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Review Aaron for FEL

NO.

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25 March 1976

Dear Professor Gaffney,

Many thanks for agreeing to review

WHO PAYS THE PROPERTY TAX: A NEW VIEW by Henry J. Aaron.

I would appreciate receiving your review of 800-900
words by 1 August 1976

Our policy is to print reviews as near as possible to the publication date of the book and to keep the commentaries concise. Therefore, we would appreciate your adhering to the word length and time limit set for your review.

Please send three copies of your manuscript. The review should be double-spaced on standard-size bond paper (8½ x 11) and there should be wide margins. A bibliographical listing, as shown in the example below, should appear at the top of the first page:

Microeconomic Theory. By John Doe, Pittsburgh, Pa.:
University Press, 1974. Pp. ix, 100. \$10.00.

Please put your correct academic title and name of your institution at the end of the review.

Mark Perlman
Managing Editor

Professor Mason Gaffney
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This book is a ~~brief~~ survey of some recent economic literature on property taxation, with a ~~strong~~ *strong* thesis. The thesis is that a general tax on all property in all jurisdictions is not shifted, but lodges on the owners of property. Dr. Aaron calls this "The New View." A corollary is that the property tax is not regressive, after all, because the ownership of property is more concentrated than the flow of income. The major emphasis is on urban residential property in the United States, although the logical argument leans on the general coverage of the tax, and it is not always clear what universe is being treated. 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, and Aaron has not entirely succeeded. Some of the argumentation gets heavy and involuted, needlessly so for a popular market, perhaps even for the academic. 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 references to traditional views and modern views and all the labored pedantry which the traditions of our profession seem to require. The overall effect is a change of pace alternating between brisk declarative prose and difficult 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. The question being different so is the answer. A partial tax on rental housing reduces supply of rental housing and is, therefore, shifted to the renters. But the property tax is not a partial tax on rental housing -- it is a general tax on all capital. 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 ~~partial-equilibrium~~ 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 ~~and truly needed~~ 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, ~~either exempt from the property tax, or subject to regulation which automatically shifts it forward.~~ To the extent that he touches on such effects, he assumes strong complementary relations between capital and land and fails to contemplate substitution, which, in my opinion, would be the ~~primary effect.~~ He also assumes strict complementarity between capital and labor, an assumption increasingly under challenge, today.

The "new view" of shifting leads to new conclusions about the ~~progressivity, of incidence in relation to income.~~ 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. ~~(a change which reduces, without eliminating, the enormous regression-fallacy bias of most "old view" data).~~ One also recognizes that value/rent ratios rise with rent.

In chapter 4, "Tax Capitalization ^{Weakly} and Administrative Reform," Aaron enters the thicket as to whether an old bias to underassess some properties is legitimized by time and custom, ~~capitalization and sale.~~ He emerges ^{Weakly} with the advice that assessment reform "could be made more palatable if introduced gradually," but ~~halts short of endorsing it.~~

In chapter 5, "Reforming the Property Tax," Aaron ~~briefly~~ reviews ~~several~~ reform proposals. The circuit breaker he rejects as "an income maintenance system whose benefits are related to income and property-tax payments." ~~Pending a national income maintenance system (which he favors), he proposes "grants to households related negatively to income and net worth; and provision for tax deferral, temporarily for the nonaged and until death for the aged."~~

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 ~~given equal attention to substitution effects in his more general analysis.~~ ^{Treated elsewhere, too.}

Third, he opposes preferential assessment of farm land on urban fringes, resting his case on the market mechanism, ~~for timing and coordinating the transition from farm to urban use, and the inequity of reducing taxes on growing wealth.~~

Fourth, he favors exempting business "personal" property (inventories, machinery, equipment) ~~largely~~ 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) ~~is recommended~~ while true assessments are to be phased in gradually if at all.

