

HENRY GEORGE INSTITUTE

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New York, N.Y. 10017

June 13, 1986

Mr. George S. Gerber, Chairman
Temporary State Commission on Real Property Tax
74 State St.
Albany, NY 12207

Dear Mr. Gerber:

This is to supplement my letter to you of May 14 concerning the report,
"A Two-Rate Real Property Tax System."

One thing that surprised me was the omission of reference to the New York law of 1920 exempting new multiple dwellings in New York City from the improvement tax while retaining the land tax. The purpose was to ease the housing shortage, and it did do that. Apartments sprang up at moderate rentals - a very rare item in New York City today, except in special cases where special abatements are offered.

The argument of the two-rate system is not only a higher land tax but also a reduced improvement tax (at least relative to the land tax) as a double stimulus to building.

In the report it is frequently stated that there is insufficient evidence, that most applications of land value taxation are not substantial and that there are other factors to account for progress in those localities. To be sure there are other factors - nothing, including land value taxation, occurs in a vacuum. But it ought to be noted that in places where land value taxation has been applied, even slightly, there is a common denominator of improvement even with various other factors. For example, when Southfield, Michigan increased its land value tax by means of increasing assessments on land while giving special breaks to improvements, there was a building boom which attracted national attention. Another factor pointed to as an explanation, was a new highway running through the city. But this alone did not cause a building boom in the surrounding cities serviced by the highway.

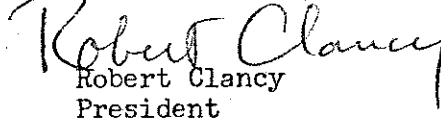
Most of the objections to land value taxation cited in the report are from an earlier generation of economists. I question whether it is accurate today to say that most economists are opposed to it. The most widely used textbook on the subject, Economics by Samuelson and Nordhaus, points out that a tax on rent is indeed a neutral tax and does not bear upon production. The book also goes this far in discussing the best way to do things: "Our ideal society finds it essential to put a rent on land as a way of maximizing the total consumption available to the society. But these efficiency rents need not go to the privileged - they can go to the state (in rents or in taxes on rents) and be distributed as a social dividend or be used to buy public goods."

One thing that amazed me was the objection that valuation would become more

difficult and expensive under a land value tax system. How is this possible when the burden of assessing buildings would be eliminated? The New York State Assessors Manuals show the absurdity of this. The manual on assessing land is a slim volume whereas the manual on assessing improvements is the size of a large city telephone directory. The assessment of buildings is an intricate matter; the assessment of land is relatively simple.

It is disappointing that the Commission cannot recommend the implementation of a two-rate system of taxation in New York State. Such a conclusion denies this option to all local governments in the state. Would it not be fairer to allow for local option with respect to the two-rate property tax?

Sincerely,


Robert Clancy
President

P.S. I appreciate it that your office will make available the Report to those who request it.