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Article citation:
Gaffney, Mason. “Tax Limitation: Proposition 13 and its Alternatives.” 24 August 1978. Draft.

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DRAFT for distribution to a meeting at The Center for the Study of Democratic Institutions on August 24, 1978

TAX LIMITATION: PROPOSITION 13 AND ITS ALTERNATIVES

by Mason Gaffney

What is the "message of Prop. 13?" Everyone is invoking it this summer to fill his sails, but what was really blowing in the wind?

Howard Jarvis had been fighting property taxation for a score of years with minimal success. Philip Watson, until recently more prominent, led two property tax limitation initiatives to defeat. All these prior efforts were tax shifts, not tax limitations. Prop. 13 answers the same description in fact because, although it limits property taxes severely, it places only frail and specious limitations on state sales and especially income taxes. California's graduated income tax rate structure is not indexed so that it automatically takes a bigger share each year with inflation. But, those are only facts, and this is California. The image of Prop. 13 was that of overall tax limitation, and there may lie the difference.

This time around Howard Jarvis allied with a band of ideologues, represented by Paul Gann, who favor overall tax limitation. He seems to have taken them into camp. Professor Arthur Laffer supported Prop. 13 with these words, "I feel equivalent reductions in either income or sales taxes would be markedly preferable." "...An optimal tax structure for California should most likely include higher taxes on property than on income or sales. To me, the need for income and sales tax relief is of higher economic priority than property tax relief." (Source: "Revitalizing California's Economy." Paid for by the United Organization of Taxpayers Inc., 6431 West 5th Street, Los Angeles, California 90048, Howard Jarvis, State Chairman) Milton Friedman, editorializing in Newsweek, said, "The property tax is far from the worst tax."

Howard Jarvis himself in his many public statements conspicuously avoided much discussing Prop. 13 itself. His primary attack was against waste in government. He attacked symbolic and perhaps mythical waste: long black limousines, Congressman's salaries, teachers' meetings and coffee breaks. I never heard him criticize any specific program (except the racially symbolic issues of busing and abortion). Thus he managed to work the act of the legendary congressman who stayed in office for twenty-five years by never voting in favor of a tax bill, or against any appropriation.

In this he was aided, of course, by the enormous State surplus which the Governor had unwisely accumulated and, for his own reasons concealed; but which Mr. Jarvis, to his credit, divined. This let Jarvis play Santa Claus, promising the voters a free lunch: reduced taxes without reduced services. New York City politicians had done the same thing by going into debt, and the logical difference between going into debt and using up a surplus is not mathematically very significant. Still, it was enough to win the backing of many good Chicago School economists whose shibboleth is TANSTAAFL (There ain't no such thing as a free lunch). That is why the "message of Prop. 13" is so different from the text, so confused and ambiguous. Prop. 13 was sold by talking about other issues and making promises that have not or won't or can't come true. Here is a short list of Mr. Jarvis' firm affirmations.

- Public Schools have the first call on State revenues. It turned out to be the police and fire departments.

- Reduced taxes would be passed through in lower rents. It is to laugh -- it hurts too much to cry.

- Building and business would boom. This belief seems to have overstated the level of property tax rates in the State and also to ignore the existence of several public service bottlenecks as, for example, sewer capacity. It ignored the impact of reduced property tax revenues on the exclusionary motives of local zoning boards.

- Housing was to become cheaper.

- Everything was to become cheaper because property taxes were believed to be borne 100% by consumers. "Not one nickel," said Mr. Jarvis, "is paid by the owner of business property."

- Howard Jarvis would begin a new initiative against sales and income taxation. Now he is going national instead while Paul Gann carries this burden. His national crusade is against capital gains taxes, and property taxes in other states.

- The power of State politicians and bureaucrats would be reduced. In fact, of course, it is increased because of increased State subventions to local government with many strings attached.

- People who bought real estate between 1975-1976 and 1978-1979 would have their assessments rolled back to 1975-1976.

- It would not be a tax shift but a tax reduction. In fact, the unindexed income tax keeps rising automatically with inflation with no legislation required. In addition, there has been a large increase in municipal service charges.

