



the Illinois Georgist

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THE PROPERTY TAX – THE TAX WE LOVE TO HATE

Why do politicians hate the property tax? Why are they always babbling about the need for “property tax relief”? Why not income tax relief or sales tax relief or payroll tax relief or utility tax relief?

If you ask, some of them will say it’s because the property tax is “arbitrary” and “no one understands how it works”. Or that property taxes are “unfair” because “property owners have to pay while renters benefit”. Or that property taxes are “too high”.

But none of this is true. Politicians hate the property tax not because people don’t understand it, but because we do. Not because it favors renters, but because it’s fair to them. And not because it’s arbitrary, but because it actually has a closer relationship to benefits received than do most other taxes.

YES WE UNDERSTAND THE PROPERTY TAX

Early in 1996, in the town where I live, the local paper published the property assessment roll. I can see that one neighbor’s assessment is a little lower than mine, another a little higher. Some wealthy folks on the other side of town are assessed a bit higher yet. It’s all out in the open. I don’t think all the figures are right, but it could be worse. In fact, a few years ago, when my assessment was way out of line, I filed complaint forms and got it reduced.

Compare this to the income tax. I have no idea what my neighbors pay, and neighbors have no idea what I pay. If I think my income tax is too high, no appeal is possible. Nobody claims to understand the income tax laws, and most of us have to pay someone else to calculate our taxes.

THE PROPERTY TAX IS RELATIVELY FAIR, COMPARED TO INCOME TAX

It has been said that property taxes are entirely paid by property owners, while much of the benefit goes to renters.

Of course the renter doesn’t get a property tax bill. But the owner does, and he’ll make darn sure that the rent is high enough to pay those taxes. The fact is, the landlord will always charge as much as he thinks tenants are willing to pay. At least, with the property tax, part of that money can go for the benefit of the community.

As for income tax, a clever landlord may be able to avoid it entirely, while still raising rents. The tenant ends up paying higher rents plus higher income tax.

PROPERTY TAXES AREN’T TOO HIGH UNLESS ALL TAXES ARE

Are property taxes too high? Most of us pay a lot more in income tax than we do in property tax. But for most of us, the income tax is stolen out of each paycheck bit by bit; we never see it except as a number on our pay stub. Property tax, on the other hand, hits us in a big chunk twice a year, unless we happen to have a mortgage with an escrow account. It’s no wonder that the most stubborn opposition to property taxes comes from people who don’t have mortgages.

WHEN TAXES GO BAD

Finally, what is the worst thing that can go wrong for a taxpayer?

If you fail to pay the tax on property owned by you or your business, you can lose your house or other real estate, but you keep your other savings and investments, and your right to earn future income.

If you fail to pay the income tax, you can lose your home, your business, your savings, your investments, and your right to keep most future income. Furthermore, this can occur even if the tax owed relates to “phantom income” that you never received, or if you actually paid what you owe but failed to file proper forms to document it.

PROPERTY TAX NEEDS REFORM, NOT REMOVAL

To say that the income tax is a bad tax doesn’t mean that the property tax is perfect. In Cook County, we arbitrarily tax different land uses at different percentages of market value. We try to estimate the value of every building in the County, and levy a tax on it. And we draw boundaries around “tax haven” and “tax poor” districts, without any mechanism to allow equitable sharing.

All of these problems can be solved, and largely have been solved in other parts of the country (and the world). Let’s fix the property tax, and get rid of the other, truly destructive taxes. --Charles Metalitz

Criteria for a good tax

The best tax is evidently that which closest conforms to the following conditions:

That it bear as lightly as possible upon production. That it be easily and cheaply collected. That it be certain. That it bear equally. --Adapted from *Progress & Poverty*

Tricks of the Floor Trader/Insider Trading Techniques for the Off-the- Floor Trader;

by Neal T. Weintraub

IRWIN Professional Publishing; Burr Ridge, Illinois, & New York, New York; 1996; 226 pages + glossary reviewed by S. Venturella

Neal Weintraub teaches in the Education Department at the Chicago Mercantile Exchange. In his acknowledgments of those who helped him to ferment the ideas presented in this book, Neal adds his gratitude to the staff at De Paul University and at the Henry George School. He comments that "they are on the edge of innovative market ideas." This, of course, has earned him applause from this reviewer as Neal was one of his students at the Henry George School.

Following a custom of the ancient Greeks, Weintraub has made sure no Trick, Trap, Tip or Spread takes longer than six minutes to read. This, too, is praiseworthy. Too many writers become so verbose that their ideas are lost in wordiness.

Pat Raffalovich, of Vista Research and Trading, Inc., Atlanta, Georgia and Miami, Florida, wrote the Foreword. In keeping with Weintraub's six-minute limit, the Foreword is brief but rich. His two-paragraph discussion of public attitudes toward profits is a gem. He asks "How many traders make 20 percent on the dollar after costs are factored?" Then says, "In reality, profits above 12 percent a year are considered good in our industry."

