

THE TRILLION-DOLLAR COST OF TODAY'S PROPERTY TAX

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I think it is wonderful that so many Georgist leaders have come together here from all over the world to celebrate the centennial of Henry George's master-work PROGRESS & POVERTY.

But I'm afraid that for many of us this should also be a week of lamentation in sackcloth and ashes, for in all those hundred years we have failed to persuade the Powers That Be in even one city in all the United States or even one city in all of Europe to adopt the property tax reform Henry George died fighting for ...

The property tax reform needed to harness the profit motive to what we want for our cities, our countryside, and our people instead of harnessing the profit motive to so many things we don't want...

The property tax reform we are very wisely beginning to call incentive taxation, because it would give private enterprise a strong incentive to improve and build instead of (as now) penalizing private investment in improvements by overtaxation and subsidizing land speculation and land price inflation by undertaxation.

Others have come from afar to tell you about the problems and the progress or non-progress of Georgist tax reform in other lands, so from this word on I speak only of our own almost complete failure here in America and I will try to help you see that the results of this failure have been almost unbelievably costly, and to help you see the urgency of reversing our failure before it is too late.

And perhaps the quickest way to dramatize our failure would be to remind you that when Henry George proposed the single tax on land to pay all the cost of government, the property tax on land was already providing enough revenue to pay nearly half of all the costs of government -- local, state and national -- whereas today the land tax is barely meeting 2% of our government costs!

Instead of doubling the tax on land as Henry George proposed we now tax land so lightly here that land speculators and other owners of unused, underused, and misused land can hold it off the market at a net yearly tax cost seldom if ever exceeding 1% waiting for inflation and a multi-billion dollar near by community investment of other people's money and other taxpayers' money to double or triple its market price -- i.e., to increase its market price 100 times and sometimes 200 times as much as their cost for keeping it idle.

In the spread city around New York the Regional Planning Association added up the cost to the community per each new residence for schools, roads, water supplies, police and firefighting facilities, sewerage lines and sewage disposal facilities, etc., etc., etc., needed to make the residence liveable, and came up with a figure of well over \$30,000 for each additional residence. Here on the West Coast the Southern California Real Estate Research Council came up with a figure of barely \$1,000 less for Los Angeles.

And I'm sure you will all agree that \$30,000 per additional Residence or \$60,000 per acre gives land speculators in the growth areas in and around our cities a very juicy subsidy.

Today's undertaxation has now been capitalized into a land price total estimated by the Federal Census Bureau at roughly two trillion dollars (2,000,000,000,000), giving land owners an almost completely unearned increment denounced by FORTUNE as "more than double our vaulted investment in industrial production" and imposing on our economy a burden more than twice as heavy as the 800 billion dollar Federal debt!

Our failure to sell local property tax reform has been by far the biggest single cause of urban decay and slum formation. It has been by far the biggest cause for land waste. It has been the only cause of the premature subdivision of millions of outlying acres that should have been left open country for farming and recreation until well into the twenty-first century.

Our failure is the only reason -- repeat, the only reason -- why land prices were already soaring 6.19 times as fast as the rest of the consumer price level at the time of the 1966 Douglas Commission Report -- and that was before land prices really took off into the wide blue yonder. And this land price inflation coupled with the overtaxation of improvements is the biggest if not the only reason why multi-billion dollar subsidies seem to be needed to meet our housing needs -- and despite all these multi-billion dollar subsidies the shortage of good housing is still so great that one out of every ten American families still has to live in sub-standard housing!

Perhaps more importantly, this land price inflation subsidized by the undertaxation of land is by far the biggest single domestic element in the overall price inflation about which everyone is now so concerned. Says FORTUNE: "The inflated price of land raises the price of everything we buy." Says TIME: "The soaring price of land for farming is perhaps the reason for the soaring cost of food."

