TWO PARAGRAPHS FROM

CHAPTER EIGHT

So What Good Would That Do?

Let us list briefly some of the things that would happen if we were to adopt total and complete land value taxation. They would not happen instantaneously. It would take time, but within five years after its adoption this country would be a showcase for the rest of the world to ponder. One thing *would* happen instantaneously. If it could be done rapidly, everyone would be able to find work and that in itself would serve to breathe life and hope into our shattered dreams of what America ought to be. Relief programs already in existence need not be rescinded until it became obvious that they were no longer needed. The people could be encouraged to "hang in there" until the real benefits were being developed by the application of all kinds of labor to all kinds of land.

When full and complete LVTaxation had become a reality these are some of the things that would certainly occur. Roughly, we would estimate that at least 80% of all homeowners would enjoy substantial tax reductions. 2) About 95% of all manufacturing plants would also enjoy large tax reductions, and these could encourage employment and reduce the prices of their goods. 3) A building boom would ensue as new houses could be built tax free on land that had been reduced in price. 4) Vacant areas in cities would be improved. 5) Every family would reconsider where and how it might now afford to live, and many would plan to move up to better land areas. 6) That extensive area of blight that now marks the section adjacent to the central city and extending out, sometimes as far as five miles, would begin to be rebuilt. (Clevelanders may think of Superior and St. Clair Avenues out as far as the University; Buffalonians may think of those one hundred year old buildings all around the downtown area; Philadelphians may think of those *dozens of square miles* of row houses visible on both sides of the elevated both west and north of the central city; Chicagoans may think of those terrible buildings along the elevated tracks in all directions toward the suburbs.) Every city in America has its centers of decay and all of these would vanish within a period of five or ten years. 7) All American cities are losing substantial taxpayers who are fleeing to the suburbs. This migration can be quickly reversed as new and attractive apartments are erected so that thousands can walk to their places of employment. 8) Owners of old buildings, now being abandoned, could tear them down and build fine rentable buildings in their places.

We predict that if ever the American people come to their senses and quit

ANTIDOTE FOR MADNESS

by

Wylie Young

What every grammar school student should know and understand
but
which very few of our best educated people
either know or understand

THREE PARAGRAPHS FROM

CHAPTER ONE

A Cornerstone of Truth

Here then, is an important assertion. You should have it constantly before you as we proceed. Taxes that are based upon anything that has been produced by human labor are *always* passed on to the ultimate consumer. Every economist knows this to be a fact. It is virtually an economic axiom. The inescapable tendency is for such a tax to increase the consumer cost of the item taxed, to limit the quantity that might be produced and eventually to impair its quality. Unfortunately, most of the taxes we pay are based upon labor products, labor itself (incomes) or the right to sell the things we make (sales). This latter is the most outrageous ploy of all.

On the contrary, a tax that is based upon land value *cannot* be passed on, either to the renter or the buyer of land. This assertion is usually made in all economics textbooks, but little or nothing is ever made of it. Yet, here is the crux of our socio-economic problem. Any careful effort to put this well-established fact in its proper perspective would literally revolutionize our life-style. Every economist who is worthy of his salt will admit that a tax on land value cannot be passed on, but too many economists know that there are powerful and influential people who do not want this fact exposed, and so they are certain to get more "salt" if they play the fact down and do not follow through to its ultimate conclusions.

Nevertheless, this is the all-important formula. As the current idiom would have it—"We are laying this proposition on you," that taxes on labor products are *always* passed on, making everything except land more expensive, but taxes based upon land value are *never* passed on, making land cheaper than it otherwise would be. In saying this we are stating one of the most far-reaching and, if it were acted upon intelligently, one of the most revolutionary ideas ever promulgated.

CHAPTER TWO

Two Entirely Different Entities

In order to appreciate the significance of the two closely related facts, that taxes on land value are never passed on, while taxes on buildings and improvements are always passed on by the landowner to the user or buyer, our first concern must be to point out the reasons why these are facts to be relied upon. Naturally, the one place where both of these facts come into play is in the property tax.

