A tax with a future

THE AMERICAN public's attitude towards the property tax has moved significantly in the past five years from hostility to the view, as monitored by surveys, that the property tax is not as bad as the income tax.

The local tax scene is now changing swiftly, and a new book on the subject must be welcome.

Some of the contributors to this volume clearly favour a shift in the tax burden away from capital improvements and on to the value of the land.

Prof. Steven Cord records how Pittsburgh's graded tax, where the land:building ratio is 5:1, has led to a renaissance in the construction industry. Landowners are deciding that the cost of holding land vacant is becoming an insupportable drain on their reserves, and so they are putting their sites to use.

The investment implications of such a reform are discussed by Philip Klutznick and by Prof. James Heilbrun, who recalls one of the key virtues of a tax on land values: it cannot be shifted forward (i.e., it does not raise prices), and it does not distort either incentives or the pattern of investment.

The justification for the property tax as a revenue-raiser is explored by Walter Rybeck, who stresses that the value of land in its unimproved state is no more than an expression of the collective needs and accumulated capital investments of the community. The property tax, then, is "a Super User Charge". The failure to charge for the full value of the benefits of socially-provided amenities (roads, parks, mass transit systems, etc) can be measured in a precise way: the untaxed benefits are capitalised into the price which the landowner charges those who wish to make use of his property.

Rybeck makes it clear that the property tax is not just like any other tax. The lesson for many cities in North America ought to be noted: "Their failure adequately to tap the great land-value reservoirs generated by their own investments seems anomalous, to put it mildly. By failing to look at the whole bundle of benefits they provide, and at the land-value fund that owes itself to these benefits, close-to-bankrupt cities suffer needlessly."

BOOK REVIEW
By Ian Barron

C. Lowell Harriss, editor, *The Property Tax and Local Finance*, New York: The Academy of Political Science, $9.95.

SOME of the authors, however, do not rate very highly the future of the property tax.

Dick Netzer, in the closing chapter, argues that the property tax will suffer a decline in its importance as a revenue-raiser in the next 20 years. Yet as *Land & Liberty* has reported, in 1982 the share of all state and local government revenues drawn from the property tax *increased* from 30 per cent to 31.7 per cent. This brought to a halt the previously downward trend.

● Lowell Harriss

One's view about the future of the tax depends on one's perception of the role of land in the economy. The conventional economic view is that land is not important. Thus, Donald Hicks, in 'The Property Tax in a New Industrial Era', maintains that property is becoming an increasingly anachronistic base for taxation. He says that "people will likely prefer smaller houses that require less land" after the current recession.

Could it be that land prices are disproportionately high in relation to incomes? If so, to what extent could a reformed property tax be *used* as a policy instrument for altering the cost of land to users?

Hicks avoids such issues because, reflecting the general view, he maintains that factors such as the ascendancy of high-technology manufacturing "appear to be further reducing the significance of land in the economy." Yet within the last two years, some of the high-profit micro-chip companies which wanted to expand were forced out of California's Silicon Valley because of high rents and land values. The forced relocation of the country's scientifically most-advanced industries into less-favoured locations would reduce productivity and the progress of research and development: the power to engineer such a result hardly supports the view that land is of reducing significance in a high-tech economy.

Prof. Archibald Woodruff's chapter is a review of inflation and land prices in the past century. To what extent, he asks, could a tax on land values smooth out the business cycle? Prof. Woodruff concludes that there would be no such effect, but does not offer evidence to support this judgement.

Arlo Woolery, in a forward-looking analysis, argues that the property tax base is too narrowly defined for assessment purposes: the base should include water and mineral rights which are at present excluded, and value accruing from new forms of property rights, such as those which arise from the satellite transmission of information.

The property tax, far from being obsolete, appears to have a bright future, and this book will encourage scholars to dig deeper into fiscal philosophy and practice.

Charles says: Protect the land

PRINCE CHARLES says that land can no longer be regarded as the sole preserve of the owner and farmer.

Writing in the magazine *Natural World*, he expresses alarm at the damage done to the environment by industrialisation and population growth.

As Duke of Cornwall, the prince owns 130,000 acres in nine counties.

He insists: "I believe there are ways in which all these pressures can be reconciled to enable the countryside, in the long-run, to provide a living for some and enjoyment for others."