Cover Sheet

Submitter: Steven Cord, President – Center for a Better Economy

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10 March 2005

TO: PRESIDENT’S ADVISORY PANEL ON FEDERAL TAX REFORM

FROM: STEVEN CORD (Professor-Emeritus, I.U.P., currently President, Center for a Better Economy, 10528 Cross Fox Lane, Columbia MD 21044, 1-800-252-3126 or 1-410-997-1182

There actually is a tax that creates jobs, quite irrespective of the revenue it collects; even if the revenue were thrown away, the economy would still benefit!

This may sound too good to be true, but this tax has actually been applied in the world, and all empirical studies show that it always has had good economic results. We should not argue with the facts. The secret is to tax something that no one can produce rather than tax jobs or what they produce. Here's what these studies show:

>>Most people get tax cuts (without diminishing government revenues at all)
>>The economy grows (because taxes on production have been considerably reduced).

I append below brief summaries of 22 representative studies of existing applications and request permission to appear before the Panel to make a formal presentation of them and to answer questions. The 22 studies are taken from 237 in my possession (and I have more); I have spent a lifetime compiling these tax studies. As it happens, I induced 20 American localities to adopt this type of tax, and all studies show good results.

Won't the Panel want to hear about these tax studies from someone who has compiled them, and done some of them?

It has just occurred to me after writing the above request that I ought to specifically address the Panel's listed questions:

(1) Unnecessary complexity and burdens -- The current Income Tax Code is very complex, taking at least 55,000 pages of IRS explanation requiring hordes of lawyers and accountants to interpret. The tax I propose might take as many as three pages of explanation and would impose no burden at all on productive efforts (in fact, it would aid those efforts since it would motivate all land sites to be used productively).

(2) Unfair -- it is unfair to tax production when an alternative is readily available.

(3) Distorts important business or personal decisions -- rather than tax those decisions, tax something that cannot be produced instead.

Sincerely,

[Signature]

Steven Cord
Empirical Support for Land Rent Taxation

I have recently discovered 237 empirical studies (and could easily list more) all substantiating that when private building assessments are taxed at a lower percentage rate and land assessments are taxed at a higher percentage rate, new construction and renovation increase and most people pay less in taxes. There are also other benefits. The studies come from all over the world and many are included in a new book, The Golden Key to Continuous Prosperity.

I could find no empirical studies contradicting these results (and I have read extensively on this subject). Here is a summary of these 237 studies:

- 45 studies prove that when a town adopts land rent taxation (hereafter referred to as LRT) a spurt in new construction and renovation results.
- 63 studies conclude that towns switching from taxing buildings to taxing land always out-constructed and out-renovated their comparable neighbors who were subject to the same economic-growth influences.
- 83 studies concluded that most voters paid less with a revenue-neutral building-to-land tax switch. In 2 studies, most voters paid slightly more. Important: the government lost absolutely no revenue at all.
- 30 studies concluded that LRT had various miscellaneous advantages - for example, tax defaults decreased, which is what you would expect if buildings are taxed less.
- 6 studies concerned farmers: in three studies, farmers essentially broke even with a shift to LRT, in one study farmers would pay slightly more, and in two studies farmers would pay slightly less. Australian farmers have generally voted to adopt LRT.
- 8 studies listed endorsements (also, there are literally hundreds of endorsements by prominent authorities listed elsewhere).

Readers can obtain a copy of this 237 report by writing to me at 10528 Cross Fox Lane (E2), Columbia MD 21044 (cost $12, 2005). But reading 237 summaries of these empirical studies can be a challenge to many readers, so here follows a representative 22 of them:

(1) The contiguous cities of Allentown and Bethlehem in eastern Pennsylvania are comparable as to size and economy. In 1997 Allentown became two-rate LRT; its difference between land and building rates was expanded in that year and in each of the following four years while Bethlehem remained one-rate.

Allentown’s new private construction and renovation grew by 32% in dollar value in the three years after it first adopted two-rate LRT as compared to the prior three years. That was 1.8 times more than Bethlehem’s increase in private construction and
renovation even though Bethlehem was the recipient of much federal-grant money during 1997-99 (not so for Allentown).