"Self-knowledge and self-mastery are the primary accomplishments of a trader." So begins Weintraub's Introduction. Good writers put their message in the introduction to their work, whatever may be the subject of the treatise. And Neal Weintraub is a good writer. The opening paragraphs of the Introduction read more as though it were a book on personal development than a book on trading. But isn't trading a way of life; and shouldn't a trader so consider it; and

aren't self-knowledge and self-mastery important in all walks of life?

One's success in the market depends upon where one's attention is focused. Making big money is not the best focus.

Trading is an impersonal act. Neither friendship nor enmity are factors in a trade. Unless both parties to a trade believe they are making a good trade, there is no trade. It is important to be as well informed as possible. The uninformed tend to act on emotions and thus err.

There are tricks (Weintraub discusses 32) one should understand. The first trick is to understand the language of trading. Another is to know the dates and times when government and other market related reports are released. Weintraub discusses trader responses to the reports, something useful to know if you are serious about trading.

What makes Neal Weintraub different is his Tip 29: *The One Fundamental We All Forget*. Here, he departs from those economists who have become so entranced by mathematics and the recent advances in electronic communication that basics are forgotten. Weintraub says, "For a long-term look at where the economy is going, simply look at the price of real estate and land. And the amount of taxes levied on real estate." Most present day economists consider land as a species of capital. They say "land isn't important anymore", or, "location isn't important anymore". These are economists who don't read the real estate sections of their newspapers.

Tricks of the Floor Trader is not a book for those looking for "get rich quick" secrets. It is a book for those who want a no nonsense approach to understanding the commodities markets.

From the May 1996 issue of **Planning**:

Taxes and takings.

Regarding "Dollars and Damages" (March), Americans already have in place a solution to the takings problem. It's the tax on land, a tax

that applies in all 50 states, to almost all property owners affected by any action of federal, state, or local government. If an action decreases land value, the owner pays less tax. Simple straight-forward, easy to understand, and already part of the system.

The only problem is that taxes have shifted away from land to other objects such as buildings, sales, services, and wages. With tax rates low, compensation for reduced land value is necessarily less.

A high tax rate on the value of land automatically compensates investors when that value is reduced, while assuring that the public shares in the benefit when public action increases land value. Reduced taxes on jobs and buildings are a bonus.

*Charles Metalitz, AICP
Evanston, Illinois*

Mental power is the
motor of progress.--
Henry George

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Letters

Who are the rich?

If for nothing else, Henry George was for truth wherever it led. Your 1995 Vol. 7, #2 in Crystal Ball is a stain on truth and H. G. Maley offers no facts, no proof of his pejorative description of Republican Congress. Define "rich".

Families with incomes of \$50,000 up? They're the major beneficiaries of the \$500 per child exemption. Capital gains reform? Almost every tax payer above \$30,000 yearly income invests in stocks or mutual funds. Does he call them rich? He assumes a finite source of taxes to be redistributed by apportionment. History disputes that. As tax rates are lowered, production (income) increases.

Gene Shafer

Los Angeles, CA

Ed. Comment: Rich and poor are relative terms. There is no specific dollar amount that defines who is poor or who is rich. The Federal Government establishes specific dollar annual incomes for various categories of people such as single persons and families of various sizes. These dollar annual income amounts are established for administrative purposes to determine eligibility for particular welfare programs. Were there no specific dollar income definitions, program administrators would have to make subjective judgements as to eligibility of a specific applicant to be a beneficiary. But let's see what Henry George said about rich & poor:

"There is a distinction on which our examination of wealth and value may throw light, the distinction we commonly make between the rich and the poor. We mean by a rich man a man who is possessed of much having value, that is to say, of much wealth or of much power of commanding wealth or services from others. And by a poor man we mean a man who possesses little or nothing of such values. But where is the line of division between rich and poor? There is no line distinctly recognized in common thought, and a man is called rich or poor according to the standard of average comfort prevailing in the society or rather the grade of society in which the estimate is made. (Emphasis added.--ed.) Among Connemara peasants, as in the song, a woman of three cows might be esteemed wealthy; while among Esquimaux, as in Mark Twain's story, the possession of a few iron fish-hooks might be as convincing a proof of riches as the loading of a Christian woman with diamonds by an American millionaire. There are circles of human life in New York City in which no man would be deemed poor who could see his way to a night's lodging and a breakfast in the morning, and there are other circles in which a Vanderbilt could say that a man possessed of only (Emphasis added.--ed) a million dollars could with economy live as comfortably as though he were rich.

"But is there not some line the recognition of which will enable us to say with something like scientific precision that this man is rich and that man is poor; some line of possession which will enable us truly to distinguish between rich and poor in all places and conditions of society; a line of the

natural, mean, or normal possession, below which in various degrees is poverty, and above which in varying degrees is wealthiness? It seems to me that there must be. And if we stop to think of it, we may see that there is.

