



## **PALESKY TAX CAP WOULD MAKE MAINE POORER**

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by Lindy Davies, Jackson, ME

The Palesky tax cap is modeled after California's Proposition 13, one of history's most abysmal miscarriages of public policy. After Prop 13, California's support for public schools fell from No. 5 nationally to No. 40. Road maintenance schedules stretched into infinity; California's bond rating became the nation's lowest.

Unemployment in 2000 was 50 percent above the national average; there was a net migration out of the state. Far from making housing more affordable, the tax cap rewarded land hoarding; rents and housing prices went through the roof.

Despite all that, polls in Maine show a double-digit lead for the tax cap. Proponents talk about neighbors losing their homes - farmers who can't afford to farm - what's this all about?

Tax-cap supporters tell us that Maine's state and local taxes take 12.2 percent of Mainers' income, making Maine No. 2 on the list of high-tax states. But in fact, Maine is not so much overtaxed as it is underpaid. Maine has a large contingent of poor rural homeowners. When people's incomes are low, and they don't buy much taxable merchandise, the property tax is going to take a higher portion of people's income.

The main recipients of property tax revenues are public schools, so some characterize the tax cap debate as a "parents vs. nonparents issue." That may make sense politically - but economically it's off the mark. People outside the real estate business often forget the one indicator that directly registers the effectiveness of public spending on services: the value of land. People are willing to pay more to live in a district that has quality schools, safe streets, etc. The value of those amenities shows up in what your land is worth.

In 2003, the five states with the lowest property taxes were Alabama, New Mexico, Arkansas, Oklahoma and Louisiana -- not exactly economic powerhouses. The highest property tax states are New Jersey, New Hampshire, Connecticut, New York and Rhode Island -- states with higher incomes, lower poverty rates, more kids entering college and lower dropout rates than we have in Maine.

The Palesky plan is so bad that we should look in the opposite direction for a good alternative. There's a hint in the fact that the proposal does allow taxes on new construction. The tax cappers want to roll back land assessments, but continue to penalize people for creating nice homes, and for creating jobs.

So let's grant tax relief -- to buildings and improvements. No longer would people live in unsightly, unfinished homes to avoid tax hikes. (continued on p. 6)

## **PALESKY TAX CAP (continued from page 3)**

Furthermore, since land values reflect the public services enjoyed by a landholder, the best, most sensible source of revenue for those public services is land value. The sane alternative to Question 1 is a revenue-neutral shift to higher taxes on land values and lower taxes on buildings.

True, that would not lower the property tax burden. Needs-based relief for the poorest and for people on fixed incomes should be part of the package. But we should not mince words about the effect of the Palesky plan on our tax burdens. The tax cap will not lower the overall tax burden -- just shift it to sales and income taxation, and more state-level oversight and bureaucracy. Would the tax cap raise revenue by attracting more business to the state? It sure didn't in California. No, the Palesky tax cap would make Maine a poorer state, with a less-friendly business climate and poorer schools. More people would lose their jobs. More young people would leave the state and not come back.

A tax shift from buildings to land, on the other hand, provides strong economic advantages. By increasing the cost of holding land idle, it promotes sensible building in high-traffic areas, creating a built-in incentive for urban infilling and against suburban sprawl. Basing public revenue on land values ensures an increasing source of revenues in precisely the places where the services are needed.

The most prosperous states in the United States are those with higher, not lower property taxes. And, the 19 most prosperous cities in Pennsylvania are those that have shifted tax burdens off of buildings and onto land values. Here's an example: between 1978 and 2000, Harrisburg, Pa., shifted its property taxes from an even land-building ratio to a rate six times higher on land value than on building value.

Relieved from the burden of taxation, new homes and businesses sprang up. In 1980 there were 1,908 businesses on Harrisburg's tax rolls; in 2002 there were 5,976. The city's crime and fire rates have progressively dropped, even as population and business activity have increased.

Every time the shift to land value taxation has been tried -- in Australia, Denmark, South Africa, and most spectacularly in Hong Kong and Taiwan -- it has achieved the same kind of success.

The first priority for Maine's voters is to observe the Hippocratic oath and do no harm: vote no on Question 1. Then we can begin to explore a much better, fairer way to give our communities and families what they need.

Lindy Davies, a resident of Jackson, directs the Henry George Institute's economic education program at [www.learneconomics.org](http://www.learneconomics.org) <<

(GroundSwell editor's note: The following excerpt from the 7-13-04 Wall Street Journal elaborates: "In Maine where property taxes assessed rose an average of 7% in 2002 and another 5.51% in 2003, a group called Maine Taxpayers Action Network, led by Carol Polesky, an accountant and grandmother in her mid-60s, is pushing to get an initiative for a 1% property tax cap on the November ballot.)