



Property Taxation and Urban Renewal in Milwaukee

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10 July 1964
Mason Gaffney

Property Taxation and Urban Renewal in Milwaukee County
(transcribed from tape)

There will be a little propaganda passed out and I'll ask you all to put it in the proper sequence so that the shuffling of papers can take place now rather than later. Will you please put on top City of Milwaukee - Data - 1962, under that should come the one called Land and Building Taxes - Contrasts in Time Distribution. Underneath that should come the one called Determination of Ultimate Building Height, and I have a fourth one up here which I'm happy to pass out later to anyone who wishes a copy. It is data for Milwaukee County comparable to the data for the city.

The data on Milwaukee County which I have was gathered by me and the Tax Commissioner's office, thanks to the Urban Land Institute which helped to put this project on the road with a generous grant. I haven't put the name of the Urban Land Institute on this data because there's still some bugs in them and I know they wouldn't want their name put on anything that wasn't already to go. My name isn't on it either.

I am, as Harold has perhaps suggested, a college professor. John Heise used to define a college professor as a man who made a career of casting imitation pearls before genuine swine. That, is not of course, appropriate to the present circumstances so I don't feel quite at home. A college professor can be defined as a man who spends his life trying to put abstract ideas into concrete heads. That may be a little more appropriate to the present circumstances - all you hard headed practical people out there. I have a handle as a straight economist. I spent some years as an agricultural economist like Professor Clark. When I first entered that profession I felt perhaps I was losing caste so I went over to see my former colleagues in the department of economics to receive their assurance that I was still a member of the tribe and they allowed perhaps I was but with qualifications. And one of my new

colleagues in agricultural economics, thinking much faster than I, noted that it was much better to be a qualified economist than an unqualified one. I have now shifted back to the other kind and I am here before you as an unqualified economist. I got my handle from Berkeley whose colors I'm wearing this morning. I should apologize to you for this rather bizarre outfit brought on by an inaccurate forecast of the weather circulating in this group. Berkeley is a great storehouse of knowledge - that's because the professors bring so much - the graduates take so little away. I'm one of the graduates. I will seek to demonstrate this for you this morning. While doing my penance in graduate school at Berkeley, my mentors there were busily engraving a death certificate for the property tax. In digging the grave I might say with a great deal of relish. They were rather well along in this process when one of the grave diggers happened to look up from his work and noticed the corpse was eating a hearty breakfast and now as has been brought out in this conference those days are ancient history.

The property tax has become again large and is growing and it is destined probably to grow more so as our jurisdictions having lived on the expansion of death for many years find death service becoming a greater and greater burden and perhaps someday even death retirement. Who knows. Now part of this increase in tax revenue, of course, is supported by increase in property values both increased building and inflation, but it's also supported by an increase in rates. In Milwaukee our rate is now, our true rate, our true market value, is about 3%. In Newark, New Jersey, I understand it is 5%. And even in rural areas which have generally enjoyed lower real tax rates than urban areas, claims to be malapportionment of our state legislatures, the fact that they have been living on us city fellows, even in rural areas the rate is now in excess of 1% and is no doubt destined to go higher thanks to the activities of Mayor West and his cohorts.

And all these real rates may go higher yet, if we should suffer a serious decline in real estate values, which, of course, is substantially what is happening already in some of our older central cities, including Milwaukee.