These figures are based on a study of city-hall building-permit data on file in the Allentown and Bethlehem city halls, done by Benjamin Howells (science researcher and former Allentown councilman), William Kells (science-oriented businessman), and Steven Cord (professor-emeritus) in 1999. The study was summarized in Incentive Taxation (IT 7/00).

(2) Washington and nearby Monessen (both in southwestern Pennsylvania) are roughly comparable as to size and economy. After Washington shifted some of its tax off buildings onto land in 1985, its new private construction and renovation increased by 33% in dollar value in the three years after the two-rate adoption as compared to the prior three years. During the same time period, nearby one-rate Monessen's new private construction and renovation decreased by 26%.

A report of this study, based on building-permit data on file in the Washington and Monessen city halls, can be found in IT, 10/88 (also see IT, 10/97 and 9/00).

(3) Connellsville, Pa. saw its new private construction and renovation jump 3.46 times in the three years after it adopted a two-rate LRT property tax as compared to the prior three years. This jump can be compared to the rather modest 1.07 increase in nearby Uniontown's new private construction and renovation during the same time period. The two cities are quite comparable, although Uniontown is somewhat larger and is the county seat (both are economic-development plusses).

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Nearby Ambridge, comparable except that it was closer to the Pittsburgh international airport and enjoyed brisk tourist traffic at its Old Economy Shaker Village (both economic plusses), experienced a 30% decline in private building-permits issued during the same periods of time. Nearby Beaver Falls, also comparable except that it was less hilly than Aliquippa and is the county seat (again, economic plusses), experienced a comparable 7.2% decline during the same period of time.

In July 1993, the Aliquippa School District adopted a two-rate building-to-land switch in its property tax. Its new private construction and renovation therupon spurted: for 1994-95, it was 2.3 times greater than for 1991-92 (based on building-permit records on file at city hall; see IT, 12/99).

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(6) Oil City, Pa. adopted two-rate LRT starting in January 1989 and increased its new private construction and renovation 58.2% in the three following years as compared to the three-years-before, while its nearby one-rate but otherwise comparable neighbor, Franklin, Pa., experienced a decline 12.2% in the same time periods (based on a study of building-permits issued in the two city halls; see IT 11/94).

(7) Pittsburgh's long two-rate LVT experience has provided many studies:
   In the years 1980-84, when Pittsburgh was expanding the difference between its land and building property-tax rates, its new construction as measured by building-permits issued was fully 3.57 times higher, adjusted for inflation, than in the pre-change years of 1974-78, despite the steady post-1980 contraction of Pittsburgh's steel industry (source: Pennsylvania Economy League study of Pittsburgh's two-rate tax 1985, p. 16).
   For the entire United States, 1980-84 office-building permits were only 1.6 times higher than for 1974-78 (not adjusted for inflation, per Daniel Sansbury, U.S. Bureau of Census, Suitland, Md., 1/21/93, and reported in IT, 10/93).
   The boom in Pittsburgh continued: in 1985, its building permits increased 2.29 times over 1984; in 1986, it was 2.38 times greater than in 1984 (source: Pbg. Bldg. Inspection Dept.; see IT 10/86).
   When Pittsburgh increased its land-tax rate in 1979 and again in 1980 (but not its building tax rate), its construction increased fully 6.2 times faster than U.S. construction during the same period of time (sources: table 1194; U.S. Census report C30; and the building-permit annual reports, city of Pittsburgh).

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   He compared 1959 assessments to 1979 assessments and found that the one-rate towns (taxing land and buildings the same) increased their total assessments by 486%, but the two-rate towns (taxing land more than buildings) experienced a 561% increase and the 46 towns that taxed only land assessments experienced an 850% increase. Inflation affected all these figures, but note that the more a town taxed land values, the faster it grew.
   Further substantiation from the same study: the eight towns that switched from one-rate to two-rate increased their assessments by 748%, and the 15 towns that switched to land-taxing-only increased by 996% (see IT 9/83). A later Dunkley study of a different time comparison yielded similar figures.
   In January 2005, Dunkley wrote me that "to the best of my recollection, government property did not appear in the valuation rolls at that time."