This is a useful book ^{summary} which summarizes and puts Brookings' imprimatur on much recent ferment, ~~in the profession,~~ ^{but} ~~In my opinion the book is too hasty, to be definitive. Many back doors are left open, among them the following:~~

^{here →} 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. Seligman, H.G. Brown, and others, none of whom is credited. The "New View" as a locution smacks of fads and fashions, in a narrow circle (DuPont). There is nothing new about distinguishing open and closed economies; ~~about distinguishing partial and general equilibrium analysis; and distinguishing the effects of uniform taxes from differential taxes.~~ Aaron follows the unfortunate style of using "excise tax effects" to mean the effects of differential taxes, when in fact a general sales tax or value added tax has fewer such effects than a differential tax on property (or any other base). The ~~careless~~ usage could lead to missing the essence of a major link in the argument, unless one defines "excise" carefully to mean a discriminatory tax.

No where does he treat the point that differential tax rates among jurisdictions may be offset by differential service levels, except at one point cursorily to dismiss it. It would have been useful for him to adopt Marshall's distinction of onerous and beneficial local taxation.

What is newer about the "new view" is to note that a nonshiftable property tax is progressive. In making this case, Aaron ~~may~~ understate two of his supporting points. First,

to regress property against income meaningfully we must define income over a long accounting period, ^{he} He puts all his eggs in ~~this one basket~~ and says nothing about adding imputed and unrealized property income to measured income, nor the effect of loopholes on income reporting. Neither does he look at other aspects of regression fallacy. Second, in dealing with the point that value/rent ratios rise with rent he falls into the peculiar stance of dealing with the property tax on residential property in a vacuum, as though there were such a thing as "the housing property tax," thus omitting the fact that higher rent-paying people are more likely to own nonresidential property, thus ~~When one is relating property tax payments to rents, to this omit/is to introduce a large bias.~~

The chapters on reform ~~are rather too pontifical with editorial opinions not distinguished from newsreporting.~~ ^{editorialize in the news columns.} This leads to a number of contradictions. The "old tax is a good tax" judgment is selectively applied to block some reforms, ^{like land value taxation and} like true assessment, but to let pass others like repealing farm preferences and tax exemptions. The proposal to exempt industrial machinery and equipment is grossly 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 him to a Mayor Daley-like proposal for cities to negotiate individual tax rates with outside investors -- a proposal he had excoriated earlier 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 oversight appalling} A misinterpretation of data on page 53 is deeply disturbing, 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. ~~These other industries are agriculture, mining, construction, manufacturing, transportation, communications, utilities, trade and services (which includes hotels for example).~~ Such a basic lapse means a blind spot.

Regardless, this is an important book which consolidates recent gains in better understanding of the property tax. It ~~already has and will continue to make progress towards the author's goal of enlightening the public and the profession, on the best and latest thinking on the subject.~~ May it serve as a springboard for future work from the same and other sources.

Mason Gaffney, Prof.
Grad. School of Admin., U. of Cal., Riverside.

~~Comments on "A New View"~~

~~105 pp.~~

w. strong thesis.
To p. 3
[1 + opens (over)]

This is a survey of ^{some} recent ^{ex. lit. on property tax} expressions of an old view.
brief (105 p.) ~~some integration~~

the idea that a ~~uniform~~ general tax on all
property ^{in all jurisdictions} is not shifted, but lodges on the owners
of the property. ^{Dr. A calls this the "new view," ~~and~~ his subtitle.} and is there a ~~corollary~~
is that the ^{property} tax is not regressive, but the
ownership of property is ^{more} highly concd. than
income. In Ch. 5, "Reforming the Prop. Tax"

Dr. A. also gives his opinions of who should pay the tax,
which turns out to be those who (own)

The major emphasis is on ^{urban} residential property, ^{in the U.S.} altho the

logical about ~~shifting~~ formally calls argument leans on
the general coverage of the tax, ^{and it is not always clear what} Dr. A. favors keeping the ^{universe is being treated,}
tax largely as is, (w. changes ~~to be~~ noted below.)

