

# Property tax slums

**MOST** of the recent development and buildings downtown and in residential areas of St. Louis have been stimulated by property-tax subsidies that amount to about 16 per cent of the total value of the development.

This subsidy comes from using the Missouri Urban Redevelopment Corp. law, which gives selected sites no increase in property taxes for 10 years and then only 50 percent for 15 more.

That statute also includes power for a development corporation to use eminent domain to acquire property in a legally blighted area. Applied in a spotty and discriminatory manner, this tool of tax abatement has spurred development, but at what price?

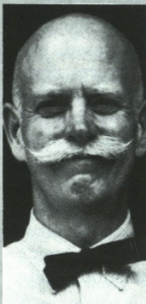
This development process in St. Louis tends to be discriminatory and arbitrary for many residents and businesses. Eminent domain has been used as a legal lead pipe to club property owners into submission and into selling property against their will. Such abuses undermine confidence in our legal system.

Most of those who complain about the current system focus on more government subsidies instead. But no programme to stimulate production of housing will succeed so long as the property taxing system is backward.

Why shouldn't every property owner get the benefits of tax incentives for improvements instead of the favored few? The current system is at the expense of the great majority.

The present property tax system in St. Louis, and most of the country, is inherently counterproductive to a well-developed, well-maintained city with reasonably priced housing. In the long term, government subsidy programs compound the problem by addressing symptoms only. They tend to raise the cost of land to the detriment of development. People who

• *Architect W. Philip Cotton Jr. (right) reports from ST. LOUIS on the fiscal impact on the urban environment*



improve their property, rebuild the porch or add a room probably will be punished with a higher assessment and higher taxes. Thus is maintenance and improvement of property discouraged and even penalised, while dilapidated buildings are rewarded with lower assessments and lower taxes.

Taxes should be removed from buildings and improvements. Public revenue should come from the "location value" of sites. A switch to this basic principle would reward conservation and improvement of buildings and penalise those who hold valuable locations out of use, inaccessible to those who need them most urgently for houses and businesses.

Pittsburgh is one of 12 U.S. cities that uses this method of getting public revenue. Since 1979, Pittsburgh has taxed locations at six times the rate of buildings and enjoys great benefits including:

- (1) The least expensive housing of any major U.S. city, because the site value charge helps lower the price of land and encourages construction.
- (2) Very little vacant land in the central business district (unlike St. Louis).
- (3) Ranked most livable larger U.S. city by a recent Rand-McNally study.

(4) Ranked first by a large margin as the city with the lowest crime rate, in all categories, among 435 cities.

Most arguments against site-value taxation are smokescreens. One is that it is more complicated to administer. The opposite is true. Assessing only the location tends to be more accurate, fair and easy to check. Not having to assess buildings and improvements reduces the time and judgments required.

One large Australian city, Sydney, derives all real property revenue from charges on location values only and levies no taxes on buildings or improvements. It has few if any slums!

Melbourne, which taxes improvements and buildings heavily, has the usual slums, the result of penalising owners for improving their property.

Many studies in cities where it is used show clearly that a switch to site-value taxation results in lower taxes for 75 to 85 percent of homeowners and the vast majority of businesses.

This assumes collecting the same revenue. A 1983 study of 1,000 parcels in St. Louis by the Public Revenue Education Council found that 85 percent of homeowners would enjoy lower taxes under such a shift.

Our Missouri constitution mandates taxing buildings and the site at the same rate whereas the Pennsylvania constitution permits larger cities to shift taxes from buildings to locations.

We must persuade Missouri legislators to allow a vote to change our constitution to give local communities the option to make such a shift if they so decide.

As long as our property-tax system is fundamentally geared to encourage the spread of slums and penalises improvements, no government subsidies and laws to the contrary will stem the tide.

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until rising prices have worked through the system to counteract the inflationary effect.

Across-the-board price rises are thus the only valid benchmark for measuring inflation. The occasional blips caused by special circumstances such as

temporary shortages, natural disasters, threats of war, etc. can be completely disregarded.

The conclusion must be, therefore, that the one sure way to call a halt to every-expanding credit facilities is to control the money supply, but even now Britain is still awash with extra currency because of the finan-

cial slackness implicit in the 1-5% annual increase permitted by the Treasury.

Indeed, why the government, which is certainly not short of funds, should even want to inflate the currency while simultaneously paying off the national debt remains an unfathomable mystery.