Incentive Taxation ©

Here's the ONLY Way to Save Social Security

Everyone agrees that the social security system is headed for the financial rocks:

◆ Retirees are living longer than they used to and are therefore drawing social security payments for a much longer time; the future is likely to see this trend continue but with increasingly unfortunate financial results for social security.

◆ There are fewer workers paying into the system and there are more retirees than ever, worsening the financial situation year-by-year. Few young people expect to receive today's benefits when they retire.

Social security specialists think that a 42% payroll tax will be needed to maintain benefits at the current level. Such a tax could not be levied or collected and would also create monumental unemployment among young people (by discouraging job-making).

Privatization via IRA

The only way to save social security is to privatize it. Chile did so by letting workers invest in their own IRA retirement accounts (the central government certified approvable investments). Only privatization can fund the current social security benefits and prevent them from being cut back (as has been done in the past), causing many oldsters to live on dog food.

If workers paid into their own IRAs:

◆ They would get a much higher return on their investments than social security could possibly offer.

◆ Their IRAs could fund capital expenditures, leading to economic expansion.

◆ Current retirees could continue getting the benefits they've grown accustomed to and a financial collapse of the entire social security system would be avoided (i.e., no dog food for oldsters).

◆ They would likely prefer taking care of themselves instead of contributing to the welfare of anonymous strangers (of a previous generation).

◆ Workers would eventually get to own a greater share of the American economy with their IRA savings.

But IRA privatization would create a cataclysmic revenue shortfall in the short run for our government since workers would pay into their own IRA retirement accounts rather than into the social security system. But how are we going to fund this short-run revenue shortfall as tax-contributing workers choose to leave the system? With a 42%+ payroll tax? Certainly not! We can always increase the deficit or raise income tax rates, but those are not attractive alternatives. We face a dilemma which threatens to shatter society, but fortunately there is a way out.

> Social Security is headed for bankruptcy. In the long run, only privatization (via IRAs) can save it. But IRA privatization won't work in the short run because it will bring about a tremendous shortfall in govt. revenue. Only land rent taxation can avert this short-run shortfall and save IRA-privatization (and Social Security).

The ONLY Solution

Readers of this publication know how to extract ourselves from this predicament. We need a revenue source that will promote economic growth, not hinder it. We need to tax land values. Land was produced by God eons ago for all of us equally. Since it isn't practical to divide up the land equally, we can accomplish the same purpose by having our government collect land rent instead of producer taxes. That is the height of practicality.

◆ This will encourage land owners to develop their sites efficiently, leading to job creation and economic growth. Even if we were to throw the land rent revenue into the ocean each year (!), the resultant development of land would create economic growth and new jobs. Of course, we should put the land rent revenue to good use.

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> **THE PROPOSAL**
> 1. Private landownership and asssessments to remain untouched.
> 2. Levy a lower rate on building assessments, higher on land, instead of the same rate on both.
> 3. How to do it? Call us! We have experience (no obligation).
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Social Security
(Continued from page 1)

◆ We could then un-tax private initiative or fund the short-run revenue shortfall of social security IRA-privatization.

◆ This tax is widely endorsed by leading urban authorities and has produced economic growth and jobs wherever it has been implemented (in about 700 cities worldwide).

◆ Government, Society and Nature have created locational values (as represented by land values), so let the government tax what it creates rather than what individuals create (as represented by their income or purchases). The worker is entitled to the full fruits of his labor. The fruits of our exertions would not be taxed away if our governments would collect land rent revenue.

Conclusion

Let us save our social security system by privatizing it, and let us make privatization possible by taxing land, not wages or private enterprise. Local governments can do this via the two-rate land-oriented property tax, and even the federal government can also do it (for $4, get C.S.E.'s pamphlet, *14 Ways by Which the Federal Govt. Can Promote Land Value Taxation*). Do something now.

Joshua Vincent, Associate Editor, Incentive Taxation

Politicians: Do No Harm!

Most homeowner-voters will get a tax increase if the local property tax is shifted to income or sales, as is now being suggested in Pennsylvania (S.B. #2) and elsewhere. The exact amount of the tax increase depends on local building and land assessments, but in general, the property tax is paid in part by commercial and industrial property owners, whereas homeowner-voters have no such help with a local income or sales tax. In addition, the property tax is deductible from the federal income tax whereas the other taxes are not.

Voters who are renters (including commercial and industrial ones) would fare even worse with a property-to-sales-and-income-tax shift: They now pay no property tax at all but they would be hit hard by a local sales or income tax. Eventually, only part of the property tax (on buildings) will be passed on to them, but they, along with homeowners, would have to bear almost the entire income or sales tax burden. To be sure, if only the property tax on buildings is shifted to income or sales, no harm will be done.

