

F - N.D. Alp

This paper was prepared originally following an invitation to appear before the Missouri State Tax Study Commission. Because a personal appearance later was not possible, Don W. Kennedy, Chairman of the Commission wrote: "I know the members of the Commission would appreciate having the benefits of your thinking on the subject of property taxes. I wonder if it would be possible for you to duplicate the very interesting paper which you sent to me, for distribution among the members of the Commission." This we are happy to do.

Introductory

Honorable Don Kennedy, Chairman, and Members of the Missouri State Tax Study Commission: - -

As President of the Public Revenue Education Council, a Missouri incorporated non-profit, non-political organization devoted to tax-education, I am most appreciative of the opportunity to present what we consider desirable reforms of state and local taxes, and their administration.

We are especially concerned with the ~~type of~~ taxation identified as ~~Class 1, or Real Property~~ in ~~Article X of~~ the Constitution of the State of Missouri. ~~As all economists of the classical or scientific school know land -~~ Natural site or land locations held in ownership through title - and improvements placed in or on the land are very different kinds of property, Yet we are compelled to assess and tax these different kinds of property as one class. ~~This unnatural tax treatment of land and improvements is indeed economically, socially and morally unsound and is a very costly mistake. It has much to do with the emergence of various economic and social problems.~~

~~Not too many years ago~~ ^{fact} the general property tax was the greatest single producer of income for both state and local governments. The collapse of property, real estate mortgage and

2

after
common stock values in the 1920-1930 period *collapse in values* caused massive and successful efforts to untax real estate and to raise more revenue by non-property taxes. A trend was started which went so far that some states eliminated real estate taxes altogether. *them* Local governments were successful in introducing non-property taxes as well. Much effort was expended in giving people the notion that property taxes were now 'old hat'; that they had become obsolete.

This idea was
Fortunately such ideas are being seriously questioned by economists in conferences and in books written on the subject. An outstanding conference on property taxes was held at Claremont Men's College, Claremont, California in January 18-19, 1964. NATION'S CITIES, magazine of the National League of Cities, carried a 16-page "Special Report" on this conference in the March, 1965 issue, entitled "Are Property Taxes Obsolete?" A copy of this report is enclosed in an envelope of material I wish to present to the members of this Commission. However I want to read some significant paragraphs of this report. The first section heading is this: - -

Reforming Local Taxes is at Least as Urgent as Reforming Taxes at the National Level

"Local government spending - city, county, school and special district - is fast heading towards \$100 billion a year, and how that \$100 billion is raised can have an enormous and sometimes a decisive effect on how cities grow, how cities redevelop, where industry locates, how fast industry modernizes, and how jobs expand. It can also have a major influence on what it costs cities to operate and what it costs people to live in cities.

"So TIME, LIFE, and FORTUNE joined the National League of Cities (then known as the American Municipal Association), the Urban Land Institute, and the National Council for Good Cities (ACTION) in helping the Lincoln School of Public Finance sponsor a Round Table Conference of tax and municipal experts from all over the country to see how far they could agree on local tax reform policies and programs they could recommend for adoption by the Council of State Governments and the National League of Cities."

This conference was unique in that it did not go at the thing as so many government and citizen tax committees do who seek to find out just how to raise the money, but to consider "how to raise those taxes in a way that will help rather than hinder the right kind of urban development -

and redevelopment."

One thing that made this conference most timely "was the growing agitation against too much big government in Washington and the growing demand that local governments should assume more responsibility for meeting local needs." The Conference declared: "Nothing much can come of this demand unless and until local governments can solve their already difficult tax problem and find a better way to raise the added taxes to take on a bigger job."

One thought given special emphasis by just about all the conferees at this conference was that the property tax was far from obsolete. They asserted it could not be ignored since it offered a base that could provide a great deal of highly desirable income. Paralleling this was a like consensus that real estate taxes were in need of reform both as to its character and its administration.

The report made clear that the welding together of land and improvements as one class of property requiring a common assessment and a common tax rate was a serious mistake. On page 23 there is this important paragraph heading: - -

"The Realty Tax is not One but Two Taxes Whose Economic Impacts are Directly Contrary."