It has become the fashion for speakers or writers to take back-hand slaps at the property tax. Seldom does anyone impart any wisdom on the real issues involved. Never have I heard a single person, either in an important office or running for office, identify the real trouble. One gets the impression that all men in official positions have agreed never to expose the central nerve of the problem, but this suspicion has given way to the doleful realization that "they just don't understand." If someone does venture a recommendation, he usually proves that he does not realize that property taxes involve two entirely different entities, land and buildings. (We should always say "buildings and improvements," but for purposes of brevity we will usually use the one word "buildings" and imply the rest.)

Like Topsy, the property tax in America just grew. In our early days, those who were influential in establishing tax policies never suspected it would make any difference whether they taxed land or buildings, or both together. So we have traditionally levied taxes on both alike, as if they were alike, and as if taxes affected each in identical ways.

Before we can hope to have a meeting of minds, we must distinguish clearly between the nature of land and the nature of whatever improvements may have been made, either by increasing the productive capacity of the land itself or by the construction of buildings. Indeed, unless we can keep land and all types of improvements sharply separated in our thinking, there can be no clarity of thought in the entire field of economics. What then are these differences? It is a fact that land and buildings are as different as chalk and salt, and that taxes affect each in diametrically opposite ways.

THE NATURE OF LAND

Land is God-made, the given natural resources of our environment. Properly defined, "land is the whole material universe except man and his products." Therefore, land includes forests, lakes, rivers, oceans, the air we breathe and all radio and TV electronic wave-lengths.

THE NATURE OF BUILDINGS

Buildings are man-made. They are products of human labor and represent a form of wealth. Properly defined, wealth is "any material thing produced by labor from land and having exchange value." A building can be both wealth and capital, depending upon its use.

Now read the column on the right.

Land is in limited supply. There is just so much and no more. It can neither be created nor destroyed. No one can manufacture farms, create mines or fabricate a new world. Land is plentiful but not all land is valuable.

Buildings are in limitless supply. If not prevented or if conditions are right we can add any number of buildings we want or need. Buildings are constantly being constructed, repaired, remodeled, replaced or destroyed.

Land is the sole source of all wealth, but it is not wealth. We emphasize this because many economics textbooks say that it is so. To do this is to imply that land is a commodity and should be treated as such. This is to commit a grievous error in semantics and leads to hopeless confusion.

A building is wealth, though in many instances it can be both wealth and capital. A house, lived in by its owner is wealth. If it is being rented to residential tenants, or to manufacturers or to store managers it is capital. Any wealth being used to produce more wealth is capital.

Land will sometimes increase in value 1000% in a short time. Discovery of some natural deposit or news of a proposed bridge or highway will cause striking increases in value. Such enormous increases are the result of market demand for deposits and/or for the use of advantageous locations.

No building ever increases 1000% in value. Buildings, if destroyed, can be replaced. The chief consideration is reproduction cost. Labor and materials may have doubled or tripled but a 1000% increase in reproduction costs could never occur except under runaway and uncontrolled inflation.

Land values increase as community services are made available. Police and fire protection; telephone, water, gas and electric services; churches, libraries, schools, hospitals and character building institutions all tend to increase land values. These are socially created services and their presence in the community causes increases in land values.

Building values are not affected by the multiplicity of community services available. Socially-created services that vastly improve the life style of area residents never affect the price of buildings. Reproduction costs and depreciation factors are the major considerations. The citation of a building as an historical landmark might add to its value but this rarely occurs.

Land worth or value is determined by a process of open market bidding. Land is worth the most that anyone at any time is willing to pay for rent or purchase. If no bids are being made, a research study of land sales in the surrounding area will serve as a useful guide.

Building values are ascertained by fairly reliable calculations, taking into account reproduction costs and standard obsolescence factors. Bids may be affected if a building is designed to meet a particular need or if alterations will be needed for the intended use.

Rent is paid for the use of land or landsites. Any increase in the tax on land value does not affect the rent payment. It does decrease the rent-take by the landowner. If the state takes 10% of the annual rent in taxes the landowner keeps 90%. If the state takes 90% the landowner keeps 10%. He cannot add to the rent to recoup the tax because he is already getting as much as the market allows. If a higher tax on land value is levied the tax on buildings should be proportionately reduced. Most of the people who own land and who use their land would benefit.