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   Columbus, Ohio was the only other city in the study recording an increase - a rather modest 3.6% -- but it had annexed some fast-growing suburbs in the interim (see IT, 10/92).

(10) In 1995, Professor Nicolaus Tideman of Virginia Tech University and his
then-graduate student, Florenz Plassmann (now a professor at the University of Binghamton), completed a highly technical study of land value taxation in Pennsylvania entitled “A Markov Chain Monte Carlo Analysis of the Effect of Two-Rate Property Taxes on Construction.” See IT 12/00 for the verbatim conclusion of the original study and the peer-reviewed Journal of Urban Economics, 3/00, pp. 216-47, for the full study.

To quote from their conclusion:

“The results say that for all four categories of construction, an increase in the effective tax differential is associated with an increase in the average value per permit. In the case of residential housing, a 1% increase in the effective tax differential is associated with a 12% increase in the average value per unit... From the perspective of economic theory, it is not at all surprising that when taxes are taken off of buildings, people build more valuable buildings. But it is nice to see the numbers.”

Although this study appeared in a peer-reviewed journal, it occasioned no citations in other scholarly journals or comments from other professional economists. It was like a stone dropped in a pond with no ripples.

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Making a similar comparison for suburbs seven miles out, the land-value-tax suburbs did 2.33 times better; LRT suburbs 1.5 miles out did twice as well.

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(13) A Washington, D.C. council-authorized study done in the 1970s concluded that if the current property tax were shifted from land and building assessments to land assessments only, there would be these tax reductions: single-family homes 18.1%, two-family homes 20.9%, row houses 14%, walkup apartments 8.9%, elevator apartments 22.5%.

(14) In 64 suburbs outside central Melbourne (Aus.) during the two-year period 1955/56 to 1957/58, there were 42 new factories, of which half were in the 17 localities using LRT-only. In addition, factory employment in these 17 LRT-only localities increased by 445 whereas in the remaining 47 localities, factory employment decreased by 361 (source: Aus. gov't. statistics in “Public Charges Upon Land Values,” a 1961 study prepared by the General Council of Rating [local taxing] Reform – GCRRR).

(15) Twelve studies in rural Victoria found that the LRT-only towns averaged a construction-and-renovation growth of 29% as compared to the growth of their real-estate-income-taxing neighbors of a modest 2.6% in the same period of time (source: GCRRR study of building-permits issued as reported in Progress Magazine, Melbourne 3/75). LRT-only was always adopted as a result of a poll of landowners only.
(16) If eastern Americans fall through the earth, they will emerge near Perth, Western Australia (pop. 400,000). 17 localities in that vicinity taxed land values only; they experienced a 34.36% increase in the total number of dwellings between 6/30/71 and 6/30/76. The nine nearby localities taxing both land and buildings and presumably subject to the same economic-growth influences experienced a 0.02% decrease in the same time period (source: Aus. govt. statistics, as cited in Progress, 11/77, p.10).

(17) In North Dakota, according to USN&WR, 4/3/78, p.54, farmers paid no tax on farm buildings. A survey by a high official of the N.D. League of Cities revealed that this has encouraged new farm construction.

(18) California Irrigation Districts - A 1909 California law required that when new irrigation networks were to be built, they were to be financed by a tax on the affected land values only; all privately owned improvements were to be property-tax exempt. The theory was that publicly owned irrigation networks increased land values so the expense of those networks should be borne by the affected landowners.

The result has been beneficial to the local farmers, particularly the smaller ones. The irrigated valleys are among the most productive in the world. This is what the Modesto Chamber of Commerce stated in 1914 (according to the Congressional Research Service in its study, “Property Taxation,” p. 48):

“As a result of the change many of the large ranches have been cut up and sold in small tracts. The new owners are cultivating these farms intensively. The population of both country and city has greatly increased. The new system of taxation has brought great prosperity to our district. Farmers are now encouraged to improve their property. Industry and thrift are not punished by an increase in taxes.”

(19) Malvern, Australia experienced a marked construction spurt after it adopted LRT-only in August 1955. The most extensive construction took place in its blighted problem neighborhoods. Before August 1955, those neighborhoods accounted for only 22% of the city’s building permits, but in each of the five ensuing years that percentage jumped first to 35% and then steadily moved up to 47% in 1960 (these percentages are of continually larger construction figures; source - Victoria Building & Construction Journal, 1979).

