

VYHT, Aug. 18, 1943

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9457

1 Forgotten Tax Source



IN ONE of his debates with Richard Nixon in 1960, John F. Kennedy said that the property tax was practically exhausted as a source of revenue. On this assumption he advocated vast new Federal expenditures for local facilities such as public schools.

It is a pity that Mr. Nixon did not remind his opponent that it was the Federal income tax, not the property tax, which had reached the point of diminishing returns. Mr. Kennedy has admitted that in asking for tax rate reductions this year.

The soundest of all principles of taxation, expounded ever since Adam Smith, is that a tax should bear as lightly as possible on the source of production. From this, the inference can be drawn that the best and most equitable tax is one which bears heavily upon unearned wealth. Let us bring this principle home to our great urban centers which are demanding so many Federal handouts for local improvements.

Those cities and their suburbs have not grown efficiently and attractively. They have sprawled over great areas, with much of the land therein either vacant or occupied only by obsolete buildings.

A major reason for this is inequity in taxation. Property taxes almost universally are levied upon both buildings and the land under the buildings. Generally the land is under-assessed and new improvements are over-assessed for tax purposes.

This enables holders of unused land and slum property to reap profits as the communities grow around them. Show me a vacant piece of land or a slum, and I will show you that the owner is speculating on getting a large profit when he sells—an unearned profit.

Most of the great American fortunes in the past and to a degree in the present have been made by holders of land. They have not improved the community. They have profited by the growth of large populations in their areas.

To cure this inequity and to raise more money for public services such as schools, hospitals, and streets and also to stimulate private housing, two factors should be considered. The state and local laws should differ-

entiate between the tax on land and the tax on improvements. Also, in the assessing of property, a heavier burden should rest upon land and lighter burdens should be placed upon improvements.

Since the more immediate method of reform is in assessments, a very comprehensive study is about to be issued on the subject by the Advisory Commission on Intergovernmental Relations.

THE new study is on the reform of the property tax. The commission's report points out that the amount raised now from the property tax is more than \$20 billion. The assessed value of property subject to the tax, determined by assessors throughout the country, is more than \$350 billion. But this represents a market value of three times that amount, or more than a trillion dollars.

With this vast wealth now under-assessed and inequitably taxed, the commission regards reform in assessments as a major step toward shifting responsibility back to the states and local communities.

At the present time the business of assessments is probably the most unsatisfactory of all government operations. Assessors are in large part elective. Assessments are ridden with favoritism, special considerations which are not relevant to raising revenue and the lack of training and the incompetence of assessors.

A major need is to establish assessment machinery by state law so that assessors will be trained, professional people removed as far as possible from local political or economic interests.

It is hoped that by such reforms it may be possible to check the growth of Federal control of local affairs. Essentially, the money for all revenues—Federal, state and local—is in the local communities. A first call upon revenues there is to care for local needs. For there is no point in complaining about the centralization of power in Washington as long as there is a lack of disposition or ability on the part of states and cities to shoulder their own burdens.