THE TRILLION DOLLAR COST OF NOT CORRECTING

WHAT IS SO WRONG WITH TODAY'S PROPERTY TAX

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I think it is wonderful that so many Georgist leaders have come together here from all over the world to celebrate the centennial of Henry George's masterwork PROGRESS AND POVERTY.

But I'm afraid that for many of us this should also be a week of lamentation in sackcloth and ashes, for in all those hundred years not even one city in all the United States and not even one city in all of Europe has adopted the property tax reform Henry George died fighting for . . .

> The property tax reform needed to harness the profit motive to what we want for our cities, our countryside, and our people instead of harnessing the profit motive to so many things we don't want . . .
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> The property tax reform we are very wisely beginning to call incentive taxation, because it would give private enterprise a strong incentive to improve and build instead of (as now) penalizing private investment in improvements by overtaxation and subsidizing land speculation and land price inflation by undertaxation.

Others have come from afar to tell you about the problems and the progress or non-progress of Georgist tax reform in other lands, so from this word on I speak only of our own problems and non-progress here in America. I will try to help you see that the results of our not correcting these problems have been almost unbelievably costly, and then I will try to help you see the urgency of correcting these problems before it is too late.

And perhaps the quickest way to dramatize our failure would be to remind you that when Henry George proposed the single tax on land to pay all the cost of government the property tax on land was already providing enough revenue to pay nearly half of all the costs of government -- local, state and national -- whereas today the land tax is barely meeting 2 percent of our government costs!

Instead of doubling the tax on land as Henry George proposed we now tax land so lightly here that land speculators and other owners of unused, underused, and misused land can hold it off the market at a net yearly tax cost seldom if ever exceeding 1 percent waiting for inflation and a multi-billion dollar yearly investment of other people's money and other taxpayers' money to double or triple its market price -- i.e. to increase its market price 100 times and sometimes 200 times as much as their cost for keeping it idle. Even after paying today's tax on capital gains they can pocket roughly two thirds of this unearned increment.

In the spread city around New York the Regional Planning Association added up cost to the community for schools, roads, water supplies police and fire-fighting facilities, sewer lines and sewage disposal facilities etc., etc., etc., needed to make land in one more residence reachable, livable, and richly saleable, and came up with a figure of well over $30,000 for each additional residence. Here on the West Coast the Southern California Real Estate Research Council came up with a figure of barely $1,000 less for Los Angeles.

And I'm sure you will all agree that $30,000 per additional Residence or say $60,000 per acre gives land speculators in the growth areas in and around our cities a very juicy subsidy!

Today's undertaxation of land has now been capitalized into a land price total estimated by the Federal Census Bureau at roughly two trillion dollars ($2 000,000,000,000), giving land owners an almost completely unearned increment denounced by FORTUNE as "more than double our vaunted investment in industrial production" and imposing on our economy a burden more than twice as heavy as the 800 billion dollar Federal debt!

Today's gross undertaxation of the community-created location value of land has been coupled with an equally gross overtaxation of private investment in houses and other improvements. Most of our cities tax improvements more heavily than the combined Federal, state and local tax burden on any major product of American industry except hard liquor, cigarettes, and perhaps gasoline!

A 4 percent-of-true-value property tax on new construction (as in New York City) may not sound big compared with a Federal income tax that runs up to 70 percent. But it sounds small only because the 4 percent is 4 percent of the entire capital value of the investment, whereas the income tax, as its name makes clear, applies only to the income on that capital value.

The enormity of this 4 percent-a-year tax on the true value of new improvements should become clear if we restate it in sales tax, income tax, and in consumption tax terms.

In sales tax terms: The Advisory Commission on Intergovernmental Relations has calculated that each 1 percent added to the tax on improvements is the installment plan equivalent of a 19 percent sales tax, i.e., it will cost the improver as much each year as a 19 percent single payment sales tax would cost him if he could finance it at 5 percent interest spread over the 60-year life of the improvement. So, for example, New York's 4 percent property tax on new improvements is the installment-plan equivalent of a 76 percent sales tax!

