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## Becker, Land and Building Taxes: Their Effect on Economic Development

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## BOOK REVIEWS

### *Land and Building Taxes: Their Effect on Economic Development*

By

ARTHUR P. BECKER, *Editor*

Madison, Milwaukee, and London:

The University of Wisconsin Press. 1969.

Pp. 308, price unknown.

Property taxation in the United States is characterized by the implicit assumptions that tangible personal property and improvements to land have the same economic characteristics as land itself and that the property tax should be uniformly applied to each type of property. This book, which resulted from a symposium sponsored by the Committee on Taxation, Resources and Economic Development at the University of Wisconsin, Milwaukee, in 1966, successfully challenges those assumptions.

The concept underlying the book's major thesis is that the supply of land can be neither increased nor decreased by changes in price or demand, whereas the supply of improvements to land and tangible personal property will, in the long run, be increased or decreased by such changes. Thus, while the supply of land cannot be reduced by taxing land value, the supply of improvements to land and tangible personal property can be reduced by taxes which increase their cost.

The basic concept leads to the proposition explored in this book: that the present tax on improvements to land and tangible personal property should be removed, and the tax on land values should be increased to maintain revenues equal to those being generated by the present tax on all three types of property. Broadly stated, the authors seek to demonstrate, through technical economic analysis, that such legislative action would tend to: (1) decrease the selling price of land by the capitalized amount of the increased tax on land values, thus enabling persons with less capital to acquire land; (2) increase the annual cost of holding unimproved or underimproved land by the amount of the increased tax on land values, thus encouraging those unable to develop land to sell it; (3) decrease the cost of adding improvements to land, since such improvements would be free of the present property tax; and (4) encourage the addition of such improvements, since only improved land would generate the income necessary to pay the increased tax on land values. Thus, in the authors' views, increasing the tax on land values and

removing the tax on improvements to land and tangible personal property would tend to stimulate the economic development of presently unimproved and underimproved land.

While one may doubt the short term political practicality and administrative feasibility of effecting such a shift in the property tax, the economic analysis applied to the suggestion by the economists and other specialists who have contributed to this work could lead to a more cautious approach to the property tax by legislative bodies and, hopefully, to expanded research in the field of property taxation.

One of the contributors to this book suggests that economists' aversion to the "single tax," popularized by Henry George in his *Progress and Poverty* (1879), may have made the issue of property taxation "taboo" in the academic world. Whatever the cause of the failure to critically examine the effects of the property tax as applied in the United States, it is hoped that this work, together with the pressures for increased revenues for local governments, the interest in urban renewal and economic development, and the concern about land use will serve to stimulate further research in this field.

The book contains five case studies on the application of the property tax to land or "site" values. The cases involved California irrigation districts, Australia and New Zealand, Chile, Columbia and Jamaica. While these studies do not contain clear conclusions as to the economic effects of "site" value taxation, they do suggest that further study is indicated.

The emphasis in this book on urban land taxation makes a similar analysis dealing with rural land taxation desirable. It is doubtful that any substantial revision of property taxation will occur in the absence of careful research on the economic effects of altering the taxing method on rural, as well as urban, land. Such revisions are also unlikely unless the administrative problems of separating the unimproved value of land from the value of improvements are more carefully researched, since the difficulty of administering the present property tax system is well known.

Further, the existence of laws providing for favored tax treatment of agricultural land adjacent to urban areas suggests that there may be a present policy which would increase the difficulty of taxing the unimproved value of land and removing the tax from improvements if present revenue levels are to be maintained.

The persuasive economic arguments made in this book for increasing taxes on unimproved land or "site" values and eliminating taxes on improvements to land, indicate that legislative bodies, especially where economic development is desired, should exercise great

caution in increasing property tax burdens until the economic effect of taxing improvements to land is carefully considered. These same arguments would seem to suggest that a degree of economic development might result from removing the property tax from tangible personal property used in the production and distribution of goods and services.

Despite the technical nature of the analysis contained in the papers which make up this book, those involved in matters of taxation, land use and urban development will find the volume useful. It is especially recommended to those responsible for legislative action, since it calls into question the unstated assumption upon which our present property tax is based—that land, improvements to land and tangible personal property have uniform economic characteristics which justify application of the property tax to all three.

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