

A FIVE-MINUTE INTRODUCTION TO LAND VALUE TAXATION

(Given by EDITH S. CAPON at a meeting at Friends House, Sandy Spring, Md.)

With the coming of Reaganomics - cutting back on social programs and shifting responsibility for them to states and localities - businessmen and other already "see the President's revitalization of the economy jeopardized by failings in the infrastructure of physical and human services on which industry depends," according to the Christian Science Monitor of November 5.

The editorial further reported on Business Week's recent cover story which lists some proposed solutions, among them "to explore other sources of state and local revenue" such as increased excise taxes. But isn't the consumer already over-taxed?

There is, however, a relatively untapped local source of revenue, namely, the unearned increment in land values now being collected by investors, speculators and even homeowners and farmers when they decide to sell in today's inflated real estate market.

These windfall profits in land values are due to the spending of other people's money for transportation (Washington's Metro system will eventually cost the nation's taxpayers \$8 billion or more), streets, sewers, schools, libraries, police and fire protection, and medical, cultural and recreational facilities.

The much maligned but necessary property tax is, in fact, two taxes with opposite effects - one on land, a limited natural resource, with very low assessments (generally), and the other on improvements which carry the burden of the tax due to the higher ratio of their assessed value. The bigger and better the building the higher the tax, while neglected buildings create slums and lower taxes for the owners.

But by gradually, over five years or so, reducing assessments and the ludicrous taxes on homes and other buildings and increasing the assessments and taxes on full land values, beginning in city centers where lies the most valuable land (50,000 square feet of Park Avenue, New York, brought an offer of \$100 million), cities could be self-renewed, provide employment and affordable housing, and so retard urban sprawl, leap-frogging of development and loss of farmland by making it unprofitable to withhold urban vacant and underused land from development.

Incidentally, Pittsburgh since 1925 has levied a higher tax rate on land than on improvements and in 1978 increased the land tax rate to nearly four times that on improvements. Pennsylvania is the only state that permits a differential tax rate, the law having been passed in 1913.

There are two facts to remember about a tax on land vs. a tax on improvements. The land tax helps to lower its price, cannot affect the supply of land and nearly all economists agree it must be paid by the owner and cannot be shifted to tenants and consumers. On the other hand, a tax on buildings helps to reduce the supply and quality of them, increases their cost and is passed on to tenants and consumers in higher rents and prices. All of which helps to explain why the burden of the property tax is so unfairly placed on the improvements rather than on land, and thereby invites the just criticism that is heaped upon it.

In closing, here are a few thoughts to ponder:

1. The power to tax food, clothing, shelter, earnings and production instead of the unearned increment in community created land values now draining into private hands is the power to destroy.

2. If farmland and rural areas are to be preserved, the cities must first be saved. Next time you are in the city, notice how much vacant and underused land there is. The discontented poor who live in the cities and who see on television what they are missing are a virtual time bomb.

3. "Land monopoly is not the only monopoly, but it is by far the greatest of monopolies. It is a perpetual monopoly, and it is the mother of all other forms of monopoly." - Winston Churchill, 1909.

4. In spite of the billions of public funds spent on urban renewal, subsidized housing and the war on poverty, the situation is becoming worse than at any time since before 1939. Isn't it time then to adopt this basic and fundamental reform?

5. How can there be peace in the world unless there is peace in the cities?