



Review of *Who Pays the Property Tax: A New View* by Henry J. Aaron (1975)

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A Review of
Henry J. Aaron
Who Pays The Property Tax
A New View

Washington, D.C., The Brookings Institution, 1975, 105 pages + x

Reviewed by Mason Gaffney

for

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This is a survey of some literature on property taxation. The strong thesis is that a general tax on all property in all jurisdictions is not shifted, but lodges on the owners of property. A corollary is that the property tax is not regressive because property is more concentrated than income. Dr. Aaron favors keeping the tax largely as is (with exceptions noted below).

The style purports to be semi-popular. "The primary purpose is to shorten the lag between advances in economic analysis and their entry into popular debate." It is difficult to pull this off without condescension. Some of the argumentation gets heavy and involuted. It should be possible for the intelligent layman to grasp the difference between partial and general taxation and between global and local analysis without extended laboring. The overall effect is a change of pace between brisk prose and circumlocutious overkill. Too many obiter dicta distract from the main theme and leave loose threads around. The space might have been devoted to providing more data in support of the basic thesis: for example, the breakdown of property value between land and buildings, which are treated separately; and data on the concentration of property ownership which is postulated but not documented.

Style apart, this book is a milestone in the rehabilitation of the property tax. The "old view" applied partial-equilibrium assumptions and had the tax shifted forward, making it a regressive tax on consumption. The "new view" asks rather what is the effect of taxing capital in all jurisdictions and in all forms. Such a tax is unlikely to be shifted, at least not in any such simple way.

The "new view" also changes the answer to the question, what happens when we tax capital in one locality only? The new answer is that the tax on capital is shifted into lower land rents in values, land being the only input strictly fixed in local supply. Aaron draws back, however, from full commitment to this finding. That is a pity because the next creative step would be to analyze the substitution of land for capital that logically follows--and the attendant diversion of capital into longer extensions of roads and utilities. To the extent that he touches on such effects, he assumes strong complementary relations between capital and land and fails to contemplate substitution. He also assumes strict complementarity between capital and labor, an assumption increasingly under challenge.

The "new view" of shifting leads to new conclusions about progressivity. The "new view" makes the property tax more progressive. Aaron contrasts old-view and new-view data, showing the change. The "new view" involves more than abandoning forward shifting. One also changes toward a longer accounting period for defining income. One also recognizes that value/rent ratios rise with rent.

In chapter 4, "Tax Capitalization and Administrative Reform," Aaron enters the thicket as to whether an old bias to underassess some properties is legitimized by time and custom. He emerges weakly with the advice that assessment reform "could be made more palatable if introduced gradually."

In chapter 5, "Reforming the Property Tax," Aaron reviews reform proposals. The circuit breaker he rejects as "an income maintenance system whose benefits are related to income and property-tax payments." He proposes "grants to households related negatively to income and net worth; and provision for tax deferral."

Second, he disfavors using property-tax exemptions in lieu of cash grants, citing the usual reasons with some extra emphasis on how this form of subsidy biases exempt owners to substitute land and capital for labor. Would that he had treated substitution effects elsewhere, too.

Third, he opposes preferential assessment of farm land on urban fringes, resting his case on the market mechanism.

Fourth, he favors exempting business "personal" property (inventories, machinery, equipment) on grounds of administrative convenience.

Fifth, he opposes general exemption of buildings and higher rates on land value, largely on the grounds that an old tax is a good tax and any change of policy disturbs existing values. He favors instead "reduced tax rates to investors contemplating sites within the jurisdiction," by "special arrangement."

Sixth, he rejects a net-worth tax on legal grounds.

The net thrust of those proposals is a major shift away from business machinery, equipment, and inventories, and by special negotiation certain new buildings; and on to institutional exempt property and ripening land, with minor shifts (to which he devotes major attention) among hardship cases. These proposals are evidently for immediate adoption (a "drastic overhaul" of exemptions) while true assessments are to be phased in gradually if at all.

This is a useful summary of recent ferment, but too hasty. Many back doors are left open.

The "new view" owes much to old views long espoused by Jacob Stockfish and Earl Rolph who drew on Ragnar Frisch, T.S. Adams, E.R.A.

ment is selectively applied to block some reforms, like land value taxation and true assessment, but to let pass others like repealing farm preferences and tax exemptions. The proposal to exempt industrial machinery and equipment is at odds with the presumption for greater progressivity emphasized elsewhere.

The treatment of land taxation is unresponsive to most points made by advocates; his analysis of effects seems contrived and indefensible; and it all leads to a Mayor Daley-like proposal for cities to negotiate individual tax rates with outside investors--a proposal he excoriated on pages 61-62. Having rehabilitated the property tax in theory as uniform and progressive, he now seems bent on making it partial, discriminatory and regressive in fact.

There is an appalling misinterpretation of data on page 53 where Aaron identifies the industry group labeled "real estate" with real estate as a tax base and writes as though capital used in "any other industry" were not real estate.

Regardless, this is an important book which consolidates recent gains in better understanding of the property tax. It will continue to make progress towards the author's goal of enlightening the public and the profession. May it serve as a springboard for future work.

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