At a 3% level which I will take as a typical base, the property tax is a consequential tax, we can no longer sluff it aside as a negligible thing. A 3% tax if we convert it, using some of the banker's formulas, if we convert it to a lump sum equivalent payable immediately, discounting future values at 5%, a 3% tax extended over a period of about 60 years, is equivalent to a 50% lump sum tax levied at the time a building is constructed. Let me repeat that. A 3% property tax, take the extreme of anticipated future tax payments, and convert them to a lump sum payable immediately is equivalent roughly to a 50% excise tax levied on a building at the time of construction. And that is quite a lump. 50% of the value of a new building - if the building is worth 10 times more than the site - is worth a good deal more than the site itself. Five times more using the 10 to one ratio. Such a level of taxation gives some new meaning to the old song of power of taxes, is the power to destroy. But there is something of a paradox here because in some areas the power of tax, seems to be the power to bring to life and these areas are the fringe areas where it is frequently alleged that the imposition of heavier taxes on property is causing ...development. The answer to this paradox I believe isn't whether there is taxes levied primarily on buildings or primarily on land. ^{In} The periferal areas it is the imposition of the heavy tax on basis of land values which is bringing to life.

I think it is safe to say that either the growth of the tax rate must be rolled back from its present levels or we are going to have to shift the property tax more and more from the base of buildings to the base of site values. I don't quite share Dean Woodruff's feeling that we can't increase the tax rate

5 or 6%. I don't think he really meant that to be taken literally anyway. When it gets up to that level if it's a tax on buildings it begins to become a tax to be paid out capital rather than out of income. It cannot continue very long.

Let's look a little closer at the proposal to modify the property tax base from the present conventional definition to a land value basis. You often hear it said that heavy taxes stifle enterprise. That, however, is a careless generalization. It's not the heaviness of the tax that stifles enterprise. What stifles enterprise is how the tax varies when the taxpayer acts enterprising. A lump sum tax, a tax that's levied on base regardless of what the owner does with it, can be a neutral tax. In some ways in respect to some incentives it's even better than a neutral tax because it adds considerable leverage. It is possible for this form of taxation as has been brought out by the people interested in exclusive zoning and that sort of thing. It is possible to tax land values to create development where it wouldn't occur otherwise. It is only important, I think, for us to keep in mind that this rather potent leverage should be applied in the right place. We should do this as Dean Woodruff says porcupines make love - that is very carefully.

The welfare economist tells us that an ideal tax in respect to incentives is a lump sum tax, taxes levied on the taxpayer as a lump sum and is not contingent on any of his productive activity. The problem the theorists have faced is how to find a suitable base for such a tax and many of the theorists have solved his problem in a very interesting way of saying that this would be an ideal way to levy taxes if you can find a base, but of course, there isn't any. And since you cannot levy a tax on the base of a disembodied spirit they are contented to leave it at that. That's perhaps the nature of economic theorists.

I would suggest, however, that land values do constitute such a base. And in this they differ from other potential bases. The capital as represented

by buildings would not constitute an adequate base for such a tax because capital is migratory. It sometimes seems fixed when we look at it but the fixity of a particular building can be deceptive because it is the nature of capital to require frequent replacing. And when it is replaced it does not have to be replaced in the same place where it was when it wore out. And as a matter of fact one of our major industries in Milwaukee is exporting capital to Los Angeles. We have sent a great deal of it out here contributing to the growth and welfare and beauty and other development of this part of the world. And it has left behind the empty hulks of a great deal of buildings in Milwaukee County that have not been renewed when the time came.

Labor again does not constitute a very suitable base for this kind of taxation as has been suggested that you should tax people according to their faculties and capacities to produce income rather than their income they actually produce and other ridiculous proposals. Labor, of course, is migratory. It doesn't have to stand still for that sort of thing or if it is prevented from migrating you have in effect state slavery and I don't think we would want to take that very seriously.

Land on the other hand does constitute a pretty good base for this kind of taxation. The capacity of land to produce income is susceptible of appraisal. And since land cannot move outside the taxing jurisdiction you can tax the hell out of it; and not one square foot will put on one square shoe - get up and walk out of town. Milwaukee does keep losing people to Los Angeles and an occasional baseball game, but so far we haven't lost any land.

