THE ROUNDTABLE CONFERENCE at which this concensus was developed was held shortly before the presidential election under the joint sponsorship of: National League of Cities; U.S. Conference of Mayors; National Association of Counties; Council of State Governments; National Governors Conference in association with *Time*, *Life*, *Fortune*, and the Robert Schalkenbach Foundation. The precise wording of the subject they met to consider was: "The Financial Crisis of Our Cities; What Should the Federal Government Do To Help?; What Should the State Governments Do To Help; and What Must the Cities Do To Help Themselves?" The two-day conference was assisted in its deliberations by three outstanding university economists and by a former U.S. Commissioner of Education.

The word "concensus," implies only broad and general agreement; and does not mean that the participating organisations have officially approved the content of this report.

The panel also included representative leaders from: Committee on Economic Development; Advisory Commission on Intergovernmental Relations; National Commission on Urban Problems; Ford Foundation; Chamber of Commerce of the U.S.; National Industrial Conference Board; National Association of Manufacturers; National Housing Centre; Regional Plan Association; New York Economic Development Council; Small Business Administration; Tax Foundation.—Perry Prentice, Moderator and Rapporteur.

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"WISELY APPLIED, the property tax on which local governments depend for 87 per cent of their tax revenue could be one of the wisest and fairest of all taxes; but as most cities apply it today it may well be the very worst—a weird combination of over-taxation and under-taxation, an incentive tax for what we don't want and a disincentive tax for what we do want. It harnesses the profit motive backward instead of forward to both urban renewal and urban development. Too often it makes it more profitable to misuse and under-use land than to use it wisely and fully, more profitable to let the buildings decay than to improve them or replace them."

This is one of the conclusions arrived at by the participants of the two-day seminar on "Financing our Urban Needs" held recently in the U.S.A. as reported exclusively in *Nations's Cities,** March, 1969

Too few tax levyers seem to understand that the property tax is not just one tax but two opposite and conflicting taxes, says the Report,—two taxes whose consequences for urban renewal and urban development are completely different.

One of these is the tax which falls on improvements acting as a disincentive, and the other is the local, or site-value tax, which is independent of what has been done to the site, but is relevant to its potential, having regard for its environment which reflects "an enormous investment of other people's money and other taxpayers' money to create the community around it and make the location accessible, livable and richly saleable." The incentive effect of location taxes is to put effective pressure on the owners to put their sites to better use.

In spite of this obvious economic lesson, says the Report, almost every city collects two or three times as much money from taxes on improvements as from taxes on land.

A three per cent tax a year on improvements, it is explained, can be misleading when compared with income tax, sales tax and similar taxes. This is because the improvement tax is expressed as a percentage of capital value, whereas income tax is a percentage of annual income.

The tax on building and improvements is restated in terms of income tax, sales tax and consumer taxes, revealing the enormity of the improvement tax:

"*First, in income tax terms*:

A three per cent of true value tax on improvements is apt to tax away 75 per cent of the net income a new building would otherwise earn.

"*And now in sales tax terms*:

A three per cent of true value tax on improvements, is the instalment plan equivalent of a 52 per cent sales tax; i.e., it will cost the improver as much as a 52 per cent lump sum sales tax would cost him if he could finance it at five per cent interest over the sixty-year life of the improvement.

"*And finally in consumer tax terms*:

A three per cent of true value tax on improvements

"TODAY, most local governments assess and tax un-used, under-used and mis-used land so lightly that the tax makes the owners repay only a trifling share (perhaps five per cent) of the community investment that multiplied the value of their land. The other 95 per cent they are free to capitalise into higher and higher land prices."

**Nation's Business,* 1612 K. Street, W.W. Washington D.C. 20006. Reprints of the Report may be obtained through Robert Schalkenbach Foundation, 50 E 69th St., New York, N.Y. 10021 U.S.A. or from Land & Liberty Press Ltd., 177 Vauxhall Bridge Road, London, S.W.1. (not priced).

tives and Deterrents f Property Taxes

will cost the consumer more than a 25 per cent consumption tax; i.e., it will add more than 25 per cent to the rent a tenant must pay or more than 25 per cent to the carrying costs an owner must meet."

No wonder, says the Report, that New York's four per cent tax on new improvements has stopped almost all private new construction in the city (luxury building excepted).

The deterrent effect of the improvement tax is obvious and widely recognised, sometimes inducing tax

> **"THIS practice of public improvements for private profit gives land speculation an enormous hidden subsidy, a hidden subsidy so big that it may actually be bigger than all the farm subsidies plus foreign aid combined. And this is perhaps the biggest reason why building-site prices have been going up much faster than the prices of everything else. The Douglas Commission found that from 1955 to 1965 land prices climbed six times as fast as the index of wholesale commodity prices."**

exemptions on new construction when the government wants to encourage some favoured project, leaving the burden to be borne by others, increasing their improvement tax.

The Tax Foundation reported that most of the federal urban redevelopment subsidies had gone into the pockets of the owners of slum property by raising the price of slum land and have done little to improve the condition of the people in the slums. The reasons why the panelists thought site-value rating should be taxed much more heavily include the following:

To help pay the cost of local government including the cost of public improvements that make the location valuable; to offset the cost of untaxing improvements, the proceeds from which amounts to 87 per cent of their revenue; to slow down the place of land-price inflation; to exert economic pressure on the owners of under-used and mis-used land; to allow cities to expand without urban sprawl and premature sub-division engendered by land speculation which forces home builders and industry to leap-frog further and further out into the countryside in quest of cheaper land; to stop the capitalization into higher land values of the multi-billion-dollar urban renewal subsidies.

The Report examines the economic and social effects

> **"WITH land prices for building soaring 8 to 15 per cent a year, millions of idle acres are now so under-assessed and under-taxed that the owner can hold $1 million worth of the market for a property tax cost of as low as $5,000 a year, with up to 77 per cent of that $5,000 deductible from his federal income tax."**

of property taxation over a wide field, including town planning, public works, traffic and roads, the growth and renewal of cities, densities, employment, industry and housing.

Other sections of the Report deal with schools and education, municipal costs, federal aid, poverty, etc.

Among those contributing to the research on the property tax were Prof. Dick Netzer for the Brookings Institution and the National Commission on Urban Problems; Professor Lowell Harris for the United States Chamber of Commerce and the Tax Foundation; and Professor Mason Gaffney for the Urban Land Institute, the Lincoln Foundation and the Schalkenbach Foundation.

This 50-page report is excellently reproduced with graphs and charts and is presented in a most readable form.

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No Land Shortage

IT IS REMARKABLE how readily myths can flourish even in this supposedly enlightened age. The rule seems to be that if one says anything often enough and loudly enough people will cease to question it. Thus the declaration that Britain is overcrowded and that the only answer is to build upwards has been made so frequently—mainly by architects and planners with a taste for tower blocks—that it has come to be accepted as a mere statement of the obvious.

In fact it is not obvious; it is wildly inaccurate. Some of the facts about Britain worth remembering are:

The United Kingdom has an overall density of one person to the acre.

Of the total land area, 80 per cent is still given over to agriculture, and only eight per cent is urbanised.

The annual requirement of land for new development, whether housing or factories or roads, is so small that it will take twenty years at the present rate to cut down the farming area by five per cent. In that time agricultural production will increase by many times that percentage.

The actual amount of derelict land in Britain is on the increase. About 150,000 acres are derelict now and that total is increasing by 3,500 acres a year.

So much for the terrible pressure of population on the supply of available land.

Andrew Alexander in *Marley News* Spring 1969.