

Identification and Cover Sheet

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Comments

It is patently unfair to tax productive effort. This distorts important business and personal decisions. Yet the government needs revenue.

To avoid unfairness and distortion of important business and personal decisions, the federal government should not tax production but what cannot be produced – that is locations as measured by the price of land, at least as much as possible. No one can produce land. If taxed, there won't be any less land (or locations).

Enclosed is a report containing brief summaries of 50 empirical studies of a already-existing tax on land which has *always* resulted in tax reductions for most voters and in a marked boost to the economy. I should think the Panel would want to examine this empirical record closely in order to improve the federal tax system. I can send you 187 more such empirical studies, if so requested.

I volunteer to appear before the Panel to explain these studies more fully. I would appreciate hearing from you about this request.

Sincerely,



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PRESIDENT'S ADVISORY
PANEL
ON FEDERAL TAX REFORM

Studies 61-110

There are at least 237 empirical studies substantiating the benefits arising from shifting local taxation to land values. They all have appeared in the publication Incentive Taxation. 50 such studies (numbered 61-110) are summarized here. Feel free to ask for the other empirical studies.

(61) The Local Government and Shires Association of Australia reported that "a survey made by the city of Sydney [LVT-only] in 1950, showed that the building taxation system would have penalized the factory owner, the house investor, the homeowner, and the small shopkeeper, to the benefit of the large business interests in close proximity to the City [downtown]" See IT, 1/78

(62) H W Eastwood (Chief Assessor in the 1970s of New South Wales Province, Aus.) strongly supported land value taxation in localities, particularly because general re-assessments could be made every two years. His testimony appears in the 1966 Royal Commission of Inquiry into Rating Valuation and Local Government Finance (section 4.25) See II, 1/78.

(63) Landowners in rural Mildura - pop. 11,000, 350 miles northwest of Melbourne in rural Victoria - voted in LVT-only in August 1956 by a 3.6:1 margin. The value of building permits rose by one-third in 1957 and by another third in 1958 in the face of a 10% house-building recession in rural Victoria during those years (source: Aus. govt. statistics as quoted in *Progress* 11/59 and *Land & Liberty* 4/57 and 3/58). See II, 1/78

(64) After Moorabin, the largest of the municipalities comprising Greater Melbourne, voted in LVT-only in 1946, its total value of all building permits jumped 21% and within three years they had jumped 141% (Aus. govt. statistics as cited by the *Moorabin Standard-News*, 8/22/58). Especially remarkable was the growth in Cheltenham, which had been a particularly blighted section of Moorabin. See II, 1/78.

(65) Towns in Victoria, Australia that adopted LVT-only between 1955 and 1964 grew at a 58% faster rate than their real-estate-income taxing neighbors (source: GCLR) See II, 1/78

(66) If eastern Americans fell through the earth, they would emerge near Perth, Western Australia (pop. 400,000). 17 localities there (Western Australia) tax 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 localities taxing real-estate income experienced a 0.02% decrease in the same time period (source: Aus. govt. statistics, as cited in *Progress*, 11/77, p. 10). See II, Sp/78

(67) In the country districts of Western Australia, 36 localities taxed land values only; they experienced a 13.34% increase in the total number of dwellings between 6/30/71 and 6/30/76. The 69 localities partly taxing land values only and partly taxing land and buildings together (they use both systems simultaneously) experienced only a 1.53% increase. In other words, the more land was taxed and buildings un-taxed, the more new construction occurred.

It should be noted that the LVT-only localities were distributed rather widely throughout the country districts, also somewhat in the Perth suburbs. They were not

concentrated in certain areas where perhaps development proceeded rapidly for special reasons, such as geography, new highways, etc. See II, Sp/78

(68) Richard Noyes, when editor of the *Salem (N.H.) Observer*, found that the group in his hometown whose property taxes would increase the most with a higher tax rate on land was composed of out-of-town land speculators. See II, 7/78. Noyes later became a state legislator.