I conclude from all this that shifting the tax burden from property to other tax bases is not by itself a viable issue. It has a definite constituency, of whom Professor Neil Jacoby seems to be a type, but in order to go over the top it had to be diluted and disguised. Philip Watson, who lost when he did not disguise this proposal, calls Howard Jarvis a "demagogue." It seems to be a tribute from the purist who lost to the opportunist who won.

Looking at the whole nation, the California phenomenon has been seriously overpublicized, partly because it is California and partly because Howard Jarvis is typo-genic, like Huey Long. But, in other states we see more balanced tax limitation proposals and legislation, as in Tennessee and Colorado whose spending limitations are by no means rifled against the property tax or against local government. Another special factor in California is the high percentage of retirees. Yet, even Florida, another haven of geriatric ghettos, has not thus far, lined up the Jarvis camp.

One theory is that California's legislature was derelict in failing to provide timely and adequate property tax relief along more selective and

defensible lines. That may be, but let us survey the adjustments that California had already made.

a. California had increased other taxes a great deal, notably the graduated income tax. In the last 8 years the percentage of state and local revenues secured from taxes on property had dropped from 38% down to 34%. If we go farther back this merely continued what has been a secular trend dating from the nineteenth century when property taxes comprised some 90% of the total. Furthermore, there is no a priori reason why property tax "relief" should be welcome when the price has to be income tax aggravation.

b. The property tax rate in California is only moderate by national standards. It stands at around 2%, give or take some margin of error. That is below Massachusetts and New Jersey and Wisconsin for example. It is higher than Alabama and Georgia. It is pretty close to the national mean. But, 2% is simply the official statistic. My personal observation as a buyer of income properties in and around Riverside, California, is that the actual rate is nearer 1%. Only in some areas has the assessor brought values up-to-date. Most real estate has been unreassessed in this rising market and, therefore, taxed at substantially less than 2% of current market value.

c. The Reagan-Moretti bill placed a 6% annual limitation on increases of school levies.

d. The property tax rate is virtually frozen for purposes other than schools (although assessed values are not).

e. A two-thirds majority is required to approve general obligation bonds.

f. There is an owner exemption of $7,000.00 on the market value of homesteads.

g. There is a circuit breaker for old folks over 62.

h. There is a deferment option for the elderly, bearing only 7% interest (which is about the annual rate of inflation). In California, as also in Oregon and British Columbia, hardly anyone takes advantage of this deferment option. This fact, it seems to me, rather calls the bluff of those who so freely allege that the woods are full of widows with insoluble cash flow problems who are losing their houses to the sheriff and whose heirs presumptive will not help keep the property which they are to inherit.

i. There are several laws granting preferential assessment to alleged farmland, timber land, golf courses, and so on.

j. Personal property is half exempt and was scheduled to become completely so, subject to the defeat of Prop. 13.

Along the line of modern amendments to the property tax, about all that California lacked was a circuit breaker for those under 62. One could argue the position, as the California Tax Reform Association does, that a general circuit breaker would have made all the difference. But, one could equally argue that there were already too many loopholes and preferences so that homeowners were rebelling against paying the freight for timber owners, farmers, land speculators, the Irvine Estate, lessees on federal lands, and many others.

In spite of California's moderate property tax rate, the share of California revenues from property is above the national averages. What accounts for this anomaly? It is that the value of property per capita in California is way above the national average. The high price of California residences is well known and, of course, its current skyrocketing increase is a modern legend. But, owner-occupied homes constitute only about one-third of the property tax base in California. One could not establish an argument that California homeowners were carrying the rest of the state, not at least by means of property tax payments (homeowners pay much higher shares of the state income and sales taxes than they do of the property tax).

In spite of all that, it is still possible that for unworthy rhetorical purposes and emotional reasons the property tax might fare better politically with a low preferential rate for homes as under Minnesota's classified tax; or with generous homestead exemptions as in some southeastern states. That would, however, be an exercise in the politics of symbolism, deception and imagery. The factual economic grounds are not convincing.

