



Landless peasants occupy under-used fields in a mass demonstration against Brazil's land laws.

IF THE OPPRESSED cannot identify the source of their problem, the odds are against the implementation of remedial policies. The evidence is before our eyes but we create all kinds of fictions to square consciences with failure to do anything about the suffering. The plight of the landless in Brazil illustrates the point, writes Paul Knight.

A London exhibition of photographs by Sebastiao Salgado movingly depicts the tortured condition of 4.5m rural families who are homeless in a country where vast tracts of land are held idle by owners who do not regard themselves as being to blame. Some facts:

Between 1964 and 1995 over 1,630 people have died in land wars.

Brazil is a large country: 2,100m acres, of which 980m acres are suitable for agriculture and development, 150m acres are regularly used for growing grain, and the rest, except for areas that are under used for cattle ranching, are idle.

The Constitution of 1946 enshrined the principle of social utility as fundamental to the appropriation of land.

An estimated 53,000 owners hold

43.5% of the land (0.83% of the farms). The politicians have betrayed the people. Despite their promises of land reform, the numbers of landless and poverty-stricken continue to grow. Working backwards -

President Henrique Cardoso claims that his land reform would settle 280,000 which, if it were carried out and the same programme is repeated, it will take 70 years to settle almost 5m landless families.

President Itamar Franco promised to settle 100,000 families; he stopped at 20,000.

President Fernando Collor de Mello promised to settle 600,000; critics say that not a single family was located on the surplus land of Brazil.

President Jose Sarney promised to settle 1.4m families on land; in the end, it was under 140,000.

Salgado's exhibition in April coincided with the publication of his book *Terra: Struggle of the Landless** on International Day of the Struggle for the Land. The poster exhibitions in locations throughout Britain were funded from profits from the sale of Salgado's books. Sets of the posters were sold for \$500, and the revenue was

donated to MST, the Brazilian movement for land reform.

No-one can be left unmoved who views the poor of Brazil through the lens of Salgado's camera but the preface to his book by Jose Saramago does less than justice to an understanding of the problem. The brief text begins with a biblical reference to the first case of land dispossession on earth - when God ejected Adam and Eve from the Garden of Eden. Thus, is God blamed for the toil inflicted on humans.

But while Adam and Eve lost their garden, their progeny were bequeathed the whole of Earth. Nature was richly endowed and her fruits were there for the taking with relatively little toil. The blood-and-sweat era of labour is a recent phenomenon, but it is not associated (as Saramago suggests) with the erection of fences around portions of land. He offers an a-historical account of the origins of land privatisation. The private possession of ecological niches - land - is a feature of most species on earth. Property rights are built into nature, a sophisticated set

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Land tax reform: we need better battle plans!

MASON GAFFNEY, Professor of Economics at the University of California (Riverside), reviews the role of taxation - and especially the property tax as it is operated in the United States - in the quest for economic justice and prosperity. It is time, he says, to come out of the trenches and survey the battlefield....

BIG PLANS and Grand Visions inspire small ones. They also help orient and coordinate them. They help us divide the major from the minor, to direct our work most efficiently.

Big Plans can also scare people. That does not mean they won't prevail. They scare some because they move many others. Abstract philosophies, living only in intellectual undergrounds, build up slowly until suddenly they take command. This is how change occurs. Superficially it seems "sudden," but intellectually the way has been paved by years of Grand Visions and Big Plans.

Safeguarding the property tax

WE NEED TO UPHOLD and safeguard the property tax as the mainstay of state and local finance. It is partly a tax on land value. We speak of reforming the property tax, but first there must be a property tax. Because it exists, we can modify it to tap land rent for public uses in a non-catastrophic way, using traditional laws, administrative agencies and land tenures. Capping the property tax rate, as in California, ties the hands of reformers.

There has been much ado about Hawaii's phased-in shift to a graded property tax plan. However, Hawaii raises only 16% of its state and local revenues from the property tax, so the rate is very low. You can focus the Hawaiian property tax on land values 100%, and still have an 84%-messed-

up tax system. Studies would then show little visible result from the reform. Critics would say "Ho-hum, we told you so."

New Hampshire is another story. It raises 64% of its state and local revenues from the property tax, double the U.S. mean of 32%. New Hampshire is called a "low-tax" state, but its property tax is highest in the nation, *per capita*, at \$1344. The U.S. mean is \$699 *per capita*, and it goes down to \$174 in Alabama. Politicians whose priority is raising sales taxes for property tax relief might study Alabama's economy overall, and ask if that is the model to which they aspire. Its *per capita* income ranks 41st in the U.S. *May Georgists please stop looking for miracles from Fairhope, AL?* At Alabama rates, the Fairhope plan is tokenism. Meantime, New Hampshire's marshy peneplains, barren granites, icy winters, and impassable mountains are producing the 7th highest *per capita* income in the nation.

In New Hampshire, fortunately, Assemblyman Richard Noyes is hard at work upgrading the property tax. He is chair of the legislative committee overseeing assessment quality; his priority is bringing land assessments up to market, and building assessments down. He does this by pushing for more frequent reassessment. Whatever he thus achieves in The Granite State is magnified by its high dependence on the property tax.

How about New York? It ranks near the middle in the ratio of property taxes to all state and local taxes, at 33% (the U.S. mean is 32%). That is not because New York property taxes are low, but its other taxes are high. So New York is an OK place to sow the seed of two-rate tax-plan, but the harvest of any success will be sparser than it would be in New Hampshire.