"If we set aside for the moment the narrower economic meaning of service, by which direct service is conveniently distinguished from the indirect service embodied in wealth, we may resolve all the things which indirectly satisfy human desire into one term, service; just as we resolve fractions into a common denominator. Now, is there not a natural or normal line of the possession or enjoyment of service? Clearly there is. It is that of equality between giving and receiving. This is the equilibrium which Confucius expressed in the golden word of his teaching that in English we translate into "reciprocity." Naturally the services which a member of a human society is entitled to receive from other members are the equivalents of those he renders to others. Here is the normal line from which what we call wealthiness and what we call poverty take their start. He who can command more service than he need render, is rich. He is poor, who can command less service than he does render or is willing to render; for in our civilization of to-day we must take note of the monstrous fact that men willing to work cannot always find opportunity to work. The one has more than he ought to have; the other has less. Rich and poor are thus correlatives of each other; the existence of a class of rich involving the existence of a class of poor, and the reverse; and abnormal luxury on the one side and abnormal want on the other have a relation of necessary sequence. To put this relation into terms of morals, the rich are the robbers, since they are at least sharers in the proceeds of robbery; and the poor are the robbed." --*The Science of Political Economy*, pp 305,6]

Land isn't important anymore?

If land isn't important anymore, then how come residential lots have increased in value at twice the rate of inflation? Investor's Business Daily reported on April 10, 1996, that the price of a standard 10,000 square foot residential lot has increased about 6% annually since 1990. IBD based their report on a study by the Urban Land Institute.

Farmland prices and cash rents also are up. The May 1996 issue of the AGLetter, published by the Federal Reserve Bank of Chicago, reports average gains of 4.1% in the reporting area covered by their monthly reports. The district covers Iowa, the northern half of Illinois and Indiana, the southern portion of Michigan and Wisconsin. The increase for 12 months is even greater: 9%.

Apparently academics and professional economists are dazzled by the wizardry of electronic communication and have lost sight of the basics. No matter how swiftly we can communicate over long distances, land is needed for a place to stand on. Telepathy has not yet replaced vocal and graphic forms of communication. We are yet dependent on devices made from the raw materials provided by land in order to communicate with persons distant from us.

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Reflections

The editor offers an apology to our readers. This issue of *the Illinois Georgist* is late. It was to have been the first of four issues planned for 1996. Unfortunately, it is now the first issue for 1997.

Initially, I had planned to use this space for an essay on land and its relevance to all aspects of life. In its stead is an essay on the relevance of the Henry George School.

We live in a discordant dysfunctional society. We see the symptoms: poverty in the midst of plenty; rudeness; dishonesty; political activists more concerned with their own enrichment; schools that fail to teach; health care in the hands of accountants more interested in the bottom line than in curing illnesses; economies based on political power rather than mutually beneficial exchange. These conditions are unnecessary and avoidable. Unfortunately, we humans have a propensity to treat the symptoms as though they are the problems. Not only that, but we continue to advocate and use remedies that have failed whenever they have been tried.

An observation made popular by the X Files, "The truth is out there.", motivates a very small number of caring individuals. Some of them stumble upon the works of Henry George and the fires in their bellies are fueled by his vision of a better society -- a society based on *association in equality*. The uncaring, whose motto is "me first, and the devil take the hindmost", are repulsed by Henry George.

At the conclusion of his master work, *Progress and Poverty*, George discusses the problem of individual life. Each of us must choose for himself how or whether to put to use the understanding gained through a study of Henry George's works. There isn't very much that is new in his works, not even his insistence that we carefully define the terms we use. What is special about Henry George is how he wove together his own observations and the kernels of wisdom from the philosophers and historians he read.

Many who study Henry George immediately look for means by which to bring about the reforms he advocated. That is a formidable task. Those who benefit by the present arrangements of procuring wealth through power are not

interested in truth or justice; and because such people have the money, or access to the money, to hire scholars and writers they make the task of the advocates of reforms exceedingly difficult. One has only to look at the efforts to end welfare to see this. The skillful writers supported by the wealthy are careful to discuss only ending welfare for the poor. When asked why they don't mention welfare for the middle class or for corporations, they give the lame excuse that they are at the moment talking about welfare for the poor. As though that settles the matter.

A harmonious society can only be based on understanding how we humans relate to each other, how we cooperate to produce wealth when third parties do not interfere. Such understanding is gained only by serious study; by a willingness to examine our ideas; by discussing with people who agree at the outset to the meaning of the terms used. There are few who are truly willing to enter into a discussion under these conditions. It is those few we seek.

Spring 1997 Class Schedule

Fundamental Economics and Social Philosophy

Text: *Progress and Poverty*, by Henry George.

Copies available at class.

Classes meet once a week for 10 weeks.

Register at first class session.

Tuesdays @ 7:00PM, begins April 1, 1997
George Menninger

Saturdays @ 2:00PM, begins April 5, 1997
Royal M. Corr

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