w. data on the share of propy. taxes ^{collection} among all taxes,
showing a large fall ~~and~~ followed by a ~~small rise in~~
stable 12-13% after 1950. It ~~also~~ presents interstate
contrasts in reliance on property taxation, & the close link w. ^{high} edu.]
The burden of the book is its emphasis on

~~presently do except for~~

It is difficult to pull this ~~text~~ ^{off} who condescending & Aaron has not entirely succeeded, ~~in checking a propensity to pontificate.~~

The style purports to be semi-popular. "The primary

purpose is to . . . " Some of the argumentation,

however, gets quite involved heavy ^{and involved,} perhaps needlessly so

for a popular ^{market} target, perhaps even for the academic.

The debt to Peter Mieszkowski is acknowledged, but repaid in

labored a summary of that ~~seems needlessly formalistic, even ritualistic, in~~ ^{is too true to the original to be popular,} ~~is tiresome pedantry.~~ ^{and seems unnecessary simply to make a simple point.}

The overall stylistic effect is uneven, alternating

among ~~condes~~ simple declarative prose, heavy pedantry,

~~weeping~~ ^{bewildering} affirmations, ~~precious~~ ^{over} equivocation, condescension, and dogmatic advocacy.

The change of pace is ~~peaceful~~ ^{overworked} ~~overworked~~ ^{overworked} for many ~~is worried to~~

pp. 11, e.g., while a Lorenz curve is dismissed in a

frustrating half-sentence. Again there is a long barrage against the

at ~~quasi~~ ~~and~~ ~~swallowing~~ ~~cannels~~ circuit-breakers, ~~ff~~ ^{only a brief} ~~by~~ ~~and~~ ~~a~~ ~~working~~ ~~statement~~ on the more consequ. gn. & state assum. of school func.

Litter
Auto correct

Obiter dicta ~~are~~ intrude excessively and distractingly, straining the work w. leaving loose threads ~~hanging~~ which invite endless nitpicking.

~~So extensive~~ Equivocation pervades the book so it might be nitpicked to death

From p. 1

Style apart, this book is a milestone in the rehabilitation of the ~~misaligned~~ prop. tax. The "old view" applied partial equilibrium assumptions and had the tax shifted forward, making it a regressive consumption tax. The "new view" is more comprehensive, asking what is the effect of taxing capital in all states and in all forms. The question being different, so is the answer. A partial tax on rental housing reduces supply and is therefore shifted to renters; a general tax on all capital everywhere, is less likely to be shifted. The "new view" also changes the answer to the partial eqn. qn, what happens when we tax K in one locality? The new answer is that the tax on K is shifted into lower land rents & values, altho A. quickly draws back from full commitment

to this finding. That is a pity, because the next ^{and truly needed} step wd. be to ~~analyze~~ follow the substitution of land for capital that logically follows - and the ~~attendant~~ ^{division of K into longer p.w., exempt from the prop. tax.} ~~dividing~~ ^(over)

The new view ^{of shifting} leads to new conclusions about the progressivity of incidence in relation to income.

The new view makes ~~it~~ 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.~~ ~~a change of shifting assumptions.~~ One also changes toward ~~the default~~ a longer accounting period for defining income, (a change which reduces, ^{w/o shifting,} the enormous regression-fallacy bias of most old-view data.) One also

recognizes that value/rent ratios rise with rent, ^{at} point A, raises but leaves hanging.

To the extent he touches on such effects, he assumes strong
complementary relations between K & L - also betw.
K & labor — and fails to contemplate substitution.