Interest is paid for the use of buildings. We mistakenly refer to it as rent. Inasmuch as all taxes levied on labor products will be passed on, the building owner must pay the tax if he is using the building. If he rents or sells, the user or buyer must pay. A tax levy of from 2% to 5% of the annual interest earning of the building must be paid by the user and this automatically reduces the annual earning capacity of the investment. Owners, if renting, can pass the tax on; but whether paid by owner or renter, it is the user who pays in the end.

A tax on land value is never punitive. It is a payment in lieu of rent. All land that is worth using calls for a rent commensurate with its value. If the rent is paid to the state as a tax, the private landowner may feel punished; but upon thinking it through, he will realize that the government is forbidding him to take what is not rightfully his. This is a legitimate function of government.

A tax on buildings is always punitive. It is an arbitrary "fine" imposed by the state and constitutes an annually collected penalty for producing or buying something of value. Such a policy is contrary to the fundamental purpose of government which should encourage and not penalize citizens for creating wealth. Every penny of taxation on buildings makes buildings more expensive.

Taxes on land value should never exceed the annual rental value of land or even be so high as to impair the incentive to own land or to make land deals. Landowners, as such, may do no work, but understanding and good judgment are important. For exercising such, recompense is due. If land value taxes are increased beyond a certain point, there might be no profit at all in buying or selling land. Landowners should receive reasonable remuneration; but with the risk factor removed there would be no excessive gain nor crippling loss.

Taxes on buildings should never even approach the point where the tax is so high as to impair the incentives for investment building. All over America private enterprise is being shackled because taxes are taking too much of the annual investment earning of capital. It is absurd to assume that there is enough tax money to replace all the outworn buildings, either in cities or in the country districts. By taxing land value to its full potential and taking taxes off buildings, the price of both land and buildings would be greatly reduced.

In commenting upon these basic differences let us summarize their significance:

Whereas: land is the natural God-given source of all wealth, having required no expenditure of either capital or labor; and conversely, buildings are man-made and cannot be produced without the expenditure of labor and capital—

Whereas: land values increase, due to population pressure and increased demand for raw materials, sometimes advancing thousands of percentage points beyond what they once were; and conversely, building values never increase as a result of population pressure or increased social demands upon materials, but rather are determined by obsolescence factors and reproduction costs—

Whereas: land, when taxed, becomes less expensive to buy; and conversely, buildings, when taxed, become more expensive both to build and to maintain (raw materials must be secured from high priced land, and higher taxes are necessarily paid by the user)—

Whereas: a low tax on land value makes land more expensive to buy; and conversely, a low tax on buildings, when coupled with a high tax on land value, makes buildings cheaper, both to build and maintain—

Whereas: a high tax on land value does not impair the productive capacity of land; and conversely, a high tax on buildings will result, sometimes in the razing of a building to escape the tax, but more often, in creating conditions that make the construction of buildings unprofitable, thus adding to decay and obsolescence in a city—

Whereas: all of the above is true, and it is customary to conclude such a list of "reasons why" with a solemn "let us therefore, firmly resolve," our present state of ignorance regarding property taxes prompts us to change the usual phrase to "let us, therefore, try to understand."

Let us, therefore, try to understand that: 1) it is unscientific to tax land and buildings alike; 2) any tax based upon the value of buildings and improvements will penalize builders and do-ers and thus discourage the whole building process; 3) theoretically, the only tax that can be justified is a tax based upon land value; and 4) the problems involved in clearing away the tangled growths of legal terminology embedded in federal and state constitutions will require the best of legal talent.

This could not be done all at once. It will have to be applied gradually with an agreed upon schedule, whereby taxes on land value are increased as taxes on buildings are decreased proportionately. We cannot long postpone such action, nor can we take too much time to eliminate all taxes on buildings. Unless it is done soon the cities of America will continue to develop insoluble problems beyond the ability of any individual or political party to resolve.

Author/Publisher - Wylie Young
409 Harvard Avenue
Swarthmore, Penna. 19081