■ **Comment**

Restore the Original Wealth Tax

BY POLLY CLEVELAND

There's an alternative to the drastic cuts in public services state and local officials are proposing: restore the property tax. It's the oldest wealth tax of all, the tax that financed Chinese civilization over 2,000 years ago, the tax that until World War II financed most of government in the United States.

The property tax? Our most hated tax? The tax that New York Gov. Andrew Cuomo, a Democrat, has vowed to cap—in the face of unprecedented budget shortfalls? Yes, that tax.

If you can follow me without your eyes glazing over through the briars of distribution, the brambles of tax shifting, and the thorns of tax administration, we will find the property tax to be intrinsically the most progressive tax we have. In the age of income- and corporate-tax loopholes, the property tax remains the only tax many rich people and corporations pay—even though they have already substantially crippled it by convincing ordinary folks it's a tax on the poor and middle class.

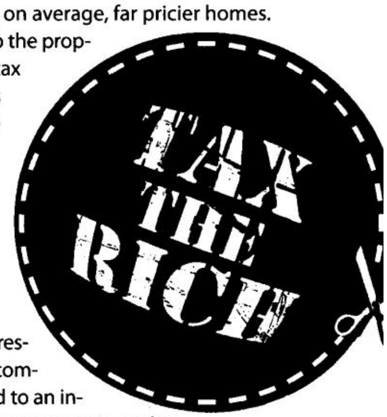
Ideally, property taxes collect a uniform percent of the market value of taxable real estate within a given jurisdiction, let's say a town or school district, or an entire state. (Government and non-profit property is exempt—a serious problem for jurisdictions dominated by universities, hospitals or government installations like Army bases.) On average, half of that real estate is homes, and half is corporate property. The assessor, an elected official, assesses—that is, estimates—that market value, based primarily on comparable sales. Then the town imposes a tax rate, say 1.5% on the assessed value—often by a vote of the residents. Very democratic.

But what makes the property tax progressive—i.e., taking a larger share from wealthier households?

Start with income and wealth. Wealth is an order of magnitude more unequal than income. All U.S. families receive some income. But a small minority holds most of the wealth. As the table shows, the top 1% of American families receive 17% of income, but hold 34% of net worth and 42% of non-home wealth. The top 20% receive about 58% of income, but hold 85% of net worth and a staggering 92.5% of non-home wealth.

At first glance, a family's non-home wealth might seem unrelated to its property tax burden. But what is non-home wealth? It's primarily stocks and bonds, that is, shares in the ownership of corporations. Real estate forms a large part of corporate assets—what is Wal-Mart, after all, but a collection of one-story buildings in huge parking lots, occupying strategic highway intersections across the nation? That makes shareholders de facto corporate property owners—and hence payers of corporate property taxes. Follow the logic here. The top 20% of property owners, the owners of over 90% of non-home wealth, also pay most of the property taxes that fall on corporations. Since about half of taxable property is corporate, it follows that the richest 20% pay close to half of all property taxes, not including taxes on their homes. That sounds very progressive to me.

What about homes? Around 60% of U.S. families own their homes. All these homeowners pay property taxes, regardless of the value of the house or the size of their mortgage. For the property tax on homes to be more progressive than an income tax, then, higher income people must own disproportionately more valuable homes. And so they do. Studies have shown home values rising with the 1.2 to 1.4 power of income; i.e., households with somewhat higher incomes own, on average, far pricier homes.



So the property tax looks quite progressive compared to an income tax, except—wait a minute—isn't the tax "passed on" from richer to poorer people? Now obviously homeowners can't pass on the tax, because they aren't selling anything. But what about the owners of the rental units that house the poorest 40% of families? Don't they pass on property taxes to their tenants?