In explanation of this serious contradiction the report says:

"Real property consists of both land and buildings, and the effect of taxing land more (or less) heavily could hardly be more different from the effect of taxing buildings and improvements more (or less) heavily. These divergent effects can be pretty decisive when an owner is making up his mind whether to sell his property today or hold out for a higher price, or whether to invest more money in improvements, let well enough alone, or demolish an existing improvement to save taxes."

And here are two additional short paragraphs that give special emphasis to this vital thought: - -

"Heavy taxes on improvements are bound to discourage, delay, or even deter improvements; the bigger the improvement tax the smaller the owner's incentive

to spend good money to improve his property instead of investing it somewhere else or putting it to another use.

"Contrariwise:

"Taxes on land (or more correctly, site values or perhaps still more correctly, location value) tend to encourage, speed, or sometimes even compel improvements. The bigger the land tax the bigger the pressure on land owners whose property is under-used to do something to increase its earning power - or sell it to someone who will.

"The dualism of property was recognized by all the classical economists, perhaps most clearly by Ricardo, who noted 160 years ago that "The interest of the land owner is always opposed to the interest of every other class of the community."

Another famous economists and philosopher who saw clearly this conflict of interests between land holders as a class and others was Adam Smith. On page 247 of the Modern Library edition of this world famous book, "The Wealth of Nations," published in 1776, he says:

"I shall conclude this very long chapter with observing that every improvement in the circumstances of the society tends either directly or indirectly to raise the real rent of land, to increase the real wealth of the landlord, his power of purchasing the labour, or the produce of other people."

To permit tax laws to exist which compels the state and local governments to have common assessments and rates of taxation on both land and improvements is without doubt one of the worst errors in taxation we have ever tolerated. The effects are indeed opposite. It is in the nature of an error we would make if, for some reason or another, we passed a law which required drivers of automobiles to step on the brake when they stepped on the gas. The effect of such a law is, if to encourage improvement of land we wished to untax it, we would have to, at the same time, untax the value of land thus making it harder for people to get land, and vice versa.

In judging the matter of ending this contradiction we must consider certain truths known in economic science. These show that the greatest good can come to the great majority of our

people by treating land and improvements as different classes of property, and by taxing them at different rates - or preferably by taxing the location value of land while exempting improvements from taxation entirely.

The more we tax the rental value of land the lower, and the less we tax this value the higher the price of land will be to the users. The more we tax improvements, as such, for homes, industry and commerce, the scarcer and therefore the more costly they will be. In short, we can, if we will, tax the location value of land more and the improvement less, and make both land and improvements easier, and not harder to get for use, as is the case today.

I am sure it is an understanding of these principles that caused Mr. John H. Poelker, Comptroller, City of St. Louis, in his appearance before the Commission, to declare that we should have different formulas for the taxation of land location and improvement values. He recommended that assessments on land be 100 per cent of market value, while improvements be assessed at only 25 per cent of their depreciated value.

Honorable Thomas B. Curtis, Congressman of Missouri, recently spoke at a symposium on the property tax conducted by the Tax Institute of America in Chicago. A Special Correspondent of the St. Louis Post-Dispatch wrote in its issue of November 4, 1966, as follows:

"The local real estate tax was defended . . . as the fairest and soundest means of supporting government."

"Noting that a nationwide study of the property tax is in progress, Curtis said he believed the study would disclose that the tax as employed in our society 'is a real beauty' although it needs 'more understanding and a lot of updating.' "

"It is dependent on sound assessment policies which, in turn, depend on sound building codes and zoning laws equitably enforced", he continued. "It requires an understanding that idle land - raw land - should be taxed at a somewhat higher rate than improvements on the land, so that there will be an encouragement to put land to its most productive use."

" 'Traditionally the largest governmental expenditures have been at the local level, covering such fields as health, education, welfare and police and fire protection,' Curtis said.

" 'The bulk of the revenue to pay for these was from taxes on wealth, essentially real estate, and this conformed to sound fiscal policy in that those spending the money were responsible for raising it,' he said.

