



# Let's Keep the Property Tax for Our Schools

Granted, the taxes on Long Island are uncomfortably high, but have you ever considered the alternatives to the system?

By Stan Rubenstein

Now Johnny Quinera was going to show his friend Chris Downen who was right. Even President Nixon himself was on Johnny's side and was going to help. Johnny and Chris have worked side-by-side in the electronics plant for some time. When Johnny moved out of the city and bought a modest house in a modest neighborhood, Chris chided him for wanting to become his own janitor. Chris had stuck to his apartment close to the plant and was protected by rent control. Johnny made the moves for the kids. And when Chris complained about deterioration of the neighborhood and the school, Johnny was fuming. But when Johnny complained about the way his property taxes were soaring, Chris just shrugged and said, "You wanted the kids to have a better school."

Now someone was listening to Johnny's plaint. A court in California said it's unconstitutional to use property taxes to support local schools and other states are going along. The President has called it arcane. To Johnny this means that he should pay less taxes and his friend Chris should share some of the burden, while both their kids should have the same kind of school.

With simplistic egalitarian reasoning, the California Supreme Court ruled that use of the property tax enabled wealthier communities to maintain better education facilities than poorer ones could, thus depriving some children of equal protection under the law. A boy's or a girl's educational opportunity should not depend upon where he lives, said the court.

Whatever validity there may be in this concept of "one child—one dollar" it should not be used as an argument against the property tax. Such reasoning only confuses issues already poorly understood and can open a Pandora's box of taxes.

As the legal issue continues to gain prominence—it may even be placed before the U.S. Supreme Court—it may become an umbrella wide enough to shelter those discontented with the property tax itself. It may cover those antagonistic to the tax, particularly the family that sought to escape to suburbia, or even exurbia, only to find the press of population and rising school costs pushing their taxes uncomfortably high.

With education costs mounting, especially in the past decade, the chorus against the property tax to support schools understandably has become louder. Those communities with predominantly poorer properties on their tax rolls have had to levy more heavily on the values at their disposal as compared with wealthier areas, where, generally valued properties could more readily support educational demands. Nature being what it is, the poorer communities are often called upon to educate more youngsters than are the richer ones.

Continuing court disapproval of this means of financing schools may result in the taking over of property taxation by state authorities. This may have certain net advantages. It will mean some loss of local independence, some disassociation of benefits from those who pay for them. It may, however, improve the administration of the tax, making assessment practices more uni-

form and less susceptible to local political pressure. But it may now open 50 Pandora's boxes, allowing a host of new taxes to escape. These taxes are likely to be old ones in new packages. Most prominently mentioned of these "new" levies is the Value Added Tax (VAT). This is a complicated series of levies on the value added to a product at each stage along the production chain and ultimately passed onto the consumer. There's also the possibility of higher sales taxes. All of these indirect levies fall most heavily on the poor. Then, too, the income tax can be increased to take up the load. Although supposedly progressive, this is avoided by the rich, escaped by poor and paid by the middle class. This is not to say that the property tax is beyond question. Indeed, it is in need of overhaul. The property

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tax is really two taxes: a levy on the land and another on the building or other improvement that stands on the land. This might appear to be a distinction without a difference, but the building site and the building are two very different things and derive their values from different sources.

Land, or site value, depends on location, traffic, the movement of people in the area and the community services. The building value obviously stems from the investment in it and its usefulness. The land value arises from nature and community activity. To tax it is to

recompense the community. The improvement value results from the investment and efforts of the owner. To tax it is to penalize thrift, industry and initiative.

This is readily seen in the record. Land values have increased in recent years at a faster pace than anything else. During the past five years, when construction costs have risen 40 per cent, land values on Long Island have soared more than 100 per cent.

Authorities in the field don't want to discard the property tax, but to reform it. They would shift the burden away from earned income onto unearned income; lessen or abolish the tax on improvements while increasing the tax on land.

Housing consultant Perry Pentice, a former vice president of Time Inc., states: "Today's property tax harvests the profit motive backward instead of forward. There is not a city in this country that is not making its growth, urban renewal and redevelopment problems worse by the way it misapplies the property tax to penalize improvements and subsidize the misuse of land."

A tax on land values and a tax on improvements are fiscal contradictions. What is good for one is bad for the other. The academic community is rapidly recognizing the advantages of taxing land values heavily as Australia, New Zealand and the Union of South Africa do with considerable success.

The elimination of the property tax—particularly the tax on land—would not only open the way to more onerous forms of taxation, it would, in effect, give a subsidy to the professional speculator.

The landowner does not create the value of his site. This is readily demonstrated. In the first place, he did not create the land; it was there before him and will continue to be there after he is gone. Moreover, he does not cause the presence of the community that surrounds his land. And he does not directly cause the transportation, utility and other community activities that make his location attractive.

If the landowner, by virtue of his ownership, creates no value, the speculator is responsible for none. He can only make the site more expensive than its ordinary location value would warrant. He does this because he holds land not to use it, but only to make a profit from the community—create this increase in land rent. As a group, speculators force this increase in rent—with no accompanying increase in output of goods or services—by holding land out of use or underusing it. This is the principal reason for urban sprawl.

Thus to remove or reduce the tax on land would not only permit landowners to benefit from community services without paying for them but would encourage the speculator to reap even greater unearned profits while doing even greater injury to the community. There may be inequities in educational opportunities under present conditions and there are faults in the tax system. But scrapping the property tax will improve neither.

The author is the director of the Long Island extension of the Henry George School.

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