



Review of *Property Taxes and the Frequency of Urban Renewal* by Mason Gaffney

By M. Gottlieb

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COMMENTS ON THE GAFFNEY PAPER,

"Property Taxes and the Frequency of Urban Renewal"

by

M. Gottlieb

The essential proposal of the paper is that we should stimulate renewal of older property by applying the present property tax levy on land value and improvements to land values alone. I have been tempted to comment extensively partly because a similar line of argumentation has been advanced in other papers by Gaffney and because there is a new interest aroused in proposals of the type which he presents. I apologize for ignoring the writings of Marshall, Pigou, and Edgeworth which radiate light and wisdom on this subject.

economy
Why?
complete
to a large
degree
I assume in the following that we are dealing with a fully employed or with an economy where the responsibility for maintaining full employment is handled at the national level through appropriate kinds of fiscal, monetary and other measures of government.

no bearing
a. A would-be improver would, of course, balance the joys and incomes expected from a given improvement against the costs of producing and maintaining the improvement including the property tax levy. But if we suppose that a decision to improve must contend against the anticipated flow of future taxes, should we not allow for the money value of the anticipated flow of future government services (snow removals, pupils taught, streets resurfaced, police inspections, etc.)? Are not both accumulated and discounted and is it not the net balance between them (called by Marshall the "onerous levy") which is a true burden to the investment?

no bearing
b. The decision to carry through an industrial or commercial improvement should include a net tax balance as a prospective cost to be accumulated and discounted and thus reduced to a present value. But there are many other costs of operation to be included in the profitability projection including costs of marketing, management, production, material procurement, ~~in the~~ Any foreseeable variation in the net property tax levy will often affect the prospective rate of return on investment only in trivial ways. Our best information about investment spending for business purposes stresses the relatively short time perspective and the large role played by variables other than local property taxes.

denies
economy
c. Home builders and home-owners will be more materially affected by the tax levy which plays a larger role in the provision of shelter than in nearly any other class of final products or services. But precisely homeowners and amateur landlords might be expected to take a less actuarial view and to be

subject to some degree of "tax illusion." After all, the precise amount of the levy that will be incurred with a given improvement is often only determined after the decision to improve is carried through; the amount of the levy to be incurred is often indeterminate; and where minor improvements or alterations are involved, the fact of levy is uncertain and contingent.

d. But even when the homeowner takes full account of a prospective tax levy, to what extent is he really deterred from making improvements in his home? I doubt very much if the unit value of new residential buildings or the unit value of improvements and alterations on old buildings have been appreciably affected by variations in the property tax levy within the range of historical experience. I propose a statistical test: take per capita or household value of newly erected homes or the value of occupied housing or of improvements to existing housing and see if these values over time or for different cities are systematically correlated with variance in the true rate of taxation, allowing for the effects of variations in income levels and in other determining influences?

e. I concede that property taxation on improvements tends to some degree to deter improvements both residential and non-residential and to favor other modes of investment and expenditure. In the same way our taxation of income has injurious allocative effects and warps incentives to work, to retire and to assume risk and responsibility. So also our system of excise taxation or automotive taxation carries with it some injurious allocative effects. These must be judged along with the equity effect (fair shares) and administrative effects (fair and uniform administration). On the total balance how does the Gaffney proposal come out?

f. Administrative effects. If we make the change, how arbitrary would be the leeway for assessment of the tax base? Unimproved properties in city outskirts could be evaluated without too much difficulty because of turnover in vacant lots. But how easily could the requisite determinations be fairly made in the built-up portions of the city where vacant land is the exception? Gaffney argues: "it is appraisable, and is appraised, constantly, separate from buildings, for several purposes." Surely, it can be appraised but with what arbitrariness as the concrete figures are specified that will distribute beefsteak to one set of patrons, hamburger to others? There are fewer sales of vacant land than of improved properties, and the range of variation of value for land is probably greater. If we concede that the arbitrariness of an appraisal will be measured by the mean per cent of error of appraised value from true value, if we call the mean per cent of error for land

demer
Economics
Personal
opinion

Gaffney's
most convincing
argument is
with income
taxes, i.e. taxes
paid with C.T.

less than
5% of
properties in
Covington Co. in 1955
were on land
assessments.
How about
the lots owned by
Turner & Radin
London, Radin
City, 88 & Mad.
etc etc.

