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SOUNDING THE REVENUE POTENTIAL OF LAND: FIFTEEN SUBMERGED ELEMENTS

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"You see, my dear Watson, but you do not observe." - Holmes

The revenue potential of land is greater than anyone thinks. This is a progress report on a study that finds, bares, and to some extent measures elements of enhanced revenue potential by using truer and more comprehensive measures of rent and land values. It should go without saying, but often does not, that the purpose of raising more land revenues is not to fatten vexatious bureaucrats. It is to replace vexatious taxes, to provide and maintain and operate needed public infrastructure and services (including a reasonable national defense), to pay off old public debts and avoid new ones, and to fund social dividends (including existing social dividends like Social Security and publicly funded schooling).

There are at least fifteen elements of land's taxable capacity that previous researchers have either slighted, or overlooked entirely.

* Items 1-3 below correct for the downward bias in standard data.

* Items 4-10 broaden the concepts of land and its rent.

* Items 11-15 show how exempting production, trade and capital uncaps potential tax rates.

Correcting for downward bias in standard data (Items 1-3)

1. Standard data sources neglect and understate real estate rents and values.

These standard sources include:

a. Assessed valuations used for property taxation.

I will only enumerate, not elaborate much on the many reasons assessed values usually fall short of the market. This in itself is a dizzying experience, and you may want to skip ahead to point "b". Scanning the bullets below, however, gives a clue as to how landowner pressure has subverted the property tax over the years.

* Conventional use of fractional assessments in many states

* Lag of assessments behind the rise of land values, and behind the fall of building values with depreciation and obsolescence. Increasingly, this extra-legal process has been institutionalized, as in Prop. 13, California

* Use of capitalized income method for assessing business properties (other than apartments). The bias is against intensive uses in zones of transition (ecotones), at every margin between lower and higher uses.

* Conventional preference given to acreage, regardless of location, regardless of industrial use. (Allis-Chalmers example in center of West Allis, Wisconsin. Omission of acreage from otherwise good studies by the U.S. Census of Governments under Allen Manvel.)

* Classification of land for taxation, with preferential low assessment for lower uses (rarely are assessments above the market for any use, except apartments and rentals for the poor). In California, some favored use-classes are farming, timber, and golf. Alabama has another set of low-tax classes, favoring land in forests and hunting grounds, catering to the Heston vote in league with absentee corporate owners (and, for no visible theological reason, organized fundamentalists). Lands in classified uses are assessed by capitalizing their visible money income from the official use only, thus exempting from the tax base all values from rustic manorial, recreational, and blood-sport uses, and all speculative values based on higher future uses. In vast rural and sylvan areas these other influences are the main source of market value. (continued on page 10)

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* Assessments capped by zoning, even when the market does not believe the zoning will endure, or be enforced

* Regressive assessments, swayed by case law which reflects differential ability to finance lawsuits and appeals

* Discounts for large lots or other holdings that should be subdivided

* Failure to publicize assessed values. In some states the values are not even open to public inspection -- Lee Reynis, Director of the Bureau of Business & Economic Research, University of New Mexico, has told this audience of secrecy enforced by law in New Mexico

* Reluctance to recognize premium for plottage potential

* Exempt lands, owners, and land uses. Churches, often targeted by critics, are minor offenders. Cemeteries are major: they also include commercial ventures holding vast lands for future sale. Commercial or not, they consume more than their share of water, often at preferential rates. In industrial-dependent Milwaukee, cemeteries preempt more space than all industry, which helps account for the city's 20% population decline since 1960. Public lands held by schools and the military tie up much of San Diego. New York City and Washington, D.C., are notorious for their "free lists" of exempt lands. Once an agency acquires land it never again appears in the budget, so bureaucrats squander it.

* Homestead exemptions, in some states -- widely abused.

* Preferential underassessment of lands with low turnover. Extreme underassessment of lands that do not sell: corporate holdings; proprietary golf clubs; dynastic holdings; inherited lands.

* Rail and utility adjunct landholdings, i.e. other than their ROW. (These are state-assessed, not on local tax rolls; are assessed as acreage, usually, which means underassessment; anyway, taxes are passed on to ratepayers in the rate-regulation process. Vast holdings by rails, e.g. 10% of Chicago; 5% of Milwaukee; vast SP holding south of Market Street in San Francisco, and statewide.
Hydrocarbon holdings by regulated utilities.)

