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CALIFORNIA PROPERTY TAX REFORM

Efforts to fashion legislation to provide property tax relief and reform continue to be the major political issue in California. As reported in the last Newsletter, dozens of pieces of legislation have been introduced in the State Legislature. There is a certain difficulty in assessing the various proposals partly because of their sheer bulk and complexity, but also because many of them undergo changes monthly, if no weekly as they move through the legislature and political process.

The Georgist reform measure, SCA-12, introduced by Senator Albert Rodda remains locked in the Senate Revenue and Taxation Committee. The bill calls for a five-year shift of property taxes off of improvements onto land values only. There is no organized opposition to the bill as yet, but neither is there enough widespread support for it among legislators and the public to make it a major contender for serious consideration. The only hope for the bill is for every supporter of land value taxation to do as much as he or she can to manifest approval for it and persuade legislators and fellow citizens of its merits. The LEAF organization is currently leading the political movement on behalf of SCA-12.

As it stands now, SCA-12 will probably not be brought to a vote in front of the Senate Revenue and Taxation Committee until January, 1978. The purpose of this delay in bringing the matter to a head is to allow time for support of the bill to be mustered. Senator Rodda may also call for a Committee hearing on the bill in the meantime to further educate Committee members of the bill's merits and to allow a show of support for it.

Gentlemen, where are your Principles?

One thing is very clear about the current property tax fight. With the sole exception of Senator Rodda's SCA-12 every piece of legislation which has been proposed is based on expediency or special interest and none on fundamental principles of taxation, equity or justice. This is so despite the rhetoric being used by various factions.

This fact was artfully expressed in a private conversation by a Senate Revenue and Taxation Committee member who will remain nameless. In effect he said that there is no such thing as tax reform. There is no such thing as a good tax or a bad tax. All that matters is who can muster enough votes and support to pass a bill which will take tax money from some other group or set of interests. He said in addition, that there is no tax which cannot be passed on. It was pointed out to this gentleman that

everything he was saying was true about every tax except the tax on land values. Needless to say, the gentleman remained unconvinced. Those of us in attendance were left to wonder how a man in his position, who has to wrestle daily with volumes of boring bills and interminable meetings to evaluate them, would not jump at the chance to explore ideas which would make rational sense out of an otherwise chaotic jumble. We surmised that there was no need to worry about this fellow since the "least exertion principle" would catch up with him someday unless, of course, he was the one exception to it....

This same lack of guiding principles has been seen elsewhere when legislators honestly describe the process they have to go through to get a bill passed. Recently Assemblyman Willie Brown was kind enough to speak honestly in public about his approach to getting support for AB-999 which he is shepherding through the Assembly. As ever, Mr. Brown was eloquent and entertaining. He stated that he was not "married" to any particular point of view and that his concern was to get support by playing the political game of give and take. The picture he painted was not pretty nor was it what we learn in our high school civics texts, but it was honest. So much for truth, beauty and the principles of taxation.

Ah yes, Principles

It is not quite fair to say that the advocates of various pieces of legislation are not relying on basic principles. Many rational sounding arguments are being made based on what appear to be fundamental principles. What are these principles?

One of the main arguments is that the property tax is regressive. The concept of regressive and progressive taxation is, of course, related to income and "ability to pay" and says that a tax is regressive if lower income people have to pay more as a percentage of income than do rich people. The truth of the matter is that the property tax as now constituted is one of the most progressive taxes we have. The great masses of the poor own no property and are thus not taxed at all. The poor in effect have to pay the property tax when the tax on buildings is shifted to them but even at that the property tax is progressive in regard to them.

The property tax may be somewhat regressive as it falls on the middle class, but after certain income levels (\$10,000 to \$15,000) it starts to become quite progressive. The reason for this is that the wealthy of this country own a disproportionate share of property (land and buildings) subject to taxation in this country.

It is interesting to note that the clamor against the property tax is mainly a middle class affair and most of the tax relief measures are designed to relieve the burden on the middle class by allowing reduction in property taxes based on income. (SB-154 Petris; AB-999 Brown).

When we examine how the revenues raised by the property tax are spent we find that benefits from these expenditures are distinctly regressive. This means that the services paid for out of property taxes benefit lower income groups more than higher income groups. Thus on balance the present property tax is no mean contributor to income redistribution from richer to poorer income groups.

We are well aware that the middle class is tired of supporting the poor, but as Georgists we like to point out that the middle class also supports the rich probably even more so. We also like to point out that if SCA-12 was adopted and taxes would only be paid for out of land values such a tax would be very progressive even for the middle class and the rich would have to make up the difference since they own the bulk of the taxable property.

The danger of the present popular disenchantment with the property tax is that steps may be taken to do away with it altogether including that part of it which falls on land values. We would see this as nothing less than a disaster to the Country. Since the present trend is to slowly eliminate the property tax and make up the difference by some other tax (income, sales, capital gains etc.) the ultimate extension of such a policy would inevitably benefit the rich first because their extensive land holdings would be easier to hold on to and second because they are quite accomplished at avoiding other kinds of taxes.

