Where has Property-Tax Reform Proven its Value?

PERRY PRENTICE examines the failure the world over to radically reform the taxation of property.

THERE is no answer to the above question, because, like Christianity, property-tax reform has never been tried.

In the United States, property-tax reform is not only untried, but forbidden by law. Even the first steps towards property-tax reform —uptaxing location values and untaxing improvements—are forbidden in every state except that:

1. In Hawaii (where twelve families owned 52 per cent of all the private land and sixty owners controlled 80 per cent) a gradual and circumscribed increase in land taxation was authorized in 1963 but is still only 30 per cent applied twelve years later.

2. In Pennsylvania second and third-class city governments (but not Philadelphia, nor any village, county, or school district) can choose to set the city tax rate (but only the city tax rate) on land higher than the city tax rate on improvements. Until very recently the land - to - improvement tax ratio in Pittsburgh and Scranton could not go above two to one, but this limit does not apply in smaller cities.

3. In Montana an almost unnoticed paragraph in the 1974 state constitution gives each county local option on how much of the property tax to collect from land and how much from improvements. No county has taken advantage of this option.

So instead of asking if there is any place where the tax reform that is now illegal has been successful, it might make more sense to try to find one or two places among today's 82,000 - plus tax jurisdictions where today's kind of property tax is not discouraging improvements, inflating land prices, subsidizing decay, and/or exaggerating sprawl.

No wonder the accountants who won the 1971 HUD (Housing and Urban Development) contract to study how well property-tax reform had worked, where it had been tried, reported finding no evidence that it had done well, for there is no place where they could study what they had contracted to explore. Instead they had to settle for studying two areas where the assessor had at least tried to shift some of the property tax burden off improvement values on to location values by correcting the gross underassessment of land (Rosslyn, Va. and Southfield, Mich.).

In both Rosslyn and Southfield the results of just equalizing land and improvement assessments (the only change permitted by state law) were more than dramatic.

Before the reassessment both communities had been lagging despite their prime locations — Rosslyn right across the Key Bridge from Washington, Southfield where three main highways converge near the famous Northfield Shopping Centre on the edge of Detroit. Rosslyn was still a shambles left by what had once been a red light district. Southfield had just needed a federal depressed-area subsidy to help pay for its new city hall.

In 1950 the Arlington County assessors decided it was high time to stop assessing land in Rosslyn on the basis of present misuse and begin assessing it on the basis of its potential re-use value as indicated by its market price. The 400 per cent assessment increase put heavy tax pressure on property owners there to put their land to good use, and this is one big reason why today Rosslyn is more intensively developed than any area in the whole District of Columbia. The Rosslyn problem now is no longer decay, but traffic congestion and where to park the cars of all the people who work there.

Likewise in 1960 the newly-elected Mayor Clarkson of Southfield decided that a complete property reassessment was urgently needed, called in a big firm of outside assessors to do the start-off job, and employed one of the country's best and most progressive assessors to keep land assessments abreast of the market by annual reassessment; some land that was assessed at $1,000 an acre in 1960 is now assessed at $100,000 an acre. Said Mayor Clarkson: "Idle land now pays its fair share of our costs, and this enabled us to reduce the tax on many good homes by as much as 22 per cent."

Almost overnight Southfield became the most booming city in Michigan, with more new office construction within a decade than in twenty-times-as-big Detroit next door. Detractors credit the boom to factors other than the tax shift, but it seems significant that these "other factors" did not cross the city line into either adjoining Detroit or Royal Oak. On the Detroit side of Twelve Mile Drive you can see mostly vacant lots and a few small stores; on the Southfield side building has boomed.

Tax exemptions and tax abatements on improvements are much easier to sell and much better politics than tax increases on land, so the HUD researchers would have found the effect of down-taxing improvements much easier to study than the effects of up-assessing and up-taxing land. Many cities have, in fact, made some use of special concessions to encourage new construction, attract new employers, or hold new employers.

The trouble with all these tax-abatement schemes is that reducing the tax on a few favoured big taxpayers just shifts the burden to all the other local taxpayers and makes all the other taxpayers' improvement tax heavier.

Outside the United States it is almost as hard to find examples of property-tax reform, but all too easy to see bad effects of under-taxing land. In Europe, for example, where underused land is almost completely untaxed, land prices have soared to such astrnomic heights that, for example, a 50 × 100 ft. bare lot in a middle-class surburb fifteen miles from the capital of Swizerland was priced at 220,000 Swiss francs (roughly $100,000 now) as against say less than $10,000 for a comparable small plot in the U.S. All over Europe private enterprise has been priced out of up to 80 per cent of the housing market and in every country up to 85 per cent of all housing construction is limited to land-expensive single-family homes.

