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LAND TAX EXEMPTIONS

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and

REPORT FROM AUSTRIA

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WHY LAND TAX EXEMPTIONS ARE UNSOUND

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The amount of ground rent available for public use can be altered in different ways. Assessment practices, tax enforcement procedures, centralised controls and aids can affect public rent collections as much as a shift of the local tax base from buildings to land. Those who want to improve the public revenue system can do so more effectively if they are familiar with all such avenues of advance.

An avenue of advance which is already important and which will be more important in years to come is abolition of the special tax exemptions enjoyed today by certain private lands. Much public land is also tax exempt, but this presents a different problem, as will be shown.

Special exemption from the tax rates imposed on land generally is, on its face, a violation of the principle that land rent belongs to the public. The rent is not collected; it is forgiven. It remains in private hands.

Defenders of exemptions do not permit the case to be closed so summarily, however. The exemptions, it is argued, are given only to certain "non-profit" or "welfare" organisations which perform "public" services. The rent they keep is therefore devoted to "a public use." In this view, the exemption does not violate principle after all, but constitutes, along with the leasing and taxing, a third alternative for socialising rent.

If it is determined that certain welfare organisations are indeed performing public services and deserve the support of public money, tax exemption is not the only way to provide it. Direct subsidies could be given. Direct subsidies, being known in amount and subject to reconsideration every year by the same elected representatives who are responsible for the public budget, would be subject to the established controls. The annual reconsideration of existing exemptions is no more than a tedious formality which weighs neither the value of the service performed nor the value of the land exempted. Exemptions is not expenditure. It is non-collection. It is private retention of rent unaccounted for.

In the USA many state constitutions allow land to be held tax-exempt by certain types of welfare organisation to whom appropriations of

public money are, as a matter of policy, denied. Here is a profligate settlement. The smaller privilege of controlled appropriations is denied. The greater privilege, uncontrolled retention of ground rent, is permitted. The inconsistency stems from the habit of seeing all taxes as invasions of a sphere that is rightfully private. The exemption of land from taxation is not seen for what it is - the denial of a common right. Taxes are looked upon as a necessary evil from which, if it were only possible, all should be relieved, and from which we can at least relieve those deemed worthiest.

It would make as much sense to relieve such welfare organisations of their municipal water bills. Taxes upon land are not invasions but dues. They should be collected with the same firmness a municipal water department shows to its customers. If a desperate, deserving water customer cannot pay his bill, he turns not to the water department for exemption, but to the welfare department for a grant-in-aid. Land taxes should be levied with the same inflexibility.

The familiar evils that result from exempting all land from taxation are visible when some land is exempted. Consider land speculation, for example. Exempt interests are placed in a particularly favourable position to speculate in land values, since they are not even subject to the small taxes other land speculators must pay. Many a welfare organisation, faced with the question whether or not to move from land that is unnecessarily valuable, postpone the move in anticipation of getting a higher price later. Were they subject to taxation the same as other landholders, the annual tax bill would promote better use or surrender of the land to someone who could use it better.

The same kind of inequality that results when land generally is relieved of its financial obligations exists on a proportionate scale when certain lands are tax-exempt. One welfare body may occupy extremely valuable land in a growing business district; another may be in a poor residential neighbourhood. Tax exemption may be of immensely greater benefit to the one in the growing business district, yet the organisation in the poor residential neighbourhood may be better located for performing its service. A third welfare body, possibly more useful than either of the other two, may be a non-landholding tenant, and therefore incapable of benefiting from tax exemption. A marginal business which, by strictly objective standards, may be of greater public service than any of the non-profit welfare organisations, is also excluded from the exemption privilege.

Or consider the snoop regulations, the red tape and paper work necessarily involved in land-tax exemptions, as in any other form of special privilege. When certain land uses involve the privilege of holding land tax-exempt, definitions of that use must be established, applications and reports must be devised to make sure that use is continued, and borderline cases must be resolved. Privilege and regulation inevitably go

together. The exemption privilege also involves the possibility, realised in more than one modern nation, that tax-exempt interests will acquire large areas of valuable land. Whatever their intentions, whatever the sentiments in their favour, these interests, because of their privilege, stand separate from the common man, vulnerable to the claims of equal justice.

