In Praise of the Property Tax

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"THE COST of land must be reduced by lowering the price of landed property . . . . . The budgetary capacities of the cities must be augmented . . . . . It is a double objective to which the real estate financing system must be responsive."

These are the objectives required to cut the Gordian Knot of the real estate problem which is bedevilling City planning and development in France today says Andre Bigo in *City Planning Confronts the Real Estate Problem*, a doctoral thesis for the University of Aix-Marseille.

M. Bigo, an engineer who received his diploma in town planning from the University of Paris, worked for three years with the department of planning in Marseille before undertaking his doctoral studies. Although he depends almost exclusively on data from the Marseille region, he believes that the uniformity of regulatory and fiscal structures in France would allow him to describe similar conditions in any other important city in France and to come to the same conclusions.

When he first studied city planning, M. Bigo says, it seemed to him that the real estate problem constituted a Gordian Knot. The years spent following his profession in Marseille largely confirmed his opinion, and he set out to analyse the problem in more depth, to think his way through it, and to evaluate solutions.

He has done very well.

The study is in three parts: (1) The real estate problem. (2) The real estate and financial deadlock. (3) The real estate tax. There is also an extensive appendix on leasehold systems in various countries.

In the first part of the study, M. Bigo documents price rises and describes the familiar consequences of speculation in the real estate market. A number of partial measures have been tried in France over the years—zoning, increment taxes, development taxes, price freezes, land reserves—none of which has been markedly successful.

That the problem must be solved M. Bigo makes very clear in part two. He contrasts the annual need for land for housing and urban expansion in Marseille with the cost of land and city services, and describes the devastating effect on the municipal budget. Marseille should devote an average of 83 milliard francs to real estate in a normal year, but the actual expenditure has been 26 milliards.

The deadlock must be broken, says M. Bigo. "We must act simultaneously on the two factors creating it. Without this double action the benefits of ameliorating one factor will be absorbed by deterioration in the other.

M. Bigo then returns to a theme with which he prefaced the study. The land and real estate market is in a state of anarchy; the means to control prices or to recoup increment values are in the same disorder. There seem to be only two solutions—the totalitarian one of nationalization and the liberal one of a tax on the market value of real estate. The two solutions, in appearance very different, are aspects of the same principle—the return to society of the values it has created.

The latter principle, familiar to readers of LAND AND LIBERTY, is freshly expressed both by M. Bigo and by the French urbanist to whom he appeals, Jean Canaux, who says, "The city is created by the people altogether, of which a minority are landowners. The landowners thus become the beneficiaries of a considerable privilege without giving a *quid pro quo*.

Possession of urban land is like a credit operation and the owner owes society interest on the capital loaned." These stimulating sallies from M. Canaux are as refreshing as the straightforward prose and logic of M. Bigo in his analysis of the "two solutions."

He rejects nationalization for its inconvenience, failure to yield money, failure to use the dynamism of private initiative, the arbitrariness of decisions, and for the lack of a market measure. In any case social criteria may be lacking but at least a market system provides an economic criterion.

What is wanted, says M. Bigo, is a limitation of privilege. Purchases of all urban land is impossible because of the sums involved. Seizure cannot be accomplished without a revolution. The liberal solution described is a tax on the market value of real estate (which M. Bigo calls an "imaginary," *fictive*, appropriation because the value of money goes down anyway).

Among the principal effects of the real estate tax as M. Bigo sees it are:

* regulation of the real estate market
* ease of acquisition by public bodies
* a better utilization of land
* good recouperation of land value increments
* an increase in the fluidity of the market
* a new distribution of the fiscal burden
* a beneficial influence on urban centres, including renewal.

He makes an estimate of the revenues that could be

expected from a tax of one per cent or two per cent on the capital value and places his proposal in the context of actual legislation existing in France today—legislation that appears to be adapted to rural rather than urban conditions.