In income tax terms: New York's 4 percent-of-true-value tax on new improvements is likely to cost the improver much more than 50 percent of the income the improvement could otherwise earn on the equity investment.

In comsuption tax terms: New York City's 4 percent-of-true-value-a-year tax on new improvements is the equivalent of at least a 25 percent consumption tax, i.e., it adds more than 25 percent to the rent or 25 percent to the carrying cost of a home.

Said the Douglas Commission's report: "It seems inconceivable that we would knowingly place such a tax burden on such a necessity as shelter, but we have."

Today's misapplication of the property has been by far the biggest cause of urban decay and slum formation. It has been the only cause of the premature subdivision of millions of acres that should have been left open country for farming and recreation until well into the twenty-first century. It has been the biggest single cause of land waste and the sprawl that has been making millions of people waste billions of hours driving billions of needless miles wasting trillions of gallons of costly gasoline getting to and from where they want or need to go. And burning all those wasted gallons has been so far the biggest cause of air pollution about which we are getting so concerned!

Beyond that: Today's misapplication of the property tax is the only reason -- repeat, the only reason -- why land prices were already going up 6.19 times as fast as the rest of the relatively stable consumer price level at the time of the 1966 Douglas Commission report -- and that was before land prices really took off into the wide blue yonder. And this land price inflation coupled with the overtaxation of improvements is the biggest if not the only reason why multi-billion dollar subsidies seem to be needed to meet our housing needs -- and despite all these multi-billion dollar subsidies the shortage of good housing is still so great that perhaps as many as one out of every ten American families still has to live in sub-standard housing!

Still more importantly, this land price inflation subsidized by the under-taxation of land is by far the biggest single domestic element in the overall price inflation about which everyone is now so concerned. Says FORTUNE: "The inflated price of land raises the price of everything we buy." Says TIME: "The soaring price of land for farming is perhaps the biggest reason for the soaring cost of food."

And now homeowners are rushing to cash in on the crazy inflation in home prices to add three times as many millions of dollars to the consumer debt total as this year's $31 billion-plus increase in the Federal debt that so many economists consider the biggest cause of inflation! In Florida, to cite a shocking example, one sizeable mortgage lender has been going on the air again and again to ask homeowners if they would not like to increase their mortgages $15,000 to take their families to Hawaii for a month's vacation!

Enough is enough, so I will take no more of your time to spell out the costly consequences of our not getting the voting public and everyone in Government to recognize the urgency of the local property tax reform Henry George died fighting for.

But now I must go on unhappily to remind you that our failure to sell Georgist tax reform is a double failure, for Henry George did not stop short by just urging a single tax on the unearned increment in land prices to pay almost all the costs of government. He was a dedicated believer in free interprise and such a strong foe of socialism and communism that he also questioned the right of any government to take away through taxation any of the money workers and enterprisers rightfully earn by their labor and investors earn by the wise investment of their savings to create more jobs and provide the facilities needed to increase production and productivity. That was in those almost-forgotten days before (in the words of Senator Hayakawa) we began "destroying the incentive to succeed" with a $200 billion-a-year Federal Tax on individual incomes that taxes away to roughly a third of all non-tax-exempt income over $25,000 and a half of all non-tax-exempt income over $50,000 a year. And that was before our country began taxing business profits more heavily than any other supposedly non-Socialist country!

In all the centennial years we are here to celebrate we Georgists have failed to persuade any government to apply the Georgist remedy for poverty. Quite the contrary: land is now so lightly taxed that land ownership is by far the biggest of today's tax shelters and we are imposing a multi-billion dollar added tax burden on workers and investors to support the poor on welfare and to shelter them almost rent-free in subsidized housing!