Many studies show that the best tax relief politicians can offer most voters is a shift in the property tax from buildings to land (the so-called two-rate property tax). Pennsylvania voters understood that instinctively some years ago when they rejected a property-to-income-or-sales tax shift by a 3:1 vote.

Politicians would be wise to catch up to them. With a two-rate property tax, they can go ahead (but not too far ahead) of them.

A new study shows -

New Construction Follows Two-Rate Adoption

Economics Professor Nicolaus Tideman of Virginia Tech. University published a highly detailed and scholarly study which compared the change in new construction in the 15 two-rate Pennsylvania cities with the change in new construction in the approximately 35 Pennsylvania cities which had not gone two-rate. He concluded that "it is not at all surprising that when taxes are taken off of buildings, people build more valuable buildings. But it is nice to see the numbers" (p. 10).

We are pleased to have confirmation of our many studies from such a respectable source. All these facts come from a paper by Professor Tideman and Florenz Plassmann entitled "The Impact of Two-Rate Property Taxes on Construction in Pennsylvania," delivered on October 31,1995 at a Bard College symposium, Annandale, N.Y. We'll send you a copy if you send us $5.

St. Petersburg, Russia

The following interesting news report from the *St. Petersburg Press* (Internet, 2/22/96, Rachel Katz reporting) concerns recent action taken by the city's Legislative Assembly: "The formula rate for determining land taxes and rental of land plots will be increased 3.25 times." Various other business and worker taxes imposed by the city were slightly reduced. We are looking for more information on this and will report to you when we get it.

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From the Editor

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♦ As of September 1995, 77% of the cities and districts in New Zealand have gone 2-rate; 66% are taxing land values only, not buildings. The voters opt for LVT, but the central government has raised obstacles (IT reader R.D. Keall, citing the N. Z. Dept. of Land Information).

♦ Gambling doesn't benefit gambling towns; the money goes to the casinos (*Washington Monthly*, 10/95).

♦ "Everybody wants to go to heaven but nobody wants to die" (Joe Louis).

♦ Social Security faces a massive $7.3 trillion unfunded liability (*Investor's Business Daily*, 2/15/96, B1). This is about 40% more than our annual GNP. How could our federal government possibly pay that amount?

♦ We have been informed by Robert Cassler that the Communications Act (as amended in 1994) imposes regulatory fees based on the value of certain special types of broadcasting or telecasting licenses, which is akin to the taxation of land value (in this case air value).

♦ A committee is a group of men who keep minutes and waste hours.

♦ A *Wall Street Journal*/NBC Poll suggests that Americans lean against the flat income tax, 54% to 41% (*WSJ*, 1/18/96, A16). Tax land rent not income. A flat tax rate of 0% would be better than 17% or 20% (probably more).

♦ The previous mayor of Aliquippa, Pa., Daniel Britza, praises the two-rate property tax (phone conversation 1/13/96) and says that the new mayor also likes it.

♦ Lower income tax rates on the rich result in higher revenues for the government, since they pay a larger portion of the nation's income tax (Daniel Mitchell presents many historical substantiating facts in *Investor's Business Daily*, 8/16/95, A2).

♦ An economist is one who knows tomorrow why things he said yesterday didn't happen today.

♦ "Unless we settle the land question, we tear South Africa to pieces" (Cyril Ramaphosa, A.N.C. Secretary-General, in *The Economist*, 5/28/94, p. 35). Only LRT will solve that question.

♦ The Federal Reserve Bulletin estimates farm land at $593 billion, which is 14% of total U.S. land value.

♦ The government shouldn't take from one person and give to another.

Progress in Two-Rate Harrisburg

We just came across the following statistics about two-rate Harrisburg, Pennsylvania (from *The Downtown Report*, Harrisburg City Govt., 1991-92, p. 1):

♦ Number of businesses on city tax rolls - in 1981, 1,908; in 1990, 3,738.

♦ Increase in private investment from 1982 to 1990: $850 million.

♦ Appraised value of taxable real estate - in 1982, $211.3 million; in 1990, $758.4 million.

♦ Felony crimes: 24% decrease from 1981 through 1989.

In 1981, Harrisburg was considered the second most distressed city in the nation under the federal government's distress criteria. The 1980 U.S. Census had determined Harrisburg to have the highest percentage of vacant structures of any city in Pennsylvania. Over one in every seven buildings throughout the city was unoccupied, in many instances vacant for years. Nowhere was this alarming rate more pronounced than in Harrisburg's downtown where over half of the central business district was empty. During the 1980s, most previously existing federal and other funds for local government were eliminated or substantially reduced.

Change Comes to Harrisburg

But during the 1980s, Harrisburg steadily increased its land tax rate as compared to its building tax rate. It thereupon experienced all the growth indicated by the above statistics. It would seem that the two-rate property tax brought tax-free economic development ("tax-free" because there is only a tax shift from buildings to land). Down-tax buildings, and you'll have more of them; up-tax land and owners will be encouraged to build on their sites.

