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WHEN WE FIND a notorious example where free enterprise and the profit motive have failed to meet a complex human need, I believe very strongly that before we decide to ask the Government to step in and use tax dollars to do the job, we should first try to find out why private enterprise failed in this particular case and see if we cannot eliminate the cause of its failure.

I think we can all agree that the two most notorious examples of this failure are first, the failure of private enterprise to provide good homes for the urban poor (i.e. the failure to wipe out slums), and secondly, the failure of private enterprise to use urban and suburban land wisely and economically (i.e. the creation of urban blight and suburban sprawl).

The reason for these failures is not far to seek. The reason—not quite the only reason, but by far and away the biggest reason—is that today's tax policies (Federal as well as local) harness the profit motive backwards when it comes to land use, land development, and redevelopment.

The Profitable Slums

These tax policies make slums the most profitable of all housing investments: they often make it more profitable to let property decay than to keep it up or improve it; they often make it more profitable to mis-use or under-use land than to put land to its optimum use; they give speculation in vacant land such preferential tax treatment that (to quote an article in *Fortune*) they "set (such speculation) apart from the market action of supply and demand."

Ours is a tax-activated, tax-accelerated, tax-directed, tax-dominated economy. Every business decision has to be checked against its tax consequences; and when property owners check the tax consequences of using land better against using land worse, or spending money for improvements against letting properties decay, they find too often that our tax system penalises what is socially desirable and subsidises what is socially undesirable.

Here is the two-fold way our tax system harnesses the profit motive backwards in the building industry.

The first way is that our system taxes the value of unimproved or underimproved land so lightly that land owners are under no pressure to sell until they are offered many times what their land is worth; and so lightly that there is no tax restraint on its price. So the price of our land—which reflects the capitalised difference between the rent the land can be expected to earn and the taxes it must expect to pay—has soared clear through the roof.

Taxes—and the

BY PERI

(From *The Architectural*)

The home builders have voted three to one that this land price inflation is their number one problem in trying to meet this country's need for better housing. I will go even further than that: this intolerable, tax-subsidised inflation in land prices is the *only* reason why private enterprise cannot hope to build new big-city housing cheap enough to meet the needs of middle income families, and the biggest reason why private enterprise cannot meet the housing needs of low income families.

To cite only one example: the average price of New York City land taken for re-development has recently been \$486,000 an acre. How can private enterprise be expected to provide low-cost housing in the face of land prices like that? When you have to pay too much for your land, you have no choice but to build high-rise structures to spread the too-high land cost over as many units as possible—and building high-rise structures costs at least 50 per cent. more per square foot than building low-rise structures. So the higher cost of paying too much for the land gets compounded by the cost of having to pay too much for construction.

Deterring Development

The second way our tax system operates against our best interests is the manner in which it taxes improvements. Our system taxes improvements so heavily that it makes slums the most profitable of all real estate investments. And so our slums are still spreading faster than urban redevelopment can clear them out. As all bankers know (but too few tax men seem to realise) a 1½ per cent per year tax on improvements works out over the years like paying a single 30 per cent completion tax on the instalment plan. And a 30 per cent tax, quite obviously, can be a terrific deterrent.

Abetting Sprawl

As for suburban sprawl, here are some of the ways our tax system abets it:

Under-assessment makes it cheap and easy for speculators to hold desirable land off the market for years, thus forcing premature subdivision of land further out by forcing developers to "leap-frog" out into the countryside to find land they can afford to buy. In Nassau County, Long Island, for example, there is evidence that idle land is assessed at an average of less than one per cent of its market value.

Land speculation profits are taxed not more than half as heavily as ordinary income *provided the land owner*

Death of Cities

PRENTICE

U.S.A., November 1965)

does nothing to develop his property (if he does do something constructive, he is then taxed as a land developer at income tax rates).

Even the small local tax carried by land is fully deductible from state and federal income taxes. This is another way of saying that a rich land speculator (and most idle land is in the hands of rich men) can deduct most of his land tax from his income tax.

Landowner's Bounty

Today, land carries a much smaller share of the realty tax load and a very much smaller share of total taxation.

Fifty years ago land carried two-thirds of the realty tax load; homes and other improvements carried only one third. Today the proportions are almost exactly reversed. Improvements carry two-thirds of the realty tax load; land carries only one-third.

Fifty years ago land carried nearly half the total tax load—state, national and local. That was before the income tax, the inheritance tax, the corporation tax, the gasoline tax, the taxi-ride tax, and most of the other nuisance taxes that have since been piled on. Today land—which is one-third of our total national wealth—carries less than five per cent of the total tax load.

The Public Investment

The value of unimproved suburban land and underimproved urban land derives one hundred per cent from money the community has had to invest in roads, streets, sewers, schools, water supplies, fire protection, police protection, and other community facilities, without which that land would be neither accessible nor liveable. A recent study in Montreal came up with this fascinating statistic: if local land owners had to pay the city five per cent interest on the city's investment in these community facilities, without which their land would be unusable and therefore worth almost nothing, then the city could run its government and operate its plans without collecting any taxes at all!

That statistic may be hard to believe, but an example nearer at hand suggests that the Canadian statisticians may have actually understated their case.