* Rights of way. Assessors ignore monopoly power inherent in ROW, assess ROW land on its value in the best alternative use.

* Discounts to large owners who have policy of slow sales or leasing. (Such discounts are given to Oregon timber; to Appalachian coal; and many extractive resources.
They are given to laggards in ecotones.)

* Conventional reluctance to base assessments on speculative values, even when condemnation awards are so based.

* Failure to assess land first, using maps (with building value as the "residual").

b. Use of IRS data on reported rents

Many economists rely on data generated by the IRS, taken from tax returns, to tell them the sources of income in the U.S. This is an exercise in crediting bad data. The standard tax procedure of landlords is to deduct alleged "depreciation" from their net operating rents ("cash flow") to arrive at taxable rents. They accelerate depreciation enough, usually, to report little or no taxable rent. This is what the IRS then aggregates and reports as the sum of all rents. To accept such fiction as fact is inexcusable, but economists do it anyway. Their credulity lends their authority to the IRS, while the IRS "official" status helps legitimize the economists -- mutual validation of mutual error, the curse of science.

When owner A has exhausted his tax "basis" by over depreciating, he sells to B for a price well above the remaining basis. B then depreciates the same building all over again, then sells to C, who sells to D, and so on, so each building is tax-depreciated several times during its economic life. In any given year, most income properties in the U.S.A. are being tax-depreciated, even though most have already been depreciated once or more.

In addition, all owners after the original builder are in a position to depreciate some of the land value, as well. This is because the owners control the "allocation of basis" between depreciable building and non-depreciable land. The IRS has no defense against secondary owners who over allocate value to the depreciable building. Congress has never authorized the IRS to develop any in-house capacity to value land. The most the agency does, if it will not accept the word of the tax filer, is to look at allocations used by local assessors. These parties, in turn (with a few notable exceptions), underassess land relative to buildings, by using the erroneous "land-residual" method of dividing land from building value. This is partly to accommodate their local constituents -- assessors are locally elected or appointed, and do not report to the IRS. A little math will tell you that to depreciate land just once is to achieve perpetual tax exemption. To depreciate it again and again is a continuing subsidy for holding land.

When A sells to B there is a large excess of the sales price over the remaining or "undepreciated" basis. This excess is, to be sure, taxable income. However, Congress has defined this kind of income as a "capital gain." Most rents, therefore, show up as capital gains. These, in turn, are subject to lower tax rates, deferral of tax, forgiveness at time of death, constant pressure to lower rates to zero, and a dozen additional avoidance devices. These are known to every lawyer and accountant and Congressman, but not, apparently, to most economists, who lazily report from "official" data that rents are a low fraction of national income.

In addition, the IRS reports nothing at all for the imputed income of owner-occupied lands, because this kind of non-cash income is not taxable. Todd Sinai and Joseph Gyourko of the Wharton School report aggregate owner-occupied "house" values in the U.S. in 1999 were $11.1 trillions. The annual rental value of that, figuring at 5%, would be roughly half a (continued on page 11)

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trillion dollars a year -- quite a chunk to omit from the rental portion of national income. We also know that the prices of lands for both housing and recreation have risen sharply since 1999, perhaps by 50% or so, so that $11.1 trillion may be $16.7 trillion now. That means that the imputed rent income is 50% higher than half a trillion (i.e. 3/4 trillion dollars), and also that the net worth of the owners has risen by about $5.6 trillion. Such silent gains are also a form of income from land. To all that, many economists remain blind, dumb, and curiously incurious.

Sinai and Gyourko's treatment is superior to what one usually sees, with some effort made to treat land separately. However, even they, like others, write of the imputed income of owner-occupied "housing," exclusively. That is doubly misleading. First, it emphasizes the house, the building, de-emphasizing the land. That is wrong because the income proper imputable to the house, per se, is much less than its rent equivalent. The house requires constant expenses for upkeep, heating, maintenance and repairs, cleaning, painting, etc. etc. The house also depreciates, physically. Those expenses and the depreciation must be deducted from the rental equivalent to get the net income.

The land, that is the space and location, does not depreciate physically, and so requires none of those expenses. Its rental equivalent is its net current income. Instead, it usually appreciates in value, and that annual increment is also a current income. So the "imputed income of owner-occupied housing" is mostly attributable to the land -- but no one is saying so.