What, then, is the way to go for men and women of good will who see some merit in having property contribute to public revenues? I have a number of suggestions.

a. First, we should stop maligning the property tax. We have the curious spectacle of George McGovern, Jerry Wurf, Senator Petris of California and his California Tax Reform Association, and others along the ADA position who tell us the property tax is a bad, regressive tax and then react with dismay when the voters throw the tax out under right-wing leadership. I find their position 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 the voters are in a mood to lower any tax whose support slackens, the ADA 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 finance.

b. We need to marshal the arguments in favor of the property tax, something that hardly anyone has done for years. Here are a few.

1. We hear a lot these days about cutting fat out of the public sector, but there is fat in the private sector too. "Fat" I interpret to mean paying someone for doing nothing, or nothing useful. Most economists agree that paying people for holding title to land is a nonfunctional income, since the land was created by nature, secured by the nation's armed forces, improved by public spending, and enhanced by the progress of society. "Economic rent" is the economist's term, but in Jarvis-talk we may call it the fat of the land or

"land-fat." It has also been called unearned increment, unjust enrichment, and other unflattering names. 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 from, let us say, Anaheim to Riverside, and carries water from the Feather River to San Diego, is the first in the trough, although the nineteenth century English economists who worked this out were more decorous and said things like "landlords grow rich in their sleep" (J. S. Mill), or the value of land is a "public value" (Alfred Marshall) because the public, not the owner, gives it value.

Some 43% of the value of taxable real estate in California is land value. When we lower the property tax we are not only untaxing buildings, but also land-fat.

Professor Neil Jacoby, in an article circulated by the Jarvis committee, says that most economists feel the property tax is overworked and as his authority cites an article by Dick Netzer. Here is Netzer's conclusion: "...my ideal system of local finance would comprise user charges and land value taxation, period." (Dick Netzer, "Is There Too Much Reliance on the Local Property Tax?" in George Peterson (ed.) PROPERTY TAX REFORM (Washington: The Urban Inst., and The Lincoln Inst., 1973)). I will later agree with Netzer (and, I presume, Jacoby) that this could be a viable way to lower property taxes -- that is, instead of reducing the rate, exempt the buildings.

2. The ownership of property is highly concentrated, much more so than the receipt of income. Economists in recent years are increasingly saying that the property tax is after all progressive because the base is so concentrated, and because so little of it can be shifted. Only this message has yet to reach many traditional political action groups who continue to repeat the old refrains. As to this, two remedies are in order. One is to collect and publish data on the concentration of ownership of real estate. The facts are simply overwhelming

and need only to be disseminated. The second remedy is to note how strikingly little of the Proposition 13 dividend is being passed on to renters. This corroborates the belief of economists that the property tax mainly rests on the property owner where it originally falls.

3. A high percentage of the property tax base consists of land. In California, as mentioned, it is about 43%. There is a common belief that the land percentage is higher in rural areas but I do not believe the facts support this. In British Columbia I had an opportunity to run an analysis of the entire provincial property tax roll which happened all to be on tape and in one place. The land percentage was well over 50% in Vancouver and ever so much lower in the smaller, rural municipalities and regional districts as they call them up there. The land share in each local district was higher in "commerce" than "farming"; and higher in large farms than small.

The whole farm-city antithesis is a red herring. Rural land and urban land are both heterogeneous and the differences within these classes are much greater than the differences between them. The point is that in farming as in every other industry some people grabbed off the best resources and others are stuck with the leavings. The property tax on land operates to even things out.

4. A high percentage of real property is owned from out of state and even out of the country. The percentage is much higher than you probably think. It is not just the Arabs of Beverly Hills and the Japanese Banks. It is corporate-held property which comprises almost half the real estate tax base. If we assume that California's share of the stockholders equals California's share of the national population, then 90% of this property is absentee owned, and the percentage may be higher because many of these, after all, are multi-national corporations with multi-national ownership.

The "No on 13" leadership failed to capitalize on this point. Governor Brown was the leader -- (remember?) -- and he talked about "business" securing the lion's share of benefits, but most voters are not so dumb as just to be against "business" indiscriminately. It depends on whose business, and what business.

