

The Economics of Taxation and the Race for Land

Comment and news items from WOODROW WILLIAMS, Ohio, U.S.A.

STATE STALKS INCOMES

Woodrow Williams

A STATE INCOME TAX now being mooted in certain circles will create more problems than it will solve. It will further discourage business and enterprise while eating away at the paychecks of workers. Being collected at the state level it will further erode local government.

It might be excusable if there were no alternative. But reform in assessment practices for levying the property tax is the key to that alternative. This is one of the recommendations of the recent Tax Study Commission, which, it seems, is being ignored in favour of the recommendations of another administration group which has reached its conclusions hastily and with few if any hearings.

The real value of land in Ohio is four or five times what it was forty years ago—maybe more. But the assessed value has hardly doubled in that time. So the homeowners, the business men, the factories and family farmers must pay more on their inventories, equipment, buildings and production in general to make up for what the landholders—especially the speculators—are not paying.

The Battelle Memorial Institute's survey found that more people left the state in the past years than came into it; our population increase was by increase of births over deaths. This tax package may hasten this exodus.

Tax most anything enough, and it will disappear—except land. No matter how much land is taxed, there will not be a grain less of it. Actually, if taxed enough there might be more of it available to the user, because the speculators will find it too expensive to hold it out of use, and it will come onto the market restoring competition in land, lowering prices, and being a tremendous boost to the building industry, now in the doldrums.

LEAGUE TO STUDY TAXES

Dayton Daily News

THE Ohio Municipal League is to undertake a long-range study that could revolutionise the state's real estate tax assessment system.

The decision to conduct the study was prompted by the concern of Dayton and other Ohio city officials, according to John P. Coleman, League executive director.

The study will consider a real estate assessment change that would reward owners who improve their property while penalising those who let their property run down. The current state real estate assessment system penalises, in effect, owners who upgrade their property by increasing the tax valuation as the property's value increases.

Commissioner Joseph Wine, City Manager Graham Watt, and Finance Director Winton Parent conferred with Coleman a few weeks ago to ask him to broach the tax study subject with the League's board of trustees, who decided to undertake the study. The decision was made during the League's annual Ohio municipal conference.

Wine has long been concerned about the inequities of the present system. He feels it discourages some owners from wanting to improve their property.

"I'm extremely gratified that the League has appointed a committee to study this very basic problem," said Watt, who is attending the conference.

THE RACE FOR LAND

Allan G. Mueller, Associate Professor of Farm Management, University of Illinois—Indiana Prairie Farmer

THE INTENSE DEMAND for farm land has produced land prices that are higher than the current level of net earnings will support.

Four factors contribute to current land prices.

First is the current rate of earnings from land. If we take the net rent earned by land and capitalize this rate of income at the present interest rate, we arrive at a land value that can be supported by current earnings, but in almost all instances, current land prices are higher than the value arrived at by capitalizing current earnings.

A second factor that helps determine and support today's land prices is that buyers are willing to discount future increases in net income into present land prices. For example, buyers may see future opportunity for 150-to-175 bushel corn yields. The potential increase in land earnings from producing such yields on land that you might buy today can be capitalised into the price that you pay for the land.

A third factor that explains current land prices is the idea that ownership of land will protect the investor against the problems of inflation. The reasoning is that land prices will go up with inflation and protect your basic investment.

The fourth factor that contributes to land prices is that farmers are apparently willing to allocate to the purchase of land some of the economies of costs that they get from increasing the size of business. This means that a farmer theorizes that he can reduce his operating costs per acre by adding an additional eighty acres to the farm. He might then allocate part of the cost savings to the purchase of the additional eighty acres that permitted him to gain the economies of size.