Book Review: Real Estate Taxes and Urban Housing. James Heilbrun
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Real Estate Taxes and Urban Housing. By JAMES HEILBRUN. New York: Columbia University Press, 1966. Pp. 195. $8.50.

Real Estate Taxes and Urban Housing is a useful book on a hot subject. Dick Netzer, in his *Economics of the Property Tax,* leaned heavily on it while it was still a Ph.D. dissertation, pronouncing it "by far the best available treatment" of its subject, and citing it to support some of his policy conclusions. Not every dissertation moves so swiftly to the battle line. It bears some marks of the haste.

The work is notable, in a field dominated by institutionalism, for its theoretical strength. Professor Heilbrun is conversant with many of the old masters and brings their analysis to bear. It may bore some converted theorists, but the last twenty years have shown that the simple application of marginal principles is revolutionary in backward areas, such as water supply, military planning, or utility regulation. Property taxation is certainly such a backward area.

The work is refreshing for its constructive emphasis on how local action can encourage private capital to renew cities. Heilbrun points to property taxes, which consume 15–30 per cent of gross rentals, as a paramount local influence on investment. He asks if local government may modify the property tax to stop deterring investment, yet still yield revenue. He considers these alternative bases: bare site value, gross rent, net rent (gross of capital costs), rent net of notional costs (the British "rates"), and various tax abatements and penalties.

He takes the site-value base as his reference standard because of its neutrality, and evaluates the other bases by comparison. This, too, is a refreshing improvement over much tax analysis which proceeds as though the alternative to a given tax were no tax at all, public services *paribus*, creating a spurious "income effect" of taxation to mask the disincentive effect of most taxes.

Rather than draw policy conclusions, Heilbrun evaluates each tax according to several canons, leaving the reader to weigh them. This probably befits a maiden effort and is understandable in what was a disseration written for a committee. But it reflects a lack of self-confidence that casts a tone of uncertainty over the work. I hope that in a sequel Heilbrun will speak more firmly.

I also hope he will reconsider a few errors and omissions:

1. Although he elaborates marginal analysis to a fault, he develops no capital theory at all. This lack results in an error—the conclusion that a tax on the capital value of buildings does not retard replacement. Somehow he converts the property tax base into income net of capital costs—that is, pure land rent—and proceeds accordingly. Inconsistently, but correctly, he later emphasizes that British rates on gross income *do* retard replacement. The last comes in the work's brightest spot (pp. 123–27), where he refutes Pigou's criticism of the capital value of appreciating land as a tax base.

2. He seriously understates the possible revenue yield of a site-value tax, in a number of ways. An outlandish one is to present assessed values of land: building ratios, as though they had some relation to the true ratios. In fact, he never defines the site-value base. If he did so in any economic way he would discover it is alien to the practice of most assessors. He also cites the Raymond Goldsmith (National Bureau) data, although he elsewhere (p. 143, n. 23) seems aware that they are "not useful." If one defines land value in the economic way as the opportunity price of land, he usually finds it vastly understated by assessors, accountants, the National Bureau, and even the Census of Governments.

Worse, he gives little weight to the overweening fact that exemption of buildings and potential buildings from tax would increase the land rent beneath them by the full amount of the remitted building tax, a straightforward and obvious relation. In fact, the site-value base is no less than the full real estate base: site-value taxation is just another way to tap it. Taxation, of whatever kind, is interpretable as a lease payment whereby the sovereign collects rent from his land. Each of Heilbrun's different taxes has an analogue in private leasing parctice: cash rent, share cropping, percentage of gross, percentage of net, etc. What the sovereign collects by one means, he cannot collect by others; and whatever remission he grants from one impost makes lessees bid more for tenure of his land. If taxes (or lease payments) exceed rent, the land from whose occupants such payments are demanded becomes submarginal: people and capital move elsewhere, and the sovereign is bankrupt.

3. He says that a tax on land values will lower land prices and thereby reduce "construction costs" by the full amount of the lower land price (p. 91). This reckons without the corresponding rise of land taxes and also is inconsistent with the analysis elsewhere which correctly has it that capitalized land taxes substitute for interest carrying charges and leave the total cost of carrying land constant.

4. I believe he misuses empirical studies of the inelasticity of demand for housing. These are studies of demand for housing in a closed economy, not in a small open jurisdiction. Property taxes are local; and, for any locality, the demand elasticity is obviously very high. So local taxes cannot be shifted to tenants but are borne in lower land prices.

In summary, there is a kind of law of conservation of economic energy which parts of his analysis violate. On balance, however, I agree with Netzer's favorable judgment of the book.

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