(69) Gary Carlson and Ralph Todd, economists working for the Omaha city government, found that 59% of the city's building owners would pay less if the property tax were two-rated LVT. See II, 7/78

(70-80) Nine of eleven studies made in various cities showed that homeowners saved on property taxes with a two-rate building-to-land shift. The cities were Fresno CA, all cities in Oregon, Bergen County (in N.J.), Pittsburgh, Erie, Harrisburg, and Allentown in Pa., Korumburra and South Melbourne in Australia. Homeowners paid slightly more in Farrell and Monessen, Pa. (but not Monessen today). See II, 10/78.

(81-85) Five LVT-only localities in rural Victoria (Aus.) had 11.2% more construction and renovation during the years 1967-74 than occurred in their statistical districts (their neighbors were subject to the same economic influences). The five localities were Kerang Borough, Kerang Shire, Cohuna Shire, Horsham City, and Kilmore Shire (source: A.B.S., as quoted in *Progress*, 6/75, p. 8. See II, 11/78

(86) Buninyong (in rural Victoria) experienced a building boom – nearly five-fold – after it started taxing land values only instead of real-estate income (which fell mainly on the value of buildings). The surrounding localities increased their construction and renovation also, but by less than half as much (source: A.B.S., as reported in *Progress*, 11/75, p. 11, also 11/76, p. 10). See II, 11/78

(87) Most homeowners in Newtown, Victoria (Aus.) saved, some considerably, with LVT-only, and an examination of building permits showed that homeowners in Newtown improved their properties more than the homeowners of nearby real-estate-taxing Geelong and Geelong West (source: *Progress*, 10/69, pp. 9-10). See II, 11/78

(88) In 1979, Pittsburgh added 4.8% to its tax rate on land assessments, nothing to its tax rate on building assessments. A study performed under the direction of William Coyne, Finance Chairman of the City Council (and later Congressman), found that the average homeowner paid \$62 extra with a land tax increase, but the average wage earner would have paid \$188 per year from a wage tax yielding the same amount of total revenue for the city (many families have two or more wage earners).

One of the “pay-mores” was Kaufman's Department Store, which paid \$6,900 additional land value tax – but Coyne figured this to be 0.0009% of their annual sales. See II, 1-2/79.

(89) Steven Cord and his student William Ritter studied the impact of land value tax on farmers in Indiana County, Pa. (reprinted in the *American Journal of Economics & Sociology*, 1/76).

They found that if the property-tax rate on buildings was reduced 25% and the tax rate on land values was increased to make up for the lost revenue, more farmers would get tax increases than tax reduction, especially those near the center city. But the changes were generally minor: for half the sample, the tax increases and decreases were less than \$50; for a quarter of the sample, the changes were in the \$50-\$100 range.

The farmers that would have had tax increases generally had land near the growing town of Indiana (the county seat). Their land reflected potential urban development and was generally sold at speculated prices. See II, 3-4/79.

(90) In North Dakota, farmers pay no property tax on farm buildings, and a survey by a high official of the N D. League of Cities revealed that this has encouraged new farm construction (USN&WR, 4/3/78, p. 54). See II, 3-4/79.

(91) Economist Mason Gaffney's Wisconsin study revealed that "farmers would generally break even" (6/70 Urban Institute symposium). See II, 3-4/79.

(92) Mark Mraz, a graduate student at Indiana University of Pennsylvania, found the same thing to be true in Elk County, Pa. (unpublished manuscript, 1977) See II, 3-4/79.

(93) A 1963 survey by the Land Values Research Group (their Rural Rating Study #5) revealed that in the rural areas of Victoria, an LVT-only shift would reduce taxes for 668 of the farmers with houses (average reduction 22%) and it would increase taxes for 407 of the farms with houses (average increase 18%). As expected, 442 holdings without houses would experience tax increases of about 35%. See II, 3-4/79.

(94) California Irrigation Districts – in 1909, California law requires that when new irrigation networks are built, they are 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 since land values jumped due to the publicly owned irrigation networks, the expense of those networks should be borne by the 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, and in 1914 the Modesto Chamber of Commerce stated that "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 [no longer] punished by an increase in taxes" (Congressional Research Service, "Property Taxation," p. 48) See II, 3-4/79.

(95) If the city of Pittsburgh switched all property taxes off buildings and onto land value, the 60-story U.S. Steel skyscraper on Grant St. would save \$750,000 in property taxes annually (source: City Planning Dept. study). See II, 3-4/79.

