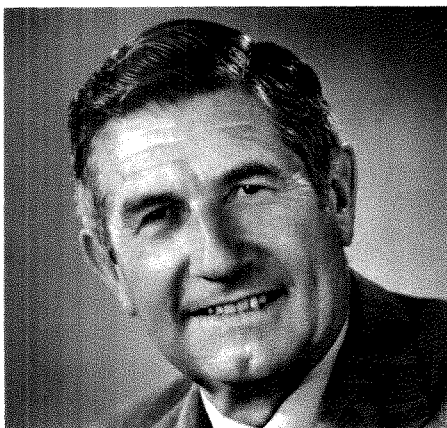


Let's Turn Property Tax Upside Down And Tax Vacant Land, Not Buildings

By Karl L. Falk, chairman, First Savings, Fresno



"The remedy is to turn the property tax upside down. . . . States should adopt legislation allowing localities to lighten or abolish the tax on buildings and impose a corresponding increase in the tax on land. . . ."

Economists have long been concerned with what causes value and wealth. Assessors and appraisers have been trying to measure it. Nine years of living and traveling abroad on both sides of the Iron and Bamboo Curtains have heightened my concern for what happens as a result of the distribution of wealth to incentives to individuals and to the development of countries. In the process, taxation plays a vital role for both individuals and nations. As with economics, so with taxation, everyone, including myself, can be an expert, using prejudices and economic self-interest as a launching pad.

Generally, socialist-oriented countries are more interested in the *distribution* of wealth, and capitalist-oriented countries in the *production* of wealth. The middle course seems to be to strike a balance between emphasizing distribution or the production of wealth. The socialist strives for equality in the distribution of wealth. I personally favor equality of opportunity, instead. Otherwise, motivation goes down the drain and economic growth slows down. This, of course, assumes you agree that some growth is good and that people want to work. My two assumptions are not universally shared. Even here in California some don't favor economic growth or they act as if they didn't. I favor reasonable economic growth for two reasons: One, it gives incentive to those who want to produce more, and, two, it raises the standard of living of all, especially of those at the bottom of the totem pole, even though the gains might not be equally divided.

I am no great admirer of Communism, but I do agree heartily with that part of the Soviet and Chinese constitutions where it says: "It shall be the duty of every able-bodied person to work. He who does not work, neither shall he eat." Our retiring Fresno County welfare director once told me, "It's a shame we can't separate the deserving from the undeserving poor."

When a country increases services to support the poor, the elderly, the handicapped, the underprivileged, the worker, or the farmer, or tries even to improve the environment—whether it can afford it or not—it costs money. Remember, there is no such thing as a free sandwich. Somebody has to pay for it. Here is where the taxpayer enters the picture. If the grumbling, or breaking, point has been reached, national governments, with Alice in Wonderland reasoning, go out and borrow the money, hoping to pass the buck on to future generations. Or they run deficits until inflation debases currencies and raises nominal, not real values, greatly to the disadvantage, more immediately to creditors and people on fixed incomes, but ultimately to all.

I never cease to be amazed at the alacrity with which local governments go after federal "handouts"—revenue-sharing funds is the official term—thinking they are getting "free" money from Washington. It may be easier to collect taxes "piggy back" on top of federal income taxes and give some back to the states and localities, but is an expensive and deceptive practice. Likewise, withholding of taxes

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from payrolls also obscures the size of the taxes—or more properly the expenditures. If taxpayers had to pay income taxes in lump sums like property taxes, there would have been a revolt a long time ago. As much squawking as there is about property taxes, as much local control as possible is still more realistic than our present system because it would focus more attention on whether all the expenditures for which the taxes are raised are really necessary.

As a native Californian, hoping to see a reasonable and controlled growth for the State, I am worried that important industries are not locating here or are moving elsewhere. This is due only in part to our policies of taxing inventories and other operations, but also to a general anti-business climate in which originally justifiable environmental and other governmental restrictions discourage economic growth and are driving away business. My own community does the same thing. Intellectuals, politicians, bureaucrats, the courts, and the voters seem to have forgotten realities. They fail to realize that in the last analysis, business means jobs, jobs are for people, people pay taxes, and you shouldn't kill the goose that lays the golden egg.

Abroad, I have observed this in exaggerated forms. In Communist countries there are so many restrictions on individuals and initiative that it is no wonder they cannot realize their full potential. After all, it takes more than resources, capital, entrepreneurial ability, and a skilled labor force to make an economy and a country run. People have to be motivated and be willing to take responsibility, which nobody seems to want to do.

In what I call the more moderate socialist and semi-socialist countries of western Europe, where rather complete individual security is assured, but where people are taxed exorbitantly to pay for these benefits, motivation and drive are also being lost. The lazy ones live off the state. The ambitious ones leave the country. These countries are so busy dividing up the pie that they have lost sight of the fact that everyone could enjoy a better life if they just baked a bigger pie.

In the so-called Third World the Revolution of Rising Expectations has been frustrated by corruption, inept governments with grandiose plans impossible of fulfillment, and the plain fact that many who could, aren't even willing to work. Here I'm referring more to Africa than to Asia, where people are willing to work if they have the opportunity just to be able to survive.