Second, it is misleading by omitting vast lands beyond the "house" value, narrowly defined. We may presume that "house" includes the land under it, and a little yard or curtilage, but what about other lands held for the owners' personal enjoyment? No agency collects data on such lands and their values, but common observation tells us they are vast and valuable, and dominate values in many "rural" counties.

c. Use of "NIPA" accounts from the U.S. Department of Commerce

The standard source of data on GNP and its components is the National Income and Product Account (NIPA), kept and published regularly by the U.S. Department of Commerce. When it comes to rent, however, NIPA depends on the IRS figures, which thus are passed along to all students of economics as the "official" accounting. We have just seen how far from reality these data are.

NIPA is worse, in a way, because NIPA explicitly excludes "capital gains" from National Income. That is, first the IRS converts rents into capital gains, and then NIPA banishes capital gains from GNP, National Income, and National Product. "Capital gains" is an artificial term, that includes all gains realized from the sale of what Congress defines at any time as "capital assets." "Capital assets" include land and improvements, housing, common stock, growing timber, breeding herds (including race and show and riding horses), mineral and hydrocarbon reserves in the ground, and several other favorite holdings of the rich and well-connected. As we saw in "b", most commercial rents show up as capital gains, so that NIPA does not report them at all. Then along come highly visible economists like Paul Samuelson, Robert Solow, Theodore Schultz, Edwin Mills, Jan Pen, and others to look up this datum, and declare that land rents are no more than 5% of national income, and cannot possibly support modern governments. This is unfortunate, and quite misleading.

NIPA is better by virtue of its making a gesture at including the imputed value of owner-occupied housing. Whether they do it right is a question on my agenda.

d. Use of Federal Reserve Board (FRB) estimates

Another source of data is the FRB. Unfortunately it is ensnared in the same intellectual webs as the other agencies, so its nominal independence is wasted. Michael Hudson has dissected FRB methods, which resulted in reporting rents of income property far below reality. The reductio ad absurdum arrived when its clerks, evidently plodding "on automatic," duly reported that the rents of all the income property in the U.S.A. are negative. Someone in authority finally noticed, was embarrassed, and discontinued the series.

e. Relying on the National Bureau of Economic Research (NBER)

Many economists treat numbers from the NBER as iconic. The press routinely cites their datings of U.S. recessions and recoveries as "official." Many writers cite Raymond Goldsmith's estimates of United States land values, dating from 1955 and 1962, as "authoritative," because they carry the NBER imprimatur. Yet they do not bear examination, even for their times. They were generated as incidents to other work in an offhand and indefensible way.

It is not easy to retrace Goldsmith's steps; one must track interlocking footnotes from several sources. At the end of the trail, however, he simply takes residential land value as 15 percent of building value (which comes to 13 percent of land and building value). The basis of this allocation is the share of land in the cost of one to four family houses insured by the Federal Housing Authority, which was about 20 percent. He does not even explain why he cut this down to 13 percent. Goldsmith then applies this basis to nonresidential real estate as well. As for corporate-held lands, he enters them at book value -- an attitude that opened the door to an epidemic of corporate raiding. Goldsmith also seems to omit vacant lots and unsubdivided land.

These methods are not worthy of the faith with which several economists cite the results. FHA-insured houses are not typical. They (continued on page 12)

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tend to be new and on cheap land. Those not new are not very old -- in 1967 the median age of insured existing homes was thirteen years. To apply such data to a typical American city, most of whose dwelling units in 1965 antedated 1920, was outlandish. It is more outlandish today in 2004.

FHA clientele is lower middle class, which means the land share is low, land being both a consumer luxury and a rich man's hedge, the land share rising sharply with value. The high land share in Beverly Hills, Greenwich, Belvedere, Santa Fe Springs, Palm Beach, Kenilworth, and other enclaves of wealth is missing from FHA data. The FHA is most active at the expanding fringe of cities. A basic fact of urban land economics is that the land share rises toward the center. In Manhattan, for example, the share of assessed land value has always been higher than in the other boroughs.