What makes our hundred-year inability to sell Georgist tax reform doubly difficult to understand is that quote "Practically all the competent economists who have studied the problem now agree with Henry George that land should be taxed much more and private investment in improvements should be taxed much less if at all". So says the eminent Columbia University professor who is Past-President of the National Tax Association and now serves as economist for the Tax Foundation; and Professor Harriss adds that the need for Georgist property tax reform is much greater today than it was a hundred years ago!

Perhaps equally important, the consensus of a conference of urban experts co-sponsored by the Council of State Governments, the Conference of Mayors, the National

League of Cities, the National Association of Counties, and the National Governors Conference -- a conference whose panel New York's Mayor hailed as the WHO's WHO of Urban Development -- laid it on the line that:

"It should be <u>obvious</u> -- repeat, obvious -- to anyone that heavy taxes on homes and other improvements are bound to discourage, inhibit, and often prevent private investment in improvements.

"It should also be <u>obvious</u> to anyone that heavy taxes on the community-created location value of land cannot discourage or inhibit improvements. On the contrary, heavy taxes on location values could put strong pressure on the owners of underused land to put their land to better use.

"All this is so obvious that you would think every community would try to tax land heavily and tax improvements lightly, if at all; but just the opposite is the case. Almost every community collects two or three times as much money from taxes on improvements as from taxes on land."

To this the one exception is Pittsburgh, where at long last the local Georgists can take just pride in having persuaded the city government to make the city tax on land four times as heavy as the city tax on improvements. But even in Pittsburgh half the full burden of property taxation still falls on improvements, for the Pennsylvania Constitution still requires the heavy school and county tax to fall at the same rate on land and improvements.

Every unprejudiced property tax study from coast to coast has supported the case for Georgist property tax reform, including the studies for:

National Council For Urban Affairs
The Chamber of Commerce of the United States
The Federal Advisory Commission on Intergovernmemtal Relations
The Congressional Research Service
The Brookings Institution
The House Committee on Banking, Finance and Urban Affairs

The State Governments of Michigan, Indiana, Pennsylvania and North Carolina and the Provincial Government of Quebec (which called the land tax "the ideal instrument to enable the entire community to share in the increase in land values that results from economic and population growth and undetakings paid for by the community rather than the owner."

And also by many local studies, including major studies in Milwaukee, Kansas City, Omaha, Washington, Buffalo and Indianapolis.

Here in California the case for Georgist property tax reform is supported by local studies in San Francisco, San Jose, San Diego, and Fresno, and the president of the Center for the Study of Democratic Institutions in Santa Barbara laid it on the line that "the present property tax promotes every unsound public policy imaginable."

But in the face of all these studies the voters of California rushed to the polls last year to vote for a 40 percent property tax cut whose most immediate beneficiaries are the owners of unused land and whose first result was to send land prices soaring still higher in a state where land price inflation was already worse than in any other state -- so high that last year the Irvine heirs were able to sell for $413,000,000 the remaining acreage of the ranch their grandfather bought in Henry George's time for $93,000!

In the face of all today's mounting evidence that Henry George was so right, how can we explain our hundred-year failure to sell Georgist tax reform, not just in California, but in any other state in the Union?

Perhaps one explanation is that too many long term public decisions are based, not on long-term benefits, but on the short-term benefits they offer. Says Nobel-laureate Albert Szeni-Gyorgyi in "The Crazy Ape" (published by the Philosophical Library): "We sell our more distant vital interests for minor immediate gains".

So, for example:

1 - Too many owners of existing office buildings, existing apartment houses, existing store buildings, existing warehouses, etc., etc., think they have a short-term interest in not lessening today's heavy tax penalty and disincentive on the construction of new office buildings, new apartment houses, new store buildings, and new warehouses that would compete with their aging properties and tempt their tenants to move out unless their rent is lowered.

2 - Too many bankers who hold mortgages on existing buildings think they have a similar short-term interest in preserving the tax disincentive that keeps new construction from out-running or even keeping up with new demand.