" 'It has an added value, probably the most important value of them all, that the expenditure of funds almost invariably increased the tax base from which the funds were extracted,' he said. 'In other words, the tax money was spent to build streets, roads, sewers, which enhanced the value of the property taxed considerably beyond the amount of the expenditure.' "

It is for such reasons that we hope the Tax Study Commission will see fit to recommend in their report the breaking down of what is Class 1 or Real Property into two distinct classes of property, one land or real estate, and the other improvements as is done in California. Furthermore we suggest that local governments be given the greatest freedom in the setting of rates to be applied to these two classes of property.

In Australia and New Zealand some two thirds of the local governments operate by taxing the location value of land only, exempting improvements. In three of the six Australian states and the capital city, Canberra, this plan is compulsory; it is growing in the other states.

Experience shows that when taxes on improvements are abolished and the revenue is raised exclusively from location value or rents, that 80 to 90 per cent of the people pay less taxes on their homes. The benefits of this system is further proved by the fact that in these countries where the shift from taxing improvements to exclusively taxing location rents, only signatures of property owners can initiate the proposal and, if the petition is successful, can vote on it.

Quality of Assessments and Administration of Property Taxes

By and large the American people are an honorable and just people. Given honest facts

of any given situation the great majority can be counted on to arrive at the correct decision as to what action to take. And this, of course, applies to property taxation. Equality of assessments is a precious thing to a free people. Are we sufficiently concerned about equality of property taxation today? Studies show we are not.

This headline on page 22 of the NATION'S CITIES report raises the issue:

"Property tax reform can't even begin without a big reform in assessment POLICY AND PRACTICE." And it continues - - -

"Assessments today are a crazy quilt. Some property is so under-assessed that it carries almost no share of the tax load. Other property is assessed and taxed 20, 30 and even 40 times as heavily.

"Assessments vary from place to place among the 4,100 municipalities, 2,500 townships, 6,000 school districts, and 3,200 special-tax districts included in our metropolitan areas. Assessments vary by age of property, with new improvements too often penalized by much higher percentage assessments than old buildings. Assessments vary with the competence, diligence, and motivation of the assessor. Assessments sometimes vary with favoritism, with too many political debts paid off by covert under-assessment. Assessments vary from class to class, so the 1957 census of governments showed vacant lots assessed an average of 22.7 per cent, non-farm houses at 31.5 per cent, business properties at 40.8 percent of "true value." (That census was taken before land prices really began skyrocketing. Today millions of acres needed for development are assessed at less than 1/20th of their asking price.)

The report carries this theme further: - - -

"Says the Advisory Commission on Intergovernmental Relations - and all of us agree:

"Substantive changes in the property tax will be largely meaningless without improved administration. . . Gross inequalities in assessing are widespread, universally recognized, and tend to be taken for granted . . . In very many areas assessment administration has not kept pace with fiscal administration progress . . . Few officials feel under obligation to enforce the tax laws as written. In some states, in fact, compliance by the assessors would cause general consternation. The average assessor makes himself a sort of one-man legislature. He, not the state constitution and the state legislature - defines local taxing and borrowing power."

Constant study and effort is required on the part of the State Tax Commission to merely

maintain equality as to averages of assessments between counties and county-cities in the state. This in no way regulates the inequalities within taxing areas where the greatest differential abuses are to be found; and where tax-equality is of the greatest importance.

The basic law and rule assessors should be compelled to follow is that a dollars worth of property be assessed at all times as a dollars worth. A recent court decision in San Diego, California, supporting this principle, caused much excitement in that state. Proof of unfair differences of assessments is a sure way to arouse indignation of the people of a community as anyone versed in political life knows. Dr. Irene Hickman, a political amateur, was elected to the position of Assessor of Sacramento County, in June, 1966, by convincing the people of that county of gross inequalities in assessments. This was done mainly by showing the gap between assessments and current sales prices. It should be the responsibility of the State to assure the people that equality and justice in taxation between each individual taxpayer and corporation or business units, as well as between counties and county-cities.

Because of actions taken by citizens to compel full market value assessments a number of states have been compelled to follow their legal requirements and to do this very thing. In an article in the December, 1966 issue of California Home Owner headed "Sacramento County Assessor Dares to Obey Law," by John Nagy, we read:

"On March 11, 1957, the New Jersey Supreme Court, in the case of Switz vs. Middletown Township, 23 J.J. 580, handed down a decision which is surely destined to stand as a landmark in the history of real property taxation in that state. The Court ruled that the local assessor must assess all taxable real property within his district at its full true value, as required by existing law, and not according to a ratio of such value as has been the statewide practice for more than one hundred years.