Where land and buildings are taxed together, they are generally exempted together. The proper solution, of course, is to exempt the building and tax the land. If a choice is to be made between taxing both or exempting both, taxation has two advantages: (1) It avoids the worse alternative of a non-property tax which does not fall at all upon land as such, (2) It enlists welfare bodies in the drive to untax buildings. Exemption of both their land and buildings places welfare bodies in a position where they stand to lose rather than gain from the advent of sound taxation. This is not the way to win allies.

The underlying sentiments which today favour land-tax exemptions are two: (1) Partiality to an exempt interest, (2) Distrust of democratic government; private welfare organisations are felt to perform public functions more effectively than publicly elected representatives.

As to the second, two points must be made: (1) Government efficiency is related to the source of public revenue. Direct taxes on land promote efficiency. (2) Surrender of the public revenue to private welfare bodies amounts to abandonment of common rights to land. The rent fund is no longer administered by delegated representatives, but by a select aristocracy. We must choose between representative government and unequal rights to land. There is no third position.

REPORT FROM AUSTRIA

By Philipp Knab
A Vice-President of the International Union

Since reporting to the Tenth International Conference on Land-Value Taxation and Free Trade held at Hanover, Germany, in midsummer 1959, there have been no spectacular changes in Austria either as regards the general political and economic situation or the advance of our movement here. Yet to the more discerning observer it appears that there is reason to hope for a climate of opinion conducive to the realisation of our ideas in the not too distant future.

This country, in its delicate state of neutrality between the two dominating powers and doctrines of today, is internally governed by a conservative-socialist coalition with but slightly oscillating alternative majorities. The people, in spite of some uneasiness as to coming events, are upon the whole satisfied with their present state of comparative affluence in the wake of world wide trade expansion. They have got used to the housing shortage and gradual inflation and enjoy their cars and television.

However, this continuing but not altogether happy welfare mentality, which has led to practically rigid political fronts inside, is now being threatened from without by the splitting of Western Europe into two economic camps, commonly called the Six and the Seven. If Austria fails to bridge the gulf between the two, and to associate herself with the former, it is feared she might lose her best markets and incur the risk of heavy unemployment with all its dire consequences. Public feeling runs high in discussion of the measures to be taken to avoid what is considered to be an economic crisis of great dimensions.

In this dilemma between economic breakdown and sinister soviet threats in the event of any approach being made towards the E.E.C., it has not occurred to anybody except to the few Georgeists that by taxing land values the burden of taxation on trade and industry could be lightened to such an extent as to render exports competitive in any market.

We are trying to bring home this argument to the people in charge, although our voice may be but a whisper in the dissonant chorus of vested interest.

Another chance of bringing land-value taxation once more to public notice is provided by the formation of advisory committees by both the leading political groups to deal with the housing problem which has been

haunting the Austrian people for nearly a century. We are in contact with the experts on each side, and there is some chance of actual progress. Here the prospect of European integration proves helpful as an accelerating factor.

Needless to say, deficit spending in vogue all over the world has not stopped short before our frontiers, and the new government is trying hard to find the money - several billions of Austrian Schillings - to make up for that which was handed out too freely previously by an irresponsible parliament. Keynesian methods of finance will probably be the answer, the former Minister of Finance, Dr. Klaus, having withdrawn. He is considered to be the man capable of establishing monetary stability, and he is aware of the possibilities of land-value taxation in this respect. It is hoped that he will return to office before long.

Our little organisation, the "Bund Oesterreichischer Bodenreformer" is still alive and active, but sadly in need of new members, especially among the young. A series of articles published in a Vienna monthly under the heading "The Forgotten Land Values" has attracted some attention, and its introductory chapter was reprinted in a French version by Max Toubeau in the *Coopérateur Suisse*, Basle. We are considering a campaign among the students to win new adherents. They are just now asking for more funds to modernise the universities and stressing their claims by sitting down in the streets to stop the traffic. We must tell them to use their heads rather than their buttocks in fighting for adequate grants and study and spread Henry George's ideas instead. Thus we are endeavouring to keep up the knowledge of our truth until one day younger men and women will lead it to realisation.