(20) Tax defaults; in New Zealand, in the late 1950s, ten large LRT-only cities had slightly less tax defaults than three large non-LRT cities, indicating that exempting buildings from local taxation does not increase tax defaults (see the 1961 report of the Canadian Federation of Mayors and Municipalities, p. 31, by H. Bronson Cowan). See IT, 12/81.

(21) A city-funded 1980 study in New Castle, Pa, revealed that seven vacant and two poorly developed downtown sites would be an estimated $150,851 more profitable to build upon with an LRT-only property tax. If county and school taxes were also to adopt LRT-only, then the extra profit would approximate an estimated $243,750 a year.

(22) Random-sample studies in sixteen U.S. cities substantiated that most homeowners pay less with a two-rate building-to-land property-tax shift (IT 56-7-76). One can easily ascertain by exactly how much each voter in a city would fare with this two-rate approach before going public with the idea.
But wait a moment – I just finished a study of Pittsburgh that I must tell you about. I can’t restrain myself. This should be the Absolute Clincher. Wait till you read about this one.

The city of Pittsburgh has taxed land assessments more than building assessments ever since 1915, but for the year 2001 and thereafter, it reverted to taxing both types of assessments at the same one rate.

How come? An interesting question, but we can only consider it briefly here because it is essentially irrelevant to what we are investigating, which is “what was the effect of the land-to-building switch?” Well, in 2001 the voters in Pittsburgh were suddenly aroused to fever pitch as never before about their property tax because their new land assessments were suddenly increased by five-to-eight times overnight - a political no-no.

The voters mistakenly thought that if they could reduce the land tax rate to the lower building tax rate, their property taxes would be reduced (not realizing that would increase their building tax rate). They were completely unaware of the many LRT studies that had been made. So they pressured their city council to equalize the property-tax rates on land and buildings. This is what happened:

Pittsburgh experienced a 19.57% decline in private new construction and renovation in the three years after rescission as compared to the three years before, even though during the same time period, the value of construction put in place nationwide (including public construction) increased 7.7% and sales tax receipts in Pittsburgh increased 7.6%. Both of these increases should have boosted Pittsburgh’s new construction; but they didn’t.

It took me 200 hours of grueling labor to examine all 13,547 of the building permits for the six-year period. For the full details of the study, see Incentive Taxation (5/04).

In addition, a computer examination of the entire assessment roll of Pittsburgh found that 54% of the homeowners paid more property tax with a land-to-building tax switch. What’s more, all tenants will get an almost immediate space-rent increase from the newly increased building tax because it will be passed on to them in the form of higher space rents (not so in the long run from an LRT increase – check any basic economics textbook). Other large cities also have many tenants, both residential and business.

The Pittsburghers acted somewhat like Samson. They harmed themselves.

This LRT rescission has actually been a blessing in disguise because it allows us to examine the effect of a land-to-building tax switch on construction and renovation.

Much more evidence for LRT could be cited, but I stop here because I don’t want to tax your patience. But isn’t it common sense to expect that if you down-tax buildings, you’ll have more and better buildings; and if you up-tax land, land-sites will have to be more fully utilized? Don’t let preconceived notions trump logic and hard empirical evidence.

For more information about LRT, consult www.EconomicBoom.info or send your comments to: Steven Cord, 10528 Cross Fox Lane, Columbia MD 21044, 1-800-252-3126, stevencord2000@yahoo.com
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(17) In North Dakota, according to USN&WR, 4/3/78, p. 54, farmers paid no tax on farm buildings. A survey by a high official of the N.D. League of Cities revealed that this has encouraged new farm construction.

(18) California Irrigation Districts - A 1909 California law required that when new irrigation networks were to be built, they were to be financed by a tax on the affected land values only; all privately owned improvements were to be property-tax exempt. The theory was that publicly owned irrigation networks increased land values so the expense of those networks should be borne by the affected landowners.