"On June 8, 1965, the Kentucky Court of Appeals (Supreme Court) in the Russman vs. Lockett case, on appeal from the Franklin Circuit Court, directed the tax assessment of all property at 100 per cent of fair market value. Commissioner Clay, speaking for a unanimous court, pointed to

a level of real estate valuation of approximately 27 per cent as having been the custom. The Court found the prevailing undervaluation objectionable because of the inequities it encourages, because it gives the assessors "unwarranted and arbitrary control of the tax bases," because it alters the effect of the tax and debt limitations set up in the constitution - as well as because it is contrary to the constitution and the statutes under it.

"Florida and Massachusetts have had similar decisions handed down in recent years by their Supreme Courts. California could very well be the next state with such a decision. Instead of the wrath of the Gods falling upon Dr. Hickman, it could fall upon 57 other assessors, the State Board of Equalization, the 58 County Boards of Supervisors, and all other officials, from the Governor on down."

The location or site value of land, unlike various kinds of man-made property, is directly related to both public and private spending which helps to make the community a better place in which to live and work. This applies to publicly or privately made roads and bridges, schools, police and fire protection, parks, playgrounds, churches and hospitals and the like. And land value attaches to land even if owned by absentee owners or by cat or dog estates. In fact non-land holders do as much and often do more to stimulate the appreciation of the location or site value of land than do title holders, as such. This public benefit factor does not apply in the same way at all to owning of improvements on land, or other man-made property. These are privately conceived and made and paid for. They are valued solely on their cost of production or reproduction, less depreciation or obsolescence. It is the location value of land, serviced in many ways by local, state and the Federal governments, that demands the utmost in justice and in equality of treatment of people.

'House and Home,' a building trades magazine, editorialized on an article by Roy Wenzlick, nationally known St. Louis real estate researcher and appraiser of real estate, entitled "The Future of Raw Land" in The Real Estate Analyst, April 17, 1961 as follows: - - -

"If local assessors would start assessing raw land around cities the way

state laws order them to, much land now held off the market for speculation will go up for sale and prices of land available for building will have a tendency to drop."

"Land prices are soaring, says Wenzlick, not because land is becoming scarcer around big U.S. cities but because 'A great deal of land has been held off the market by speculators and long term investors.' "

"The trouble, he contends, lies in the failure on the part of assessors to assess properties on the basis of fair market value rather than on use. . ."

"Illegal. In most states, this violates either the constitution, the law, or assessing manuals of state tax commissions, charges Wenzlick. Practically all states (except California, Florida, and Maryland) insist on all types of properties being assessed on the same basis - that is, either at fair market price or at some standard percentage of fair market value."

"Comments Wenzlick: 'It is one thing for a speculator to carry vacant land at an average cost per year of \$8.15 in taxes. It is another thing entirely to carry vacant land at an average of \$122.66 per year in taxes. When vacant properties are assessed on the basis of fair market value it becomes impossible to hold them for appreciation for a long period.' "

Assessments should be made as near 100 per cent of true market value as possible. The state should enact positive directions to this effect and enforce them. The only variable permitted should be the tax rates. Anything else can encourage the juggling of assessments against rates and make the assessing and tax rates resemble the well known "shell game" of carnival fame; can make this the plaything of those who specialize in the art of profiting from unfair and privileged assessments. Competent and responsible state legislators can assure just and equal assessments throughout the state and should do so.

Equalized assessments at full market value do not necessarily mean that the total amount raised by taxation need rise. Rates could be lowered because of the higher assessment base achieved. Yet the results may be different for some taxpayers.. It could mean benefits for those who improve their land up to its use value and penalties to those who hold vacant or poorly improved land. However penalties could be avoided by improving the land.

The Great American Tax Shift and Who Profited By It

Many can remember when the County and Cities provided the greatest share of government services. The advent of the automobile caused great changes in community living. Roads, education, health and welfare and the like, could now be more efficiently provided by the larger government unit, the State. But as the state assumed more obligations to provide more services, its tax structure was dramatically changed. Income, sales, gasoline, excises, use and other non-real estate taxes were used. In Missouri the state went so far as to reduce its real estate tax to 6¢ on the dollar. Some states eliminated it entirely.

