

LVT—A Curb on Inflation

by WOODROW W. WILLIAMS

THE property tax has become really an income tax, with those who produce being taxed *as* they produce in accordance with *how much* they produce. Speculators in land collect from the benefits provided by the taxes levied on others. When the land holder sells he reduces his tax burden by 50 percent through use of the capital gains feature of the income tax. In the meantime his nominal property tax has been a deductible item.

It is generally recognized that a property tax is suitable for local revenue. If it could be corrected to eliminate the favoritism to land holders, and possibly modified to reduce or eliminate the tax on personal property, it would be more acceptable. As now levied, with emphasis on improvements and bearing heavily on personal property, it tends to increase costs, and this is inflationary. An increased assessment on vacant or under-improved land would force some of it onto the market, and the cost of this most inflated item in our economy would be reduced.

Early in American history most public revenue came from the property tax which in those days was mostly on land values. The federal government took only a small percentage of total revenue, principally from custom duties, but it also received some revenue from the property tax under the Articles of Confederation. During the Civil War the government levied a property tax over the country as a whole, even against those states which were in rebellion. But perhaps the most important development at that time was the first income tax. This was the application of the Old World principle of taxation according to ability to pay. It seems to have started with the early socialists and to have culminated in

Karl Marx's slogan "from each according to ability, to each according to need."

Obviously it would be impossible to determine everyone's precise dues based on benefits. Some of the aged, the mentally ill, and the physically handicapped must be helped. But I often wonder if the present system of coddling certain welfare recipients might have gone too far. A lot is heard about extremism these days. It is said that the ancient Spartans left the cripples and aged to die just as the honey bee casts out the drones to starve before winter. From that extreme we have gone today to the other extreme of encouraging people to live without working.

When manufacturing developed following the feudal system towns and villages grew into cities. Shrewd land-owners soon discovered that the entire cost of maintaining their holdings could be shifted to the general population by indirect and hidden taxes, and much more profit could be derived from renting their land to others.

That concept grew until we now have excise taxes, income taxes and luxury taxes based on some notion that those who are more industrious are "more able" to pay. Somehow the ethical and business-like idea of the beneficiary paying for benefits received has been lost.

Up to 1910 more than half of the nation's revenue—local, state and federal—came from that part of the property tax bearing on land. Land remained relatively inexpensive, and economic depressions were shaken off without resort to massive deficit spending. But World War I seems to have brought more and more indirect taxes. Soon after that war many states began to enact sales and other excise taxes,

ostensibly to relieve the property owners.

At the same time a change took place in assessment practices regarding property. Vacant land was let off easy on the theory that while producing no income it should not be expected to pay much tax. Besides, it was argued, there was no one on the vacant lot to use police or fire protection, and no use was made of water supply or sewerage or street lights. But the fact was overlooked that the existence of these services greatly enhanced the value of such lots so the holder gained handsomely when he sold.

The financing of schools needs some careful scrutiny. It is high time for parents and prospective parents to be educated out of the irresponsible notion that the public should pick up the tab for so much extra-curricular activity in connection with schooling. But even here it will be found that a good school system makes the sale of lots or the renting of houses easier, thus the ultimate beneficiary of the public expenditure is the land holder who should be willing to pay for the benefit.

The state should limit its involvement in local taxation to a supervisory status. It would be wise to encourage the employment of trained appraisors, and to require frequent and more accurate appraisals, especially against high priced vacant holdings.

The property tax, intelligently reformed and properly applied, will provide more than enough revenue for all necessary local activities. This assumes, of course, that such services as water and sewerage should be at least partly financed by fees in accordance with usage, just as electric power and telephone service are.

There is some question in my mind as to whether the limitation on taxation is wise. The limitation on bonded indebtedness is also in question. Bond buyers and investment houses might

be the best judges of what a local unit can safely borrow. There seems to be no limit to the sales tax which now is 30 mills, compared to the constitutional limit of 10 mills on the property tax.

If allowance is made for the practice of fractional assessment this disparity is even greater. I know of some parcels of land which are assessed at less than 15 percent of their recent sales value—and a search of tax rolls will undoubtedly reveal greater disparities than that. This in itself is a flagrant violation of the constitution, yet it has been practiced for years by auditors throughout the state. And when an auditor does make an effort to comply with the constitution he may be met by angry property holders with threats of lawsuits.

The Constitution of the State of Ohio requires that property be assessed uniformly, at value. If this were done it would very likely be possible to exempt all personal property, and this would be a powerful weapon against inflation.

The effects of various federal programs are usually evident in increased values of land affected. Obviously the farm program has had a great deal to do with the skyrocketing of farm prices. A splendid opportunity arises here for local governments to benefit from federal aid by keeping land value assessments up to date on farm and urban renewal land.

It should always be remembered that there are only two items, basically, to tax: land or the natural factor, and production or the human factor (man and his production, his ideas and his management). Taxing land helps to curb speculative inflation and encourage production, whereas taxes on production tend to curb output and accentuate inflation.

Woodrow W. Williams of Columbus Grove, Ohio, was invited to be present at a tax hearing and to offer his views which are reflected in this article.