PROPERTY TAX REFORM THE PHONEY AND THE REAL

" 'Present-use assessment' is the biggest single reason why so many downtowns are ringed with slums and vacant land used only for one level parking."

MOST of the property tax reforms enacted in California and most of the property tax reforms put on the ballot there have offered much more property tax relief to land speculators than to any one else. Not one of these so-called reforms would encourage better land use or encourage private investment in all the new construction needed to revitalise the cities. This was one of a number of points made by Perry Prentice* in a paper on property Tax Reforms presented to the Revenue and Taxation Committee of the California Senate in November 1974.

The self-styled reformers, said Mr. Prentice, put on the ballot, the 1968 Watson Amendment the net effect of which would have been to cut the property tax in half. "This was promoted as a wonderful way to give homeowners property tax relief, but the homeowners were smart enough not to fall for it. They found out from the Taxpayers Association that cutting the property tax in half would necessitate either doubling sales taxes or multiplying income taxes by 2.6. Either way what was being sold as a tax reduction would have ended up making most homeowners pay more taxes instead of less. The only people who would benefit from that kind of tax reform would be land speculators and slum owners."

A second and milder Watson Amendment was put on the ballot in 1972. This would have reduced the property tax only about 25 per cent instead of 50 per cent. Its promoters, the landed interests, said that this amendment would let all homeowners in on the rich profits of land speculation, but, said Mr. Prentice, by 1972 the voters were wise to how the so-called reform would work and who would profit by it, so they voted it down by a landslide, even though the California Realtors spent a quarter of a million dollars trying to sell it. He added, "On the same day that the California voters buried Watson Amendment No. 2 the voters of Oregon, Colorado, and Michigan buried similar proposals whose promoters in those states had tried to sell them as property tax reforms."

Mr. Prentice referred to the Williamson Act which, he said, may or may not help preserve open space but must certainly make it much cheaper and easier for big landowners to hold their land off the market until they can sell it for a lot more than they could get for it now.

A provision in the Williamson Act, relieves landowners of any property tax for as long as they put their land into a temporary open space preserve until they decide the time has come to sell it. This may or may not have some temporary effect in preserving open space far from the cities, said Mr. Prentice, but one thing it certainly does do; it gives big landowners a chance to save a lot of taxes on land they are not ready to sell. For example, the Orange County Assessor says it is giving the Irvine Ranch a $600,000 a year tax saving on land it may not begin to market until sometime in the next century; meanwhile other taxpayers in Orange County will have to make up the difference.

Mr. Prentice went on to say that a second provision of the Williamson Act assured low assessment and low taxes on ripening land over the urban fringe as long as the owners farmed it; the only limitation on this tax abatement was that when the owner was ready to sell the land, he had to forfeit the tax saving for the last five years before the sale. This farm assessment provision was sold to the public as a way to preserve open space, but in practice it had forced developers to leapfrog still further out to get land they could afford to buy, and this had led to the premature subdivision of many thousands of far-out acres that should have been left open country for years to come.

Perhaps worse than that, he said, the legalisation of farm assessments on the outskirts had given added sanction to "present-use assessment" in the cities—i.e., assessing land in the cities on the basis of the income it was now earning instead of on the basis of what it could and should be earning if the owner was putting it to good use. This gave an enormous tax abatement subsidy to owners who misuse and underuse valuable land. Said Mr. Prentice: "From coast to coast it is the biggest single reason why so many downtowns are ringed round with slums and vacant land used only for one level parking.

"The only property tax reform that, will do the cities of California any good and do most of the ordinary property taxpayers of California any good," he continued, "is the property tax reform that will stop subsidising the underuse and misuse of land by

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underassessment and undertaxation and stop penalising improvements by overtaxation."