How about Pennsylvania? This state stands out for its efforts to reform local property taxation but, sad to relate, it ranks below the middle in the ratio of property taxes to all state and local taxes, at 29%. It is low in property taxes *per capita*, at \$609, less than half the New Hampshire level. Property tax reform in Pennsylvania is, therefore, heavily diluted. Add to that the problem of overlapping tax jurisdictions: when a city reforms its property tax, its county and school district carry on as before. What changes, then, is just 1/3 of 28%, or about 9% of the complex of state and local taxes. Federal taxes are totally untouched. Trench warfare in Pennsylvania cities is therefore inchmeal, and the results hard to measure.

LANDOWNERS in California are only taxed now if they use their land to hire people and produce something useful. When they do so, they meet the drag of our high business and employment and sales taxes, necessitated by the fall of property taxes. A handful of

oligopolistic landowners control most of the market; small businesses are squeezed out. This helps us segue from being at the cutting edge of industrial progress to a third-world economy - from the New Hampshire model to the Alabama model - with little relief in sight.

Enforcing Good Laws

IT IS IMPORTANT to assess land for tax purposes early and often, especially on a rising market. (Landowners will see to it you do so on a falling market.) Over time, land appreciates more years than not; buildings depreciate every year. Lagging assessments therefore automatically overtax buildings relative to land.

Assemblyman Noyes has published data on the effect of reassessment in New Hampshire. The land fraction of assessed value rises each time there is a reassessment. Keene, NH, is in the lead, with frequent reassessments, a high fraction of land in the mix, and a particularly strong track record attracting enterprise and jobs.

In California, where we used to have good assessment, we now have bad assessment legally mandated by Prop. 13. So long as land is unsold, and/or not newly improved, its assessment rise is capped at 2% a year, while market prices soar. Here is one example of the results. In 1995 the Metro Water District of Southern California condemned 410 acres for a new reservoir to expand the system (to accommodate land speculators in the desert boonies). A local jury hit them for \$43 millions, which works out to about \$1.95 a square foot.

ASSESSORS' problem today is that the strongest pressures they feel are from owners wanting to allocate as much value as possible to buildings that they may depreciate for federal income tax purposes. Here is where we must study how the parts fit together to form the big picture; here is where federal and local tax policies intersect.

Some traditional Georgists have disdained, neglected and misunderstood the income-tax treatment of land income, to their great unawareness, insularity, and

weakness. Let us see how this works.

Congress and the IRS let one depreciate buildings, but not land, for income tax. This important distinction harks back to when the income tax was new, and Georgist Congressmen like Warren Worth Bailey, from Johnstown, PA, and Henry George Jr., from Brooklyn, were instrumental in shaping it.

When a building is new, the depreciable value is limited to the cost of construction. The non-depreciable land is the bare land value before construction. So far, so good. Over time, however, building owners have converted this into a tax shelter scheme. Owner A, the builder, writes off the building in a few years, much less than its economic life, and sells it to B. "A" pays a tax on the excess of sales price over "basis." The basis is reduced by all depreciation taken, so any excess depreciation is "recaptured" upon sale. It is defined by Congress as a "capital gain," and given the corresponding package of tax preferences: deferral of tax, lower rate, step-up of basis at time of death, tax-free exchanges, etc.

Thus far, any tax preference goes to A, the builder, and may be seen as a well-considered stimulus to building. Watch, however, what happens next. "A" sells to B, and B depreciates the building all over again, from his purchase price. To do so, B must allocate the new "basis" - i.e. his purchase price - between non-depreciable land and depreciable building.

How shall B allocate the new basis? Enter the local tax assessor. *Here is where local assessment intersects with Federal income tax policy.* The IRS does not try to assess land and buildings: it is not set up for that. Instead, IRS instructions tell taxpayers they may use locally assessed values to allocate basis between depreciable buildings and non-depreciable land. The IRS accepts this allocation as conclusive. As a result, influential local owners of income property press their locally elected or appointed assessors to allocate as much value as possible to buildings, and as little as possible to land. This does not affect their local taxes, but lowers their federal taxes. *It lets them depreciate land.*

Assessors don't care as much as they should: local revenues are not immediately nor obviously affected. Local assessors have little reason not to accommodate their constituents, local landowners, to help them depreciate land for federal and state income tax purposes. Thus, they have little reason to use the correct "building-residual" method of allocating value, and a compelling reason to use the incorrect alternative, the "land-residual" method. This latter method understates land value, thus converting non-depreciable land value into depreciable building value. It is the modern version of "competitive underassessment." In the process it also converts the local property tax from a land tax into a building tax.

After a while B sells to C, who in turn sells to D, so each building is depreciated many times. So is a large part of the land under it, time after time, although it should not be depreciated at all. This is carried so far that real estate pays no federal or state income taxes at all.

Within each city the property tax is progressive, but when your data meld cities like poor little Parlier and Lynwood with Beverly Hills you sometimes find poor people paying more of their income in property taxes than rich people, and getting less for it. *Switching just the local property tax to land ex buildings will do little to correct such disparities.* It will therefore make little progress toward overall distributive justice, and the wide support that would evoke. There is, in fact, a natural cap on local property tax rates imposed by local particularism. The City Council of Beverly Hills will not raise taxes in Beverly Hills for the benefit of voters in Parlier.

To avoid such regressivity we must work out some formula for power equalization. *The most straightforward formula is simply a statewide land tax.*

What Tax to Fight First?

WE ALSO NEED to set priorities on what tax to lower or kill. The Georgist objective is dual: to raise taxes on land, and to untax production, exchange, and capital formation. Some Georgists have gotten locked into minding just the local