Now, before we look into this from a theoretical point of view, let's take a brief look at current political activity - the idea that we are discussing this morning has been around longer than Harold Stassen and sometimes treated in the same condescending levity. It has been buried many times like the property tax but like Mark Twain the reports of its death were greatly exaggerated. As a matter of fact, Californians are going to have an opportunity to vote on

this question in a few months in the form of ACA 20. A proposition which is taken seriously enough; I don't believe there is a stop Stassen movement generated recently but there is a movement to stop ACA 20. California Association for sensible taxation or some such title under the direction of Emet McKay, a public relations man in San Diego. The state of Hawaii has recently begun to adopt a sort of modified Pittsburgh plan. And then there are applications of long standing. Some of which we have mentioned but not all of which. One of the most interesting applications to me and one which very few people had in spite of the untiring efforts of J. Rupert Mason who preached on the subject every Sunday. The irrigation districts of California ever since the year of 1907 have raised half or more of their revenue by a tax on land values, exempting improvements. Some of these irrigation districts not very far from here, some of the more impressive examples of the high intensity of land use that results from this kind of policy may be observed over the Tehachapis, the Lindsay - Strathmore district is one of the more impressive examples of what happens when you really put a stiff tax on land for a long period of time. The average size of the citrus ranch in that district is down to something like 10 acres. That's not a suburban area either. And it is highly productive - extremely highly developed.

The activity in the Antipodes as has been described I hesitate to cite Pittsburgh as an example, although frequently is, because the Pittsburgh plan which most of you are familiar with which assesses the buildings at 50% of the true market value of land at 100% or at least at that ratio. It seems like a two to one plan - actually it is not that because only one of three taxing jurisdictions uses this method and the other two don't so it's more like one and one-third to one ratio. And that really isn't enough difference to constitute an experiment of any kind. So that claims that are made both pro and con in Pittsburgh I suspect are largely irrelative. There is more latitude in the assessment process than one and one-third to one. And many

assessors in history on their own motion without benefit of any legislation especially in the days when it was respectable for a man to act in accordance with his conscience rather than in accordance with legislation, have simply gone forth and reassessed property according to what they believed was a correct principle. San Diego did an example of that before 1926. Assessor Moody practically exempted buildings from taxation till he was stopped by court order. And on the other extreme, of course, you have assessors who put a very low value on the land and to whom real estate consists almost entirely of buildings. It isn't necessary to labor that point. So I don't think that the Pittsburgh plan constitutes a guinea pig of any sort.

Now something that is a little more relevant are the special abatements which are known in several states. Arch Woodruff mentioned one or two. He also mentioned the one in Wisconsin which we call a freeze. In reference no doubt to our climate. The Wisconsin freeze has not been widely used. I would like to emphasize the fact that it is not something that the individual can use at his option. It is something that has to be developed by negotiations with the city fathers. The case in Milwaukee we have two living instances of the use of freeze. It's bound about with severe restrictions so it can't be widely used. There are special abatements found in Missouri, the quality hill apartments in Kansas City, for example, built under this legislation. Connecticut, I believe, has a new law of this kind. There are a few examples in New York, and so on. A freeze is a rather potent device if it's for let us say 20 years. The assessments froze for 20 years - that's practically three-quarters as good as complete exemption of the building. That's because, of course, the taxes you pay in the first 20 years look a lot bigger today than the ones that you pay in the subsequent 40 years.

Now site values as a tax base differs from the assessment freeze proposal in Wisconsin in two or three ways. Perhaps it's as good a way as any to get at it. In the first place, it would be universal whereas the

assessment freeze is something that is granted to some taxpayers or denied to others. It involves serious questions of interpersonal distributed inequity. In the second place, the freeze under a system of site value taxation would be permanent, but I hasten to qualify the word permanent. The freeze would be permanent in respect to any building as done by the land owner himself; it would not be permanent in respect to changes in the neighborhood brought about by changes in public policy or changes in the character of the neighborhood. A man's assessment for taxes would not go up as he improved his property but they would go up as his neighbors improved his opportunities by improving their property.