So small wonder the sixty American housing industry leaders who went to Europe in 1962 to look for good ideas they could learn and borrow from European practice were so shocked by how little homebuyers get for their money there that they spent most of their time congratulating themselves on how much better values they were offering here (despite our far higher building-trades labour pay) and closed their eyes to a dozen good techniques they could very profitably have brought home with them.

Eighty years ago England was the richest country in the world. Today it is poorer than any NATO land except Italy, with inflation raging higher than 15 per cent and the Government relying upon foreign loans. American conservatives tend to blame this mess in England on socialism, but that is less than half the truth. What drove England down the road towards socialism was a land tax system under which some 25,000 "landed gentry" families lived on the fat of the land without working and enjoyed tax-free incomes of up to 2,000 pounds a week when the average working man had to toil fifty six hours a week to earn two pounds.

Land in England is still untaxed as long as it is used only for farming or not used at all; the British system of rates is not land tax, but a heavy income tax on rents that goes so far as to tax home-owners on homes they occupy themselves as on homes they rent to others. Most of the land in England was given to the landed gentry free by grants from the King or from a parliament in which until recent times only landholders could sit. Way back in 1910 Winston Churchill denounced all this as "a vicious and unreformed land system and a vicious and wasteful tax system - a harsh burden on the poor and an impediment to enterprise and progress", but still today even the socialist Labour Government has done almost nothing to correct it.

England would be in much less trouble today if it had listened to the good advice of Henry George instead of Karl Marx.

In Latin America, land is so undertaxed that the big landowners are under no pressure to put their land to better use, and this is one big reason for the maldistribution of wealth that made Cuba turn to communism and now threatens to spread communism over much of South America. In South Vietnam, land was so undertaxed before the war that some 30,000 mostly absentee landlords in Saigon and France were able to maintain a sharecropper system under which they took half the crop for letting their land be used and six million peasants shared the other half six million ways for doing all the work.

The Republic of China on Taiwan has tried to follow the precept of its founder Sun Yat Sen that "the tax on land is the only just and reasonable tax" and relies on a diversity of graduated land taxes for about 11 per cent of its total revenue, which is slightly more than any other country. There is a heavier tax on big farms than on small farms, a much heavier

tax on big urban land holdings than on small. Half the total is raised by an ulra-progressive land increment tax that scales up to 80 per cent. The end result of all this progressiveness is that the tax on most land is small - perhaps too small to provide a strong incentive for better land use - and land price inflation is as bad as in Australia and worse than in the United States.

The only other places where the effects of even partial property tax reform can be studied are parts of Australia, New Zealand, South Africa, and Kenya.

In Australia two of the states (Queensland and New South Wales) have for more than two generations forbidden any local property tax on improvements, except for water treatment, and all six states superimpose on the local property-tax levies a graduated state tax on land only.

Because of exemptions and graduations very little land is actually subject to more than a trifling state land tax, so almost the only place where the total land tax is heavy enough to minimize land waste is in the top-rent, top-land-value 5.3 square-miles area of downtown Sydney. There piling the maximum state rate of 2.97 per cent on top of the local rate of about two per cent plus perhaps half of the water and sewage rate adds up to a long tax total of roughly six per cent. Coupled with the complete tax exemption of improvements, this has encouraged very compact development in Sydney City that is well-dramatized in a research report* by R. W. Archer published in the U.S. by the Urban Land Institute.

More new buildings have been built in Sydney, the big city where improvements are not taxed, than in Melbourne, the big city where they are. Sydney has fewer "deteriorated properties" than Melbourne and few slums at all comparable to the slums to be found in every American city.

In Australia most people seem satisfied that untaxing improvements has indeed encouraged improvements, but the land tax has done little (and perhaps less than nothing) to keep land prices from inflating even faster than in the United States. For this failure the explanation is fairly obvious - the tax on the land is not heavy enough to hold down its price.

In New Zealand there is almost no national tax on land, but over the past seventy-five years twenty one of the twenty-three cities and ninety-eight of the 114 boroughs have exercised local opinion to untax improvements and put the

* *Site-Value Taxation in Central Business District Redevelopment (Sydney, Australia)*