

PROPOSITION 13
Half Right - Half Wrong

Howard Jarvis, co-author of California's controversial "Proposition 13" is as welcome among politicians as their monthly bills. His efforts have initiated a cyclone of tax reform, or so it is claimed.

It is said that human progress has often depended on the courage of a man who dared to be different. Woolworth's Five and Ten Cent store was different in his time. Wanamaker conceived the idea of one price to everyone, which was contrary to the usual practice, and Ford built a cheap light car for the masses. Because their ideas were different, they succeeded.

But not all different ideas succeed. The idea of a perpetual motion machine is different but it cannot succeed for it violates fundamental physical law.

And is Jarvis' proposition different? All it does in effect is to put a ceiling on how high property taxes can rise or rather reduce the rise to a slow gradual increase. In California, this proposition will reduce property taxes throughout the state by about 57%. It will limit property taxes to 1% of March 1, 1975 assessed values. Also it will forbid the raising of officially listed market values of homes by more than 2% in any year unless two-thirds of the citizens registered to vote approve.

The major defect in Proposition 13 is that it does not recognize that the property tax is actually two taxes -- one is a tax on land values, the other is a tax on the improvement to the land. There should certainly be a ceiling on the tax on improvements. The ceiling should be zero. In other words there should be no tax on improvements whatsoever so as to encourage improvements rather than to discourage them. While the ideal situation is for a zero tax, as a practical matter until people better un-

derstand the difference between the tax on land values and the tax on improvements, any ceiling is better than none.

The tax on the value of the land is a different matter. There definitely should be no ceiling whatsoever on it. The tax should rise, ideally, so as to recover what is known by economists as the full economic rent of the land. If this is done, there is no point in holding land for speculation on the hope of a rise in the selling price of land, for if all of the economic rent is taxed away, there is no yield so the price of land would tend to be zero. Land would thus be available for all to use productively. Only those wishing actually to use land for a business or for a home would acquire it.

If all land values in the nation were taxed so as to collect the full economic rent, the disgorgement of land held by speculators would be tre-

mendous. People wishing to use land productively could now acquire it for little or no cost. It would initiate a boom which would make all previous booms minor by comparison. Many of the problems of racial conflicts, urban sprawl poverty and unemployment would disappear in the general prosperity.

But since Proposition 13 makes distinction between the bare land and the improvements on the land, it becomes in effect a boom for land speculators. It is said land speculators were quick to recognize this fact and they were among the most fervent advocates of the passage of this proposition. It means that more land than ever will probably be held out of use by speculators. They will capitalize on the savings in taxes, so when a young couple wish to purchase land on which to build their home, although they will probably be unaware of it, they will be paying in advance to the speculator all the savings in taxes they anticipate they would gain.

But that is not the worst of the evils which Proposition 13 will sprout. It will increase the centralization of power in the state and federal governments, and decrease local control. When those who are feeding on governmental trough cannot get the wherewithal from local sources they will bring pressure on the state and federal government to increase their taxes so they will get their usual share of the swag. In New Jersey, largely as a result of the activities of the teachers organizations the state income tax was instituted two years ago. The local governments were reluctant to increase salaries constantly so the teachers brought pressure on the state government to increase aid to the local communities based on the enactment of an income tax. The teachers' cry was they wanted the children to have a "thorough and efficient education". The real reason was that the teachers were concerned with their own incomes.

So one of the sad results of Proposition 13, if it sweeps the country will be an increase in the already alarming growth of power in the state and Federal government.

But Proposition 13 is not all bad. At least it focuses the attention of the people and the politicians on taxes and spending. With people discussing the property tax, it may be possible to show them that it is really two taxes, and that the one--the tax on land values--should have no ceiling, while the other--the tax on improvements should have a ceiling of zero, i.e., no tax whatever on improvements.

If such an understanding should become general throughout the nation a gigantic step forward toward creating a better society will have been taken. So to sum up, Proposition 13 is half right--a ceiling on taxes on improvements--and half wrong, for there should be no ceiling on the value of the land under the improvements.