values (l) and for improvement values (i) and for the parcel of improved property (t), we can then say that the fewer sales of vacant land than of improved properties will in itself require that $l > i$. There are other considerations that would sustain this judgment. If it is then true that the correlation coefficient of (l) and (i) is positive but less than unity ($1 > r_{li} > 0$), i.e. that appraisal errors for improvements and land values are partially random and offsetting, it then follows that $t > l$ by an amount that will depend upon the proportion of land to improvement value, the size of sale sample for vacant land and improved parcels, the appraisal errors for the two components of value and the degree of their positive correlation.

g. Equity effects. Gaffney asserts that "the same collection of real estate would bear the same tax levy -- it would simply pay in a different way" (p. 5). Only incidentally and casually is it noticed later (pp. 13f) that the same tax levy would be distributed among taxpayers in a very different way. "Lower taxes from newly improved sites would be compensated by higher taxes on sites under old buildings" (p. 13). The owners of all sites with improvement ratios in excess of the aggregate ratio would benefit; those on the other side of the line would be hurt. Owners of unimproved vacant lots would be hurt the most since the tax levy on the lots would immediately triple or quadruple. There are in the city of Milwaukee alone some 10,000 vacant lots on the tax rolls. Nationally, we have an estimated total of 13.7 million vacant lots (as of 1958) with an aggregate present value of some \$33 billion (as of 1958). Owners of vacant lots who could build promptly would not be adversely affected; others would attempt to sell to a would-be builder. Precisely this mass dumping of vacant lots on the sale market would force down their price and in effect expropriate the present equity in the investment. Investment in vacant lots or underimproved land bears no moral odium and should, I submit, not be victimized by a shift in public policy or a desire to accelerate new building.

These widespread equity effects -- this reshuffling of tax burdens among individuals, enriching some, impoverishing others -- involve, Gaffney notes, an "uneven impact of . . . change . . . largely among persons." (p. 14.) No real discrimination is involved since in "due time" all property would be "renewed and enjoy the new policy of impartiality towards youth." The discrimination is not between properties in a physical sense but between their owners in their pecuniary capacity.

h. Allocation effects. Disregarding the equity effects is a more abiding warpage of resource-allocation. Gaffney is careful to note that a tax on improvements deters improvements. Does not a tax on land deter the use of land? Would not such a tax lead to techniques of factor-combination and utilization -- styles of building and layout -- which economize on the input that

How
does
this
Pandora
box!

Shades
the
figures

But it does

cf. Kahn
"allocom."
agrees etc.

desirable-
or undesirable
?

brings with it dreaded tax burdens? We would return again thus artificially to the patterns of land-utilization developed in the late 19th century when space was premium and land values were relatively high and land was accordingly economized by intensive building on small lots.

Kahn
- reverse of
sprawl -?

Comments on Professor Gottlieb's Critique of
"Property Taxes and the Frequency of Urban Renewal"

by
Mason Gaffney

We are indebted to Professor Gottlieb for circulating his stimulating criticism. I welcome the occasion for exegesis on several of the points which he raises. I will key these comments to his outline headings.

Preamble. Professor Gottlieb assumes full employment. That assumption is contrary to fact as we know in the present and the foreseeable future. An important effect of accelerating site renewal is the stimulus to employment, not in the sense of "make work," for the basic emphasis is on neutral taxation which permits economic resource allocation. But the removal of the present fiscal deterrents to the employment of labor is a most important aspect.

The idea of a federal monopoly of policies to enhance employment is an unjustified compartmentalization of both thought and policy. Federal fiscal and monetary efforts can be undone by contrary local policies. One of the leading issues of current employment policy is the growing disenchantment of the "structuralists" with the highly aggregated exclusive emphasis on monetary flows. Without increased real production, increased spending is simply inflationary.

a. This point is not very clearly stated, but if I understand the purport, several responses are relevant. First, future government services are capitalized into land values, and the builder pays for them in the price of land. Second, the replacement of old slums by new buildings does not in general increase public expenses but rather reduces them. Welfare, police, fire, building inspection and similar costs all fall. If it is a vacant lot which is improved, it is widely believed that that increases social costs, but that is only true from a provincial viewpoint. It does not increase the number of school children in the country; it simply relocates them. There are some issues in federalism around that point which might be elaborated in some length at another occasion.