Another major principle relied on by proponents of current legislative proposals is that taxes should be borne by those with "ability to pay" and as we have seen, this is related to the concepts of progressivity and regressivity. The best vehicle for this much touted concept is the graduated income tax. The major property tax relief measures make use of this concept by providing for more brackets to be added to the State income tax. The State income tax has graduated brackets only up to \$15,000 and it is proposed to add new brackets up to \$30,000.

The graduated income tax on individuals and businesses is one way to make those with the ability to pay (those with higher incomes) pay more. The idea sounds nice in theory, but from the beginning wherever it has been tried it has not worked well. The middle class is stuck with the income tax, but the rich and super rich manage to avoid it by designing loopholes and hiring lawyers to take advantage of them. In

addition higher income taxes, especially on professionals and business in general, are passed on to the ultimate consumer, i.e. the middle class and the poor. We ask what good is a tax which is supposed to be based on ability to pay if it can be shifted on to someone else?

The principle behind land value taxation and SCA-12 is different in focus. It says that taxes should be paid on account of benefits received from the community. Since the community as a whole is solely responsible for creating land values and conferring benefits on land owners, land values are peculiarly ideal as the subject of taxation. If SCA-12 was adopted we would find that those who have benefited the most from the community would pay the most and coincidentally, we would find that those who currently benefit the most from community efforts which raise land values are also those who have the highest incomes. Thus, SCA-12 satisfies those who are enthralled with the concept of ability to pay. But it has the extra advantage that the tax so levied cannot be passed on to consumers.

In our opinion the concept of ability to pay is a wholly inadequate principle (if it can be called a principle) upon which to base a system of taxation. The ability to pay concept announces to all citizens and companies that income from whatever source is fair game and can be appropriated by the government at anytime. The concept makes no distinction between earned income and unearned income. It taxes alike those who earn money or create values through honest effort and investment in useful and productive facilities and machines and those who get money not from productive effort, but from speculation and cashing in on unearned benefits received from the community, i.e. land values and rents.

Indeed because most incomes come from productive effort they carry the major burden of present tax schemes while unearned incomes pay what amounts to a token share. In addition, all taxation of productive effort burdens and hinders that production and makes the cost of goods much higher to consumers and are therefore inflationary. Taxation of unearned income does not hinder production, does not raise the cost of goods to consumers, and is not inflationary.

Another principle of property taxation which is conspicuous by its absence from current discussion is the issue of local control. The property tax historically and in practice is the basis of local control. Because the revenue is raised at the local level control of affairs funded out of it tends to stay at the local level. Many inroads have been made into local control by State and Federally mandated programs. Some of these programs (mainly welfare programs) have been paid for out of property tax revenues, but increasingly they are paid for by State and Federal funds. Current tax relief measures provide

For the State to make up any losses to local governments caused by property tax relief. Some of the measures are also calling for State funding of mandated programs. In addition, because of the Serrano vs Priest decision a movement is afoot to have the state take over the funding of local school districts. The inevitable result will be a further movement away from local control to State and Federal control of local affairs. This can do nothing but encourage the attitude of dependency on the part of entire local communities. SCA-12 would continue the practice of revenue raising at the local level and it is the only one which does this.

The principles mentioned here can be used by anyone interested to draw their own conclusions about current or future tax proposals. All the individual need ask himself is: 1.) does the proposal tax unearned as opposed to earned income? 2.) does it tax on the basis of benefits received? 3.) can the tax be shifted or must it be borne by the one upon whom it falls? 4.) does the tax burden industry and make the cost of goods and services higher? 5.) does it encourage effort and proper investment? 6.) is the tax inflationary? 7.) does the tax make sense? (can the ordinary citizen understand it) and 8.) does the tax encourage local control or State control?

Current proposals for property tax relief except for SCA-12 do not satisfy any of these requirements. The inevitable result will be greater problems and distress later on. There will have to be another round of tax "reforms". We know that some of our legislators understand this but our sympathy goes out to those who are working hard now hoping and believing that what happens this year in Sacramento will solve the problems.

FAIRHOPE SINGLE TAX CORPORATION WINS FIGHT FOR SURVIVAL Recently the Fairhope (Alabama) Single Tax Corporation won out over attempts to end its existence. Fairhope is a town in Alabama which has, since 1895, raised revenues through the use of the single tax or land value tax. The town is one of the few places in the world where a Georgist experiment in taxation has taken place in full, at least as far as city revenues are concerned. Legislation had been introduced to revoke Fairhope's right to tax its land and citizens in the way it saw fit. At last report it was learned that the legislation had been permanently tabled in the State Senate Judiciary Committee. Congratulations to the people of Fairhope!

However, the threat to the single-tax in Fairhope is not extinguished forever since new bills can be introduced at any time. We wish the people of Fairhope, Alabama well in any future struggles they may have.

SCHOOL PICNIC The Henry George School's Spring picnic was held on May 8 with many members of the School and some recent graduates in attendance. The picnic was held in Golden Gate Park and as luck would have it, it rained. The gathering took shelter among a grove of trees but when that proved too damp the group adjourned to the home of a member where Dr. William Miantes, guest speaker, engaged us in

a discussion about spreading the Georgist philosophy more efficiently. All in all, it was a good day and no one really minded the rain since we needed it so badly.