In the light of the system(s) under which Frenchmen labour it is easy to understand M. Bigo's enthusiasm for the North American style real estate tax. One can only agree with him that it would be a great improvement.

For those of us striving to reform the property tax, however, there is a certain irony in such a book. Everything said in praise of the property tax can be more specifically ascribed to the land tax portion. It should not be difficult for M. Bigo to grasp this if anyone takes the trouble to point it out.

Crisis In Foreign Trade Policy

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WITH their vested interests limited to the truth and the clarity of hindsight, few historians would regard the Smooth-Hawley Tariff Act of 1930 as anything but an unmixed disaster. Yet the House Ways and Means Committee has now approved the most restrictive trade bill since that infamous 1930 Act. Widespread publicity has been given to the quotas that HR 18970 would impose on imports of textiles and apparel, man-made fibres and footwear.

But less well recognized features of the measure are no less restrictive in potential. The bill would mandate quotas rather than tariffs whenever the President decided to limit imports for national security reasons, as in the case of petroleum. And the bill could lead to trade barriers on a large range of products by making it much easier for all industries to qualify for escape clause relief. Indeed, in a provision of major significance, the bill establishes a presumption of added trade barriers if import growth and market penetration exceed certain limits. When it emerges from the Senate, the bill is generally expected to be even more restrictive.

Turning back to protectionism would be costly for the United States and other nations alike. It would reduce the international specialization of production thereby blunting an important positive force toward higher living standards. Obviously, consumers benefit when foreign producers can offer them goods of higher quality at lower price than would be possible for domestic firms. At the same time, access to foreign markets creates export opportunities for domestic producers because exchange rates will always permit at least some industries to compete effectively abroad even if real costs there are lower. Thus, foreign trade tends to shift domestic resources out of activities with low productivity by international standards into industries with relatively high productivity. The general result is that trade expansion improves resource allocation, promotes non-inflationary economic growth, and fosters rising real income. Protectionism yields opposite results.

Quotas, in particular, entail many serious disadvantages. By setting precise limits on imports, they are capable of inflicting greater damage on trading relationships than tariffs. For that reason, they are outlawed under the GATT. Their imposition would be highly provocative and risk strong reaction abroad. The result could be trade war, a sequence of retaliatory trade restrictions that would unravel the major gains of the post-war period in trade liberalization. Such a war would wreak havoc on international commerce.

The developing countries of Asia, whose growth the United States has fostered with billions of dollars in aid funds, would be particularly hard hit by US quotas. Imposition of quotas would undercut the efforts of many years to strike a better balance between aid and trade.

Domestically, quotas would provide the sheltered industries with subsidies—not openly through appropriations, but in a hidden manner, out of the US consumer's pocketbook. Quotas tend to raise the prices of affected products by restricting competition and reducing pressures for innovation and lower costs.

Not least among the drawbacks of quotas is their tendency to insulate domestic industries against the forces of change in the world economy and tend to freeze existing patterns of operation. Quotas, moreover, shift decisions from the impersonal market place to government bureaus. Through complex procedures that are hard to insulate from politics, officials must decide who is and who is not to be permitted to import, how the overall quota is to be divided among approved importers, which countries are to qualify as suppliers and how much of the quota is to be assigned to each. Such a system is arbitrary, inefficient and vulnerable to improper influence.

Finally, quotas may bring about more government involvement in business than their advocates realize. In providing quotas, the government acquires a powerful lever over corporate policies—for what the government gives, it can also take away. For example, a consumer protection clause in the pending legislation would permit the President to enlarge quotas on footwear and textiles if inadequate supplies were available at reasonable prices. Once an industry had made itself dependent on quotas, it would be vulnerable to the actual or threatened exercise of his option by a President anxious to compel certain business actions—or simply by a new President with a different view of what constitutes adequacy of supply or reasonableness of price. Instead of championing protectionism, the United States should spearhead a new multilateral thrust to raze the barriers of world trade.