It is not building on vacant lots that adds to public cost, but not-building. For if we assume a given population, not-building means forcing unnecessary extensions of the transportation-utility networks to accommodate buildings farther out.

b. If this point is relevant at all, it is only re industry and commerce. It is a combination of the old "panacea" argument and the "de minimis". It is essentially an irrelevance

since the subject is not the general one of attracting industry, but the subject is property taxation. Whether it is first, second, third, or fourth in order of importance is not the issue here. The only question is since we are going to have taxes, how shall we best levy them?

Professor Gottlieb has, I believe, understated seriously the relative importance of property taxation. If the tax penalty amounts to 50% of the cost of a new industrial or commercial building, it is quantitatively more important than the small write-down of land cost accomplished by the Milwaukee land bank, which Professor Gottlieb favors. And if 50% of the cost of the new building is not important, then it would also seem to follow that 100% of the cost is not very important either, and no plant should stint on floor space. No firm would be kept from expanding by lack of capital for plant, and other absurdities.

Professor Gottlieb relies on what he calls "our best information." Who is to say what is best, especially without specific references? Hoover and Vernon find industry in New York and New Jersey to be in locations "consistent with their tax interests".* We see Cutler-Hammer building a new headquarters in Milwaukee when it could get a tax freeze, and moving another plant to Kentucky when it received more public favors. We see industries clustering in low tax industrial enclaves -- why if not for tax reasons? It is also worth mentioning that many studies presently relied upon were made a few years ago at tax rates much lower than now prevail.

As to short time perspectives, if Professor Gottlieb's point is correct, it tends to magnify the deterrent effect of building taxation, since building taxes are highest in the youth of a building and lower in later years.

c. The tax-illusion argument is a variant of the "irrationality" argument which debaters generally fall back on when the rational arguments are against them. But insofar as it has validity, it could cut either way. The tax-illusion could as well be larger as smaller than the real tax. Hoover and Vernon are again worth citing. "The business . . . reacts somewhat differently to the subject of taxes than he does to business costs . . . taxes conjure up ideological and political images . . . a measure of the community's responsiveness to business." (page 51.)

Obviously we are all usually inaccurate judges of our own best interest, but as a first approximation to economic analysis, we should compute a correct evaluation. The fact that we suffer from illusions is no reason to ignore actual costs and revenues, especially in a selective way.

*Anatomy of a Metropolis, p. 55.

As to the uncertainty of future taxes, that is clearly a worsening of the deterrent effect on improvement unless we assume a widespread preference for gambling on fiscal uncertainty.

d. The proposed statistical text is obviously beyond the resources of the present exchange. We may cite several cities, however, with exceptionally high rates and stagnant building: Newark, Jersey City and Boston, for example. The only new building in Boston for decades has occurred under a negotiated assessment freeze.

More generally, the flight of capital from older central cities to suburbs and industrial tax havens and to the newer areas of the west and south is clearly a move in the general direction of lower property tax rates.

e. Well, all right, how does it?

f. The appraisal of land under standing improvements is based on: 1) sales of vacant land plus sales on the eve of demolition -- comprising some 10% of all sales now and a higher percentage if buildings were exempted as proposed and renewal thereby accelerated. Higher land taxes would also tend to increase the liquidity of the land market and increase turnover. 2) "Model-building" after imaginary demolition. This is not done solely or even primarily by assessors but by planners and appraisers for a variety of purposes. 3) Ground rents -- most people are not aware how many buildings in the CBD are built on other people's land under long-term lease. 4) Spatial interpolation -- something impossible with buildings. Land value maps or "cadasters" are common and easy to construct on a contour basis because of the essential continuity of influence on neighboring parcels. But can you imagine such a map of building values where each parcel is a separate appraisal problem? 5) Experience tables correcting for depth and shape and position in blocks. 6) Density factors and traffic counts. 7) Zoning. 8) Access to transportation and utilities. 9) Distance from foci of values. 10) Access to schools. 11) Site amenities.

Supplemental market information may be had from known bid and ask prices. I also recommend that a sort of dutch auction mechanism be created for public posting and recording of asking prices and bid prices (accompanied by earnest). This would both help assessment and help the market work better, especially in cases of bilateral monopoly which characterizes most land assembly. Unreasonably low bids would strengthen sellers by tending to lower their assessments. Unreasonably high asking prices would work the reverse.