Applying a land fraction derived from residential data to commerce and industry is not believable. The land share is highest in retailing, the more so now that retailing entails vast parking areas. Filling stations and and drive-ins of all kinds entail vast aprons for small buildings with short lives. Some retailers store their inventories outdoors: auto dealerships, lumber yards, junk yards are examples. Many wholesalers and industries do the same: tank farms, railroad yards, utility easements, industrial reserves, dumps, drive-ins, salt beds, terminals, heaps of coal and salt and sulfur, and so on and on. In downtown Milwaukee, half the assessed value is land. In Manhattan, it is instructive to consider the Empire State Building. If ever a structure overdeveloped a site, the world's tallest building on a fringe site should be it. Yet in two transactions since 1950 the site was valued at one-third the total. One may infer what this implies of the whole island.

Anyone active in real estate would have caught Goldsmith's error. Yet it passed muster with the NBER, his publisher the Princeton University Press, and several learned academic reviewers. This is not a measure of their general incompetence, but of the extent to which academicians have walled themselves off from anything bearing on the realities of land values and rents. Goldsmith treated land carelessly, as a trivial side-issue, and his finding was ignored by everyone except those who needed to invoke an authority to trivialize land value.

Several published case studies document the higher ratio of land value to building value in non-residential uses, and central cities. Here I will merely list them.

* Wilks, H. Mark, 1964. Rating of Site Values: Report on a Pilot Survey at Whitstable, abr. ed. (London: Rating and Valuation Association), p.14

* Wendt, Paul, Dynamics of Central City Land Values, Research Report 18 (Berkeley, Calif.: Real Estate Research Program, University of California, 1961), pp.40, 42

* Cowan, Bronson, 1958. A Graphic Summary of Municipal Improvement and Finance, International Research Commission on Real Estate Taxation (New York: Harper and Bros., 1958), passim.

* Griffenhagen-Kroeger, Inc., "The Effects of Tax Exemption for Improvements and/or Personality," mimeographed (San Francisco (?): Assembly Interim Subcommittee on Tax Exemption, California Legislature, November 1962), pp.25-40

* Schwartz, Eli, and James Wert, An Analysis of the Potential Effects of a Movement Toward a Land-Based Property Tax (Albany, N.Y.: Economic Education League, 1958), pp.19, 23

* Gaffney, Mason, 1970. "Adequacy Of Land As A Tax Base." Published in Daniel Holland (ed.), The Assessment of Land Value. Madison: University of Wisconsin Press, pp.157-212, esp. Table 9.3

On the whole, Gaffney's findings in Milwaukee bear out findings of the other studies, although the Milwaukee patterns are more complex. Goldsmith's transfer of the land share in a few new FHA residences to all urban real estate is a momentous error that dominates his estimates and destroys any value they might have.

Another Goldsmith error is to exclude subsoil assets. In cities overlying oil pools, like Huntington Beach, that would make a big difference. In most cities that may not matter, but is symptomatic of how insouciantly Goldsmith handled this whole matter of land values.

f. Ernest Kurnow's work under Lincoln and Moley

Ernest Kurnow low-balled land and rent values in a chapter in Joseph Keiper, Ernest Kurnow, Clifford Clark, and Harvey Segal, 1961, Theory and Measurement of Rent (Philadelphia: Chilton Co.). In an introduction, the authors thank the Lincoln Foundation for financing their work, but then go on to thank David Lincoln and Raymond Moley personally for intellectual guidance. Then, extraordinarily, they omit the standard disclaimer absolving their advisors and taking full responsibility for the work that bears their names. This is a unique omission. Res ipsa loquitur: David Lincoln is speaking. That helps explain why researchers seeking full estimates of land values seek in vain at the Lincoln Institute, Lincoln's alter ego.

Kurnow's basic source is tax assessments. He accepts their allocation of value between land and buildings. Errors are possible, but he dismisses them because "in all likelihood there is a tendency for such errors to cancel each other." We have seen how wrong and biased that is. He does not even correct for the assessment bias shown by sales-assessment ratios of Manvel's Census of Governments, nor for the greater degree of underassessment revealed by mapping of land values. He does not consider any of the 17 bulleted points shown above.

Most modern economists who look into these matters rely upon standard sources a-f above, mindless, or perhaps even glad, of their downward biases, and unwilling to research the matter themselves. (continued on page 13)

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Young students are intimidated and awed, or at least impressed and convinced, by the "official"-looking auspices of the standard sources.

