

LAND & LIBERTY

The economics of
John Maynard Keynes: P. 70

The New York Times

Tax reform is Priority No. 1 if the democracies of the West are to solve the global economic crisis by peaceful means. Conventional wisdom, however, has prevented statesmen from commending a transformation in the property tax along the lines for which *Land & Liberty* has long campaigned. But on May 13, 1983, The New York Times broke with tradition and advocated a sophisticated reform which we believe would constitute the first plank of a rescue plan.

When New York City discovered in 1977 how fast it was losing manufacturing jobs, it tried hastily to strengthen its economy by offering real estate tax concessions to new or expanding businesses. Now, reacting to the cry that some of these concessions were unnecessary or too costly, the city is rushing to reshape the rules for granting them.

But if haste produced one inadequate procedure, more haste — in criticism or response — will not correct it. Why not stop for a reasoned look at the role of real property taxes in job expansion?

Real estate taxes are a significant cost of business. For that reason, excusing some of them has become everywhere a favored device for preserving or adding to a community's jobs. Though the taxes support necessary or desirable services, many states and localities forgo them to compete for presumably greater gain.

Those gains, however, can rarely be measured reliably. It is usually impossible to prove that a certain business expansion would *not* have occurred without a tax concession. And it's equally difficult to predict *how much* business expansion can be fairly expected from any tax concession.

Reduce tax burden

Critics of New York City's tax incentive board contend that too many of its concessions have been imprecisely judged, based on wrong criteria, processed by inadequate staffs and often given simply to match concessions that were granted to a competing business. The critics may be right about many cases, but they may also be wrong in thinking that a different procedure would overcome the

uncertainties. The concept of selective concessions is, by definition, unreliable.

As long as creating new jobs is a desirable goal, reducing the tax burden on development and expansion are desirable means. But a larger bureaucracy will not make the process less arbitrary. The better way to change it would be to differentiate more dramatically between taxes on land and taxes on improvements to the land.

A Graded Tax

The owners of vacant or underutilized land can usually afford to delay putting it to better use because it is now inadequately taxed. The burden of taxation falls mostly on investors who try to make the land more useful, who create more jobs.

In that anomaly lies the remedy. Instead of trying so hard to identify expansions worthy of a tax concession, why not try taxing land at a significantly higher rate than improvements? Investors who obey the zoning and building laws would then all get the same stimulus to improve their properties and make their businesses grow. Public treasuries would not have to risk speculative concessions for underterminable results. And the lower taxes on improvements would be regained with higher taxes on land.

Such a graded tax plan could not solve all development problems; housing for low-income families, for example, would still require special subsidies. But the advantages of tax incentives would fairly apply to every employer and potential employer. And no public official would have to choose among them by trying to second-guess their motives or predict their competence.

JULY-AUG. 1983