Professor Gottlieb's interesting concept of pooling land and building assessment to offset errors proceeds from a postulate generally contrary to fact, that the two are separately assessed

and then added. That is only true, even approximately, in a homogeneous new area like Bayside. Most buildings cannot be assessed separately, but their value must be determined residually by assessing the package and subtracting the land value. That is because most houses after a few years become obsolete and mismatched to their sites and have no separate identity. The land underneath always retains a salvage or reuse value which the building lacks and may therefore be appraised independently.

Since the building value is only determined as a residual, it does not furnish an independent datum which would be necessary for Professor Gottlieb's statistical principle to hold.

g. Professor Gottlieb raises an interesting question which I will discuss; but first, it should be noted that his analysis is premised on a technical error, to wit that vacant land as such would necessarily suffer a decline in value because its taxes would go up. Land values do not depend on the standing improvement or the lack of same. Land value depends on the highest potential for future use. Exempting buildings from property taxes would redistribute land values by changing that potential. Lands with a potential for above-average intensive use now blocked or penalized by building taxation would gain value even if now vacant. Lands best suited for extensive use would lose value even if now improved. Lands that typically would gain value are those suited for high-rise construction and intensive industrial development.

To the extent that some lands would lose value and some would gain, the land value tax system contains a built-in agent of equity: the gainers would pay more taxes, the losers would pay less.

Every change in public policy has some redistributive effects and the conclusion of Professor Gottlieb's defense of vested interests is that all public policies must be frozen permanently. That is, if once the oilmen or the dairymen or the medical men get their foot in the door and legislate themselves a privilege, then we are stuck with it for all time to come. That is an assumption of perfect pre-existing social equity that has no historical basis.

In 1940 a large share of urban American land had no market value. It was abandoned for taxes. Since then it has been permissible to pursue policies that revalued it to present level. That was a redistributive thing too. Remember, if someone gets something for nothing, other people are getting nothing for something. Does ethics oblige us to tie our hands and declare that the private receipt of this public largesse is immune from taxation?

Coupled with the initial assumption of full employment, Professor Gottlieb's assumption here of distributive equity comprises

a contentment with the status quo that would be hard to duplicate on the midway or in the shadows of Beverly Hills or Monticello.

If as Professor Gottlieb says there exists a large excess capacity in vacant land, is it reasonable to ask society to assume the obligation to maintain these values at levels higher than consumer demand will sustain in a free market? That is putting property values, even fictitious ones, ahead of some very real human values. It is denying the vested interest that we all have in an economy that works as efficiently as the ingenuity of economists can make possible.

Again, if this excess capacity prevails, can present prices be sustained anyway? It is only a question of time before the pressure of foregone gain (or imputed interest) forces enough land on the market to turn it downwards. The history of land values is one of violent high-amplitude low-frequency cycles without help from the proposed exemption of building. It is hard to find here any vested interest that society is obliged to underwrite.

h. This argument also contains a technical error. Although it is true that the proposed tax change would probably reduce the total demand for land, it is not by making taxes less neutral but by making them more neutral.

The private cost of holding title to land would remain essentially unchanged. It is a matter of substituting a tax payment for an interest payment (or implicit imputation).

The private cost of holding title is $v(i+t)$ where v is land value, i is interest rate, and t is tax rate. But land value $= a / (i + t)$, where a is ground rent. Therefore, the annual individual cost of holding land title is simply equal to a , the ground rent, at any tax rate from zero to infinity. By this simple mechanism, the land tax is a perfectly neutral tax. That is the theory of tax capitalization, unfortunately little understood.

It is not, therefore, the positive public act of taxing land values that "forces" higher intensity. It is the neutral public act of exempting buildings that allows consumer preference to hold sway and will certainly result in more intensive land use in preferred areas than prevails today.

I have overstated the "neutrality" of the land tax by assuming implicitly perfect markets. The land tax in fact does have positive effects, but they are generally of the nature of making the market work better to reflect consumer preferences more accurately. That is a good subject to expand at the proposed departmental seminar.

October 30, 1964

MEMORANDUM

TO: Members of the Economics Seminar

FROM: Manuel Gottlieb

Subject: "Property Taxes and the Frequency of Urban Renewal"

The current discussion between Dr. Gaffney and myself confirms again the remark of Francis Edgeworth that "the rating of urban land values is a suitable subject to bring before students of economics because it exercises that faculty of abstract reasoning which is characteristic of political economy as distinguished from Political Science in general" (Papers, II, 227).