Perhaps counterintuitively, the answer is no. Rents go up and down

Concentration of Income and Wealth, United States (2004)

	Income	Net Worth	Non-Home Wealth
Top 1%	17.0%	34.3%	42.2%
Top 10%	42.9%	71.2%	80.9%
Top 20%	57.8%	84.6%	92.5%

Source: Edward Wolff, "Recent Trends in Household Wealth in the United States: Rising Debt and the Middle-Class Squeeze" Working Paper No. 502, The Levy Economics Institute of Bard College, and Department of Economics, New York University, June 2007, www.levyinstitute.org/pubs/wp_502.pdf.

with the market. When rents and property taxes rise together over long periods, it may seem as if rising taxes are driving up rents. But it's really the other way around: demand for rental housing is pushing rents up, in turn increasing property values and hence property taxes. At other times, the disconnect between rents and property taxes is more obvious. When the recession hit in 2008, rents dropped like a rock all over New York City even while property taxes continued to increase.

So here we are. For the simple underlying reason that property ownership is far more concentrated than income, property taxes are intrinsically far more progressive than income taxes. So how have most of us come to perceive them as obsolete, unfair, and a burden on the poor and middle class?

Over the last 60 years, income and sales taxes have largely replaced property taxes at the state level, leaving property taxes to local governments, school districts especially. This shift creates the primary complaint about property taxes: within the same state, rich districts can finance good schools at low property tax rates, while poor districts can only finance lousy schools at high rates. But this is not the fault of the property tax; it would be equally true of any *local* tax.

Since there's a broad public interest in the quality of education, it follows that schools should be financed in part at the state and even federal level. States could make school finance more fair by making rich districts share some property tax revenue with poorer ones—as New Hampshire is attempting. But most states have simply partially replaced local property taxes with state income or sales taxes.

Ironically, loopholes in the progressive income tax also may make property taxes look regressive. Many wealthy people use property to shelter income from taxes, for example, by deducting excessive depreciation. But these people still pay property taxes. While Ronald Reagan was governor of California (1968-72), reporters found he paid heavy property taxes on his famous ranch—and zero income taxes! If an unwary researcher plots property tax payments against income as reported to the IRS, it only takes a few of these high-property tax/low-income-tax pseudo-poor in the data base to make property taxes seem a groaning burden on the poor.

In the age of income- and corporate-tax loopholes, the property tax remains the only tax many rich people and corporations pay—even though they have already substantially crippled it by convincing ordinary folks it's a tax on the poor and middle class.

In his book *Revolt of the Haves* (1980), Robert Kuttner described the successful 1978 campaign for Proposition 13 in California. Prop 13 rolled back and froze property taxes. Its real estate mogul promoters depicted property taxes as a burden on average homeowners. Yet large corporate property owners enjoyed the primary benefits of Prop 13. Standard Oil of California saved $25 million in annual taxes.

Prop 13 set off nationwide anti-property tax campaigns. There were copycats like Prop 2½ in Massachusetts. There were reductions for special classes of property, like farmland and forestland. There were tax holidays to induce businesses to move to particular states or towns. There were caps, "circuit-breakers," limits on rate increases, and other gimmicks. New York adopted a constitutional amendment limiting property taxes to 2% of real value. Assessors got into the act too, allowing assessments to fall way below market value and giving friendly breaks to large property owners. With every hole gouged into the property tax, it became more inequitable—and more vulnerable to demands for special breaks from additional groups. States replaced some local revenue with grants from state sales and income taxes, but school quality declined. California schools fell from the top to near the bottom.

Today the clamor for cutting and capping property taxes continues unabated. Only New Hampshire has resisted—so far! Tragically, the union-funded group Citizens for Tax Justice has supported the anti-property-tax crusade by propagating the idea that property taxes are regressive.

It's time to wake up, to recognize that even in this crisis we can still fund the services we need. The means lie right under our feet. D&S

***POLLY CLEVELAND** is executive director of the Association for Georgist Studies and adjunct professor of economics at Columbia University's School of International and Public Affairs.*

SOURCES: Edward N. Wolff, "Recent Trends in Household Wealth in the United States: Rising Debt and the Middle-Class Squeeze," The Levy Economics Institute of Bard College and Department of Economics, New York University, June 2007 (levyinstitute.org); Mason Gaffney, "The Taxable Capacity of Land," 1993 (masongaffney.org); Robert Kuttner, *Revolt of the Haves*, Simon & Schuster (1980); Mason Gaffney, "The Property Tax is a Progressive Tax," 1971 (masongaffney.org).