The Federal government spends billions of dollars directly, and gives other billions of dollars as grants in aid to states to use in ways that add location value to land privately held. Yet it gets practically all its revenue from non-real estate and non-property taxes. There is a presumption in all this often spoken of that in this way the Federal government leaves real estate and other property taxes - sources they are mistakenly called - for the exclusive use of the states and local governments. The irony and even deceit in this presumption is that to the extent they could, both the states and cities have substituted non-real estate taxes for real estate and other property taxes. This is sometimes referred to by those who understand what has happened as "The Great American Tax Shift." Many who know something of the tax-history of England are aware that when the Industrial Revolution developed it gave the English landholders an opportunity they were quick to grasp of shifting taxes off their land onto workers, providers of capital and people as consumers as well.

The gains of land holders in recent years, as has been so frequently revealed in 'House and Home,' 'Fortune,' 'Life' and other magazines, and in 'The Wall Street Journal' in a number of articles, have been very great indeed. Not only did land dealers and speculators gain by

increasing prices, they were made the beneficiaries of low capital gains taxes, deductions of property taxes from income taxes, special opportunities through Urban Renewal projects, special depletion oil allowances, farm subsidies, and the like. The price of all products and services as well have risen far higher than they would have as a result. Never before were so few so greatly benefited by government spending and tax favors - Federal, State and Local - at the expense of so many.

In other words we put our people, famed for having a government "of the people, for the people, by the people," in a real and severe economic bind. They were "hooked" with higher prices of both land and of products and services by reason of bad taxation. This tended greatly to nullify the amazing ability of our Free Enterprise economy to lower prices - to give more or better quality goods and services for less. While this tragic history of taxation in the United States was being written one could only wonder about what was being taught as tax-education in public and private schools financed by our people through taxation, or by tax-exemption benefits.

A Massive Conflict of Interest

As pointed out previously there is a serious "conflict of interest" between those who get their living by work (wages) and providing true productive capital, and those who can claim wealth as RENT-of-land. The only way men identified as Labor or providers of capital can get wealth and services is by producing products and services. Holders of land made valuable by society and by progress in production need not, themselves, produce anything or render any service at all; they can, and their descendants after them can, live for years - for 99 years, for 999 years - without the necessity of putting anything in; so others must put in without taking out an equivalent. This is immoral as well as bad economics.

True, people save up wages and interest on true capital to buy land. One could say the

same of those who bought slaves. But the general overall fact remains that real producers are denied products by non-producers; that every generation has its producers and non-producers - parasites as it were. A wrong is not made right by buying and selling it. But a massive, largely unseen, conflict of interest is set up in taxation. Let us consider this.

The only way the privilege title holders of land can make profits merely as title holders - not as producers - is to manage these two things, and this becomes their real business. One is to do all necessary by mis-directed tax-education and politics to have public and private schools, churches, hospitals, libraries, parks and playgrounds, roads, harbors and docks, utilities of all sorts and the like, paid for by taxes, contributions, or consumer and user payments to make the community a better place in which to live and to encourage industry. Second, to shift taxes from, or to prevent taxes being levied on the site or location value of land. To do these things becomes the business of individuals and organized dealers in land, and the organizations they create to support land dealers getting what some call "profits" in this way. As to this it is well to consider what Mr. Perry I. Prentice, editor of 'Time Magazine' during World War II, and former publisher of 'House and Home' magazine, 'The Architectural Forum' and vice-president of Time, Inc. for many years, had to say in his address to the Home Builders Association of Greater St. Louis, May 16, 1966, on the subject of "Build More - Profit More." He said: - - -

"Owning land is the best way to make money because the landowner takes all the profit and somebody else pays all the expense of making his land more valuable. What makes urban and suburban land valuable is an enormous, almost unbelievable investment of other people's money in roads, sewer lines, water supplies, schools, libraries, etc., etc., etc., to make land accessible, usable and salable. Around New York the Regional Plan Association says that at present densities the taxpayers will have to invest \$11,200 per added family from now to 1970 just for added schools and added streets. Make that read \$11,200 per lot and what the Regional Plan Association is really saying is that the taxpayers will have to put up \$11,200 per lot to make it possible for the landowner to price his lot at \$6,000. And please don't think New York is an extreme case. In Washington the Metropolitan Planning Commission says it will cost \$14,000 per lot more repeat

more to make suburban lots accessible by rapid transit. So here in St. Louis I would be very much surprised if you do not find that every \$5,000 you have to pay some suburban landowner to let you build on his land just enables that landowner to convert to his private profit a community investment of much more than \$5,000 in the highways, roads, sewers, water supplies, sewer lines, etc., etc., etc., without which his land would be inaccessible, unlivable and unsalable."