Since this subject will now be pursued in the give-and-take of a seminar session, further discussion of the issues in debate can be deferred for that session. I should like in this communication to clear the way for that discussion by further clarification of a few points relative to my own position.

a. Full Employment Assumption. I did not argue that full employment obtains now or in the past but merely that it is convenient and useful -- for reasons that I shall elaborate upon later -- to abstract from aggregative employment effects while considering other effects of the conversion of the local property tax into a site value tax.

b. Importance of Property taxes on Business Investment. Dr. Gaffney writes: "if this point is relevant at all, it is only re industry and commerce." It was expressly addressed to the case of industry and commerce. He also writes: "it is essentially an irrelevance since the subject is not the general one of attracting

industry, but the subject is property taxation." My point concerned the importance of property taxes in the profitability projection involved in business decisions to invest not where the investment would be located. My comments like his paper was concerned with the effects of an altered system of property taxation for an entire economy and not for a particular local area.

c. Best Information on Investment Spending. References to "our best information" regarding the important factors in business investment can be found in the works dealing with that subject. A guide to the recent literature may be found in the Meyer and Kuhn book, The Investment Decision (1959) and in the recent sessions of the American Economics Review Proceedings dealing with investment activity (May 1962, pp. 190-228, and May 1963, pp. 237-274).

d. Statistical Test. Professor Gaffney writes: "The proposed statistical test is obviously beyond the resources of the present exchange." Of course, I was aware that carrying through of the test would involve a formidable research effort which I hope somebody will tackle.

e. Appraisal Error. Professor Gaffney writes that "Professor Gottlieb's interesting concept of pooling land and building assessment to offset errors proceeds from a postulate generally contrary to fact, that the two are separately assessed and then added." I do not see that my argument that the probability of error in appraised over true value in the built-up portions of a city is greater for the land than for the improvement component hinges in any way upon the so-called "postulate" which, by the way, is one of the appraisal methods found in wide practical use.

f. Effect of Site Taxation on the Value of Vacant Lands.

Professor Gaffney believes my analysis of equity effects is "premised on a technical error" to wit that "vacant land as such would necessarily suffer a decline in value because its taxes would go up." That would involve not a technical but a substantive error for given the necessary simplicity of assumptions, economists could err in estimating the direction of the price movement of a taxed item only through an analysis that was substantively unsound.

g. Distributive equity. My argument does not presuppose that distributive equity prevails generally and hence does not rest upon a "contentment with the status quo that would be hard to duplicate on the midway or in the shadows of Beverly Hills or Monticello." I merely presuppose that investors who now hold property with a land/improvement ratio less than the average are not morally suspect and derelict or worthy of expropriation in whole or in part. I likewise hold that investors who now hold real property with a land/improvement ratio greater than the average are not worthier or deserving of public largesse. I likewise do not hold that private property in land is unworthy or morally suspect.

h. Present Amounts of Vacant Land. Professor Gaffney imputes to me the belief that "there exists a large excess capacity in vacant land." I called attention to the relatively large stock of vacant lots, around 13.7 million, in the country. I did not, nor would I, characterize this stock as "excess." For reasons that I will expound upon later, freedom of choice in the land and realty market requires a substantial supply of vacant lots to be on hand at all times, and it is a moot issue whether and to what degree that supply is now "excessive."

h. Permanence of policies and vested interests. My argument does not presuppose that public policy with regard to any "vested interest" must be "frozen permanently." My argument is concerned with the adequacy of the grounds for transferring wealth between groups in the manner and on the scale involved in the proposal under discussion.

i. I fail to see the "technical error" alleged to exist in my analysis of "allocation effects" (paragraph h of my memorandum). But I do see a striking "technical error" in a theory of tax capitalization, "unfortunately little understood", which reaches the result that "the annual individual cost of holding land title is simply equal to the ground rent at any tax rate from zero to infinity." We shall expound upon this subject at the coming meeting.

j. To facilitate oral discussion, I am attaching herewith certain excerpts from a few related writings on the subject.

Excerpts

Edgeworth, Papers, II, pp. 192-3. "But even the landlord of urban sites is in the concrete not perfectly inert. The 'master's eye' produces some of its proverbial effect. If he has not supplied sewers and roads, at least he has supervised the arrangement of streets and type of houses so as to render the neighbourhood attractive. That the labour of supervision may fall upon an agent does not affect the productional aspect of this consideration."

