
Presentations made in House Office Building

One of the highlights of the 1999 Council of Geogist Organizations conference was a Property Tax Reform Summit panel, which was presented to conference attendees in the Gold Room of the Rayburn House Office Building July 9. The meeting room was arranged for by Rep. Ron Paul of Texas.

CGO president Dr. Drew Harris introduced the panelists. Dr. Nicolaus Tideman is a Professor of Economics at Virginia Polytechnic Institute and State Univer-

sity. Rick Rybeck is a District of Columbia lawyer, real estate expert, and policy analyst. Deborah Katz for the past three and a half years has worked for the Washington Regional Network. Dr. Michael Arnone represents Monmouth County in the New Jersey Assembly.

Moderator Joshua Vincent, Exec. Director of the Center for Study of Economics, explained the format of the panel. Nic Tideman would present a theoretical

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framework. Rick Rybeck carried the theory and research to the next step of how does one talk to Council members and bureaucrats which he advises. Deborah Katz's perspective was more expansive, after the idea has been discussed and gotten out, how that idea can be synthesized and turned into policy. Rep. Michael Arnone addressed the effort of getting a constitutional amendment through the legislative process for split-rate taxation as a viable political choice for cities.

Dr. Tideman commented that we begin with the philosophical idea that people own themselves, and that all people have equal rights to natural opportunities. This leads us to recognize that most taxes other than taxes on land are ethically unsupportable. Most people share with us the idea that what we earn is really ours, but, being unaware of the special ethical properties of land, they reason that government needs to take taxes from somebody and all taxes are equally bad. Most economists recognize that there is something wrong with a lot of taxes, and believe that broad based taxes which tax everything equally are most efficient. If there weren't any possibility of collecting the rental value of land, that would make sense. A more sophisticated economic theory says efficiency is promoted by concentrating taxes on things (including land) that are supplied or demanded inelastically (in a quantity that changes little if at all as price changes.)

Our perspective places the primary emphasis on ethics rather than efficiency. We say that it is not necessary to have ethically unsupportable and harmful taxes on the productive things that people do. We should take the value of taxes through exclusive use of natural opportunities, primarily the rental value of land. Lately we have been adding another idea to our quiver of ideas. That is to recognize the importance of the harm people do to natural opportunities by polluting, and therefore proposing to charge people for the harm that is done by pollution. That is, from our perspective, another example of charging people for appropriating natural opportunities.

Tideman has developed a research program that started when he found people saying there are harmful effects of land taxes, and published a paper explaining what was wrong with their theory. He has been working on showing that taxes on land can make a better economy by reducing profit of land speculation and therefore reducing the amount of land speculation. He has been measuring the accuracy with which land is assessed and finding ways to assess land more accurately. He supervised a doctoral dissertation written by Florenz Plassmann that measured how much more construction there is in the Pennsylvania cities that tax land more than they tax buildings. Plassmann came up with figure that for every 1 percent point difference between tax rate on land and the tax rate on buildings there is an average of 16% more construction every year: 16% more the first year, 16% above base the second year, etc. With 2% differential, you get 32% more the first year, 32% above the base the second year, on average. He recently has been

working with Plassmann on a mathematical model of the effects of the combinations of taxes that various states have on land and labor and capital — property tax, income tax, sales tax, etc. They are bringing together all the effects into a single mathematical model that a computer can solve.

Tideman testified at the New Jersey state legislature when they were considering a two-rate tax bill, a bill that would allow a change in the constitution that would allow the legislature to pass a law that would allow cities to decide if they wanted to tax land more than buildings. In New Jersey opposition was encountered from developers. Why should they oppose the legislature permitting taking taxes off the buildings? The reason is that almost no development happens these days without substantial tax subsidies. The developer comes in and says if you will give us big tax breaks we will develop, how about it? Because cities are doing poorly, they agree. If we had a system where everybody got an automatic tax break, there would not be nearly the same need to give these developers a special tax break.