In third, the site value tax system would not be based on the old building but on the highest and best future use of the site. As Dean Woodruff brought out under certain circumstances these may be the same thing. But I suspect that is not generally true. Now how would we find the highest and best future use of the site. Dean Woodruff has been through this. I won't repeat what he has said. I will simply say something that is implicit in what the Dean said. In the process of putting value on land you can do something which you cannot do in the process of putting value on buildings, that is, interpolate judiciously. If you know three values in a block, you have a pretty good idea what the rest of the block is worth. Conditions are substantially uniform. Whereas the case of buildings - each lot has a building which is a separate problem. Going on this principle and gathering the data which Dean Woodruff alluded to, an assistant and I put together a contour map - a map of isochines in Professor Clark's terminology - for the city and county of Milwaukee. It'll be up here if anyone cares to inspect it. Through using a very simple device of this kind I think about 90% of all the assessment cases can be solved; and then you get into the other 10% which are the tricky ones and in any group of assessors it's always fun to spend all the time wrangling

about these but they are by and large exceptional cases and we better not spend the whole morning on it.

Speaking of assessors makes me think of a little experience I had on the airplane on the way out. I always when I enter the airplane of course look for the prettiest girl and try to sit next to her. I did rather well this last trip out and the girl happened to be working a crossword puzzle. And I noticed she had it almost finished when she was having difficulty with one word and I asked her if I might be of assistance. She said why yes - certainly. She said thank you very much I'm really puzzled. It's a four letter word that ends in i t. It's found on the bottom of bird cages and tax assessors are full of it. Thinking very rapidly I said why miss I think the word you are looking for is grit. GRIT. Why thank you she said. That's exactly right. It fits and it solved the puzzle. But you know you would be amazed what the first few people I asked thought about their tax assessors. That is why in any group of tax assessors I hesitate to delve too deeply into some of the finer points of tax assessment. Let us instead look at some of the effects on on land use that would probably result from exempting buildings and shifting tax to the land basis. Now all of what I'm going to say can be summed up in one general principle - which is this: that if the taxes on a parcel of land are levied in such a way that the tax depends on the use to which the land is put then the tax biases use against the more heavily taxed use. If the tax is to be levied on a piece of land, levied in such a way that they are contingent on the use to which the land is put then the treasury is interposing itself in the market and biasing the market in favor of the more lightly taxed use, and against the more heavily taxed use.

Let's look at this first of all - the complications between old uses and new uses. It is my allegation that shifting from the present basis of taxation to the site value basis would tend to accelerate renewal. Every piece

of land is in constant press or competition between the present use and the highest investible potential for the use. Let us call the present user, borrowing the term from the prize ring, the defender. And let us call the highest and best future use the challenger.

In this contest between the defender and the challenger, the treasury is not a neutral party. Because when a site is renewed and valuable new buildings put on it, taxes will go up. And the tax base will in fact increase by the full cost of the new building. So, the challenger is competing with, if I may borrow the analogy to the story that was told yesterday, he's competing with a bucket of sand in either hand. The bucket of sand in his right hand are the capital costs of the new building because in comparing the revenues with the old building with the new building you'll have to deduct the capital costs of the old building. That's already sunk. It's historical cost and every economist knows his historical costs are irrelevant to current decisions. And the bucket of sand in his other hand is the increase in tax levy which he is going to have to take on the new building. Let's put it in general terms by asking the question when do we renew economically - when to renew a site, with an old building on it, replace the old one with a new one. The economic principle involved here I would suggest to you is that when the defender ceases to earn a return on the value of the site in its best future use, then the defender is worthless. The time has come to replace the defender with the challenger. And we can perhaps put that in simpler terms, and simply say that when the revenue received from the defender, the net revenue, becomes smaller than the smoothed out or annualized net revenue which you can expect to receive from the challenger, then the time has come to renew. We can put that simply in the form of an inequality. Let me call the revenue of the defender $R_{sub V}$. When this becomes smaller than the annualized net income from the challenger which I will call $A_{sub C}$ then the time has come to renew. Now