Studies by the Homeowners Association show that shifting the full weight of the property tax off improvements onto land would reduce the property tax on good homes by as much as 30 per cent, and this is roughly confirmed by other studies, claimed Mr. Prentice. In Washington a computer study covering every local property in the District of Columbia found that based on present assessments, shifting the full weight of the property tax off improvements onto land would reduce the average property tax on single family homes by 18.1 per cent, on two family homes by 20.9 per cent, on walk up apartments by 38.9 per cent, on elevator apartments by 22.5 per cent.

"Conversely it would impose a whopping tax increase on idle land in the city and a whopping increase on the owners of obsolete, inadequate or decaying buildings - including slums - that now preempt much valuable land in and around downtown."

(The California Senate Committee on Taxation and Finance is considering a constitutional amendment that would shift the whole weight of the property tax to unimproved land values over a five year cycle.)

ORWELLIAN FREE ENTERPRISE

Prof. Tommy Rogers

THE DEFENCE of the market economy — or free enterprise — suffers more from a lack of precise definition than from anything else. The meaning of these terms as used by some, may become a mere defence of the right of everyone to sleep under bridges, poor or rich. Unfortunately, "free enterprise" has been held up to a great amount of opposition and ridicule because it has been invoked to justify unearned increments, monopolies in access to land and goods, exploitation of labour, and continuation of inequities. And, of course, it has not been a "planned" response.

However, the basic truths stand regardless of the use of "free enterprise" as a cloak to shield exploitation — which unfortunately is ammunition in the hands of the enemies of pluralism . There is also a tendency to confuse "free enterprise" with monopoly capitalism. Monopoly capitalism is what we have to a large extent in the U.S. It is the Wall Street brand of "free enterprise" misnamed. It is non-ideological, which is why all Wall Street has supported Communism in Russia. Monopoly capitalism is not interested in anything but self-interest, and is opposed to decentralization. It is not that Communism as such is preferred, but that anything centralized which gives greater exploitative leverage and monopoly control to exploit markets is preferred, by whatever name it is called. That is why Wall Street and its foundations always opt for more centralization.

The phrase in the "public interest" was coined supposedly to represent democratic (government) regulation and control of the "excesses" of free enterprise, to cure the inequities in the free enterprise system. But public or government regulation in the "public interest" is a ruse of monopoly capitalism to eliminate competition and to exercise self-serving domination and control of the market. This is a *coup* if there ever was one.

Given this situation, I think the limits of legislative intervention need to be recognised.
intervention, and the totalitarian effects of legislative

Since the market mechanism is "neutral" in operation, we need to recognise that:

* Many are excluded from the market place because the government is responsible for the monopolies, often through state power operated in the interest of monopoly capitalism, and through agencies and regulations in the "public interest" which effectively eliminate the free market and foster monopoly. Here is the *coup* again. Government, in the *name* of recognising inequities of the free market defines the parameters so as to ensure monopoly.

* In many fields where the market is "open", entry is restricted (tariffs or a licence required) so that many have to pay to enter the market place. Here again we see vestiges of anti-free enterprise, not free enterprise at work. Alas, the situation and interpretive mechanisms are such that anti-free market machinations are held as examples of the *failures* of the free market, and as reasons why the free market is anti-social.

* Although there exists inequity in the distribution of wealth, the issue is, under which system is correction more likely to take place, and under which system are inequities most pronounced. Hayek is correct in his warnings regarding contrived law and legislative omniscience in that only a spontaneous order has the possibility for re-establishing free market corrections and equilibrium.

* Many are excluded from the source from which their labour and capital can be effective (land) except upon payment of rent to those who claim nature's gifts as their property. The state and monopoly capitalism (call it free enterprise if you want, but I don't and won't) have together conspired to exploit what William Sumner described as the forgotten man, from access to the only source whereby he could be his own foreman *and* labourer, the yeoman owner idealized and advocated by Jefferson, the system to the extent it was effective, which allowed the United States to throw off the debris of servanthood for so many.

The farm policy in the United States in the last three