Edgeworth, Papers, II, pp. 213-4. "The writer holds no brief for urban landlords. He has impartially pronounced against them upon several counts. He has disputed the favourite argument that they have been already rated in that their rents are by so much less than they would have been if the rates had not existed. He would go so far as to allow that, even if it were true that the landlords had paid the rates out of unearned increase in the past, it might nevertheless be reasonable to rate unearned increase in the future. He has met the recherche objection that a special rate on ground rent would be nugatory, since the landlord would be compensated by the increased demand on the part of occupiers. He has fully accepted Mill's doctrine on the taxation of 'future unearned increment' of rent. He has admitted that the industry of which house-accommodation is the product presents something peculiar and exceptional in the long incorporation of land with labour, in virtue of which an impost on the profits of the producers might have less than its usual effect on the interests of the consumers. He regards it as conceivable that a greater than Mill might succeed in demarcating some portion of the gains of middlemen in this industry as par excellence 'unearned,' so different in kind from the ordinary blends of work and luck as to become the object of a specially heavy impost without detriment to the quantity of production or the equality of distribution. But this problem which Mill did not attempt has not been solved by his successors. In a matter so complex and momentous it may reasonably be demanded that action should not be taken until a scheme is forthcoming which shall stand the test of abstract general reasoning as well as Mill's scheme."

North Central Regional Research Publication, Research Bulletin 810, V. L. Hurlburt, "Rent Determination within the Farm Firm," pp. 12-13. "Valuation of buildings to determine annual cost has no knotty theory aspects. There are difficulties of judgment, decisions as to rate of depreciation, and the necessity of distinguishing between depreciation, annual upkeep, and improvement costs. There is necessity for handling the problem of valuation of the residence (a consumption good) separately from the production factors. Further, one can note the necessity of valuation in terms of the farm as a firm -- the value in this given business -- rather than value in some other firm. Here, part of the problem of valuation is tied up with the problems of allocating resources between firms. For example, a machine shed and shop that is suitable for combination with a 1000 acre spread is decidedly underutilized if combined with other resources on a 100-acre spread; and the owner of such

building cannot expect the 1000 acre valuation to apply in the 100-acre unit.

There is no point in arguing as to which of the factors has the least perfect market; but the contrast between markets for most of the fixed inputs and markets for the variable inputs is at least to be mentioned. The land market stands out noticeably as one characterized by relatively low rate of turnover, lack of standardization and gradation, buyer and seller familiarity with mainly local conditions, overlapping of lack of recognized market areas, and the almost universal tendency of packaged deals -- that is, with farms sold as units combining land and other factors."

Marshall, Principles of Economics. "It has been argued in Book V that the rent of land is no unique fact, but simply the chief species of a large genus of economic phenomena; and that the theory of the rent of land is no isolated economic doctrine, but merely one of the chief applications of a particular corollary from the general theory of demand and supply; that there is a continuous gradation from the true rent of those free gifts which have been appropriated by man, through the income derived from permanent improvements of the soil, to those yielded by farm and factory buildings, steam-engines and less durable goods"[p. 629].

"We have seen that the incidence of a new local tax on printing would differ from that of a national tax mainly by causing such parts of the local printing industry as could conveniently migrate beyond the boundaries of the local tax to do so. Those customers who needed their printing to be done in the locality would pay rather higher for it. Compositors would migrate till only enough remained to find employment locally at about the same wages as before; and some printing offices would be transferred to other industries. The incidence of general local rates on immovable property follows different lines in some respects. The power of migration beyond the boundaries of the rates is a very important factor here, as in the case of a local tax on printing. But of perhaps even greater importance is the fact that a large part of the local rates is spent in ways that conduce directly to the comfort of those very residents and workers in the locality, who might otherwise be driven away. Here two technical terms are needed. Onerous rates are those which yield no compensating benefit to the persons who pay them. An extreme case is that of rates devoted to paying interest on a loan incurred by a municipality for an enterprise which failed and has been abandoned. A more representative case is that of a poor-rate levied mainly from the well-to-do. Onerous rates tend of course to drive away those persons on whom they would fall.