In Chap. 4, "Tax Cap. & Ad. Reform" A. ^{begins about} ~~thinks~~ ^{to underscore some properties} ~~the~~ ^{thickest} ~~old~~ ^{as to} ~~whether~~ ^{whether} an old ~~tax~~ ^{bias} ~~is a good tax~~ ^{legitimized by time &}
capu. & sale. He ~~wonders~~ ^{haltingly} ~~in conclusively,~~ ^{haltingly} emerging, n. the, advice

custom,

that assume reform ~~may be~~ 'ed be made more palatable if introduced gradually,' but halts short of endorsing it.

In Chap. 5, A. ^{Reform...} ^{briefly reviews} ~~several~~ ^{several} reform proposals.

The circuit breaker he rejects as "an income net-
system whose benefits are related to inc. & prop. tax profits."

Pending a nat. inc. - netce. system, (which he favors),

he proposes "grants to households related negatively to

income and net worth; and provision for tax deferral,

temporarily for the non-aged and until death for the aged."

Second, he disfavors ^{using} ~~exempting~~ prop. tax exemptions in lieu of cash grants

citing the usual reasons, ~~plus~~ with some extra emphasis

on how this form of subsidy biases exempt owners to

substitute land and capital for labor. Third, he

opposes preferential low assess. of farm land, on urban

fringes, resting his case on the market mechanism

for ^{timing} ~~effecting~~ and coordinating the optimal transition from farm to urban use,

and the inequity of reducing taxes on growing wealth.

Fourth, he favors exempting ^{business} ~~all~~ "personal" property, (inventories, machinery, equipment)

largely on grounds of administrative convenience. Fifth,

he opposes general exemption of buildings, ^{and} ~~accompanied~~

~~by~~ higher rates on land value, ^{largely} ~~for largely~~ on the grounds that an old tax is a good tax ~~and~~ ^{and} any change of policy

disturbs existing ^{He favors instead (over)}
~~creator causes shifts in values.~~ Sixth, he rejects ~~the~~ a
net-worth tax on ^{legal} ~~constitutional~~ grounds.

The net ^{threat} ~~effect~~ of these ~~assessments~~ proposals there is ^{a major} ~~to~~ shift ~~taxes~~
away from ^{business} ~~business~~ stocks machinery, equipment and ^{inventories,} ~~stocks,~~
and, by special negotiation, certain new buildings;
and onto ~~the~~ institutional exempt property and ~~onto~~

ripening land, with minor ^{shifts} ~~changes~~ in among hardship cases,
(to which he devotes major attention)
~~Nothing in the text says these~~ [a "drastic overhaul" of exemptions]

These are evidently for immediate adoption, ^{while accurate true}
assessments are to be phased in gradually if at all.

"reduced tax rates to investors contemplating sites within the jurisdiction," by "special arrangement."

This is a useful book overall, ^{which summarizes (over)} but too hasty
to be called definitive. ^{too many books done are left open among them} Among its ~~flaws~~ ^{are} the following.
It is ~~flawed by internal~~

~~contradictions~~

The 'new view' ^{over} sounds much ~~like~~ ^{to} old views long
expounded by J. S. & E. Rolph, who ^{draw on} distilled ~~them from~~
R. Frisch, T. S. Adam, E. B. A. Seligman, H. G. Brown, &c.

none of whom are ^{credited.} ~~at~~. The "new view" as a locution is
~~sounds too faddy and provincial, with a touch of presumption.~~
~~smacks at one of faddism, provincialism and~~
~~elevated to a subtle~~ ^{fads & fashions in a narrow circle (Du Pont, actually.)}
~~smacks of faddism & provincialism, w a touch of presumption.~~ ^{cliquishness.}
~~Du Pont Circle provincialism~~

There is nothing new about distinguishing open and closed
economies; about distinguishing partial and general
equilibrium analysis; and distinguishing ^{the effects of} uniform taxes from
differential taxes. Aaron ^{follows} adopts the ^{unfortunate} style of using

and puts Broderick's imprimatur on much recent ferment in
the profession which, as Au. says, has yet to
circulate widely outside it.