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Let's define that A sub C without respect of property taxes then we will have to add property taxes into the equation. The revenue from the defender has to become smaller than the annualized income from the challenger less the taxes on the challenger. This is the bucket in the left hand, now the bucket in the right hand is included in this figure here. I didn't show that separately. That is the capital costs - smoothed out capital costs - of the challenger which, of course, make this figure smaller. Now this is a rather substantial figure. As a matter of fact, it is usually larger than the amount of money that's left over to the private land owner. That is to say, the lump sum value of the future anticipated taxes is worth more than the site is worth. Now this is going to defer the time by a considerable period of years when it becomes economical for private individuals to tear down old buildings and replace them with new ones. Let me put that in the form of a graph. Where time is the abscissa and the revenue from the defender is plotted on the vertical axis, it's going to tend to taper off. (We don't care about the initial part of this, but only the terminal part, so I'll break up a graph before we get to the interesting part.)

Now let us say the annualized income from the challenger is at this level and renewal in the absence of building practice would take place at the intersection of the two curves. Now if we subtract the taxes paid on the new building from the income which is left over to the to the site. We get a much lower curve. I'm drawing these much lower because I believe that's the way it should be - that's the way it is I mean. Then we will defer by many years the time when the defender becomes low enough to be economical to replace. It's even possible that we will defer it indefinitely into the future. Because when we permit old buildings to get into bad enough shape there is a sort of reverberating neighborhood effect which reduces the income, potential income, that they receive on all the buildings or all the sites in the neighborhood may never reach the time when the revenue from the defender becomes

low enough to warrant replacing it with the challenger.

Question: Is all that explanation on the basis of present taxation or on the basis of land value taxation.

Answer: On the basis of present taxation.

Now in the respect to land taxation, of course, you've got the tax on both sides of the equation. So it's neutral. Has no effect. And that means that your renewal will take place at the same point of time that it would in the absence of taxes.

Question: Isn't there another element involved that if dictation of higher land values might prevent a person from putting down.

Answer: Oh, in some cases yes. Now that gets pretty complicated. There are times when you are going to want to defer this for a few years in order to say put up a taxpayer for a few years until the time is ripe but we could spend all morning on that. I'm trying to keep this as simple as I can.

Now there is a great deal of land that would be renewed immediately if the tax on buildings were taken away. Now how do I know that. Well, in the first place, if the lump sum value of anticipated future building taxes is 50% of the building, and buildings are worth 10 times the site - a new building that is - then if you took taxes off of building and capitalized that into the site, this would of course make builders ready to pay more for land. In this respect I disagree with Professor Clark's analysis. I guess we'll bring that out in discussion. Then the builder of a new building could get away land from under old buildings much more easily than now. Take for example a 17 unit apartment costing \$300,000 to build, which in Milwaukee might be built on a \$20,000 or \$30,000 site. Now if you take the taxes off that building, that makes it possible for the builder to bid more for the site by an amount equal to 50% of the cost of the building. And if its a \$300,000 building - that's \$150,000. The site for which he was previously ready to pay

\$30,000 he can now pay \$180,000 for it which is quite a difference. And nowadays apartments compete with parking lots. In many areas they can just barely balance each other out. In the absence of building taxes where the land is best suited for apartments there would be no contest. The apartment builder would bid it away from the less intensive use and the older use with no difficulty at all.