3 - Too many homeowners who bought their homes with every assurance that housing prices would keep on going up and up would be unhappy if property tax reform were to stimulate enough new home building to ease the local housing shortage and so bring housing prices down and threaten the unearned increment they counted on when they paid too much for their own purchase.

4 - Too many land developers are afraid that uptaxing land would at once deflate the value and increase the holding cost of acreage for which they had already paid ransom prices reflecting today's almost ubiquitous under-assessment and undertaxation of vacant land.

That's why so many big developers like Levitt and Jim Rouse in Columbia and Gulf in Reston have strongly opposed any proposal to tax land more and tax improvements less. And that's why the big operators who are so influential in both the Home Builders and the Realtors Associations have kept both NAMB and NAREB from supporting the tax reform that would be so good for most of their rank and file members.

These short-term self-interests in not correcting what is now so wrong with today's property tax are so strong and widespread that it would be needlessly foolish for us to urge an overnight transition shifting the full weight of a heavy property tax to land. It would be much wiser, fairer, and better to stagger the shift over five years; in the case of new towns like Columbia and Reston it might be staggered by local option over as many as ten years. This would give everyone who had bought land at prices inflated to today's undertaxation time to take advantage of the much greater long-term money-making opportunity offered them by untaxing improvements.

Under such a staggered shift to land value taxation the penalties for under-using valuable land would be delayed but the benefits of the new and greater incentive to improve and build would be immediate. Landowners and developers have to plan ahead for the future, and it shouldbe obvious to all of them that the profit potential from investing in new improvements that would be tax exempt five years from now would be almost as great as if would be if the tax exemption granted at once.

But for the long term the tax reform Henry George died fighting for would be good for almost everybody, including most specifically:

1 - It would be good for everybody in the building business, for it would help bring down the too-high price of the builders' and developers' biggest purchase (land) and make their product easier to sell by lessening the improvement-tax penalty its customers have to pay.

2 - It would be good for homebuyers and all the building industry's other customers, for they are the final victims of today's inflated price of land and end up paying almost the entire bill.

3 - It would be good for our cities, for it would help bring down the too-high price of in-city land and the too-high tax on in-city buildings that is driving people and jobs out to where land is cheaper and taxes are lower.

4 - It would even be good for most farmers, though it may be a waste of time to try to sell them on its benefits. It would be doubly good for farmers where owner-paid improvements in the land, like draining, clearing, grading, etc., are correctly assessed as improvement values, as in Australia and New Zealand and as recommended by our own Department of Agriculture nearly 50 years ago. Even without such an assessment correction a farm-by-farm tax sampling in Pennsylvania's rural Indiana County found that uptaxing farm land and down-taxing farm improvements would actually lower the property tax on all the better farms. The only farmers who would be taxed more are farmers who are letting their farms run down. And it seems to me significant that the only place in the whole United States where improvements are completely tax exempt and the whole burden of the property tax falls on the land is the farm area of North Dakota. This would have been impossible if the farmers had not recognized that it would be good for them. It is also significant that a broad survey of farmer opinion by the county assessor in Tacoma, Washington; found that almost the only farmers who strongly opposed taxing their land more and their improvements less were farmers who wanted to sell their farms for a high price and get out of farming.

In brief, the only big gainers by our hundred-year failure to sell Georgist property tax reform are the big land owners and land speculators who are now finding it easier than ever to get rich in their sleep on the enormous unearned increment in the price of their land.

So I hope and pray that at this centennial we will not just bow down to worship at the shrine of Henry George. I hope that all of us will hereby firmly resolve to stand up and fight, like him, for the tax reforms he died fighting for.

I hope and pray that the second century of PROGRESS AND POVERTY will not be another century of failure, but a great century of Progress. I hope and pray that very early in this century we can achieve the Georgist tax reforms that are now needed more urgently than ever before.

--PIERREPONT I. PRENTICE.

(Mr. Prentice delivered this address at the Henry George Centennial Conference in San Francisco on August 22, 1979.)