The result has been beneficial to the local farmers, particularly the smaller ones. The irrigated valleys are among the most productive in the world. This is what the Modesto Chamber of Commerce stated in 1914 (according to the Congressional Research Service in its study, "Property Taxation," p. 48):

"As a result of the change many of the large ranches have been cut up and sold in small tracts. The new owners are cultivating these farms intensively. The population of both country and city has greatly increased. The new system of taxation has brought great prosperity to our district. Farmers are now encouraged to improve their property. Industry and thrift are not punished by an increase in taxes."

(19) Malvern, Australia experienced a marked construction spurt after it adopted LRT-only in August 1955. The most extensive construction took place in its blighted problem neighborhoods. Before August 1955, those neighborhoods accounted for only 22% of the city’s building permits, but in each of the five ensuing years that percentage jumped first to 35% and then steadily moved up to 47% in 1960 (these percentages are of continually larger construction figures; source – Victoria Building & Construction Journal, 1979).

(20) Tax defaults: in New Zealand in the late 1950s, ten large LRT-only cities had slightly less tax defaults than three large non-LRT cities, indicating that exempting buildings from local taxation does not increase tax defaults (see the 1961 report of the Canadian Federation of Mayors and Municipalities, p. 31, by H. Bronson Cowan). See IT, 12/81.

(21) A city-funded 1980 study in New Castle, Pa, revealed that seven vacant and two poorly developed downtown sites would be an estimated $150,851 more profitable to build upon with an LRT-only property tax. If county and school taxes were also to adopt LRT-only, then the extra profit would approximate an estimated $243,750 a year.

(22) Random-sample studies in sixteen U.S. cities substantiated that most homeowners pay less with a two-rate building-to-land property-tax shift (IT 56-7-76). One can easily ascertain by exactly how much each voter in a city would fare with this two-rate approach before going public with the idea.
But wait a moment – I just finished a study of Pittsburgh that I must tell you about. I can’t restrain myself. This should be the Absolute Clincher. 'Wait till you read about this one.

The city of Pittsburgh has taxed land assessments more than building assessments ever since 1915, but for the year 2001 and thereafter, it reverted to taxing both types of assessments at the same one rate.

How come? An interesting question, but we can only consider it briefly here because it is essentially irrelevant to what we are investigating, which is 'what was the effect of the land-to-building switch?' Well, in 2001 the voters in Pittsburgh were suddenly aroused to fever pitch as never before about their property tax because their new land assessments were suddenly increased by five-to-eight times overnight – a political no-no.

The voters mistakenly thought that if they could reduce the land tax rate to the lower building tax rate, their property taxes would be reduced (not realizing that would increase their building tax rate). They were completely unaware of the many LRT studies that had been made. So they pressured their city council to equalize the property-tax rates on land and buildings. This is what happened:

Pittsburgh experienced a 19.57% decline in private new construction and renovation in the three years after rescission as compared to the three years before, even though during the same time period, the value of construction put in place nationwide (including public construction) increased 7.7% and sales tax receipts in Pittsburgh increased 7.6%. Both of these increases should have boosted Pittsburgh’s new construction, but they didn’t.

It took me 200 hours of grueling labor to examine all 13,547 of the building permits for the six-year period. For the full details of the study, see Incentive Taxation (5/04).

In addition, a computer examination of the entire assessment roll of Pittsburgh found that 54% of the homeowners paid more property tax with a land-to-building tax switch. What’s more, all tenants will get an almost immediate space-rent increase from the newly increased building tax because it will be passed on to them in the form of higher space rents (not so in the long run from an LRT increase – check any basic economics textbook). Other large cities also have many tenants, both residential and business.

The Pittsburghers acted somewhat like Samson. They harmed themselves.

This LRT rescission has actually been a blessing in disguise because it allows us to examine the effect of a land-to-building tax switch on construction and renovation.

Much more evidence for LRT could be cited, but I stop here because I don’t want to tax your patience. But isn’t it common sense to expect that if you down-tax buildings, you’ll have more and better buildings, and if you up-tax land, land-sites will have to be more fully utilized? Don’t let preconceived notions trump logic and hard empirical evidence.

For more information about LRT, consult www.EconomicBoom.info or send your comments to: Steven Cord, 10528 Cross Fox Lane, Columbia MD 21044, 1-800-252-3126, stevencord2000@yahoo.com.