Now the second way that I know that is through the use of this land value map which we put together in the manner which Dean Woodruff described. We took this map and we took the tax books for the city of Milwaukee and we look for tax books in which the average value of land as we figured it here was getting pretty close to the average value of land and buildings together. And we found quite a few. Now if you'll look at Exhibit A, City of Milwaukee data, you will notice that the administrative tax books nos. 1, 8, 10, 14, 15, 16, 22, 31, and 34 are of that general description. You may even notice that there's one in which the value of land per square foot as we figured it is a little bit higher than the value of land and buildings together as figured by the assessor. That's one of the reasons I didn't want to put Urban Land Institute's name on it quite yet. There are a few bugs in this that we want to work out. Whether the assessor made a mistake or we did, or whether it's a difference in interpretation has yet to be determined. But at any rate there are substantial areas in which the value of land by itself is almost as high as value of building and land taken together. And these I might say are averages. There are within these tax books where this relationship holds. Some sites which are heavily proved for the value of the buildings is substantial. And that means of course the other sites where the buildings are worth zero. And these are ones which would be immediately renewed. If a man could build a new building and not be subject to a high tax.

The second and related effect is that a shift to the land value basis would considerably weaken the bidding powers of the land of people whom for want of a better term I will call speculators so although I recognize this as a hard word to define. Relative to builders. Now if you'll look at Exhibit 2,

The Contrast in Time Distribution of the Two Kinds of Taxes, this matter is discussed and brought out a bit. The tax on buildings tends to be high when the building is new and it tapers off over the years as the building deteriorates - obsolescence. The tax on land tends to start out at a low level relative to the tax on buildings when you do it under the conventional system. And they remain on that level steadily or even to rise. Now for the abstract thinkers I put this in the form of a couple of equations on page 2 and for the concrete heads it may be found on page 3 in the form of a numerical example in which it is brought out that those persons who are hard pressed for credit find that the tax on land values is much easier on them as they see it from today's perspective than the tax on buildings. Now this goes back to the assumption that there is no such thing as something that economists like to talk about sometimes which is the rate of interest. This is I believe a more realistic assumption which is that we live in a world of many different rates of interest brought on by the phenomenon of credit rationing which is an inevitable part of a free enterprise system. Bankers are strange people - you know - a story is told of a banker who was having ulcers and the doctor advised him he should have a change of scenery and so he spent a few months pumping gasoline. The first customer drove in and ordered 10 gallons. The banker started to wipe the windshield whose doctor told him to be friendly to the customers so he started chatting, "where are you going?" The man said, "I'm going to Iowa City. The banker said "Iowa City! Couldn't you make it on five gallons?" Perhaps the nature of bankers and the nature of credit rationing

. There are those who cannot borrow money at quite as good terms as those with triple A credit ratings. And many of these people are builders and these people would appreciate a deferral at the time when they have to pay taxes. I won't labor this anymore because it's rather well labored in this little three page item which is a classic. I hope you'll read it with great

attention. I simply wanted to confirm my point by a quotation from Leon Hickman, the real estate man of the Aluminum Company of America, the brother of distinguished economist, Addison Hickman of Southern Illinois University, writing in a very distinguished journal called Urban Land. Mr. Hickman says "there ought to be a better understanding than now prevails that the early and heavy imposition of property taxes will in the long run defeat the urban renewal concept and the hoped for improvement of the municipal tax base. If taxes could be imposed at lesser rates in the earlier more difficult years in recognition of the fact that the developer has got to make a reasonable profit on his development and his management. If such programs are going to continue, urban renewal would have a much more certain future than is the case today." So Alcoa is on my side.

Now, a third effect would be considerably to increase the intensity of land development in those areas which are in high demand. And here, I refer you to Exhibit 3. The Determination of Ultimate Building Height - yielding a maximum net ground rent under the two different tax systems. And you will notice that under the conventional basis with the data which we have here we discovered that three stories was the height that yielded the maximum net return to the land owner and under the land value basis the optimum height was six stories. It so happened that we didn't carry this any higher than six stories. We might have discovered that we should have gone higher but there was a zoning constraint that we observed at this point. Now this is rather a general phenomenon. This isn't peculiar to the numbers that have to be on this sheet. The way this works out is best shown on a simple graph.