NOTE: DUE TO SPACE LIMITATIONS IN GROUNDSWELL, THE REMAINDER OF THIS TEXT, CONSISTING OF 14 MORE POINTS, IS REDUCED TO AN OUTLINE FORM

2. Recent rises, and likely future rises.

Prices of land and resources have risen sharply in recent years, but assessments always lag. For example, forty years ago Alfred Kahn and Paul Davidson found that most oil profits were rents. Since then prices have risen from under $10/bbl to about $45. Natural gas prices have doubled in the last 6 years.

3. The Land Fraction of Real Estate Value (LFREV) is much higher than standard modern sources show.

On most assessment rolls the value of old "junker" buildings, on the eve of demolition, is listed as higher than the land under them. This betrays the erroneous use of the "land-residual" method of separating land from building values. It should be obvious that the old junker has no residual value: that is why it is being junked. Junking is continuous in enclaves of high value like Kenilworth, Illinois, or Beverly Hills, California. "Locational obsolescence" is the key concept. The high and growing value of the underlying site cannibalizes the residual building value.

Broadening the concepts of land and its rent (Items 4-10)

4. Many rents are best tappable by variable charges.

"Taxes on rent" are much broader than the traditional property tax on real estate ex buildings.

We explore in this work the revenue potential of ariable charges on road crowding, water withdrawals from surface and underground sources, minerals extraction, air and water pollution, spectrum use, fish catches, billboards, and so on. Some of these are major additions to land revenues. California, a major oil-producing state, does not even have a severance tax. In the fiscal crisis of 2003, with 136 or so candidates running for Governor, only one (Arianna Huffington) even mentioned it, so total is the mental blackout.

Taxing air and water polluters by levying "effluent charges" won the favor of economists in the 1960s. Make polluters pay for preempting publicly owned air. Reaction in America later moved towards creating private property in pollution rights.

Non-point pollution does not lend itself to effluent charges, nor to markets in pollution licenses. It calls for a variety of creative counter-measures, including but not limited to land value taxation.

5. Taxes on property income.

These can easily be made into a means of collecting land rent while exempting the income imputable to real capital. Income taxes are less efficient than LVT, because the former might impose some marginal disincentive, some "excess burden." Yet, many private landlords write participatory leases in preference to fixed cash rents. The fisc [treasury] can develop this option, too. Indeed it did not long ago, led by Walter Heller, JFK's Chair of the Council of Economic Advisers (CEA).

The personal income tax base includes income from land. That's what the 16th Amendment was all about.

The personal income tax can be converted into a tax on land income in two steps. A. Exempt wage and salary income from the tax, then raise the rates. (Corporate income is already net of payrolls, and we have taxed it from 1909). B. Remove capital income from the base. This is done by "expensing": letting investors write off what they spend on new capital, at or near the time they do it.

6. Substituting taxes for subsidies to promote conservation, turning "Negabucks into Megabucks" for the treasury.

Water makes a good example. Now, as for years past, we subsidize landowners to withdraw water. The benefits of the subsidy are roughly in proportion to the area of irrigable land owned. As a result, water is maldistributed, underpriced and wasted. There is also great revenue potential in water. In an arid land, water is life. The Constitution says that water belongs to "the people of California." The State can serve market efficiency, conserve water, and raise revenue in one stroke by putting a charge on water withdrawals. Such a charge would also expedite the current movement to market water. Many in the Green Movement also see the double efficacy of "Pigovian" taxes (effluent charges that "tax bads, not goods") to curtail overuse and pollution of common airs and waters, while also raising revenue.

7. Taxing unearned increments as current income.

There is a swelling of land gains as a component of income. Gains on land value are a form of land rent, eminently taxable. Great is the need for objective economists to establish the taxability of capital gains, to show how to tax unrealized gains as they accrue. It's surprisingly easy: levy a property tax based on the market value of appreciating land. That is just what the property tax was, before the current movement to limit assessed valuations to capitalized income from current use only. (continued on page 14)

SOUNDING THE REVENUE POTENTIAL OF LAND (continued from page 13)

8. Variant kinds of natural resources, hitherto neglected or not classed with land, show great revenue potential.

Some examples are the radio spectrum; telecom relay sites; slots in the geosynchronous orbit; fishing quotas; quotas of all sorts on production and marketing; pollution permits; power drops; street parking spaces; driving on congested roads and through bottlenecks; mooring boats; etc.

