

THE BERKELEY DAILY PLANET

## **Land Owners, Polluters Should Pay Fair Share**

By Fred E. Foldvary

In the "Ten Questions for Council-member Dona Spring" (07-20-07), "high rents," which soak up much of the residents' income and prevents people from being able to afford to live in Berkeley, was at the top of the pressing issues.

To solve this problem, we need to understand the economics of land. The civic services of Berkeley, along with the other levels of government, make Berkeley a better place to live and work in, which increases the demand for real estate here. The rentals and prices of real estate therefore increase. This is really an increase in land values, as the value of buildings and other improvements are based on their costs of production minus depreciation.

If landowners paid for civic services such as streets, transit, parks, schools, security, fire protection, and public health, their land values would go back down, since they would be paying for value received. But in our tax system, little of the cost of public services are borne by landowners. Most of public revenue comes from taxes on wages, including sales taxes that are paid from wages. The burden of taxes on business is mostly passed on to consumers as higher prices and to workers as lower wages or less employment, since if an enterprise does not make at least a normal profit, it eventually ceases to exist.

So taxes push wages down while pumping up rents and real estate prices. The big gap between high rents and high cost of living, and low wages for many workers, is caused by tax policy, not by the market as such. To remedy this, we must reform taxation to decrease taxes on wages and increase taxes on land rent or land value. This can be done by repealing Proposition 13 and replacing it with a property tax based on the current market price of land. The value of buildings and other improvements would be not be taxed. Going further, a high tax on land value can also replace California's regressive sales tax. Even further, the state income tax can be replaced with taxes on pollution from factories, power plants, buildings, and cars.

Such a radical change will require a big social-justice movement, but it gives us the direction for reform to raise wages and reduce the cost of living. Despite Proposition 13, local governments have enacted property taxes, such as Berkeley's parcel taxes for city landscaping, lighting, library services, schools, AC Transit, and services for the disabled. Berkeley also has real estate transfer taxes, hotel taxes, and assessments for special districts. Berkeley also has utility taxes that increase the cost of living, and a permits that add costs to enterprise. These taxes could be shifted into parcel taxes on land instead of on improvements, transfers, enterprise, and utility usage.

If the residents of Berkeley are serious about greenhouse emissions, they should

also get the city to levy a tax on all pollution taking place within the city. That plus a shift to land-based taxes would reduce pollution while raising wages, increasing employment, and reducing the cost of housing. Businesses would gain from paying less tax and paying less rent.

Proposition 13 prevents Berkeley from levying a tax explicitly on land value, but Berkeley can get around this with parcel taxes on land with rates that vary among districts as well as revenues authorized by "Mello-Roos" legislation and from assessments on land. Taxes on land are borne by the landowners rather than by tenants, if the landlord was already charging what the market can bear.

Most Berkeley homeowners will get a net benefit, since they already pay taxes, and for most, this would be a neutral or beneficial shift. Owners of commercial land would generally pay more, but they have been getting a huge subsidy from city services paid for by others, and they have no legitimate complaint about no longer being subsidized. Special consideration could be provided for real estate owners who would have a burden, such as retired folks with low income and high property values, who would be able to postpone their civic dues.

Berkeley has attempted to treat the symptoms of the artificial wage-tax disparity with rent control, living wage laws, and low-cost housing, but as Dona Spring rightly points out, the problem has persisted and gotten worse. It will take state and federal reforms to bring wages up and housing prices down to their natural levels, but Berkeley can enact its own reforms, and we can't really complain about the state and federal governments if we do not start the ball rolling in Berkeley.

The basic problem is that current taxes push wages down, while government spending pumps house prices up. The residents of Berkeley pay twice for city services: once with higher rent and again with taxes. The remedy is to have a single payment, from rent. Untax wages and goods, and shift public revenue to land. Nothing else will cure the problem of low wages and high rent.