

Untangling the Property Tax

THE ONLY SURPRISE is that we put up with it for so long. If the butcher weighed your meat as inaccurately as the assessor weighs your property, and if he charged you one third more so the next person wouldn't have to pay—doubtless by now you would have switched to soybeans. Yet that is the nature of the property tax: unfair in its design, and incredibly sloppy in its administration. It is a measure of the increasing sophistication of the public that Americans are beginning to demand and get substantial improvement in how the property tax is imposed on the average person.

The property tax is collected in some eighty thousand tax districts—no one seems to have an exact count—in a bewildering variety of ways. In its complexities and contradictions, the property tax mirrors the realities of local politics; a map of the different rates paid by different properties is also a map of their owners' respective clout. In Boston, as described by Diane Paul in *The Politics of the Property Tax*, single-family homes are taxed less than apartments: homeowners tend to be long-term residents, prosperous, and politically active; apartment dwellers are more transient, have less money, and besides their tax is concealed inside the rent—when it goes up, they get mad at the landlord rather than the tax assessor. Old commercial properties are taxed high, but new businesses are offered a tax break to settle here rather than somewhere else—in Boston this is known as the "Prudential Agreement" in honor of its greatest beneficiary.

All this traditionally went on without much popular attention. People noticed how much they were paying of course—the property tax usually leads the polls as the nation's most disliked tax—but few paid any attention to the baffling complexities of its administration.

But change is happening, and at a rate that seems to be accelerating. As we look over the scene, we see two kinds of change: improvement in the way the tax is administered, which usually means reducing the difference be-

tween your own assessment and the other person's, further in the distance, the beginnings of an attack on ways the property tax, at vast cost to all of us, has tortured the way we use land in America.

So far we have described efforts, of varying import and success, to make the property tax as it now exists fairer to the average person. None cuts to the fundamentals of how we tax property. None would greatly change how much homeowners in general pay, nor a the impact of the property tax on how we use land. This is, however, another way to look at it.

Scattered around the country are a number of people who take a radically different view of the property tax; their aim is not tinkering but major surgery. They are present-day followers of Henry George, the nineteenth century economist and author of *Progress and Poverty*. Today Henry George is remembered, if at all, as the author of the single-tax idea: tax land value and nothing else. Few advocate the single tax nowadays, but that wasn't all George had to say. George—who in some respects was the Ralph Nader of his day—began with the basic understanding that the property tax is not one but two fundamentally different taxes: one is a tax on the land itself, the other is a tax on what man builds on the land.

Land is a prime target of the monopolist. It was made not by human effort, but by the god of your choice, and she's not making any more these days. Its value rises for two reasons that require no effort on the part of the owner. An increasing population demands more land, but the supply is fixed: the price goes up. When the society settles around a piece of land, building a city and commerce and transportation, its value goes up astronomically, even if it remains vacant or is used far below its capacity (a parking lot in midtown, for example). In neither case has the landowner contributed to the increased value of his property; as John Stuart Mill wrote "landlords grow richer in their sleep without working

hoarding or economizing." It is the purest kind of unearned income.*

By contrast, improvements—what's built on the land—are the result of human effort, and are not limited in quantity by nature: if we need more homes or factories or offices, we can build them. There is no natural monopoly in improvements as there is in land. But the property tax makes no distinction between the two. State law usually requires that both be taxed at the same rate, and in practice the assessor is likely to appraise vacant land lower than the land under an income-producing property. Thus the land hoarder is rewarded, not punished, by the property tax.

A century ago, long before the great slurbs of Los Angeles and North Jersey, Henry George foresaw the awful price we would have to pay for the way the property tax is applied. Since land in a valuable location—near population or transport centers—will continuously rise in value, and since building improvements will raise the taxes, the landowners' greatest profit derives from hoarding: holding the land vacant, or underused, while the price inevitably rises. But a growing society has to expand somewhere. So development is forced to bypass its natural sites and reach out past the hoarded land into the countryside, where property is still relatively cheap—suburban sprawl is our current name for the result. The price paid by society is enormous: the cost of bringing services like utilities and transport to artificially distant settlements; the physical and environmental cost of needlessly butchered countryside; the lost value of underused services back at the underdeveloped urban center. (It should be said that the property tax is not the only villain. The huge federal subsidies to highways and single-family housing are also powerful inducements to sprawl and waste. So are utility price structures which, by charging everyone the same rate, in fact overcharge those close to the power source in order to subsidize the sprawlers.) Only the land hoarder benefits; everyone else pays the bill. The bill is a huge one. The Southern California Research Council figured out that the cost to other taxpayers to make one new home in that area reachable and livable was \$18,500. Looking at sprawl from another angle, a federal study calculated that new cluster housing within the urban area would require 50 per cent less land, 55 per cent less capital investment, create 55 per cent less air pollution, and consume 44 per cent less energy than sprawl development in the countryside. The high price of hoarded land—up 60 per cent in five years—is one of the main reasons that the average man can no longer afford to buy a house.

The solution, in the Georgist view, is to tax land value much more heavily and improvements much less or not at all. The tax on land now seldom exceeds 1 per cent of its

value; since most land increases in value in an average year by much more than that, the owner is under no pressure to do anything but hoard. But the tax on buildings and other improvements falls very hard. In income terms, an annual 3 per cent of true value tax is likely to take away three quarters of the net income the building can earn. That same 3 per cent tax will add 25 per cent to the rent a tenant must pay or to the costs the owner must absorb for him. Taken together, the two taxes provide a powerful incentive to hoard rather than improve. The incentive can be reversed: a higher land-value tax to reduce or eliminate the profit in hoarding, a low improvement tax to increase the motivation to make land productive. The slumlord, for example, would find he could no longer hold onto his rundown property waiting for the price of the land to go up high enough; on the other hand he could improve it without being socked with a prohibitive tax increase. That's why partisans of land-value taxation believe that a simple shift in the structure of the property tax could accomplish, at no cost to other taxpayers, what urban renewal has failed to do at great cost to the rest of us. The high land tax would also encourage the thrifty use of land by raising the cost of wasting acreage. As Henry Aaron points out, tax-exempt institutions are among the most wasteful of landowners, and with good reason: once they own the land it costs them nothing to hang onto it, while the value goes up.

Washington is the largest city in which an active campaign for land value taxation is being conducted. The city's capital has the advantage that it needs no county or state authority to make the change; a recent act of Congress passed with the help of testimony by local Georgists allows the District of Columbia to tax land and buildings at different rates. Other circumstances made the initiative timely. Washington being the home of one of our remaining non-military growth industries, the area is suffering an acute housing shortage and a rapid, speculative, rise in property prices. At the same time much of downtown Washington is decayed and underused. The organization attempting to put land-value taxation on the agenda as one solution to Washington's problem is the five-hundred-member League for Urban Land Conservation, of which Walter Rybeck is president. The league in 1976 was circulating the results of a computer simulation of what would happen if the entire property tax were collected from land, with no tax on buildings and other improvements. Taxes would drop considerably on all kinds of housing, especially apartments, and on intensively used commercial property like large office buildings. Taxes would go up on underused property, like filling lots and parking lots, and most of all on vacant land, motivating the owners to use it more efficiently. As of this writing, it is too early to tell what effect the Georgist message is having in Washington.

* Mills's point was restated recently in a paperback title: *How to Get Rich While You Sleep: Let Real Estate and Land Do Your Work.*