Professor Don Shoup has remarked that the ideal taxpayer is, from the politician's viewpoint, a nonvoting alien living overseas. But no one seems to have seized on the fact that half the taxable property in California is owned by people not voting in the state. Senator Russell Long has suggested the following principle of taxation, "Don't tax you, don't tax me, tax that man behind the tree." Property tax advocates have done well in the past and should do well again in the future when they make their slogan, "Don't tax you, don't tax me, tax that unregistered absentee. Don't tax your voters, they'll retaliate; tax those stiffs from out of state." Now chauvinism and localism can be ugly and counterproductive as we know, but here is one instance where they may be harnessed to help create a more healthy society. The purpose of democracy is to represent the electorate and not the absentee who stands between the resident and the resources of his homeland.

The Legislative Analyst, Mr. Hamm, estimates that over 50% of the value of taxable property in California is absentee owned. This is such a bold, bare enormous fact it is hard to believe the voters of any state will long resist the urge to levy taxes on all this foreign wealth. They may be put off by the argument that they need to attract outside capital, but that carries no weight against the large percentage of this property which is land value.

Some half of any reduction in California property taxes leaks out of state to outstate owners. This is not the only leakage, either. Net federal income tax payments will rise by $1.5 billion, until other deductible taxes rise to replace lost property taxes. Matching grants from the federal government will decline, as will maintenance-of-effort grants. So great is the complexity of federal programs that no man dares estimate the amount of loss, but it will be substantial. Sales of local general obligation bonds have stopped and will stay stopped. When revenue bonds are sold instead, the interest rates are higher. Fire insurance rates must rise. And private spending substituted for public spending will have a higher propensity to import.

This substantial leakage of economic base will result in multiple declines in state income. In the short run this has been forestalled by distribution

of the state's surplus. In the long run Jarvisites have promised an inflow of investment attracted by the drop in property tax rate. I do not foresee this myself for at least two reasons. One is that California's property tax rate has not been high enough so that even the substantial cut of Prop. 13 will make much difference to incentives. Furthermore, the structure of Prop. 13 is such that the major cuts go to property already here. New investment, on the other hand, is to be assessed at its current value and to pay the maximum in property taxes. To attract new investment California would have to assess land higher and new improvements lower. Prop. 13 does the opposite. It is not designed to attract new investors, but to cut a melon for the old.

My second reason is that there are many infrastructure bottlenecks. This is ironic since California is badly oversupplied with some kinds of extravagant public works. Yet, in some jurisdictions sewer capacity is limiting. In others, new schools are required. Prop. 13 has utterly destroyed the general obligation bonding capacity of local governments in California. Even where local governments could eke out their operating costs through user charges and various state and federal grants, there will remain a bottleneck in financing capital outlays. New districts cannot have any tax base because it is all claimed up. It is an ill wind that blows no good and this may encourage better infilling of existing patchwork developments. However, reduced land taxes on speculative holdout landowners means that this process must necessarily be slow and painful to those who must buy the land.

On balance, then, it seems that California will suffer a substantial decline in its economic base which, in a few years, will either cause the state to sink into an Alabama-like desuetude, or else repeal Prop. 13.

5. Property income generally puts the receiver on a higher plane of welfare than the same income from wages or salaries because the property owner doesn't have to work for it. And yet, property income is virtually exempt from the sales tax. There is no sales tax on rentals and certainly none on the imputed income of owner-occupied real estate. As to income taxation, walk into any real

estate office with some spare cash and you will be advised that you need a good tax shelter, there is nothing like real estate income property which remains one of the great income tax loopholes. The property tax is all we have that moves in on this unpreempted tax base.

6. Property, particularly land, has been bought and sold for years on the understanding that it was encumbered with peculiar social obligations. These are part of our social contract in effect. They compensate those who have been left out. Black activists have laid great stress in recent years on the importance of getting a few people into medical and other professional schools. Does it not make more sense that the landless black people should have through the property tax the benefit of some equity in the nation's land from which their ancestors were excluded while others were cornering the supply?

A popular theme these last few years is that property owners should pay only for services to property, narrowly construed. But who, then, is to pay for welfare -- the cripples? And, who is to pay for schooling -- the children? Who should sacrifice for the blacks -- Alan Bakke? Who should finance our national defense -- unpaid conscripts? The whole concept that one privileged group of takers can exempt itself from the giving obligations of life rather denies that we are a society at all.