9. Variant forms of tenures to resources, omitted from standard tax rolls, show great revenue potential.

Leases on public lands give tenure, de facto, but are often exempt because the public land is exempt. Often they are "sweetheart" leases, like grazing leases in New Mexico and 16 other western states. Aircraft landing "slots" and "gates" are protected by Federal power from local taxes. Water "rights" are mostly licenses, hence not real property, hence generally exempt from property taxes. Resort homes and mineral claims and timber cutting rights on Federal lands are "possessory interests," sometimes not on the tax rolls. Licenses assigning radio spectrum are "on" Federal property, hence exempt from local taxes.

There is a class of "land-grabbing" capital whose value derives from its ability to preempt common land. Vehicles on public land, whether parked or moving, preempt valuable space and are a means of establishing a kind of mobile tenure. (Donald Shoup reckons that potential revenues from street parking, now free, could raise as much money as the entire property tax now does.) Boaters in large, fast, noisy, polluting vessels on small lakes take over the lakes as if they owned them. Polluters in effect preempt de facto pollution easements over neighboring lands, including the public lands in streets and parks. Owners of surfboards, ATVs, horses, snowmobiles, trail bikes, rifles and the like impose a wide footprint over vast tracts of public and semi-public land without paying rent. Culturally we have a long way to go before the American public realizes what our cowboy attitudes are doing to us, but it's time to start by collecting rent, directly or indirectly.

Leaseholds on the OCS (Outer Continental Shelf) are outside state sovereignty, hence not subject to property taxes. Their tenure was established by U.S. military might as recently as 1946, when President Truman unilaterally extended our boundaries from the traditional 3-mile limit to 200 miles. That is not the end of it, however, for our military/diplomatic/financial umbrellas undergird tenures of American nationals and allies in nations around the world, and protect vessels at sea, even those flying foreign flags of "convenience" (i.e. tax-avoidance). There is every reason why private beneficiaries of these tenures should pay for their protection.

10. Rents that are now dissipated, but need not be.

a. Dissipation by open access

It is a truism of economic theory that open access to lands dissipates and destroys potential rents, by overcrowding. Open range and fisheries are classic examples from olden times. Fisheries are being privatized only in our times, and the rents, where observable, are often over half the catch. Streets and highways are like open ranges, with cars and trucks instead of cattle and sheep. The revenue potential of charging motorists for squeezing into crowded streets is staggering. William Vickrey, among others, has come up with vertiginous numbers. The beauty of it is that discouraging marginal trips by pricing actually can increase the aggregate traffic flow, a double gain.

Access to underground "pools" of water and petroleum is limited to overlying landowners, but even that degree of openness is enough to destroy much potential rent that may be conserved by unitized control or better, severance taxes.

b. Dissipation by rent-seeking in the process of tenuring

Private tenure is not the panacea for all resource problems, because the process of creating tenure entails orgies of "soonerism." Notorious examples are exploring for minerals in the preleasing period, and establishing water licenses based on prior appropriation, and radio spectrum licenses based on histories of broadcasting.

Uncapping the tax rate (Items 11-15)

11. Removal of reasons for limiting tax rates

a. The base is not erodable (tax capitalization is not erosion)

b. There is no taxable event, hence no Laffer Effect or Excess Burden (except as in #4, above, where the slow-down is deliberate, for conservation and congestion reasons).

c. The base is highly concentrated, making the tax progressive in impact.

d. The tax encourages both saving and investing, leveling them upwards, the macro-economists dream.

e. The tax base is the after-tax value of land, making the real rate much lower than the apparent rate.

f. Using the tax to obviate other taxes raises the tax base via the ATCOR Effect (see #13, below).

g. The tax fosters better allocation of the tax base, raising its taxable capacity.

h. The tax hits absentee owners of land, without discouraging the inflow of capital. (continued on page 15)

SOUNDING THE REVENUE POTENTIAL OF LAND (continued from page 14)

There is a strong local multiplier effect from taxing absentee owners. Refer to #15, below.

12. The unseen reservoir of high internal valuations and holdout prices

The observed land market conceals holdout values, which are much higher. The "willing seller" concept is mostly fictional: it is the "motivated" seller who makes the observed market. Most sales are in some way "forced." Other owners want higher prices -- that is why they are not selling.

The meaning for tax policy is that there is scope for raising tax rates substantially without flooding the market with distress sellers.