"excise tax effects" to mean the effects of differential taxes. when in fact a ^{general sales or vat} uniform excise has fewer such effects than a differential tax on ^{property} ~~almost~~ any other base.) ~~Then~~ The careless usage ^{could} lead to a danger of missing the essence of a major link in ~~his own~~ the argument, unless one defines excise as ^{discriminatory} ~~to mean a partial tax.~~ (I went from 12)

What is ~~more~~ new is ~~to~~ to note, as A. does, that ^{a non-shiftable prop. tax is progressive.} ~~the incidence of a general uniform tax on capital~~ This In making this ^{case} point, A. ^{undertakes two of his} supporting ~~it~~ w. ~~three supplementary points.~~ First, ~~in comparing~~ ~~regressing a meaningful.~~

~~To compare in~~

to regress property against income meaningfully we must define income over a long accounting period. ~~On~~ this point, ^{however,} he puts all his eggs in this one basket and

says nothing about adding imputed and unrealized
property income to measured income, ^{nor the effect of loopholes on income reporting.} Neither does he
look at other aspects of regression fallacy

Second, value/rent ratios rise with rent, ~~and~~
~~that~~, value being the property tax base - a point he
understates I believe. Third, the ^{regressive effect of the} deductibility of
^{by relying on} ~~himself~~ 2ndry sources which ^{rarely} ~~are~~
property taxes from taxable income is a feature of the
give one the same conviction as direct inspection.
~~income tax, not the property tax, - a good point.~~

^a
The propensity to pontificate becomes rather
takes over ~~in~~ the chapter on reform, ^{with} ~~and~~ the
author's value judgments elevated to the same level of
~~as~~ research findings. This leads to a ^{number} ~~frank~~ of
apparent contradictions. The 'old tax is a good tax'

^{judgment}
~~idea~~ is selectively applied to block some reforms, ~~to~~ like
true assmt., ~~to~~ but to ~~pass~~ let pass others like
~~affecting others.~~

~~to raising~~ repeating farm preferences, ~~and~~ and tax

exemptions, ~~and exempting~~ The proposal to

exempt industrial machinery & equipment ~~is~~ (oil refineries,
cranes, ~~milling machines, assembly lines, ^{nothing, etc.} trucks, dies, vats, tanks, etc.)~~

is grossly grossly at odds w. the general ^{preference} ~~emphasis~~ ~~for~~ presumption

for progressivity emphasized throughout.

← His treatment of land tax is unresponsive to

most points made by ~~the long roster of~~ advocates; his

analysis of effects is too ^{inane} ~~stupid~~ ^{shepherd} for comment; and it

leads him to an outrageous ^{Daley-like} ~~economic~~ proposal for cities to

negotiate individual tax rates w. new (& in practice

doubtless large) ~~outside~~ absentee investors, — a proposal he
had excoriated earlier on pp. 61-62.

Having ^{rehabilitated} ~~rehabilitated~~ the prop. tax ^{in thy. as uniform & progressive} ~~progressive~~ seems bent on ^{now} making it ~~less so~~. making it partial & regressive in fact.
discrim.

to 9 { Nowhere does he ^{he} find ^{treating the point} ~~him~~ ~~acknowledging~~ that differential tax rates ^{among jurisdictions} may be offset by differential public services, except at one point cursorily to dismiss it.

a ~~to~~ ~~too~~ ~~terribly~~ ~~basic~~ misinterpretation of data

on p. 53 is deeply disturbing, where Aa. ~~cites a table data~~ on property taxes by "Major Industries", one being labelled "Real Estate", to conclude "Capital used in r.e. identifies the industry group labelled 'Real Estate' with ~~the~~ real estate as a ~~property~~ tax base, and writes as though capital used in "any other industry" were not real estate. These others are agriculture, mining, construction, mfg. xptn. Comm. utilities, trade, & services (which includes hotels, for e.g.). One has to wonder at such a basic lapse, from reality, shakes a reader's confidence.