Rick Rybeck has found that it is initially more effective to tell stories in discussions about shifting taxes. Once people are interested, then more technical explanations make sense to them.

People, including politicians, are beginning to understand that many problems are related to sprawl. We have the problems of cities becoming depopulated, both in terms of households and businesses, moving further and further out into the countryside. We are constantly building new schools in the hinterlands while schools in our already developed areas sit there empty. We spend money on duplicating school buildings instead of on teachers and books. We spend much more money on roads than we do on transit.

Using slides, Rybeck showed how development of roads and other infrastructure — designed to facilitate development — actually ends up driving development away because of accompanying increases in land prices near public facilities.

He then explained that a reduction in property tax rates on buildings and a corresponding increase in tax rates on land values would promote development on high-value land near existing infrastructure. As a result, urban development would be more compact.

Compact development has several advantages. If cities are more compact, we spend less money on infrastructure, and therefore have lower taxes. It offers the opportunity for reduced congestion, more people can car pool, bike or even walk. Only 3% of people in our country can now walk to work. Finally, more compact allows us to use less energy and pollute less, thereby leading to a better quality of life.

Compact development allows us to take advantage of the infrastructure we already have, make better use of our urban areas, and save the countryside for agricultural and conservation uses. As an added benefit, housing will be more affordable and there will be more employment opportunities.

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Deborah Katz's job as coordinator for the Washington Regional Network for Livable Communities is to go into the community and talk to neighbors and other like-minded groups that are interested in making Washington D.C. a better place and a more livable place, and also to preserve what we have left of northern Virginia, and Potomac and Chesapeake and Maryland. Katz commented on what she runs into trying to gain acceptancy by peer groups and the media at large in the District of Columbia area. Washington Regional Network was an informal group when established in 1993; incorporated in 1996, it advocates transportation investment and land use policy and living design that enhances the quality of the environment of the nation's capital region. One of the top priorities is the reinvestment and revitalization of the core of the region and some of the inner city areas or suburbs that maybe are on the decline. The district in particular suffers from over 10,000 vacant lots and 8,000 boarded up buildings. Many District residents face blight and crime problems as a result.

W.R.N. leadership are aware of split rate taxation as a tool to deal with this problem. They have decided to conduct a public education campaign in the District and have met with many groups. Once there is a critical mass of community support, say 20-30 organizations, W.R.N. hopes to meet with Mayor Williams and ask him to study the split-rate or put it in his budget. During his campaign for mayor, he indicated his willingness to look at the split rate tax.

There are certain objects to any kind of grass roots campaign, identifying your short and long term goals, issues, who your allies are, organizational tactics. What are some of the shortfalls and pitfalls that are helping or interfering with acceptance of the split rate tax?

The time is right, our national and regional focus are on restoring the city, and the local focus as well. The mayor ran on promoting private sector development to reach beyond old downtown and into inner city, indicating an openness to look at innovative measures and tax incentives. We have CAMA (computer assisted mass appraisal) which can be used to help implement the split rate tax. There is general agreement something needs to be done about nuisance properties. There is the factor of developing messages simple and clear that people can grasp intuitively: Tax relief for livable communities, TLC for DC. We talk about reversing the backwards incentive of the property tax where fixing up brings higher taxes and boarding up brings lower taxes. That is backwards and needs to be reversed and split rate does that. We talk about revitalization and more housing and more commercial space and job creation.

W.R.N. goes out into community, getting to meet people where they live and on their ground. We try to identify key groups in the District. The Pro-Housing Property Tax Coalition of Washington, D.C. endorsed the split rate in 1991. They did a city wide study and developed facts that showed the over-all benefits in neighborhoods and who would get tax cuts, and we use these facts in our presentations.

Another local group, the League for Urban Land Conservation provided funding to help pay for staff. The Center for Study of Economics, the Pa. Fair Tax Coalition, and groups out there who have worked on this have been invaluable in this campaign.