The New York Regional Plan Association has said that it will cost \$7,100 per additional family to provide the necessary roads and streets needed for the region's population growth from now to 1970, and \$4,100 per additional family for new schools—\$11,200 per additional family for these two plant investments alone. Change that phrase "per family" to read "\$11,200 per lot" and you may get

some idea of the vast investment of other people's tax dollars that is needed to make urban and suburban land usable and thus to make land speculation so profitable.

Take a simpler example of how our system of public investment for private profit works. The taxpayers spent more than \$400 million to build the New York Thruway, and the first effect of that public investment was to add much more than \$400 million to the land prices along the Thruway route.

The value of almost all other kinds of private property derives from the efforts of the owner and/or of the people the owner employs. For example: if a company's stock is worth \$250 million today, it is worth that because the company's employees have worked together successfully on the owner's payroll to make it worth that much.

But if a corner in midtown Manhattan is worth \$15 million today, hardly a dollar of that \$15 million derives from anything the owners of that property—past or present—have done to make that corner valuable. Every dollar of that \$15 million derives from the growth of the metropolitan community around that corner, and from the enormous multibillion-dollar investment the community has made in facilities without which that corner would be good only for truck farming.

The Private Rewards

In 1963, the New York *Herald Tribune* rounded off its six-part feature on "Who Owns New York" by asking "What have these men who have made millions out of the soaring price of the city's land contributed to the city's development?" And the *Tribune* answered that question with just one word: "Nothing."

What moral justification can there be for giving land speculation more favourable tax treatment than any other income source? How can anyone argue that deflating the price of land by making land owners pay all the community costs needed to make their land saleable is an attack on our whole system of private property? Do land owners have some special right (in J. S. Mill's words) to "get rich in their sleep?" What is so sacred about land speculation profits whose magnitude (in Winston Churchill's words) is "apt to vary in direct proportion to the disservice the speculator has done to the community" by holding his land off the market until other people's investment has maximised its price? Is it more important to keep America safe for land speculation than to make America a better place to live in? Is heavy taxation of income morally right but heavy taxation of the community-created location value of the land morally wrong?

Harnessing Profits

Why should we go on pouring billions of tax dollars into public housing and urban redevelopment without first exploring whether it might not be possible to get the job done better and faster by private enterprise if the profit motive were harnessed forwards instead of backwards—that is, by untaxing the improvements which are now so discouragingly overtaxed.

(Continued on inside back cover)

DONT FALL FOR THIS ONE

“ADVOCATES of site-value rating frequently use the argument that under the *existing system* a householder is penalised for improving his property by adding a bathroom or garage. Yet under *site-value rating* he will be penalised not only for such improvements, but in advance of them actually being done, for the site valuation takes into account the highest permissible use of the site, which includes such improvements as garages, handbasins, bathrooms.”

The above argument is one that is now frequently repeated by opponents of site-value rating and it is so plausible that even an impartial observer might be forgiven for “falling” for it.

But let us examine the argument.

In the first place a tax on site values is not a tax on improvements; that is, it is not a tax on the use that is made of land, nor is it in any way regulated by use. Now while it is true that the site value rate takes into account the full potential use, it does *at the same time exempt all actual use* in terms of improvements.

One would imagine that if under site-value rating all *potential development* is rated, while under the existing system only that development which has been actually carried out is subjected to rates, that site-value rating would always produce the higher figure or at least be no lower than under the existing system. But a look at the figures in the White-stable Survey will show immediately that this is not the case. Court's, a fully-developed property in the High Street, showed a current valuation of £1,055 (which is equivalent to a valuation of full site potential *plus* a valuation of this potential actually realised). Under site-value rating it would be £392! Such reductions were repeated in many examples.

The sleight of hand in the argument we have been examining, however, lies in the way in which attention is diverted from the fundamental principle of site-value rating, i.e. that under this system, it is the land owner who pays, not the occupier (as such).

Thus it is not simply a question of *how* people pay, (although this is important) but also of *who* pays!

TAXES AND THE DEATH OF CITIES

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None of this is theory: it has worked in practice. In Brisbane, Australia, state law since 1896 has forbidden any taxes at all on improvements, but the unimproved value of the land is subject (above a small exemption) to a nine per cent *ad valorem* tax—regardless of whether you build a fifty-story building on it or use it for a parking lot. According to Colin Clark, the Oxford economist who lived in Australia for twenty years, the city of Brisbane, with a metropolitan population of nearly three quarters of a million, is “the only great city in the world without a sum.”

FEBRUARY & MARCH, 1966

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Taxes

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New Whitehall Series.

Dangerous Myth

THE dangerous myth that planning consent of itself creates value has gained wide credence. It is dangerous because legislative thought is based upon it, and it is a myth because it is just not true.

It is quite natural that in the vast majority of cases planning consent is granted on land that is ripe for development, and it follows that the enhanced value of that land can be released following the grant of planning consent. The value is already there, and is not made by the planning authority.

Further, to illustrate the point, we know of land that was mistakenly granted planning consent for a small housing estate in a district where no one in his right mind would want to live. This land has been on the market for a very long time, and we expect it to remain unsold for development purposes until, if ever, it becomes ripe for development.

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