Land-Value Taxation
and
Contemporary Economic Thought

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FOREWORD

The taxation of land values has played an important role in the tax structures of state and local governments of the United States. This role has not been given the prominence it deserves because the taxation of land values in the United States is submerged in the general property tax. Many writers of the eighteenth and nineteenth centuries saw special merit in the taxation of land values (usually measured on an annual basis as economic rent). However, writers of the twentieth century have failed to carry on this tradition. One wonders whether special merit in the taxation of land values has disappeared or whether the subject is simply being ignored.

This volume constitutes a modest attempt to resume the dialogue on land-value taxation. It includes studies relating the concept of land-value taxation to micro- and macro-economic theory. It also relates land-value taxation to the problem of monopoly power in the United States. It concludes with a reexamination of the ethical question inherent in the taxation of land values.

The papers which make up this volume were developed out of a conference on “Land-Value Taxation and Contemporary Economic Problems” at the University of Colorado, Boulder, Colorado, in August, 1961. The purpose of the conference was to provide an opportunity for a group of academicians, primarily economists, to examine the idea of land-value taxation in connection with various economic problems of the 1960’s.

The conference was initially planned by a small group of academicians (the Boulder Conference Committee) interested in seeing the resumption of intellectual activity and the production of literature with respect to the taxation of land values, after a lapse of almost half a century. The financial sponsor of the conference was the Robert Schalkenbach Foundation. The Conference Committee, however, exer-
vised complete independence and freedom in arranging for the conference as well as in preparing this volume.

The conference revealed that "land-value taxation" is an elusive concept. Its basic meaning is not really known and understood by many economists. Moreover, even land-value taxation, correctly defined, may have many forms and a variety of effects—all of which helped to corroborate the view that renewed thinking and writing in the field are sorely needed among economists.

I wish to acknowledge the valuable assistance of Weld Carter in planning and making arrangements for the conference and in the publication of this volume. In addition, Miss Violetta Peterson, Executive Secretary of the Robert Schalkenbach Foundation, was most helpful in many ways concerning both projects. Lastly, special thanks must be given to Mr. Albert Pleydell, President of the Robert Schalkenbach Foundation, for his encouraging support in materializing the conference and this publication.

The views expressed in this volume are those of the authors and do not reflect the views of the other participants in the Conference, or the Boulder Conference Committee, or the staff members, officers, members, or directors of the Robert Schalkenbach Foundation.

Arthur P. Becker, Chairman
Boulder Conference Committee
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LAND-VALUE TAX THEORY AND ITS RELATION TO MACRO-ECONOMIC ANALYSIS

BY WILLIAM H. ANDERSON

This article attempts to make a contribution toward relating land-value tax theory to the levels of national income. An examination of this relationship is a worthy subject for further research. It may be necessary, however, to proceed basically in a theoretical manner and discuss tendencies and contributions. Quantitative relationships and effects are very difficult to establish at the present time. The analysis will be directed principally toward a real-world model of the American economy as it functions in the 1960's. It will assume the use of some model of land-value taxation — whether it be the more pure concept of the full taxation of the economic rent of land or the milder form of a graded property tax with a higher rate of tax on land than on improvements. The general theoretical rationale is likely to apply as well to one type of land-value tax as to another. The degree of the effects of the several models upon the national income might differ materially, however. The article also assumes that a previous article in this series has discussed adequately the theory and philosophy of land-value taxation.

The thinking of the article will proceed under the following topics: (1) Henry George and macro-economics; (2) the general relationship between land-value taxation and macro-economics; (3) land-value taxation and the national income; (4) land-value taxation and employment; (5) land-value taxation and economic stability; and (6) land-value taxation and economic growth.

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I. Henry George and Macro-Economics

Henry George was not unmindful of the concept of macro-economics. It is true, of course, that he did not use the modern terminology of our national income accounts and income theory. Nevertheless, he was concerned with the economy as a whole in a broad social sense. This concern appears most patently in Chapter I, Book V, of Progress and Poverty, in which he endeavors to analyze the causes of “industrial depression.” In effect, he was looking at the economic system as a whole; how it worked and why it had its ups and downs, the hardships of general unemployment, and the persistence of poverty throughout the system.¹

The same broad social emphasis manifests itself again in Book IX, where George treats the possible effects of his proposal to tax the economic rent of land. He is concerned with the overall production of wealth; he uses the term aggregate wealth and emphasizes the gain to the “whole community” from the application of his policies.² In a following chapter he considers the effects upon the distribution of wealth. Chapter IV of the above book stresses the effect upon “social organization and life.” Implicitly, he stresses the concept of full employment when he says, “Consider the possibilities of a state of society that gives that opportunity to all.”³ Nor are his thoughts devoid of our modern concept of economic growth. He points out “the progress of civilization is a development or an evolution, in the course of which man’s powers are increased. . . .”⁴

It is therefore both relevant and logical for us to endeavor to relate land-value taxation and its effects to the macro-economic thinking of our day. Henry George in the mode of his time has already given us the general theory and philosophy by which it is possible to relate his ideas to our modern concepts of the national income and other elements of aggregate economic activity.

II. The General Relationship Between Land-Value Taxation and Macro-Economics

There is a fairly direct relationship between the theory and implica-

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² Ibid., p. 435.
³ Ibid., p. 471.
⁴ Ibid., p. 478.
tions of land-value taxation and macro-economics. This relationship grows out of the fact that this form of taxation tends to minimize interference with human economic incentives and capacity to work and produce; save, risk, and invest; and spend for consumption. The very theory of the tax provides that anything which human beings would do to improve land, to work land more efficiently, to use more capital, and to manage the use of land more effectively would be subject to less severe taxation than that on the land value itself.