On the other hand beneficial or remunerative rates are those spent on lighting, draining, and other purposes; so as to supply the people who pay the rates with certain necessities, comforts and luxuries of life, which can be provided by the local authority more cheaply than in any other way. Such rates, ably and honestly administered, may confer a net benefit on those who pay them; and an increase in them may attract population and industry instead of

repelling it. Of course a rate may be onerous to one class of the population and beneficial to another. A high rate spent on providing good primary and secondary schools may attract artisan residents, while repelling the well-to-do. 'Services which are preponderantly National in character' are 'generally onerous'; while 'those which are preponderantly Local in character generally confer upon rate-payers a direct and peculiar benefit more or less commensurate with the burden'." [Appendix G, p. 794]

"... the ground rent which a builder is willing to pay for any site is governed by his estimate of the additional value which that site will give to the buildings erected on it." [p. 796]

"Therefore onerous taxes on site values tend to be deducted from the rental which the owner, or lessee receives; and they are accordingly deducted, insofar as they can be foreseen, from the ground rent which a builder, or anyone else, is willing to pay for a building lease. Such local rates as are remunerative, are in the long run paid by the occupier, but are no real burden to him." [p. 797]

"The principle which lies at the base of this scheme is capable of larger application; and something may be said as to one suggestion of an extreme character, which has recently attracted some attention, to the effect that in future rates should be assessed mainly or even wholly on site values, with little or no reference to the value of the buildings. Its immediate effect would be an addition to the value of some properties at the expense of others. In particular it would raise the value of high and expensive buildings in districts in which the rates were heavy, even more than those in which they were low; because it would afford relief from a greater burden. But it would lower the value of low obsolete buildings on large sites in heavily rated districts. After a time, the amount of building put upon a site would vary generally, subject to the bylaws, with its advantages of situation; instead of as now partly in proportion to these advantages, and partly inversely as the rates. This would increase concentration and tend to raise gross site values in advantageous districts; but it would also increase the aggregate expenditure from the rates; and, as this would fall on site values, the net site values might be very low. Whether on the whole the concentration of population would be increased, it is difficult to say; for the most active building would probably be in the suburbs, where vacant land no longer escaped heavy rating. Much would depend on the building bylaws; the concentration might be much lessened by a rigorous rule that there would be a large free space at the back as well as in front of all high buildings." [p. 800]

"Caution is necessary. But the cause of high site values is that concentration of population, which is threatening a scarcity of fresh air and light and playroom so grievous as to lower the vigour and the joyousness of the rising generation." [p. 803]

Pigou, A Study in Public Finance, pp. 152-3. "In view of the excellence of a tax on the public value of land from the standpoint of announcement we should plainly need proof that, taken all in all, it was abnormally bad distributionally before being justified in rejecting its claims to a place in the tax system. If it were proposed to put a very high rate of duty upon the annual -- still more upon the capitalised -- public value of land, owners of valuable sites would, indeed, have ground for complaint that gross discrimination was being practised as between them and other equally wealthy persons. Even with a fairly low rate of tax the discrimination may be considerably more important than it is at all likely to be in the case of, say, a tea tax; because some persons draw a proportion of their income from true rents larger than the proportion of their income that any persons spend on tea. Moreover, taxes on true rents, if imposed with an expectation of continuance, are apt to become amortised: that is to say, the present owners of land, should they wish to sell their property, are forced to accept a purchase price reduced by the discounted value of the future annual imposts. When this happens they are hit, pro tanto, with greater severity. This is a sound reason against imposing very high rates of tax on true rents. It is of little weight, however, against low or moderate rates; for, after all, every single tax taken by itself is bound to be in some degree unfair between individuals. On the whole, therefore, I conclude that, in any tax system which relies on a number of different imposts, there is a strong case for including among the rest a moderate tax assessed at a moderate percentage upon the (annual) public value of land."

Taussig, Principles of Economics, 4th edition, p. 147. "Periodic valuation is not impracticable; but it is extremely complex and expensive. Indeed so expensive is it that this alone is a forbidding obstacle; the cost of ascertaining the increment may easily be greater than the revenue secured. Only if a valuation of sites is undertaken in any case for other tax purposes (the ordinary taxes on real property), and if continuing records are thus available, is there likelihood that a substantial net revenue will be secured. It would carry us too far afield to enter on a discussion of the administrative and political questions that must arise; the control of valuations, the rights of revision and appeal, the friction between local and central authorities. No doubt difficulties of this type are often exaggerated. They are made much of by those who at heart oppose all change and turn to any and every pretext for justifying their opposition. On the other hand, ardent reformers often fail to face squarely the problems involved in the legislative formulation of their proposals. No final judgment can be rendered on any scheme until it is seen what it is like in the form of a carefully drafted bill or statute."