This is the situation of all Cities and States in the United States. Yet in spite of much continuing tax-education in and out of schools, and endless discussion of taxes, such facts as these lie buried in the educational and news media and political information channels.

An Interesting Federal Inquiry, Perhaps?

The tax shift from land to non-land property taxes and tax-granted advantages may be attracting more attention than some realize. On August 10, 1965, Public Law 89 - 117 was passed in Congress. This provides under Title 111 of the act that The Housing and Home Finance Administrator "study housing and building codes, zoning, tax policies, and development standards in order to determine how (1) local property owners and private enterprise can be encouraged to serve as large a part as they can of the total housing and building needs, and (2) Federal, State and Local governmental assistance can be so directed as to place greater reliance on local property owners and private enterprise and enable them to serve a greater share of the total housing and building need." Also inquiry is to be made as to "(3) Federal, State and Local tax policies with respect to their effect on land and property cost and on incentives to build housing and make improvements in existing structures."

What this study may do in this area so highly involved in the greatest "special privilege" and "selfish interest" gimmick of all times - real estate and other taxes warped to benefit land interests primarily - is yet to be seen. The need for changes that will remove the walls, blocks, mis-education or ignorance, and generally interferences to real progress in this area seems almost

insurmountable. Yet the situation is far from hopeless. Educational forces, aware of these conditions, are at work exposing the situation and revealing how much can be done to correct it. These forces can, if necessary, either by-pass or stimulate educators in the economic science field to reconsider the situation which now avoids seeking basic causes and prevention of economic or social problems rather than to seek mathematical measurements, prescriptions and tax dosages designed to cure what are obvious symptoms. Competition, by use of certain and direct economic science truths, can, in modern times with modern methods, be most effective.

For the moment we can only urge that actions be taken to change the State Constitution so as to divorce the unnatural marriage between property in the title holding of land and private property in improvements - things made by man essential to the proper use of land. Some optional way should be open to education and discussion to subject the two classes of property to different rates so as to make it easier and not harder for people to secure the use of land and to build and enjoy improvements and other products. As any economist concerned with basic - I repeat basic - "cause and effect" patterns knows the most certain knowledge of how to do this is available. It only has to be used for the good of all rather than to benefit a special-privileged few.

Publicizing Real Estate Assessments

Those in the real estate business, and investors who seek profit in buying, selling and in the construction of buildings have a direct interest in real estate taxes. Renters of homes, apartments and rooms are seldom so directly concerned even though they pay the taxes on the property they occupy, and all taxes on property used in private business, industry and in utility services. Homeowners become concerned at a proposal to increase real estate taxes. Such an increase is often purposed first so as to secure their backing for new taxes or an increase of existing non-property taxes. Yet, in spite of their direct interest, few take the trouble to visit the assessor's

office to see how their taxes compare with others in the neighborhood or in other locations.

In Illinois the situation is different. The reason for this is that each two years the real estate tax rolls are published in local papers. This makes observation and comparison easy for homeowners as well as for businessmen and industrialists. The community reacts to this with great interest and we are told that at this time visits, phone calls, letters and the like, make the assessor's office a busy place. Such publicity is reason for making assessors more careful and accurate in their assessments. Laws should be enacted to give publicity to real estate taxes in Missouri.

More Professionalism in Assessing

The work of appraisal and assessing is capable of being professional, at least it certainly can have a semi-professional status. Professional standards can be established and achieved. Knowledge and integrity - plus a desire to serve the people justly - and regular periodic adjustments, can assure efficient over-all accuracy. In time, as is said to be the case in Denmark, we may see here more and more buyers and sellers of real estate making deals at or near the assessment values on the assessor's books. This is one of the best tests of equitable assessments.