(96) When Wangaratta, a small rural town, pop. 11,000, in Victoria, Aus., voted in LVT-only in 1956, there was an immediate upward leap in building permits issued – they averaged 645,921 annually in the three years following the switch vs. 393,692 in the year previous. A veritable building wave enveloped the town.

Wangaratta's building-permit issuance was 5.24 times what it could expect if it had followed the general rural trend in the Victoria (source: A.B.S., as quoted in *Progress* 5/59 and 11/59). See II, 7-8/79.

(97) Professor Arthur Becker of the University of Wisconsin (Milwaukee) studied the impact of LVT in Milwaukee and found that commercial and industrial construction would be stimulated (see the article by economist Gary Carlson in the *Nation's Cities* magazine, 2/72; a summary of Becker's 13 advantages of LVT are listed in II, 9-10/79).

(98) A rate increase on water use would cost the average Pittsburgh homeowner more than five times what a land tax increase raising the same revenue would cost that homeowner, according to a Pittsburgh City Council study of 1977. See II, 11-12/79

(99) Malvern, Aus. experienced a marked construction spurt after it adopted LVT-only in August 1955, but the most extensive construction took place in its blighted problem neighborhoods.

Prior to the introduction of LVT-only in 9/55, only 22% of the city's building permits were for construction in such neighborhoods, 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 were of continually larger figures as construction also boomed elsewhere in Malvern (source: *Victoria Building and Construction Journal*) See II, 11-12/79

(100) Anthony Pileggi, a student at Indiana University of Pennsylvania (now a lawyer in Columbia, Md.), studied the land assessments in the town of Indiana, Pa. (pop. 15,000) He found that 1 5% of the biggest landowners in Indiana paid 50 5% of the town's tax on land values, whereas the 3% of the top income earners in the U S. paid 30 6% of the federal income tax in that year (source – *USSA*).

He therefore concluded that the land value tax in Indiana was much more in accord with the ability-to-pay theory than is the federal income tax. See II, 4/80

But Pileggi could not know all the interlocking land ownerships in Indiana, as when a person might own land under a personal, family or corporate name. So he necessarily had to under-estimate the concentration of landownership in Indiana (which, incidentally, would be even greater in larger cities, where a greater proportion of citizens are apartment tenants)

(101) A study by Gale Thoman, a student at Indiana University of Pennsylvania, found that the average homeowner in Indiana, Pa. would substantially save with LVT. See II, 4/80.

This concludes our excerpts from the second (of nine) bound volumes of Incentive Taxation. Eventually I induced 22 American jurisdictions to adopt a two-rate property-tax LVT, this made studies of the effects of LVT possible in America.

(102-104) Three Australian shires (equivalent to counties in America) – Kilmore, Buninyong and Melton – experienced spurts in construction and renovation after LVT-only adoption in 1971, 1972 and 1974 respectively.

For Kilmore, the average annual building-permit issuance of the four whole years after adoption exceeded the average annual building-permit issuance of its three whole years before adoption by an astounding 3 88 times.

For Buninyong, the average annual building-permit issuance of the three whole years after adoption exceeded the average annual building-permit issuance of its three whole years before adoption by an also-astounding 3 22 times.

For Melton, its average building-permit issuance of its one whole year after adoption almost doubled its average annual building-permit issuance of the three years before adoption

But even more important was the comparison of these three LVT-only shires with what they could have expected had they experienced the same change in building-permit issuance as did their statistical districts; this counters the sometimes-heard criticism that

the jurisdictions choosing LVT-only were already growing before they chose LVT-only; the LVT-only didn't cause growth but rather the growth caused the adoption of LVT-only.

Kilmore's new construction and renovation exceeded expectations by 54%, Buninyong by 97%, and Melton by 65%.

The basic building-permit data for these three studies comes from the A.M.I.S. series of the Australian Bureau of Census, as reproduced in *Progress*, 11/75, p. 11. See II, Sp/80

We now have presented the building-permit comparisons for *all* of the localities in the state of Victoria which adopted LVT-only between 1955 and 1974.

(105-6) After the Sydney (Aus.) Metropolitan Water Sewerage and Drainage Board switched to LVT-only, it showed a steady increase in dwelling approvals in the ensuing four years, so that the total value of dwelling approvals increased 94.1%.

