

## U.S. Property Tax-Reformer Takes the Platform

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IN THE UNITED STATES the average rate of property tax is close to \$160 per person a year. Two years ago it was only \$140. When tax rates are high, and when differences in tax burdens are large (e.g. from one area to another, between different types of property or between taxable activities), there are serious consequences throughout the economic spectrum. This is the main thesis of Dr. C. Lowell Harriss as expressed in the 1970 *Dr. Paul L. Morrison Lecture in Political Economy*. He points out that the property tax is in fact composed of two components: a tax on land and a tax on manufactured capital in the form of buildings and plant. These different tax components have very different impacts. The tax on land values is price reducing. But the tax on manufactured capital is price increasing. As far as a tax on land is concerned, the land user is no worse off than he would be if there were no tax. This is because if it were not for the tax, the value or selling price would be higher. However, where the property tax falls on produced capital it can be avoided by not replacing worn-out structures or by delaying proper maintenance. This can result in distortion of resource allocation as new, well constructed, high quality buildings are taxed more heavily per unit of space than slums. Yet ironically, as far as government services are concerned, the slums most probably give rise to greater social call on government services than new structures. Dr. Lowell Harriss paints the picture vividly:

**"Heavy taxation of new buildings must stand as a tragically apt example of mankind creating needless obstacles for itself. Nobody deliberately tried to base local finance on a tax which would favour holding on to decrepit structures while penalising the new and good."**

But the fact remains that a three per cent per annum tax over the life of a building for sixty years at a rate of five per cent is equal to a tax of 50 per cent on present construction cost. As we know, improvements can shift their location to avoid tax impact: land cannot.

Although the expense per cubic foot of construction declines as the size of office, apartment or shop increases, the penalty effects of taxes on the built environment are to reduce space standard since tax impact rises proportionately to wall, floor and ceiling areas. Bearing in mind that the cubic capacity of a building rises proportionately more than the enclosing surface area, a reduction in enclosing area produces a proportionately greater decrease in the volume of space contained. Thus Dr. Harriss summarises:

**"The property tax on buildings by adding to occupancy costs creates pressure for smaller units; the public unknowingly deprives itself of the opportunity to exploit fully the potential benefits of the 'law of the cube.'"**

If it were not for alternative approaches to present property taxation, the future would be bleak, with the improvers and innovators being taxed more heavily than their less enterprising sit-on-the-slum neighbours. But the truth is that a change in the taxation base can raise

the same revenue with substantially fewer bad results and many good ones. A change in the framework of tax structure and therefore the economy, can alter *the whole environment* in which men carry on their activities. "The incentive system being altered," claims Dr. Harriss, "the results of the myriads of private decisions will conform to a better—probably very much better pattern of resource allocation."

This change for the better can be accomplished by increasing taxes on land and reducing (or withdrawing completely) taxes on improvements. Such a legislative

move would result in:

- \* greater justice in sharing the costs of government, many of which ultimately reflect in higher land prices

- \* greater economic progress from the incentive effect

- \* greater efficiency in land use by discouraging the misuse of land and by easing the land market into a more competitive one.

In the concluding part of his lecture Dr. Harriss examined these consequences in greater detail emphasising six main points.

1. A land tax has no effect on the quantity of land, but a considerable effect on what land finds its way into the market.

2. A land tax would result in a more buoyant market in new tax exempt structures.

3. A land tax would particularly favour the business newcomer who has little capital.

4. A land tax would ensure that more liquid funds would be available on short term loan as less funds would be tied to long term land purchase.

5. A land tax recovers community created values.

6. A land tax can reduce urban sprawl and urban dispersal thus making economies in providing city services.

"A reason for urgency in shifting greater emphasis to land as the tax base," warned Dr. Harriss "is that emerging public concern with urban problems will lead to programmes of special aid for cities. Whether outright subsidies or tax concessions, programmes of urban aid which direct funds into particular areas will tend to raise land prices there. Experience indicates that much intended benefit will be incorporated into landowners' gains."

The relevance of this statement to urban Britain is no less than it is to the United States. Examples of where such results have occurred, are occurring and will occur include new towns, the development areas and those cities receiving urban programme aid. Unfortunately there are few signs at the moment of any recognition of the root causes of urban squalor and poverty in the UK.

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