To encourage such achievements state-wide provisions for study, lectures and seminars on assessing should be fostered by the State. Universities with special capabilities in this field should be the seat of such activities.

Arrangements are possible for cooperative use of computers not only to prepare and record data, and to aid in essential statistical analysis, but for preparing and mailing tax bills as well. It is possible that this service could be provided for by the State, or by contract with private computer processing organizations.

Encourage Larger Assessing Units

As is well known by all students of assessing, there are a number of counties with too little population and property to afford a full time professional assessor. Assessing in such areas is likely to be both inefficient and costly.

Provision should be made to permit smaller counties to cooperate in their common work of assessing and billing, or to have this done under contract with nearby larger adjacent counties, or under private contract with professional assessors.

State-Wide Natural Resources Benefits Tax

When our country drafts men for the defense of our country equality of service and risks is sought. But when it is a matter of treating our people equally in our natural inheritance of land and its resources, the policy is one of selfish special privilege and unjust seeking of gains at the expense of others.

Resources of great value are often concentrated in a county or in small areas of the state overlapping several counties. In Missouri we have such concentrations of lead, zinc and iron ore, for example.

In South Africa, in Alberta, Canada, in the Long Beach area of California, in Gulf of Mexico off-shore oil producing areas, resources are shared as a source of revenue to some degree by all the people of the state. It is grossly unjust, and is certainly not conducive to the success of our competitive economic system, to have some people and some divisions of government benefit by such valuable tax bases against other people and other divisions of government in the state. So far as it is the power to do so, or if the power to do so is achieved, such benefits should be more

widely distributed on a per-capita basis. Some workable formula should be devised to share the special resource benefits on as fair a basis as we ask of soldiers to defend their country. Asked to do so, economists and those concerned with public finance, cooperating with the skilled personnel of our legislative bodies, could certainly devise formulas for rectifying what is now a great injustice.

The State Should Increase Its Real Estate Taxation

The State, as indicated before, spends millions upon millions of dollars to build roads, bridges, to build and sustain educational and welfare institutions, to give police and fire protection, recreational and conservation advantages and the like. All of these increase or maintain land values.

The State encourages industries of state-wide and national prominence to locate in areas given advantages by the state. These, when located in some suburban or limited area town or city government, give such localities a tax windfall, so to speak. With such a special tax base more funds are provided in the area for schools, or a lower tax rate is possible. Such advantages will, in turn, attract people - and, of course, increase the value of land held by title privileges granted by the people.

For these reasons the State should increase its property tax rates for state purposes, especially for schools and welfare. This should be allocated on a per-capita basis state-wide as in the case with unusual deposits of natural resources.

Since the benefits of state-wide spending for general purposes cause higher land values, especially in more strategic economic areas, the proper sharing would be on the basis of location value taxation rather than on the market value of improvements. The difference is especially important since, as all economists know, the collection of this location rent is a direct charge

against those who hold the title and the benefits of increasing land value. The use of this source lowers rather than increases prices of land; such a tax is therefore not shifted in higher prices of goods or services to people as consumers. Taxes on improvements, and on machinery, trucks, inventories and the like, however, do effect production, making it scarcer and therefore such taxes are shifted in higher prices to the consumer. We repeat - steps to breakdown what is now considered one class of property, land and improvements, into two classes is vital to any hope of working with, and not against, natural principles to increase production, to share more justly the wealth and services produced, and to soften or solve our now hardening social and economic problems.

Simplify The Tax Structure

There are only two primary factors of production and these are the foundation stones of economic science. One is our natural material universe called Land; the other is man, called Labor. Capital, being man-made, is a derived or secondary factor.

Scientific distribution or sharing of wealth between the factors takes place through RENT-on-land for the use of land better than marginal or no-rent land, Wages to Labor (including management-labor), and Interest to providers of man-made or productive capital.

The relationship of man called Labor and those who provide capital - often the same person - is so highly cooperative that we can, for citizen tax purposes, consider wages and interest (wages) as one joint fund. This we can call REWARDS-of-human-effort. This means we have two funds, the other being the RENT-of-land. Although few economists realize this, and fewer still publicize the fact, these two shares become the only sources of public revenue. All taxes draw from these two although some may draw from both sources.

