Dear Committee Members,

I write to ask for your support of SB 573, which would establish a task force on Land Value Taxation to compare methods of property taxation. Land value taxation, or LVT, offers a more dependable source of revenue than other forms of taxation, is the best pro-growth form of taxation, is the most equitable, and will solve the main problems plaguing housing, affordability and boom-bust cycles involving real estate. I believe that it deserves a task force level of analysis based on both its theoretical strengths and its empirical support.

Pro-Growth Taxation

LVT is the strongest form of taxation when looking at how taxes affect economic growth. The theoretical case for LVT being the most pro-growth can be summed up succinctly by stating that "If taxes are believed to work to reduce the supply of the object taxed, LVT would be the best tax because it cannot reduce the supply of land when it is taxed." Sin taxes work to reduce the supply of cigarettes and alcohol, pollution taxes are proposed to reduce the supply of pollution and income taxes can reach levels that can impact labor supply. However, no level of taxation can exist that can reduce the supply of land because it exists independent of human exertion. Thus, a tax that can raise revenue without lessening the amount of goods supplied to the market is the gold standard of taxes. Many economists on both the left and right end of the spectrum agree on the desirability of using land value as the basis of taxation, as evidenced by this link: http://www.wealthandwant.com/themes/quotable_nobels.htm

Empirically, LVT is seen as the tax that is best for growth in this paper from the Organization for Economic Cooperation and Development http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=ECO/WKP%282008%2928&doclanguage=en. The study looks at tax structures (not tax levels) and determines a growth ranking of taxes. It concludes that "corporate taxes are found to be most harmful for growth, followed by personal income taxes, and then consumption taxes. ***Recurrent taxes on immovable property appear to have the least impact.*** **[Emphasis mine]** A revenue neutral growth-oriented tax reform would, therefore, be to shift part of the revenue base from income taxes to less distortive taxes such as recurrent taxes on immovable property or consumption." This is an exhaustive study that looks at all the OECD countries and declares what is already theoretically known to be supported also by the data: that property taxes are the best taxes, and this is because a portion of the property tax falls on the value of land.

Also, "Asian Tiger" economies Taiwan, Hong Kong, and Singapore all utilize land value based revenues to keep taxes on incomes low while providing public services to their residents (Taiwan through a land tax system, Hong Kong and Singapore through leasing of most or all their land directly). Numerous cities in Pennsylvania also use or have used a property tax that taxed land higher than buildings. Former Harrisburg, PA mayor Stephen Reed explained the positive effects of this policy here http://commongroundorwa.org/index.php/component/k2/item/373-land-value-taxation-

%E2%80%93-the-harrisburg-experience/373-land-value-taxation-%E2%80%93-the-harrisburg-experience : "What was the outcome of the initiative and policies I have just described? In [the] period of 1982 to the end of 2009, $4.8 billion worth of investment occurred, the number of businesses on the tax rolls increased in 1988 to 9100, thousands of new jobs were created, over 40,000 building permits were issued. The tax base, the assessment of taxable properties, went from $212 million to a total of $1.6 billion. The number of residential units sharply increased. In fact, the city of Harrisburg from its different housing programs and initiatives played a direct role in either building or helping others to build over 6,000 residential units. There is no city our size in America that had that much to do with that many residential units in that period of time."

I think it is clear that LVT deserves to be looked at for its pro-growth potential based on the numerous amount of theoretical, empirical and anecdotal support listed above.

LVT: Equitable and leads to more affordable housing

A unique feature of LVT is that since it does not affect the supply of land, its effect on the price of land is to decrease it rather than increase it. LVT, when it assessed, falls entirely on the owner of the land and cannot be passed on to the tenant. Since LVT is borne only the landowner, this means that the price of land must adjust downwards to accommodate the landowner's ability to pay the LVT. While this might go against normal thinking about how taxes affect price, normal thinking has to be discarded because we normally tax objects that can have supply effects. Since the price of land can only be the product of demand (since supply is fixed) and taxing land value has no supply effects, the only factor that can be affected is price and the price effect can only go down, since demand cannot be artificially raised. This is demonstrated theoretically by any textbook that analyzes taxation on objects of fixed supply. Also, since LVT enacts a holding cost on land, it incentivizes landowners to use it or sell it to someone who will, lest they pay a tax out of savings. Since landowners will need buyers or tenants to cover the LVT, they will lower the price if they wish to induce buyers to buy or they will construct building supply to attract tenants, leading to price and rent reductions.

Furthermore, there have been empirical studies that prove this effect of property taxes on land price. The Northwest Economic Research Center (NERC) at Portland State University conducted a study of property tax differentials in Portland http://www.pdx.edu/nerc/sites/www.pdx.edu.nerc/files/NERCPropTax-Final%20Report.pdf and found that "houses that have experienced large growth in value since the inception of the current system tend to be paying less as a percentage of their homes' value in taxes, which is increasing sale price. From a policy perspective, the distribution of this effect is arbitrary and may be disproportionately benefitting property owners who can afford to buy in areas with faster increases in property values." In other words, higher property taxes as a percentage of property value led to lower prices, and vice versa. This study was supported by former state economist Tom Potiowsky (the current director of NERC) in this op-ed http://www.oregonlive.com/opinion/index.ssf/2014/03/the_effect_of_property_taxes_o.html. The combination of hard data and support from a prominent former member of the state government's economic research infrastructure shows supports the contention that a tax on land value will make land prices go down, which lessens the need to borrow for real estate (and paying the resultant interest) and lessens the need to collect other taxes.

