

News Clippings Re Gaffney



Where We Stand

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Land Value Levy Is Progressive

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Change, Don't Scuttle the Property Tax

There is widespread fear across the country that Proposition 13 will spread. Wherever I have traveled in recent months the issue has been raised. Public employees are afraid that they will lose their jobs in the near future. College students worry that there will be no jobs for them when they graduate. Citizen groups are concerned about the erosion of public services, about lower-quality schools, police and fire protection, libraries and health services. The same question is asked over and over again: What can we do to stop Proposition 13?

Two recent articles by tax experts point out that one of the reasons for the success of Proposition 13 in California—and the likely success in other places—is that the property tax has been under constant attack from all sides, from left and right. Unless the property tax is explained and defended, especially by those who do not want to lose the money the tax provides for many services, it is doomed to defeat.

Mason Gaffney, professor of economics at the University of California at Riverside, has some suggestions in an article on "Proposition 13: The California Model of the Taxpayers' Revolt," which appeared in the November/December 1978 issue of *The Center Magazine*, published by the Center for the Study of Democratic Institutions. "First," writes Gaffney, "we should stop maligning the property tax." He continues:

"We have the curious spectacle of George McGovern, Jerry Wurf, State Senator Nicholas Petris of California, the California Tax Reform Association, and others along the Americans for Democratic Action position who tell us the property tax is a bad, regressive tax, and then are dismayed when the voters throw the tax out under right-wing leadership. Their position is so hard to follow, I am tempted to suspect it is they who are confused. Or perhaps they never really meant we should lower property taxes; perhaps they really meant we should raise income taxes. But now that the voters are in a mood to lower any tax whose support slackens, the A.D.A. troopers had better get their act together and look for the good in the property tax if they really want to save it and the social welfare it helps to finance."

Gaffney lists many arguments as to why property should be taxed. "We hear a lot these days about cutting the fat out of the public sector; but there is fat in the private sector too. . . . Howard Jarvis has said that the policeman or fireman who risks his life protecting the property of others has his 'nose in the public trough.' But it has seemed to generations of economists that the owner whose land rises in value because public spending builds an eight-lane freeway . . . is the first to have his nose in the trough."

Many have criticized the property tax as falling mostly on the little man and as inherently regressive. Gaffney retorts that "the ownership of property is highly concentrated, much more so than the receipt of income." Moreover, a high percentage of the property tax is on land. In California, while Proposition 13 was supposed to save renters and small homeowners money, 43% of the property tax base was not buildings or houses, but *land*.

In addition, notes Gaffney, "a high percentage of real property is owned from out of state and even out of the country. . . . Some half of any reduction in California property taxes leaks to out-of-state owners. Nor is this the only leakage. New federal income tax payments will rise by \$1.5 billion, until other deductible taxes rise to replace lost property taxes." Gaffney predicts that after the distribution of the state surplus ceases to blunt the effects of Proposition 13, "California will suffer a substantial decline in its economic base which, in a few years, will cause the state either to sink into an Alabama-like desuetude or to repeal Proposition 13." Gaffney's arguments are too numerous and too rich to summarize adequately here. They deserve careful study.

But neither he nor Walter Rybeck, special assistant to Chairman Henry Reuss of the House Banking, Finance and Urban Affairs Committee, believes the property tax should be continued as it is now. Rybeck, who delivered an eloquent speech on the subject at a September conference in Toronto (printed in the Dec. 15 issue of *Vital Speeches*), and Gaffney both propose a major change: that there be no tax on property improvements but a tax on land value only. At present, by taxing the value of buildings and homes, we penalize people for improving their property, we discourage building and renovation which create jobs, we slow down urban renewal.

The land value tax, says Gaffney, would be very progressive, since "the ownership of the base is highly concentrated, much more so than income and even more so than the ownership of machines and improvements. Also, the tax on land values cannot be shifted to the consumer. The tax stimulates effort and investment because it is a fixed charge based merely on the passage of time. It does not rise when people work harder or invest money in improvements."

Similarly, Rybeck notes how Howard Jarvis "struck paydirt with voters by reminding them how the tax, in effect, punished property owners who built or remodeled, even though these activities put people to work and improved city neighborhoods." The trouble with Jarvis, says Rybeck, is that "he tarred and feathered the whole property tax, not just the building tax that has been causing so much individual and social pain."

The rescue of what is good and productive in the property tax has begun. Those who care about the services provided by these revenues—primarily local services that the American public has repeatedly held in high esteem—had better take heed. In responding to the "taxpayer revolt," it wouldn't be wise to throw out the baby with the bath water.

Spotlighting Undertaxed Land

More economists than not agree with Adam Smith that land value offers an ideal tax base. Their failure to push harder for putting more of the taxload on land, says Dr. Mason Gaffney, stems mainly from the belief that "there's no money in it."

Professor Gaffney takes a penetrating look at the adequacy of land as a tax base in a recent study sponsored by the Committee on Taxation, Resources and Economic Development (TRED) edited by Dr. Daniel M. Holland of the Massachusetts Institute of Technology: *The Assessment of Land Value*, The University of Wisconsin Press, Madison, Wis. 292 pages. \$10.

The Wisconsin economics professor now with Resources for the Future, Inc., in Washington, D.C., unreels a raft of perceptive data pointing to an untapped bonanza, particularly in corporate land holdings, that belie the tax planners' notion there's no money in it.