It is the relation of these sources to taxes that reveals the true nature and purpose of taxes.

Taxes are made by laws and are used as pumps to draw revenue from these sources. The basic decision of people, as citizens, is to decide which of these sources of revenue they should use, or use first. Their elected representatives in government can work out the details.

Unfortunately today's courses in tax-education, whether in or out of schools, is based on taxes - the pumps we use - and not which source to use. This anyone can see by examining practically all popular textbooks being used in high schools or in colleges or universities.

One concept is very important. People must realize that the public use of the RENT-on-land source is not taxation; it is a payment for benefits received. When a man pays a title holder for the use of his land he gets what he pays for, the private and exclusive use of the land for a period of time. Neither refers to this payment as a tax; they agree it is a rent. If, in turn, we use a now customary "tax method" to collect RENT-on-land from the title holder for use of land made valuable by the community this too is a RENT-on-land charge and not a tax. Land title holders simply pay for what they get when they pay RENT-on-land to government as agent for the people. It costs all they pay, and more too, to create and maintain this RENT-on-land. If there are landowners it is the people, not their government. Government should serve as an agent to collect the publicly earned location RENT-on-land for public use.

The various governments constantly search for more taxes - what political minded people, and many economists generally call sources - or new sources of revenue. Instead they should use as few taxes as possible. As a matter of fact, we have five methods of getting revenue which could collect all the revenue that could be collected by a hundred or a thousand different "kinds" of taxes. These five are direct and understandable. It is hard to justify the existence of so many taxes when they can only draw from two basic sources. How are people helped by being milked by multiple taxes? The cost of collection is wastefully greater; there is greater corruption and

confusion; the costs and spending of money by government is needlessly greater; and we lose the productivity of many who work in tax collection bureaus who would otherwise be productive in other ways.

The five methods are the existing *advoloren* tax used to collect RENT-on-land which, we repeat, is not a tax, the personal income tax, the inheritance tax, the gasoline tax, and fees for direct services. All these could be shared between local, state and the Federal government in proportion to functions assigned to them. Furthermore, with modern methods, the impact on people could be determined, if this was thought desirable, so that it would generally resemble the proportion of payments made under a multiple and compounding system of taxes today. This is not to say this should be done. What the impact ought to be is a different matter.

Incidentally, three of these five ways of getting revenue, used in the U.S.A. today, are proposed in the Communist Manifesto of 1847 as ways of destroying the Capitalistic system of production and distribution of wealth and services. The use of the income and inheritance tax as the Communists would apply them would most certainly destroy Capitalism. However, the use of the *advolorem* or RENT-of-land tax, as it should be employed - taking less rather than more of the available RENT-of-land, would make Capitalism blossom forth as never before - possibly enough to destroy Communism by free market competition.

The proposal to get rid of many taxes now on the books is one that ranks high as a step in the right direction. Certainly hidden taxes, the joy of kings, emperors and dictators, should be eliminated in our representative democratic government. Simplicity and directness of securing public revenue will serve the people and the government best. And the people would have a better understanding of what they pay for the government they get. The State of Missouri could do well to make itself a leader in this matter.

Conclusion

In closing, we want to express our appreciation for the privilege of submitting this paper to The Missouri State Tax Study Commission established by the Legislature and Governor Warren E. Hearnes. In many ways we Americans have come to new "crossroads" in our city, state, and national and international living. We are at such a "crossroads" in the problems of taxation today. The desperate internal and external times and relations in which the world lives demands the strengthening of our nation, especially in its economic and moral aspects. There is a crying need for truly basic and scientific land and tax reform, particularly real estate tax reform.

We need economic and moral patriotism today as surely as we need soldier and people military patriotism in time of war. No single thing can assure this more certainly, or to as large an extent, as can moral and scientific tax reform as is indicated in this presentation. At least we can have this hope; that the ideas here presented will be given consideration in the final report of the Tax Study Commission so that the ideas can at least be thrown open for discussion.

Submitted by: Noah D. Alper
President
Public Revenue Education Council
705 Olive Street Room 308
St. Louis, Mo. 63101

Note: Copies of "Are Property Taxes Obsolete?" will be sent on request.