13. Raising taxable rents by untaxing capital and labor, production and exchange: the concept of ATCOR (All Taxes Come Out of Rents)

The meaning and relevance of ATCOR is that when we lower other taxes, the revenue base is not lost, but shifted to land rents and values, which can then yield more taxes. This is most obvious with taxes on buildings. When we exempt buildings, and raise tax rates on the land under them, we are still taxing the same real estate; we are just taxing it in a different way. This "different way" actually raises the revenue capacity of real estate by a large factor, by relieving it of the excess burden of taxing production and capital. This is that "free lunch" that Chicago economists wrongly preach "There ain't no such thing as."

Historical experience with exempting buildings has shown that builders offer more for land, and sellers demand more, when the new buildings are to be untaxed. The effect on revenue is the same as taxing prospective new buildings before they are even built, even though the new buildings are not to be taxed at all.

Net result: the revenue capacity of land, when it is substituted for other tax bases, is comparable to current revenues. Owing to efficiency effects, and renewal effects, it may well be higher.

14. Mortgage interest as land rent?

This is ticklish, so I advance it tentatively, lest it divert us from the main chance.

a. Municipal general obligation bonds.

When a government borrows on the security of land revenues, it is in effect selling those revenues to the borrower. The bondholder becomes a landowner, and could be taxed as such.

b. Private mortgages.

One kind of private paper is systematically recorded at the county level: mortgages, or deeds of trust. It is administratively feasible to put these into the property tax base, as Professor Don Hagman of UCLA Law School urged. A tax on mortgages would be mostly shifted to borrowers in the form of higher interest rates, the supply of mortgage funds being highly elastic. Thus, to tax mortgages is indirectly to tax real estate.

Mortgage lending would shrink, it is true, but that would release funds for other kinds of loans, shorter-term loans, causing higher turnover both of loans, and the nation's capital stock. Both can be shown to have positive allocative, distributive, and macro-economic effects. Most beneficial would be the effect on stability of lending institutions.

It is widely assumed that cheap long term credit is essential to let most people buy real estate. That reasoning overlooks the nature of land values, which makes it circular. The main effect of long term loans is to inflate land prices, creating the very problem it offsets. It is a treadmill effect, like keeping up with the Jones's, and this treadmill has a history of breaking down in crises.

15. Multiplier effect of taxing absentee owners to spend funds locally

Transferring rents from absentees to be spent locally improves the State economic base and balance of payments (except to the extent the State outsources its work). Focusing taxes on land means absentees cannot remove the tax base from our state. The worst they can do is sell it to residents, thus raising the quality of life. California's legislative analyst, William Hamm, estimated in 1978 that over fifty per cent of the value of taxable property in California was owned by residents of other states or nations. The potential impact of this factor is enormous.

There is a curious silence on the matter. When it comes to discriminating against immigrant workers, xenophobia fills the air. There is a hue and cry against outsourcing. Taxing alien property, however, pushes a different button. Yet, here is one instance where localism may be harnessed to help create a more healthy society. The purpose of democracy is to represent the electorate, not the absentee who stands between the resident and the resources of his homeland.

Summary on fifteen new elements of taxable capacity.

Previous estimates of rent and land values have been narrowly limited to a fraction of the whole, thus giving a false impression that the tax capacity is similarly narrow. We are adding Fifteen Elements to the traditional narrow "single tax" base:

* correcting omissions and understatements in standard data sources
* updating ancient sources that use obsolete low values (continued on page 16)

SOUNDING THE REVENUE POTENTIAL OF LAND (continued from page 15)

* raising the Land Fraction of Real Estate Values (LFREV)

* adding rents that are best taxed by use of variable excises

* adding rents taxable by income taxes

* substituting taxes for subsidies to foster conservation

* adding current unearned increments as part of ongoing rent

* adding previously invisible and undervalued resources to the tax base

* adding lands held under variant forms of tenure

* adding rents that are now dissipated, but need not be

* noting the feasibility of much higher tax rates on a base that is both non-erosive, and concentrated in ownership

* noting the great mass of holdout prices exceed visible market prices by a large factor

* adding the revenue from most existing taxes to the potential land tax base, on the ATCOR principle

* adding (tentatively) the value of mortgage debt

* adding the favorable multiplier effect on balance of payments

Any one of those Fifteen Elements indicates a higher land tax base than economists perceive today. Taken together, they cast a new light on this subject. (C)

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