GRADUATION There were 17 graduates of the Winter Term Progress and Poverty courses. Congratulations to the new grads and welcome to movement for economic justice through the land value tax.

NEW ALTERNATIVE CLASSES Recently the Henry George School embarked on an experiment to increase the numbers of people reached by its classes. We are now advertising through two alternative education organizations located in the San Francisco Bay Area, Orpheus and Open Education Exchange. Five-week classes have already been held in April and May. The results have been slow to begin with, but the outlook is very encouraging. Already enrollments for June have shown an increase over the previous months and classes in San Francisco and Berkeley are scheduled for July.

An additional class will be offered in July through another alternative school, Lifeschool. Already in the works are plans to get approval for classes at New College of California, College of Alameda, Emeritus College of Marin and several others. These classes will be run in addition to the school's regular classes.

If this program is as successful as hoped for we may need more teachers. Anyone interested in teaching should contact the School office.

INTERSTUDENT GET TOGETHER On Saturday, June 4 members of the School met in the Corde Madera library for an introduction to the Interstudent materials developed by Harry Pollard of the Henry George School of Los Angeles. The Interstudent Program was developed primarily for use by high school students, but we have found that it works for adults as well.

Anyone interested in receiving a packet of the 10 Interstudent questionnaires plus answers please send \$5.00 to the School with your request. This is a good way to refresh your knowledge of basic Georgist concepts. The material so far only covers the land problem. Mr. Pollard is in the process of developing another 10 units to cover the solution and they should be available in the Fall.

Of course the main purpose of our involvement with the Interstudent program is to promote it in the schools. If any of our readers have friends who are teachers we need your help in contacting them and introducing them to the program. The program is appropriate for students from the seventh grade on up and can be used in any social studies related classes such as History, English, Civics, etc. Please contact the Henry George School Office if you know anyone who might be interested.

SPEAKING ENGAGEMENTS NEEDED As you know, the School needs to make contact with as many individuals and groups as possible if the ideas of Henry George are to be better understood and appreciated. You can help us in this process if you know of any groups which would be open to a speaker on the topic of Georgist economics in general or as it applies to particular social and economic problems. The staff of the School is here to provide this service to groups. Please let us know if there are any groups which would be interested in a speaker, in literature, etc.

ARE PROPERTY VALUES REACHING THEIR PEAK IN CALIFORNIA? For several years now Californians have witnessed a dramatic yearly increase in property values. This increase in value has given rise to higher property taxes and this, in turn, has given rise to the recent demand for property tax relief.

The result of steadily increasing property values has not only caused demand for property tax relief, but it has made it increasingly difficult, if not impossible, for large numbers of people to afford housing. Property values have risen the fastest in Marin County, California and around San Jose, but we understand that values have risen even faster in Los Angeles.

The rise in property values is in part fueled by the high demand for housing in California and the cost of building new housing has skyrocketed because the cost of labor, materials and land has gone up. However, the cost of raw land has gone up by 30% over the last few years which is well above the increase in costs for labor and materials.

The rise in property values has gone way beyond the increase of costs and this has been caused by speculation which spawns ever increasing rounds of new speculation. The selling price of rental properties has gone way beyond the prices justified by the amount of rents which can be charged. Of course rents have gone up but they do not cover the out of pocket expenses the new owners have to pay for mortgages, upkeep, and property taxes. As a result, more and more new buyers have to make up the difference out of their own pockets. Most buyers are apparently cushioning the blow of out of short term pocket expenses by income tax deductions but they are exposing themselves in this manner only because they expect that property values will rise fast enough in the next few years so that when they sell they will make up their losses and make a handsome profit.

This is nice work if you can get it but we all know, or we should know, that this cannot go on forever. There has to be an end to how far people are willing to bid up the speculative value of property beyond its true capitalized value. When this happens many new owners are going to be caught. They are not going to be able to sell to a newcomer at a profit and they are going to be stuck with a losing proposition. The alternatives will be to absorb the losses or walk away from the property and let the banks foreclose.

If enough people do this and values fall below mortgage levels then banks are going to take losses. At least in theory it is unlikely that property values will merely level off because the values are purely speculative and inflated. The possibility of a large drop in values on property which has been speculated with is not unlikely. When the bubble bursts values usually seek true value levels and in a wild gyration market values can drop below real values for a time. The danger to the banking and monetary system is obvious. This is not to say that this is going to happen but it is not impossible.

Recently there have been indications that property values in Marin County and San Jose are coming to a halt in their increase. Many rental units in Marin and in San Francisco are standing vacant because rents being asked are too high. In a recent article in the Marin Pacific Sun it was reported that rents were being lowered by \$25 to \$50 at a crack in order to be rented. It was also reported in the Wall Street Journal that the prices of some houses in San Jose had dropped in one week by \$300. Does this mean the beginning of a general downturn in speculative property values? Who knows? It bears watching though.