The Hunter District Board (serving Newcastle and its surrounding area) also switched to LVT-only and showed a steady increase in the ensuing four years, so that the total value of all dwelling approvals increased 87.2%.

During the same period of time, comparable Melbourne saw its total value of dwelling approvals increase by only 42.7% (source: Aus. govt. statistics, as reported in *Progress*, 9/79, p. 32 by Allan Hutchinson's GCLR) See II, Sp /80

(107) In the Melbourne metropolitan area, the 27 LVT-only cities showed an average inter-census growth for privately built dwellings of 12.9%, while the 15 cities that taxed real-estate income showed an average growth of only 2.8%

"Inter-census" refers to the difference in private dwelling construction between the government census of 6/30/76 and the previous census of 6/30/71. These statistics are from *Progress*, 7/79, p. 8 and were based on a 17-page report giving statistics for each of the 211 cities in Victoria. See II, Sp/80.

(108) For the entire state of Victoria, the average growth rate was 15.2% for the LVT-only localities compared with a 10.9% average growth rate for the neighboring real-estate-income taxing localities.

It would seem that if you un-tax buildings and up-tax land, economic growth results

(109) A Pittsburgh, Pa. City Council study (1975) showed that 64% of the city's homeowners would pay less in taxes with a two-rate building-to-land property-tax shift See II 10/80

(110) In Washington, D.C. a 1976 study discovered that a two-rate building-to-land property-tax shift would cut taxes on residences by 14% to 38.9% See II, 10/80.

The sheer number and consistency of their findings is positively overwhelming. Fewer empirical studies would suffice to show that we could gain at least these three advantages by taxing land assessments more, construction and renovation less:

- ❖ **Construction & renovation spurt because they are taxed less**
- ❖ **They also spurt because all land-sites will be used more efficiently**
- ❖ **Most people get tax breaks (because they don't own valuable land).**

There are other LVT advantages also. The empirical studies reported here have been taken from back issues of *Incentive Taxation* (published eight times a year since

1974) but I only have reviewed about a quarter of those back issues. I stopped after #237, thinking that few people will read more. My files contain the additional studies beyond 237.

A random 22 of these 237 studies have been reprinted in a new book, *The Golden Key to Continuous Prosperity*. I have encountered *no* anti-LVT empirical studies, despite a rather extensive reading of the academic literature.

These studies have been fully corroborated by independent sources. For instance, before *Fortune* Magazine ran its 1983 article supporting LVT, it sent two researchers, Gurney Breckenfeld and Ed Baig, to visit the city halls that I had visited and found that the figures were exactly as I had reported them in *Incentive Taxation*.

Professor Nicolaus Tideman of Virginia Tech. University and his then-graduate student, Florenz Plassman of Virginia Tech University (now a professor in Binghamton) replicated all these studies and published their research in the peer-reviewed *Journal of Urban Economics* (March 2000, pp. 216-47; see II 12/00)

A 1985 study by the prestigious Pennsylvania Economy League contained facts supporting the conclusions of this compendium (see p. 16 of their 1985 study). The P E L. was later instrumental in getting two cities (Clairton and DuBois, Pa.) to adopt a two-rate building-to-land shift in their property tax.

Note also that Allan Hutchinson, the author of many of these studies, used government sources. He and H. Bronson Cowan of Canada (who visited Australia in 1943) discovered that the Australian Bureau of Statistics annually published the building permit issuance of every area in the country. I have also used building permits issued for my studies.

Hutchinson was able to compare the performance of land taxing areas with their neighbors both before and after the adoption of LVT. The statistics came to him, he didn't have to go to them!

Perhaps this question has crossed your mind: "If LVT is so good, why hasn't it been more widely adopted?" Well, if you don't *act* after reading this tremendous mass of empirical evidence, then you have the answer.

If a partial shift from taxing buildings to taxing land produced all these wonderful economic results, one can assume that a 100% LVT could do even better.

You can order hard copies of all 237 empirical studies for \$12 (as of 2004) or you can request a free copy of a report containing a representative 22 of them.

Read at least some of these empirical studies and judge for yourself. Then act.