7. Howard Jarvis was fond of referring to the "dictator countries." Heavy property taxation leads us right into their pattern, he alleged. No one at all familiar with conditions in Guatemala, Nicaragua, Colombia, Peru, or Ecuador would give any credence to this peculiar reversal of truth. The fact is these countries have been dominated for centuries by oligarchies whose primary motive is to prevent any substantial taxation of their property. Indeed, to predict the long term effects of Prop. 13 we could do no better than study these "dictator countries," which have had Prop. 13 for most of their history.

Jarvis also stressed the importance of saving America from the "English disease," which he associated with high property taxes. Again, the association

was made without observing the actual situation. England has no property tax at all as we know it, but a system called "rates" which is based on imputed rental value of improved land and exempts vacant land altogether. There is an "English disease" all right, but it consists of extremely high income tax rates on wages and salaries. Property in England is treated more deferentially than in most other leading countries of the world, both under "rates" and the English income tax.†

8. We can ask that a single standard be applied to owners troubled by higher taxes and tenants troubled by higher rents. When widow A is in tax trouble it is time to turn on Hearts and Flowers, forebode darkly, curse oppressive government, and demand tax relief. When widow B has trouble with escalating rents, that touches a different button. You have to be realistic about welfare bums who play on your sympathy so they can tie up valuable property. You have to pay the bank, after all. A man will grit his teeth and do what he must: garnishee her welfare check. If it's too little, give notice. Finally, you could call the Sheriff. Go to the beach until it's over -- that's what we pay taxes for. Welfare is their problem.

Anyway, widow B is not being forced out of her own house, like widow A and so many like her. Jarvis said that taxes are forcing three million Californians from their homes this year. But in truth, evictions are frequent; Sheriff's sales are rare. Those who do sell "because of taxes" (they say) and all their other circumstances usually cash out handsomely which is, after all, why their taxes had gone up.

And yet, rather than needle people for hypocrisy we might better seize upon the kernel of truth in the puritan ethic underlying the double standard and turn it to a constructive end, a theme which I develop presently.

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†Jarvis's new national campaign is to make the U.S. income tax more like the English one by exempting capital gains. The dedication to unearned increment and concentrated wealth remains his trademark. If this be "populism," Wm. Jennings Bryan was a hard-money atheist. This is imported English disease, only lacking the redeeming graces of noblesse oblige.

c. Historical experience with assessment freezes such as proposed in Prop. 13 shows them to be a can of worms, just as bad as rent control. In the case of Prop. 13 it is worse because it now seems we will get both, the freeze having created a new demand for rent control. About 10 years ago, W.A.C. Bennett, the British Columbia Premier, slapped a 5% ceiling on annual increments to property assessments. In just a few years, this produced such glaring inequities and anomalies that British Columbia only last year moved manfully out from under it and went back to current market valuation. The experience and its failure is there for all to see. It is probable that in California under Prop. 13 in 10 years homeowners who now pay one third of the property tax will pay two thirds, owing to the higher turnover of owner-occupied homes than corporate lands. It is inevitable that the assessed value of land will fall relative to buildings because buildings must be replaced every few decades whereas land never must, or can be.

Then there is the fruit tree anomaly. Under Prop. 13, a tree can only be assessed at its value when planted, with a 2% annual increment. The value of a seed thrown in the ground or even a sapling planted from nursery stock is so small compared with the mature tree that this is virtual exemption. This anomaly rather graphically illustrates how Prop. 13 automatically favors any appreciating property over depreciating property. The greatest gain here goes, of course, to appreciating land.

The technical complications are endless; uniformity will be the victim. Property is to be reassessed when transferred. What happens if I own a one quarter undivided interest in real estate and sell it? What if I incorporate my real estate and sell shares to avoid being reassessed? You may be sure the lawyers are preparing many loopholes. Let us get the word to all the defenders of the market mechanism, the believers in neutrality and uniformity in taxation, many of whom were so prominent in support of Prop. 13. Is this the kind of tax system that free enterprisers believe will create an efficient allocation of resources? They owe us more consistency with their ideals and professions; or else the candor to say their allegiance is to wealth first, and efficiency when convenient.

d. Experience would suggest that property tax defenders had best promote stability of land values. In the 1930's we had property tax revolts because the value of property dropped so low. In 1978 we had a revolt because property values rose so high. For decades people put off tax reform saying it is all right to tax away the unearned increment of those who have owned property whose value rose, but it is wrong to raise taxes on people who have just bought at a high price. But then, when prices actually rose the winning theme was just the opposite. People whose property rose through no "fault" of their own should not be burdened with increased taxes. Many Californians like myself have made more money in the last two years from the increased value of their homes than they have working for a living. And yet, most of them turned angrily against the incumbents for a small increase in taxes that was asked in return. It reminds one of the sergeant's lament in the Second World War: "The trouble with youse guys, you never had it so good before."

