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INCENTIVE TAXATION

WHAT HAPPENS WHEN BUILDINGS ARE UNTAXED

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The November, 1965 issue of *PROGRESS* (Melbourne, Australia) reported on building in South Melbourne prior to and following the adoption there, by vote of the property owners (no others could vote), of land value taxation, with buildings and other improvements tax exempt.

In the first six months (January through June) of 1965 under the newly adopted land value tax system, the value of new building permits was 2.4 times what it had averaged for the four preceding six-month periods. The expenditures for alterations and additions to houses were 2.5 times the average in the four preceding six-month periods. Alterations and improvements on commercial buildings were about 50 per cent greater than the average in the four preceding six-month periods. The total value of new office building construction was 4½ times the previous figure. And the value of construction permits for industrial buildings more than tripled.

"South Melbourne is now showing the stimulated development found with municipalities generally" when they stop taxing buildings and tax community produced location values only. "The extent of stimulus varies but the general direction is the same."

WHY CAN'T WE HAVE THIS ADVANTAGE IN AMERICA? OR CAN WE?

With land value taxation or, as some prefer to call it, *location* value taxation, the farmer is exempt from taxation not only on his buildings, his machinery, his cattle and other livestock, but also on his orchards except for what the land would be worth without the trees; he is exempt, too, from taxation on the fertility value of his land above what it would be worth if he had not fertilized it. And land value taxation in Australia appears to promote agricultural as well as industrial and commercial development.

Statistical studies in Australia show clearly that in the cities, districts and states where land values are taxed more heavily and improvements are tax exempt, (1) much less land is held speculatively and wastefully out of use, (2) there is much more construction of dwellings and other buildings, (3) a much larger proportion of stores are modern and a smaller proportion are obsolete, and (4) there is a greater proportionate increase of investment in factories and machinery.

To the best of our knowledge and belief there are no correspondingly convincing statistical data pointing to the efficacy of any other tax or tax policy. Today, when the world is already about a third Communist, our political leaders are purportedly desirous of preventing the further spread of Communism. Yet hardly any of these leaders shows any awareness of the significance of tax policy¹ in this connection. There is, however, a tax policy that would not only make capitalism far more consistent with the principles of incentive it is supposed to exemplify, but would also help us mightily to win the ideological conflict between Capitalism and Communism. It is indeed high time that our political leaders show awareness of what this tax policy can accomplish. The hour may be later than they think!

¹Unfortunately, much the same might be said of a majority of the authors of economics textbooks. See Elizabeth Read Brown, "How College Textbooks Treat Land Value Taxation," *American Journal of Economics and Sociology*, January, 1961. This was reprinted in late 1960 by the Public Revenue Education Council, 705 Olive Street, St. Louis, Missouri, 63101.

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BEATING THE BUILDING RECESSION

From *Progress* (Melbourne, Australia), November, 1959
Rural Victorian cities of Wangaratta and Mildura have recently shown how the current building recession can be turned into a boom. These cities are now passing through the greatest wave of building activity in their history at a time when building in most other provincial areas is at its lowest ebb for years.¹

For rural Victoria the year 1956 was the peak with a total value of \$35,869,000 in building construction activity. Compared with that level the value for 1957 fell by 9% and in 1958 by 14%.

Contrasting with this general pattern of decline, these two cities successively made an enormous advance in each year on their previous high level of building activity. The 1958 value in Wangaratta was up 100% and in Mildura up 69% above the 1956 high mark.

In both cases reason for the wave of development was that their local municipal finance system was changed to exempt buildings and cultivation from local rates [taxes] and to base these only on the unimproved capital value of the site. Many Victorian towns before had made this change so far as their general rates [taxes] were concerned with less stimulating effect on building activity. But Wangaratta and Mildura were the first to switch all their rates to the site value basis and completely exempt buildings. Wangaratta put its water, sewerage and general rates [taxes] on the U.C.V. [unimproved capital value] basis. Mildura did so for its general and sewerage rates but could not do so for water which was controlled by a separate authority. Significantly, the stimulation in Wangaratta, where the change was complete, is greater than for Mildura.

In both places, although the previous building level had been stable at a high figure there was an immediate upward leap in all classes of building following the change.

In the two years since the change, Wangaratta's building permits totalled £1,518,000 compared with £740,000 under the old system of taxing buildings. For Mildura the figure was £1,111,000 against a reasonable expectation of \$662,000.

THE SKELETON IN CAPITALISM'S CLOSET

In Australia and in New Zealand there are numerous cities and rural districts where buildings and other kinds of man-made capital are exempt from local taxation and the tax on land values is correspondingly increased. Building and other industries are greatly stimulated by this policy. For example, in the years 1947-1954, when only 12 per cent of the municipalities in the state of Victoria, Australia, followed the policy of exempting improvements and taxing land values more heavily, these 12 per cent accounted for 42 per cent of the new dwelling construction in the state, while the other 88 per cent of the municipalities - those that taxed land and improvements at the same rate, as do practically all American cities - accounted for only 58 per cent of the new dwelling construction. And in the years 1954-1958, by which time 19 per cent of the municipalities of Victoria were taxing land values more heavily and exempting improvements, these 19 per cent - less than a fifth - accounted for 62 per cent of the new dwelling construction, while the remaining 81 per cent, the municipalities that were still taxing improvements, accounted for only 38 per cent of new dwelling construction.²

And the above is but a tiny fraction of the factual - including the statistical - evidence.

Is it customary in Communist countries to find private individuals who are privileged to enjoy sumptuous livings in return for permitting other citizens to live on, to work on and to draw subsoil deposits from the earth, - or those parts of the earth which geological forces and community growth and development have made relatively productive and habitable! Assuredly not. This is truly the "skeleton in the closet" of capitalism. And it may well be the big reason Communism has had so much support among the poor and exploited in many parts of the world.