As for other ways to make property more affordable, lowering taxes on land and other bases does not make property more affordable; it actually makes it less affordable. This University of Cambridge study http://www.landecon.cam.ac.uk/pdf-files/cv/pete-tyler/Bond_Gardiner_Tylertaxincidence_article061211.pdf looked at enterprise zones in the United Kingdom, which sought to examine the effect of exempting businesses from property taxation in targeted zones of economic deprivation. By examining commercial leases, their findings showed "that a large part of the tax savings appears to be captured in higher rents charged by landlords." So, both the NERC study and the Cambridge study concluded the same thing: a general decrease in property taxation led to higher prices charged by both sellers and lessors of land. This means that if affordability is a key goal, property taxes, specifically a tax on land value, must not be used sparingly by governments. There is another study later in the paper that supports the higher tax-lower price theory, but will be presented in part 3.

This leads into the question of equity. When equity is discussed in the context of taxation, the question is always asked if the particular tax is progressive or regressive. Property taxes, and LVT specifically, is thought to be regressive because a higher proportion of income is taken in tax for lower incomes than higher incomes. But this view is mistaken in regards to LVT because of LVT's effect of property prices. Since LVT decreases land price and the lack of LVT increases land price, the LVT levied on a property takes the place of land price. However, when looking at a cost as regressive, only tax is considered, not price, because it is assumed that a tax is an additional cost on top of price, but this has proven to not be true with a tax on land value. If it is accepted that LVT replaces price, than it cannot be regressive because it is not adding to price. At worst, the landowner will pay the same amount for the land regardless of whether LVT is levied or not. At best, it will be less because less money will be paid as interest and less will have to be taken in other taxes, such as income taxes. Also, if LVT is set high enough and most other taxes abolished, than there will always be a surplus from which to pay a per capita basic income. This will be progressive in its effect since an equal basic income helps those with lower incomes more than those with higher incomes. LVT should always be coupled with a basic income funded by the LVT. (See SJR 15 for an example of a basic income paid for by an LVT)

LVT: Dependable source of revenue because it stops business cycles

LVT also holds the key to solving the vexing problem of having a stable revenue source in the face of recession. The distinctive feature of LVT that separates it from other revenue sources is that enacting an LVT is an anti-cyclical fiscal measure. This is not to be confused with a counter-cyclical fiscal measure, which is a measure that acts against a cycle that has gone into bust phase. Anti-cyclical measures keep booms from starting, so no counter-cyclical anti-bust measures are needed.

The Great Recession saw a massive real estate boom and bust that crippled the economy. Had a robust LVT been in place in Oregon, housing price booms, which were actually land price booms, would not have existed because the tax would have placed a cost on holding land. This cost would have held price down because speculators would have to pay the tax to hold the land and they couldn't sell higher to new speculators/buyers with a tax increase baked in. The effect would be that speculators would have stayed out of the market completely and measures of real value would trump measures of speculative gains. In this study by the Bank of International Settlements http://www.bis.org/publ/work433.pdf, the researchers looked at 57 countries over 3 decades to measure "the effectiveness of nine non-interest rate policy tools … in stabilizing house prices and housing credit." They concluded that, "Among the policies considered, a change in housing-related taxes is the only policy tool with a discernible impact on house price appreciation." Specifically, they said that "an increase in housing-related taxes is the only policy with a measurable impact on house prices, with an incremental tightening associated with a 2 to 3 percentage point reduction in house price growth." This study confirms the findings of the studies in part 2 that taxes on land property kept price low and the lack of a tax on land property leads to higher prices. It also shows that LVT stabilizes the market by tamping down speculative price growth.

Since LVT keeps money out of speculative property bubbles, it makes it a dependable source of revenue in a few ways. First, without bursting property bubbles, there is no downturn to guard against and no search for a revenue source that maintains itself during a downturn. Second, since LVT keeps money out of vehicles of speculation, this money will have to find a new home. This home will have to be in the form of actual productive assets and payrolls, which will fund jobs consistently in the private sector. Finally, land rent is a constant revenue source because land will always be there, people will always need land, and people already reliably pay rent and mortgages to secure access to the land they desire. The difference is that they will be paying the government instead of banks and landlords, and the infrastructure that governments provide that provide the land's value will be paid for and then some (with the "then some" being distributed as a basic income).

Conclusion

This paper has sought to prove that land value taxation deserves to have a task force devoted to its study. I believe that the arguments in favor of LVT provided here present an undeniable need to seriously consider it as the leading candidate for pro-growth and equitable tax reform. I urge the committee to pass this bill out of committee for a vote in the full Senate. Thank you for your time and consideration of this measure.

Sincerely,

Logan Boettcher
Gresham, OR