We graph the height of the building on the horizontal axis and put on the vertical axis the revenues and the costs and then notice the difference between them which is what the land owner is interested in. We discovered that,

of course, that as the height increases both the revenues and the costs increased. And taking the figures in this example we get a curve that looks something like this. And then if we went beyond the six stories in this example it would no doubt bend over somewhere, not absolutely horizontal.

Question: Is this curve the rate of return on the investment?

Answer: No, this curve is gross revenue. Gross rents on the building. Supposing I just call that R and then the one underneath it will be costs. And they increase but not so fast. And then once again no doubt there is an accelerated tendency as you get into high buildings. After a while the curves come together and there's no net return from the land at all. But we don't want to go that far. We want to go to the point where the curves are farthest apart. That's the highest and best use with a net return to the site is a maximum. Now what happens when we impose a tax on building. The tax is a percentage of the lower curve. It's not 100% true because this lower curve includes current costs as well as capital costs but they tend to be roughly in proportion. Let me first of all draw a vertical line representing the point of maximum difference between the two curves and now let me draw in a line representing the sum of costs and taxes. And as I say the taxes are a fixed percentage of the cost curve, therefore as the cost curve goes up the tax line is going to get gradually higher and higher above it as an absolute figure. And what does that do? Well, to begin with it means that when we get to a height where without taxes we'd still be making money - we stop making money. But worse than that the point that was optimal before is no longer optimal. You have to move further back to the left to get to the place where the distance between two curves is a maximum and this is exactly what is shown in numbers on Exhibit 3. So you get lower building and you also get a lower return to the site. Now these are not entirely imaginary figures. We tried to check them out pretty well. We still have some checking to do. I think there will be some improvements made. But these are pretty realistic numbers. We've got a break-

ing point between 3 and 4 stories where we put in an elevator. We should have done it between 2 and 3 in terms of modern markets and there are a few other things like that what will have to be changed. But the general principle holds good here. Now I'll quickly skim over three or four other effects which I allege would take place if we shifted from a conventional basis of real estate taxation to site value basis. The tax would tend to be shifted to the center of town. In spite of all the decentralization of land values we've had in many years, it is still true that unit land values are higher in the center of town and it is also true that the ratio of land values to building values is higher in the center of town.

Another effect would be to increase area specialization. We would get much higher intensity of use in the central business district, especially the central part of the central business district. We would reduce the fragmentation of central business districts which is now taking place. But we would not get higher intensity of use everywhere. As a matter of fact, the intensive development and redevelopment of the downtown areas would drain in the demand which is now proliferating over the vastnesses of suburbia and it would tend to leave them in their arcadian tranquility and considerably deflate I think speculative values. I'm not one of those I might say who believes we should go out and tax periferal lands. I think we should leave them alone. I'm going to get even with them in a different way. I would like to see us redevelop downtown areas and pull the rug right out from under them and there wouldn't be anything there left to tax. And that's a long story.

Another effect which may come as a bit of surprise is that we would maintain the tax base. And that is quite clear from the figures in Exhibit 3. Exempting the buildings doesn't mean you're giving up any part of the tax base. The value of building exemption is capitalized into the value of land. It increases the land base. Then if you increase the tax on land you bring the

value of land back down again to where you started from. But if you don't increase the total tax take you won't reduce in general the value of land. There has been some talk about confiscation. That is not involved in a shift of the base of taxation from buildings to land. It would be involved in a considerable increase of the total tax take but that's not what we're discussing this morning. If we keep the amount of tax constant, and simply change the base there would be no confiscation of land values in general. There would be a redistribution of values from some areas to others. But that is a different story.

There was a good story I wanted to end up with. Oh yes. It seems that there was a man who walked into a car dealer and said to the man, "Are you the man who sold me this used car last month?" And the car dealer said, "Why yes I am. And the customer said, "Tell me about it again will you. I get so discouraged." I would urge you to try this site value taxation idea. If it doesn't work come back and see me in a few years and I'll tell you about it again.