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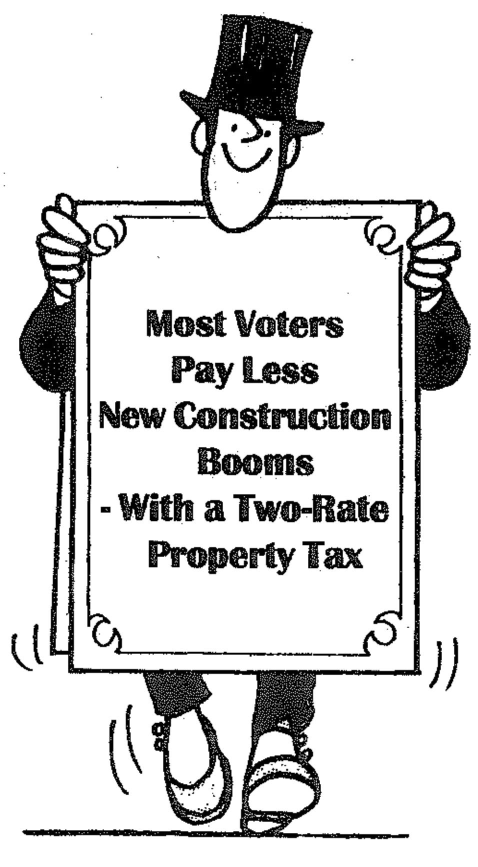

Endorsements 421-422

U.N. Habitat Conference (in Istanbul, Turkey, working agenda document): "To ensure an adequate supply of serviceable land, governments should...:

"(e) consider fiscal and other measures to prevent hoarding of vacant land, and thus increase the supply of land for shelter...

"(h) take advantage of innovative instruments which capture land value gains and recover public investments" (sent to us by IT reader Pat Aller).

Professor John Strasma (Economic consultant, Univ. of Wisconsin Land Tenure Center, paper presented at the C.G.O. Conference, 7/23/93): "The Chilean land tax was successful on all counts except that inflation indexing was inadequate. It demonstrates the feasibility of site value tax as a base for rural lands; investments were encouraged by exemptions for full expected amortization."

Would 2-Rate Increase Tax Defaults?

In answer to the title question - No, not if Bill Glasso, City Treasurer of Rome, N.Y., is to believed. In 1993, he said at a public gathering that if the city went 2-rate, "we would expect fewer appeals since most of the appeals we have now are on the building assessments. If the tax rate on those assessments is reduced, fewer building owners will bother to appeal them."

Mayor Anthony Spossey of Washington, Pa. spoke at the same gathering and said that after his city started to tax buildings less than land, tax defaults dropped, from 8-9% of the total roll to 7%.

We can send additional studies supporting the same conclusion to any reader who would request them.

Progress in Two-Rate Harrisburg

(Continued from page 3)

But other factors were clearly at work in Harrisburg in the 1980s. Mayor Stephen R. Reed introduced many pro-business programs which attracted investment; he also introduced many good-government innovations. In addition, Harrisburg is the capitol of Pennsylvania and state government expanded during the 1980s. And maybe Harrisburg was on the verge of expansion, two-rate or no. Nevertheless, it's good to know that Harrisburg's two-rate experience exactly duplicates the experience of ALL the other two-rate studies we have conducted (now eight altogether).

How to Really Promote Worker Welfare

If all corporate dividends were redistributed to employees, their compensation would be increased by a paltry 5.1% in 1994 (latest year available, based on table 707, *U.S. Statistical Abstract 1995*). That's before-tax and only true for the first year (because there would be no dividends to be redistributed thereafter). Also, keep in mind that a significant portion of dividends are now going to workers in the form of pensions and insurance; if dividends disappear, the income of workers will decline.

If dividends disappeared, so would the economy and workers would therefore suffer for that reason also. When dividends are taxed, the tax is mostly passed on to consumers (i.e., workers) and the economy (and job-making) is partially hobbled.

Significance: Tax land rent, which is not individually produced, rather than dividends, which mostly are. In addition, a land rent tax promotes economic development; no other tax does.

New Pamphlet - "22 Procedures"

The Center for the Study of Economics has just issued a handsomely printed 12-page pamphlet entitled *22 Procedures for Converting a One-Rate Property Tax to a Two-Rate Property Tax*. It tells, step-by-step, how to go about selling a building-to-land switch in the property tax, and so is of interest to aficionados of the land rent tax, but it is also of interest to the local politician who might be interested in tax-free economic development in his town. Send $4 (incl. p&h) to CSE.

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Henry George Foundation of America
2000 Century Plaza • Suite 238
Columbia, MD 21044-3210

Lindy Davies
Henry George School
121 East 30th St.
New York NY 10016

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