And now homeowners are rushing to cash in on the crazy inflation in home prices to add three times as many billions of dollars to the consumer debt total as this year's \$31 billion-plus increase in the Federal debt that so many economists consider the biggest cause of inflation! In Florida, to cite a shocking example, one sizeable mortgage lender has been going on the air night after night to ask homeowners if they would not like to increase their mortgages \$15,000 to take their families to Hawaii for a month's vacation!

Enough is enough, so I will take no more of your time to spell out the costly consequences of our failure to sell the voting public and everyone in Government on the urgency of the local property tax reform Henry George died fighting for.

But now I must go on unhappily to remind you that our failure to sell Georgist tax reform is a double failure, for Henry George did not stop short by just urging a single tax on the unearned increment in land prices to pay almost all the costs of government. He also questioned the right of any government to take away through taxation any of the money workers and enterprisers rightfully earn by their labor and investors earn by the wise investment of their savings, to create more jobs and provide the facilities needed to increase production and productivity.

That was in those almost-forgotten days before (in the words of Senator Hayakawa) we began "destroying the incentive to succeed" with a \$2 billion-a-year Federal Tax on individual incomes that taxes away to roughly a third of all non-tax-exempt income over \$25,000 and a half of all non-tax-exempt income over \$50,000 a year. And that was before our country began taxing business profits more heavily than does any other supposedly non-Socialist country!

In all the centennial years we are here to celebrate we Georgists have no government in our country applying the Georgist remedy for poverty. Quite the contrary: land is now so lightly taxed that land ownership is by far the biggest of today's tax shelters and we are imposing a multi-billion dollar added tax burden on workers and investors to support the poor on welfare and to shelter them almost rent-free in subsidized housing!

What makes our hundred-year disappointment doubly difficult to understand is that quote "Practically all competent economists who have studied the problem now agree with Henry George that land should be taxed much more and private investment in improvements should be taxed much less if at all". So says the eminent Columbia University Professor who is Past-President of the National Tax Association and now serves as economist for the Tax Foundation; and Professor Harriss adds that the need for Georgist property tax reform is much greater today than it was a hundred years ago!

Perhaps equally important, the consensus of a conference of urban experts co-sponsored by the Council of State Governments, the Conference of Mayors, the National League of Cities, the National Association of Counties, and the National Governors Conference -- a conference whose panel New York's Mayor hailed as the Who's Who of Urban Development -- laid it on the line that: "It should be obvious --repeat, obvious -- to anyone that heavy taxes on homes and other improvements are bound to discourage, inhibit, and often prevent private investment in improvements.

"It should also be obvious to anyone that heavy taxes on the community-created location value of land cannot discourage or inhibit improvements. On the contrary, heavy taxes on location values could put strong pressure on the owners of under-used land to put their land to better use.

"All this is so obvious that you would think every community would try to tax land heavily and tax improvements lightly, if at all; but just the opposite is the case. Almost every community collects two or three times as much money from taxes on improvements as from taxes on land."

To this the one exception is Pittsburgh, where at long last the local Georgists can take just pride in having persuaded the city government to make the city tax on land four times as heavy as the city tax on improvements. But even in Pittsburgh, half the full burden of property taxation still falls on improvements, for the Pennsylvania Constitution still requires the heavy school and county tax to fall at the same rate on land and improvements.

Every unprejudiced property tax study from coast to coast has supported the case for Georgist property tax reform, including the studies for:

The Federal Commission on Urban Problems
The Chamber of Commerce of the United States
The Federal Advisory Commission on Intergovernmental Relations
The Congressional Research Service
The Brookings Institution
The House Committee on Banking, Finance & Urban Affairs
The State Governments of Michigan, Indiana, Pennsylvania and North Carolina
The Provincial Government of Quebec (which called the land tax "the ideal instrument to enable the entire community to share in the increase in land values that results from economic and population growth and undertakings paid for by the community rather than the owner".)

