

# A Straight Talk to Home Builders

ADDRESSING A MEETING of the Home Builders Association of Greater St. Louis early this year Perry I. Prentice, Vice-President of Time Inc. told developers: "In all history land owners have never had it so good as they have had it in this country since World War II . . . And they have been having it so good at your expense and at the expense of your customers."

Pointing out that 160 years ago Ricardo had emphasised that the interests of the landowner are directly opposed to every other element in the economy, Mr. Prentice went on to demonstrate that what was good for the landowner was bad for the developer, the home builder, the sub-contractor, the building material manufacturer, the architect, the mortgage lender, the selling agent and above all the home buyer. The New York Regional Plan Association has calculated that each additional family in its area will give rise to capital expenditure of \$11,200 on roads and schools alone—investment which, according to Mr. Prentice, will be capitalised into the price of vacant land. He continued:

"In an economy where pretty much everything else is taxed almost beyond the point of diminishing returns, land is so lightly taxed that: (1) landowners are under no tax pressure to sell their under-used land, so they have created an *artificial* shortage or perhaps it would be more correct to say they have created an illusion of shortage in the midst of plenty, by holding millions, repeat millions, of acres of suburban land off today's market to hold out for 1990 prices now. (2) Land is so lightly taxed that landowners make only a microscopic contribution towards paying off what it costs the community to provide the community facilities without which their underused land would be almost unreachable, unlivable and unsaleable. These costs are left to be paid off later by heavy improvement taxes that have to be paid by whoever ends up owning the homes and buildings built on the land after the landowner has taken his profit and gotten out from under.

"One result of this is the price squeeze from which all of you must be suffering. Another result is the heavy property taxes about which homebuyers everywhere are complaining more and more loudly."

Having made the point strongly that the undertaxation of land has cost-increasing consequences for the whole of the community, Mr. Prentice highlighted the "two great multi-billion dollar mysteries" of the U.S. property market:

\* "Mystery No. 1—Why do our governments—local, state and national—all work together to under-tax land

and to subsidize the land price inflation that is so bad for you and so bad for everybody else except the landowners?"

\* "Mystery No. 2—Why are you developers, builders, architects, sub-contractors, building material dealers, mortgage lenders, and realtors just sitting back and taking it? You are the men who are being hurt first and worst by the land price inflation made possible by the way land is under-taxed. You are the men who are being hurt first and worst by the senseless over-taxation of improvements."

Putting his case in hard reasoned terms Mr. Prentice levelled his attack on the U.S. property tax system as being "unbelievably foolish" since it multiplies the profit of doing what is socially undesirable and penalizes doing what is socially desirable.

"The case for U.S. real estate tax reform," he continued, "rests on these facts and assumptions:

(A)—In the next generation urban America will require a fantastic amount of building and rebuilding. In 30 years we shall not only have to add to the housing inventory more homes than all the homes we have ever built; we will also have to replace at least 30 million of today's 55 to 60 million homes because at least 5 million of these aren't fit for anyone to live in today and another 20 or 25 million aren't good enough for anyone to want to live in them when the average family has an income of nearly \$15,000 of 1960 purchasing power. And along with building all these new homes we will need to build a vast amount of new streets, schools, sewers, water supplies, and other community facilities.

(B)—The investment required for all this building and rebuilding will be something like two trillion five hundred billion dollars, averaging something like 80 million dollars a year over the next 33 years. This cost is so enormous that maximum participation by private enterprise and private capital is not only desirable but absolutely essential.

(C)—If we want maximum participation by private enterprise and private investment, it is unbelievably foolish to penalize, discourage, and inhibit private investment as we do today by a tax on improvements so high that it is the installment plan equivalent of a sales tax of 40 per cent. and sometimes more.

(D)—Just as it is unbelievably foolish to inhibit improvements by over-taxation, it is equally foolish to subsidize land price inflation by under-taxation."

By emphasising to the professional people concerned that land taxation will help those directly involved in the property market to build more and profit more, Mr. Prentice has illustrated to the U.S. construction industry a basic economic lesson: land value taxation *cannot* increase costs. In Britain and elsewhere where vacant land is completely exempt from local property tax Mr. Prentice's lesson should be carefully considered. In the U.S. vacant land carries at least a small portion of local government costs: in far too many other countries it carries no burden at all.