What can a legislature do to stabilize soaring land values today? It can avoid policies which lock up valuable land in cold storage, policies like the Coastal Zone Commission Act, the Williamson Act, and the California Timber Preserve Zone Act (the last, little known, bases timber land assessments on their low use value growing timber rather than on their market value, often based on demand for recreation.) It can distribute state subventions in proportion to population strictly, thus discouraging exclusionary zoning policies. The social costs of these policies are high and there is no gratitude from the beneficiaries, the owners of enhanced land values. So avoid them.

e. Legislators should take pains to explain to their constituents how the property tax system works. As California moved towards partial compliance with the Serrano decision, something called "slippage" came into school finance as a partial move towards power equalization. It meant that in some school districts, as assessed values and taxes rose for schools, the voters could not see any comparable improvement in their schools because part of the added taxes were going elsewhere. This, in turn, made local school administrators look bad

and thrust on them the burden of explaining the system to a skeptical public. The California legislators, meanwhile, were too clubby, talking to each other. State officials developed an inside language of acronyms, abbreviations, and recondite terms. Voter alienation was the inevitable outcome.

f. Build no surpluses. Surpluses attract raiders and raiders are likely to be organized landowners. "Property never sleeps," said the jurist Blackstone, "one eye is always open." Even though the surplus was built up by taxing income, Howard Jarvis made it seem the most righteous thing in the world that it should be distributed to property owners. He was geared up for this because his landlord patrons kept him in the field constantly.

There, then, is a list of lessons that property tax supporters may learn from California's self-inflicted wound. But there is, I believe, an even deeper lesson to learn which is that there actually are some warts on the property tax, and we might make an even stronger case by reforming it in a constructive way. The property tax does penalize people for creating and importing capital. It does penalize people for improving their homes. It does slow down urban renewal. It does bias landowners against improving land to its highest and best use. But all these and other faults may be corrected simply by modifying the property tax base to exclude improvements and include only land value. Economists of many generations beginning before and with Adam Smith and continuing to the present, have preached on the advantages of land as a tax base. Let us enumerate a few.

A tax on land values is the only tax known to man which is both progressive and favorable to incentives. One can only wax lyrical about a tax that combines these two properties, because the conflict between progressivity and incentives has baffled tax practitioners for centuries to this day.

A land tax is progressive because the ownership of the base is highly concentrated, much more so than income and even more so than the ownership of machines and improvements; and, 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. Think about this. It is truly remarkable. With the land tax, there is no conflict but only harmony between progressivity in taxation and incentives to work and invest. It solves in one stroke one of the central divisive conflicts of all time.

It does that because it cuts only the fat, not the muscle. It takes from the taxpayer only economic rent, only the income he gets for doing nothing. If people could grasp this one overriding idea then the whole sterile, counter-productive, endless impasse between conservatives who favor incentives and liberals who favor welfare would be resolved in a trice, and we could get on to higher things.

The property tax levied on land values makes the landowner compensate the landless for their exclusion in three ways. First, the landowner supports government. Second, he has to use his land to produce goods and services for consumers. And, third, he has to offer jobs to workers to use his land. This combination seems hard on the property owner but, on the other hand, exempting improvements satisfies the need to reward people for saving and accumulating capital. Liberals may scoff at the latter, thus alienating potential friends. But this is both a cultural need and an economic need. It is a cultural need because of the puritan ethic. The elderly homeowner with a cash flow problem is seen as a sympathetic figure rather than a welfare bum because the possession of capital is the evidence of a good, responsible life. The person once had the self-denial to consume less than his income. It is an economic need because creating capital is functional, unlike collecting economic rent or land-fat.