And also by many local studies, including major studies in Milwaukee, Kansas City, Omaha, Washington, Buffalo and Indianapolis.

Here in California the case for Georgist property tax reform is supported by local studies in San Francisco, San Jose, San Diego, and Fresno, and the President of the Center for the Study of Democratic Institutions in Santa Barbara laid it on the line that "the present property tax promotes every unsound public policy imaginable."

But in the face of all these studies the voters of California rushed to the polls last year to vote for a 40% property tax cut whose most immediate beneficiaries are the owners of unused land and whose first result was to send land prices soaring still higher in a state where land price inflation was already worse than in any other state -- so high that last year the Irvine heirs were able to sell for \$413,000,000 the remaining acreage of the ranch their grandfather bought in Henry George's time for \$93,000!

In the face of all today's mounting evidence that Henry George was so right, how can we explain our hundred-year failure to sell Georgist tax reform, not just in California, but in any other state in the Union?

Perhaps one explanation is that too many long term public decisions are based, not on long-term benefits, but on the short-term benefits they offer. Says Nobel-laureate Albert Szeni-Gyorgyi in "The Crazy Ape" (published by the Philosophical Library): "We sell our more distant vital interests for minor immediate gains".

So, for example:

1 - Too many owners of existing office buildings, existing apartment houses, existing store buildings, existing warehouses, etc., etc., think they have a short-term interest in not lessening today's heavy tax penalty and disincentive on the construction of new office buildings, new apartment houses, new store buildings, and new warehouses that would compete with their aging properties and tempt their tenants to move out unless their rent is lowered.

2 - Too many bankers who hold mortgages on existing buildings think they have a similar short-term interest in preserving the tax disincentive that keeps new construction from out-running or even keeping up with new demand.

3 - Too many homeowners who bought their homes with every assurance that housing prices would keep on going up and up would be unhappy if property tax reform were to stimulate enough new home building to ease the local housing shortage and so bring housing prices down and threaten the unearned increment they counted on when they paid too much for their own purchase.

4 - Too many land developers are afraid that uptaxing land would at once deflate the value and increase the holding cost of acreage for which they had already paid ransom prices reflecting today's almost ubiquitous under-assessment and under-taxation of vacant land.

But for the long term the tax reform Henry George died fighting for would be good for almost everybody, including most specifically:

1 - It would be good for everybody in the building business, for it would help bring down the too-high price of the builders' biggest purchase (land) and make their product easier to sell by lessening the improvement-tax penalty its customers have to pay.

2 - It would be good for homebuyers and all the building industry's other customers, for they are the final victims of today's inflated price of land and end up paying the entire bill.

3 - It would be good for our cities, for it would help bring down the too-high price of in-city land and the too-high tax on in-city buildings that is driving people and jobs out to where land is cheaper and taxes are lower.

4 - It would even be good for most farmers, though it may be a waste of time to try to sell them on its benefits. A farm-by-farm tax sampling in Pennsylvania's rural Indiana County found that up-taxing farm land and down-taxing farm improvements would actually lower the property tax on all the better farms. The only farmers who would be taxed more are farmers who are letting their farms run down. And it seems to me most significant that the only place in the whole United States where improvements are completely tax exempt and the whole burden of the property tax falls on the land is the farm area of North Dakota. This would have been impossible if the farmers had not recognized that it would be good for them.

In brief, The only big gainers by our hundred-year failure to sell Georgist property tax reform are the big land owners and land speculators who are now finding it easier than ever to get rich in their sleep on the enormous unearned increment in the price of their land.

So I hope and pray that at this centennial we will not just bow down to worship at the shrine of Henry George. I hope that all of us will hereby firmly resolve to stand up and fight, like him, for the tax reforms he died fighting for.

I hope and pray that the second century of PROGRESS AND POVERTY will not be another century of failure, but a great century of progress. I hope and pray that very early in this century we can achieve the Georgist tax reforms that are now needed more urgently than ever before.