Corporations As Land Speculators

In any jurisdiction the largest property tax payers are usually corporations, says Dr. Gaffney, but few assessors trouble to rank their taxpayers and publish the results. One that does is Lane County, Oregon, where the Southern Pacific Railroad, Weyerhaeuser, Pacific T. & T., Booth-Kelly Lumber, Mountain States Power, Pope & Talbot, Hines Lumber, U.S. Plywood, Rosboro Lumber, and Eugene Fruit Growers Association pay 21 per cent of Lane County's total levy.

As anyone who follows securities knows, the book value at which companies carry land has only a remote relation to its true value, this expert says. "The same is true of governments and institutions. Plant and equipment acquired in 1900 is worthless today, but land acquired then is normally worth many times its historical cost. Many corporations are either dozing on large old holdings or are in the business of holding resources while they appreciate."

Timber Firm Grows Rich in Its Sleep

This land economist finds, for example, that Weyerhaeuser holds more than 3.8 million acres. "For some years," he notes, "these lands were administered by some 'individuals allowed to atrophy in nonproductive positions,' according to President George Weyerhaeuser. But this did not prevent their lands from 'constantly rising in value.' The new president's program of reform is to borrow on his rising land values to — buy 1.8 million acres more land! Land and timber are carried at \$117 million; Weyerhaeuser now speaks of its market value at '2 to 3 billion dollars.'"

Other examples from Dr. Gaffney's fine grist: Castle & Cooke, Inc. (producer of Dole Pineapple, C&H Sugar, Bumble-Bee canned seafood, and Cabana bananas) carries its land at \$26 million. *Forbes* suggests \$300 million is more current.

Real Sugar Is Land Money

"Land is swiftly replacing sugar and pineapples as Hawaii's most valuable commodity, and Castle & Cooke owns more of it than anyone else." Underusing this land, the author observes, makes Castle & Cooke a prime takeover candidate.

"Railroads: All are major landowners on the basis of their rights-of-way, if nothing else. Hardly a man is now alive who remembers the 20th Century Limited, Hiawatha, Zephyrs and other crack trains, but the same old rights-of-way, and urban yards and terminals remain as the enduring corpus of rail enterprises.

"The New Mexico & Arizona Land Company, subsidiary of the Frisco Railway, is purely a rent collector. Its 750,000 acres yield income from oil, grazing and uranium. In 1959 income was about \$500,000 a year, administration \$22,000, local taxes \$21,000! It carried its land at \$540,000, a little more than 1 year's income."

Gas Station Sites Are Mints

Oil and minerals: John D. Rockefeller built up his power by control of lands, wells, transportation routes, and terminals, Dr. Gaffney remarks. "Today we may add chains of retail stations, whose land value exceeds improvement value even now, as elements of the power.

"There are 324,000 gas stations in the United States, mostly in cities on hot corners, owned by oil companies. A new station site in California today runs around \$100,000. Improvements are \$65,000 when new, after which they depreciate, while hot corners appreciate.

"Taking \$50,000 as a cautious low estimate of land value per filling station, 324,000 stations come to \$16 billion in land alone."

As for the bankrupt Penn Central, Dr. Gaffney cites the road's recent \$88 million flyer in California lands.

He quotes Penn Central Director Howard Butcher III's comment: "These are only a wart on

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the pickle compared with the rest of our realty holdings," and another Penn Central official chimes in with "We are large owners of undeveloped land in the center of big cities." *Forbes* rates Penn's nonrailroad land at over \$1 billion. You wonder — just how bankrupt is the poor old Penn Central.

Salt: The Leslie Salt Co. of Alameda County, California, consists mainly of 40,000 acres of concentrating ponds in one of the world's best sites for this purpose, the south shallows of San Francisco Bay. This land is now ripe for urbanization. After the usual fretting and shoving it should be worth \$10,000 an acre, or \$400 million, for reuse — a nice scrap value for a used asset.

Safeway's Land-based Wealth

Food chains: Retail chains of all kinds are land-based. A principle of urban land economics, says Dr. Gaffney, is that the share of land in real estate value is highest in retailing, with its critical location requirements. What is A.&P., the author asks, but a string of ordinary buildings and managers on 4,600 superior sites completely surrounded by large parking lots? If sites average \$200,000 each, A.&P.'s retail sites would come to almost \$1 billion, an article in *Forbes* notes, and with Safeway's 2,000 retail outlets, the same

pattern can be assumed.

Drawing on a study of land values which he directed in Milwaukee, Professor Gaffney says it is safe to conclude that aggregate national land values range considerably above \$640 billion.

California Lands Undertaxed Twenty-fold

The author unravels a long string of biases showing why land is under-assessed, all of which are eye-openers to the average taxpayer. Even in California, which enjoys "a good national reputation in tax administration," Professor Gaffney cites the *California Homeowners* magazine that "every few months publishes cases on the order of sales at 20 times assessed land value." The magazine's devastating studies of Alameda and San Diego county assessment discrimination, are replete with such cases. He mentions Karl Falk, Chancellor of Fresno State College, who cites the state purchase of 3,000 acres of Salt Point Ranch in Sonoma County for 62 times assessed value.

Dr. Gaffney asserts there are cities on the land tax system which seem neither to skimp on public spending nor to have used up their land value tax base. Sydney and Johannesburg are the two largest: both are booming with reported high land values — a bottomless bonanza in a tax base that economists agree is the fairest of all.

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