South America is another story. The Latin Don Quixote lack of realism and special privilege prevail there. After 150 years of self-government and reasonably good resources they are still disorganized and don't seem to know why. There are a few rich, many poor, and practically nobody in the middle. Even professional people moonlight on two or three jobs to make ends meet, trying to keep up with fantastic inflation. Since the elite also have the power, including making tax laws, they do a beautiful job of taking care of themselves. In Bogota, Colombia, recently we saw a beautiful home occupying an entire city block. The local housing expert accompanying us said that the rich owner paid less property tax on the block-sized home than he did on his own little flat. In another part of Bogota we saw a self-help housing project where former squatters and poor people were being aided

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his own second story and converted the original ground floor house into some kind of shop or store, which he leased out or ran together with his family. I've rarely seen so much hustle. So here it's not laziness, but lack of opportunity.

But in the United States the situation is somewhat different. Whereas these other people have been struggling for bread, we are arguing about what kind of jam to put on our bread. To be sure, we also have abuses, privilege, and inequities, but most people, able and willing, have a reasonable chance to get a bigger piece of an ever-increasing sized pie. But we are beginning to see signs of a slow-down.

On the other hand, somebody has to provide the capital, the entrepreneurial energy, and manage and organize these businesses if people are to have jobs. When people get to the point where they work half the year for Uncle Sam and the State of California, and the other half for themselves or if one-half of our people are working to support the other half, or if they see their extra effort wiped out by irresponsible inflation, they, too, may say "To Hell with it!" as I have seen in other countries.

It would be going too far afield to go into the complex causes of our rising taxation and anguished cries for reforms of taxes at federal and state levels; so I'll confine my thoughts to local taxes with which we deal. The property tax, the leading source of revenue at the local level, is the most despised and maligned of all taxes. The assessor is often the innocent victim of wrath of the public that doesn't even know that all he does is determine the value of the piece of property and each owner's share of the tax base. They should be saving their anger for those elected officials who decide, often after considerable pressures from their own constituencies, what the total expenditures are going to be and what rate of taxes should be applied to the base. Of maybe they should really be mad at themselves, either for electing the officials or for letting special interest groups push the elected officials into approving the higher expenditures. New York City is the country's most horrible example of fiscal chaos, resulting from going with special group, but a number of other American cities aren't far behind.

With federal and state governments siphoning off the tax cream, local governments are caught between a rock and a hard place. Cities and counties are trapped by rising costs of services demanded by their citizens, or expenditures mandated by federal and state governments. Inner city decay, escalating crime, drug and social problems, to say nothing of expanding costs for questionable quality education, keep the elected and appointed officials and their bureaucratic support off balance.

Having wrestled with problems of housing and decaying cities and property taxation for some years as an economist, as a housing and redevelopment official, and as a savings and



Behind the glitter and swank of New York's Park Avenue . . . fiscal chaos!

loan officer, I have come increasingly to agree with those who favor a strong property tax—related obviously to all other federal, state, and local taxes—that would untax improvements and increase taxes on land use. A growing number of knowledgeable officials and students of taxation here and abroad are coming to this conclusion despite the resistance of inertia, vested interests that think they would be adversely affected, and the alleged complexities of political realization and later administration.

So in conclusion I would like to suggest that savings and loans and people in related fields give more serious consideration and study to the idea of site or land value taxation. Permit me to quote from an article on the economics and finance of 14 troubled American cities appearing in the March 1977 issue of *Fortune Magazine*.

"The real tragedy of our shrinking cities is that they have hastened their own decline by giving individuals and companies a self-interest in doing what's bad for the community.

"Among disincentive taxes the property tax has by far the largest and most pernicious effect.

"The trouble with the property tax is not what it is commonly thought to be: soaring tax bills that burden hard-pressed homeowners. The real trouble is the basic structure of the tax—a confusing and little-understood fusion of two separate taxes, one on the building and one on the location.

"Most cities collect two or three times as much tax from buildings as from the site value of the land. The low tax on land rewards speculators, making it easy to keep idle or under-used sites off the market until urban growth drives the price up enough for a fat profit. The high tax on improvements discourages both the construction of new buildings and the maintenance of aging ones.

"The remedy is to turn the property tax upside down so it will hitch the profit motive to the right objective. States should adopt legislation allowing localities to lighten or abolish the tax on buildings and impose a corresponding increase in the tax on land. Under such a tax shift, several studies have found that most homeowners would pay less. More important, the incentive for private investment in really good buildings would increase, while the lure of land speculation

would diminish. This might drive down inflated land prices, which are a major reason for high urban costs.

"Such a change would be strong economic medicine. A few years ago Economist Mason Gaffney (who was then chairman of the Economics Department of the University of Wisconsin in Milwaukee) found that if property taxes there had been based entirely on land, downtown Milwaukee would have been rebuilt after World War II without a penny of subsidy for urban renewal. More recently Philip Finkelstein, director of the Center for Local Tax Research, concluded that if New York City continues to tax buildings twice as much

Tax Strategy Committee Formed by U.S. League

This new committee, chaired by Junius Baxter, Western Federal, Denver, has as its function the thinking through of various tax law revisions that might be proposed by the Carter Administration as well as developing a strategy for the industry in approaching tax reform and/or tax revisions.

Representing California on the committee is Herbert J. Young, chairman, Gibraltar Savings, Beverly Hills.

as land 'it will accomplish the apparent goal of New York's critics—letting it sink.' □

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