Everything under control

By Steve Cord

TWELVE Pennsylvania cities have begun to transfer taxes gradually off production and on to land values, to good effect.

Take Erie as a typical example. It is now taxing land assessments at 9.15% and buildings at only 2.7% instead of both at the same rate of 4%. This is what Erie achieved:

- Fully 64% of all property owners saved on property taxes (more than 80% of all home-owners), according to the City Planner's statement before City Council.
- Many large property owners won assessment reductions on their buildings through the appeals process; since Erie will now get more of its revenue from land rather than buildings, the city won't lose as much revenue through these assessment appeals.
- \$5,682,374 per year in property tax was transferred from buildings (.040-.013 × \$437,105,680). This will make buildings cheaper and more profitable to build and operate.

Considerable evidence suggests that Erie can expect a construction spurt in the years ahead. Here's some of that evidence:

- All 10 Pennsylvania cities with a two-rate track record have experienced construction spurts following their adoption of the two-rate property tax system.
- All 24 cities in Victoria, Australia, which since 1954 have switched to taxing only land values have experienced construction spurts far greater than their neighbouring and comparable cities.
- In a study of practically all the cities in South Africa (there is no data for some of the smaller towns), those localities taxing only land values experienced the greatest growth in building assessments from 1951 to 1984; those localities which tax buildings also but at a lower rate than land did not grow quite as quickly, but they grew faster than those towns taxing both land and buildings at the same rate. The differences were substantial.

If we reduce (and maybe even abolish) taxes on production, and expand taxes on land values instead, an unprecedented prosperity ensues. After all, if we tax jobs less, won't we have more jobs, and if we tax capital investment less, won't we have more capital investment?

And if we tax land values more, the selling price of land will fall (primarily because there will be less net rent available to the private landowner, and the capitalization of it into selling price will also be much less). If land sells for less, then it will be more accessible to poor people.

Also, if the holding cost of land is increased due to a higher land value tax, then sites will have to be used efficiently, and this all by itself will lead to increased economic production and prosperity.

Some may ask: Won't all this development congest our cities? Won't it lead to the premature development of our countryside? The answer is a clear NO.

If local government collects the rental value of land in taxation it will encourage sites to be used efficiently, in accordance with demand in the marketplace.

But it won't encourage congestion, which is inefficient use of land. And in any case, zoning and land-use planning is still possible, although the need for it will probably be reduced.

The premature development of our countryside would not occur: in fact the land would be preserved. Land value taxation would ensure more efficient use with less sprawl.

People currently develop five-acre sites in the countryside instead of quarter-acre sites in cities, or they use rural lands profligately. In either case, the clean-and-green countryside is developed prematurely.

Land value taxation simply won't sprout office buildings on land best suited for farms. Such developments are simply not the best use of farmland sites.

Inefficient land is the chief cause of the loss of countryside. The remedy is to tax land values, not labour or capital.

Parks and playgrounds are not taxed under the current property tax, nor will they be taxed under the proposal for land value taxation. But it would be easier to acquire land for such amenities because land would be much cheaper, some of it even near-zero in price.

Likewise, with historical-preservation buildings: they are not now taxed, nor would they be under L.V.T.

dle of a cesspool? The mistake, of course, is not to be found in how the market works, but in an irrational system of property taxation, which allowed the neighbourhood to run down.

Property owners were not encouraged to renew the physical fabric on an organic basis, in small increments, constantly responding to the needs of the community – a process that would have steered 42nd Street to a more desirable commercial destiny.

Now, the UDC appears to have an unanswerable case for public intervention and comprehensive redevelopment. Until many of the buildings are torn down, and the theatres rehabilitated, 42nd Street will remain a particularly bruised chunk of the Big Apple; one on which the maggots can get fat, plying their trades in the filthy doorways between 7th and 8th Avenues.

Later this year, the bulldozers may bring an end to the economics of Adam and Eve on 42nd Street. But unless the policymakers reform the fiscal system, the dynamics of the vice trade will continue to operate with impunity, displaying itself as a slice of the evil apple in the seedy corners of every city in the world.