvements more heavily than the combined local, state, and Federal taxes on any other product of American industry except hard liquor, cigarettes, and perhaps gasoline.

"Conversely, millions of idle urban and suburban acres are so underassessed and undertaxed that the owners have been able to hold their land off the market for a net yearly cost well under 1/2 of 1% waiting for inflation and an enormous investment of other peoples' money to double or triple its price."

So, getting down to specifics, the Round Table authorities said:

"If you want to minimize suburban sprawl and stop blighting the countryside with premature subdivision, it is foolish to assess and tax close-in land so lightly that its owners will be under no tax pressure to release their land at a reasonable price when it is needed for orderly urban growth.

"If you want to make low-density living possible closer to downtown, it is foolish to subsidize the waste of central-city land by undertaxation. Research inspired by the Urban Land Institute found that better utilization of the land close to