The list of economists who see merit in this approach is several pages long. There is an extensive literature which I commend to your study with one warning that, whereas some of the later 19th century literature is Messianic, the modern scholastic style overreacts and is too timid or pedestrian sufficiently to signalize the remarkable qualities of a tax which is both progressive and favorable to incentives.

Let us, rather, look at some objections. A frequent one is that changing the tax system this way constitutes too great a shock or shift. In the present context, forget it. Prop. 13 constitutes a much more massive redistribution of wealth and the voters faced with this choice simple said "Whoopee!" The electorate is asking for big changes so let's not pretend that this is a barrier.

People have objected that exempting buildings would reduce the tax base. Again, in today's context, forget it. People are asking that the tax base be reduced. Public bodies may take comfort in the fact that the tax reduction caused by exempting buildings is much less than might at first appear because the exemption of buildings from tax is capitalized into higher land values. And there is no economic limit on how high the land tax rate may go, once the public accepts the system.

People have objected that it is too late to shift to the taxation of land values because people have bought at high prices and society owes them a return on this investment. In today's context, forget it. For one thing, we are talking here about exempting buildings not necessarily about increasing land taxes (although I personally favor that). For another thing, Prop. 13 was justified not for the sake of those who bought at high prices, but the reverse. It is deliberately rigged to impose higher assessments on recent purchasers than on ancient possessors. The voters did not require better treatment for recent buyers.

For yet another thing, most owners of unimproved land whose taxes would not fall, and might rise, can do something about it by subdividing or improving their land, without any resulting rise of taxes.

People used to object, and some still do, that farmers might be penalized. While in some rural states farmer power will not let us forget this, the argument has little real force. The main answer is to collect and acquaint oneself with the facts about ratios of land to improvements for various classes of property.

Both urban land and farmland are heterogeneous. As to land/capital ratios, the differences within these classes are much greater than the differences between them. Again, the farmland owner is quite likely to live in the city, and the banker or matinee idol is quite likely to own several farms, so the idea that we have a class of citizens called "farmers" who require special treatment is obsolete. The latest USDA estimate shows that "farmers" are now reporting nearly half again as much nonfarm income as farm income.

In my analysis of British Columbia assessed values I find that the ratio of land to building values is much higher in Vancouver than anywhere else in the province, and quite low in the rural areas. Within the Vancouver regional district the ratio of land to building is much higher for commercial land than for farmland. The ancient antipathy of "farmers" to land taxes is based on empty rhetoric, misinformation and confusion, not on fact.

A more substantial objection is that new developments may cost cities more to serve than they return in taxes. The property tax on buildings is viewed by many as a kind of user charge to compensate for the loads which new residents place on community services and facilities. To the extent that this approach has merit, however, a tax on the value of buildings is only the crudest surrogate for a user charge. Many fiscal deficit generators get in under this radar. Old decaying houses are the most obvious example. As to trailers and tract homes, one reason they may generate fiscal deficits is that the lucky landowner is allowed to walk off with most of the potential surplus in the absence of adequate land taxation. But, more generally there is a large and rapidly growing problem of local awareness of its fiscal bookkeeping, a problem which in my opinion can only be met by distributing state revenues on a per capita basis, regardless of the mode of property taxation.

Summing up, Walter Rybeck has sagely suggested that we distinguish two functions of business: wealth-creating and resource-holding. A good tax system will not make people pay for creating wealth but simply for holding resources.

Most taxes wait on a "taxable event" -- they shoot anything that moves, while sparing those who just sit still on their resources. If we really want to revive the work ethic and put the United States back on its feet we had better take steps to change the effect of taxes on incentives. Legislatures have gotten in the habit of acting as though persons with energy and talent and character for self-denial should be punished, as if for some prenatal crime against humanity. We cannot study the tax laws without inferring that Congress regards giving and receiving employment to be some kind of social evil, like liquor and tobacco, to be taxed and discouraged by all means not inconsistent with the rights of property. Little wonder the natives are getting restless. But if, instead, we learn to tax people for holding resources rather than creating wealth and serving each other's needs, we will make a giant step towards creating a good and healthy society.