There are other factors in helping promote understanding by the community: materials and yard signs, and they need funding. "Nuisance properties, NO, split rate tax, YES". We have a detailed 17 page question and answer sheet for people who want more depth. We use Pennsylvania cities and places where this has been implemented as examples. That helps when people say it can't be done. If you are engaged in a grass roots campaign in your community, you will need to enlist the media. Craft your message and approach them in a way that community activists can focus on your issues when they have so many of their own pressing issues. Find volunteers, and occasionally conduct speaker training for people willing to stand up and make a presentation. There is a perception that a split rate tax might harm good open space. Some residents are concerned about too much development. In our fact sheet, we respond. In D.C. there is a lot of tax exempt land and under the land tax it would not be affected. We suggest lower assessment for urban gardens.

Another pitfall is that some people's taxes are going to rise. Most people are going to benefit, and we are concentrating on carrying our message to people benefiting the most. Get a key constituency supporting you and then it is just a political process of give and take with land speculators. Phase in over a period of time and let people get used to the changeover. A major challenge is funding, a small grass roots organization must continually search for funding from foundations and individuals to keep going.

Assemblyman Michael Arnone chairs the Local Government Committee of the New Jersey Assembly. He has been mayor of Redbank in Monmouth County, which he now represents. In New Jersey, the change will only get through by getting a constitutional amendment on the ballot and going to millions of voters in N.J. Arnone heard about land value taxation around 1965 when Nation's Cities magazine featured articles on the inequities of the property tax and told about the land tax. Arnone had just gotten to be chairman of the Planning Board, after which he became Zoning Board chairman, then served on the Council, and then was Mayor for 12 years. He was a 1973 candidate for General Assembly, and at that time the Governor's policy reform commission report concluded that site valuation had practical value in urban areas. He campaigned in 1973 on that. That was the Watergate era and a bad time for Republican to run, so he went back into local government and became mayor.

He ran again in 1989 and was elected. When he got into the Assembly, he introduced two bills, in 1992 and in 1993, but didn't get anywhere with them. He really was on his own. He had never heard of C.S.E. He didn't realize a lot of people didn't know what he was doing it until he again

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introduced his bill, and then people took it off on the computer. When he introduced the bill, that followed Gov. Whitman's tax commission. That commission didn't come out with anything about changing the structure of property tax.

His amendment to the constitution is the first time anyone in N.J. has attempted to change the basic structure of the property tax, which was instituted in 1851. The present property tax is an inelastic, residual, and ad valorem tax that has served for many years. Nationally the property tax stayed fairly consistent around 3% to 4% of gross national product until the 1950s. Then property tax for educational financing was viewed as uncon-

stitutional. With this particular amendment, Josh Vincent, Professor Tideman, Professor Drew Harris, and Ted Gwartney all came to Trenton to testify in favor of the amendment. We didn't get the bill through, but there was a lot of success.

Arnone met with Gov. Whitman, who thought it a good idea, and with Congressional Commissioner of Community Affairs (who referred to it as an urban tool kit). The League of Municipalities (which represents all 566 towns) thought it a good idea, as did the New Jersey Conference of Mayors. The N.J. Building Assn. endorsed it, as did the Sierra Club and Audubon Society. All the Chambers of Commerce endorsed it. It looked like a real winner. But by letting this amendment drift laterally,

it allowed a lot of forces to regroup and muster themselves up. We have got to recognize there are groups of people that profit from the property tax as it is now, and don't want to change. Arnone is trying to evaluate these subsidy programs, to show who is profiting, and trying to burden the recipient of these incentive programs for whatever money coming to them. Of the 22 ball parks built in N.J. with public dollars, 20 are failures and don't make any money. Only constructors make money. Another group just doesn't understand the split rate tax. People in political life want to see things happen while they are there. They don't want to plant seeds for 10 years later. The mayor wants to see buildings go up and cut ribbons now.