It should be noted that it is human economic decisions which are strategic in national income creation; human control and use of the factors are prime movers. Land sites and natural resources are an inert mass of wealth until decisions are made to use them in production. Human economic incentives are a dynamic force in relation to all the factors in production — land included. To the extent that the repressive effects of taxation on the centers of economic decision can be minimized, the more extensive will be the use of the agents of production and the higher will be the levels of national income.

Some forms of taxation repress human economic activity. This is true of property taxes and those land-value taxes which strike improvements on land. Personal and business income taxes project the same tendencies. A true land-value tax would not impinge upon improvements or any other use of human resources on land. In fact, it is quite conceivable that this form of taxation would tend to stimulate in a positive way the human application of labor, capital, and entrepreneurship to land sites. This would tend to increase the effective use and productivity of all four factors of production. It would not penalize human effort and entreprise.

Instead, land-value taxation would tend to stimulate the very forces and factors which determine the levels of the national income. When tax policy strengthens these determinants, it quite logically enhances the national income as well. How this occurs must be explored more precisely in the following sections.

III. Land-Value Taxation and the National Income

There is little doubt that land-value taxation (whatever the specific model) would tend to foster net new investment: improvements on land — residential, commercial, and industrial. The experience in Australia, New Zealand, and to some extent in Pittsburgh has demonstrated
that improvements on bare land increase quite noticeably within a relatively short period after the adoption of land-value tax measures. In the period between 1929 and 1939 the area under all crops in those Australian states utilizing land-value taxation increased by 21.5 percent, but decreased by 7.6 percent in those states that used an undifferentiated property tax. The gain was greatest in Queensland (65.8 percent) and least for Western Australia (3.4 percent). On the other hand, for those states not taxing land values (locally) the decrease in all crops under cultivation tallied least for South Australia (4.9 percent), most for Victoria (10 percent), and nearly as great for Tasmania (8.4 percent).  

The data on the construction of residential housing between 1921 and 1933 are also quite revealing. The number of new dwellings built per 100 marriages was 74 in the land-value taxing states and 59.3 in the states not using that revenue approach.  

In addition, it must be noted that another interesting capital phenomenon takes place and that is this, that the ratio of the value of the improvement to the value of the land increases materially in a relatively short span of years.  

Again in Australia in 1939–40 the ratio of the value of improvements to unimproved land was 151 percent in the land-value rating states to only 79 percent in the others. It was highest (198 percent in Queensland) where the land-value tax itself was at a maximum. In addition, the average total value of improvements per land-taxpayer was fully 100 percent greater in the first group of states. The inference to be drawn from these facts would seem to indicate that the tax exemption of improvements has tended to stimulate the building of not only more, but better, homes and commercial buildings. It would be difficult to deny that these beneficial developments are fostered by the weight of taxation placed on land values and the tax exemption granted to capital improvements.  

A concrete illustration may reinforce the general conclusion. Camberwell is a suburban residential community of Greater Melbourne, Australia. It adopted land-site-value taxation in 1923. At that time the percentages of land and improvement values to their combined values

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6 Ibid.
were: land, 39 percent and improvements, 61 percent. By 1943 the value of the improvements had advanced to 243 percent. As a result, the ratios were changed to: land, 27 percent; improvements, 73 percent.8

A comparison can be made of the average income received by non-property owners in the land-value taxing states with that of the other states. Studies show that the figures were only slightly favorable to the former states. However, the evidence shows that the proportion of persons receiving the higher incomes was about 40 percent greater in the Australian states using land-value rating.9

A further significant finding in the Australian situation was the substantially larger rise in the value of plant and equipment in factories of the first group of states as compared with the second. In fact, in the second group two states actually suffered declines in this form of capital.10

Land-value taxation tends to force a more effective utilization of land resources in order to maximize returns to the several factors of production. Clearly, this adds to the level of the national income. Under such taxation, if sufficiently strong, owners of land cannot afford to hold it idle for speculative purposes. With the higher tax levied on land, values would tend to decline or at least not rise rapidly. Again the experience in Australia backstops this conclusion. In Queensland (with land-value taxation) the market value of land per capita declined 16.7 percent between 1901 and 1937. In two other states using the same tax approach, such market value per capita went up by 11.5 percent. However, in South Australia and Victoria, where land and improvements are taxed on the same basis, the market value of land had increased by 44 percent and 77.5 percent, respectively,11 although in Tasmania the increase was only 4.8 percent.

What happens also is that empty city lots are utilized because it no longer pays to hold such lots for healthy capital gains. Owners of poor rental housing in slum areas find it unprofitable to continue this type of housing because the tax burden on the land would require a better-quality housing from which higher contract rents could be obtained. The result would be net new investment in housing in such areas and

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9 Ibid., p. 381.
10 Ibid.
11 Ibid.
a concomitant rise in income after the investment. All of this could result in private slum clearance on a lot-by-lot basis. It might encourage the construction of more low-cost housing. It is well recognized that high property taxes on improvements have been a hindrance to such housing in the United States. To the extent that there would be more general and effective use of land sites within our cities, sprawling residential construction in the outlying areas would also be reduced.

The land-value approach to taxation would stimulate individuals to create income of a productive character rather than seeking income from the mere rise in site values of land. There are many thousands of people in our economy who spend a great deal of time and ingenuity trying to acquire capital gains (unearned increments) from buying, holding, and speculating in land sites. The presence of a firm land-value tax would absorb the tendency of land values to rise with the growth of population and communities. Though it would be difficult to quantify, it is reasonable to predict that former land speculators would turn their efforts to more productive pursuits and thus add to our national income and welfare.

Land-value taxation could induce wholesome income-creating effects in another way; it could foster individual enterprise in the form of small- and medium-sized business entities. Because under such taxation the value of land sites might actually decline or at least not rise rapidly in price, it would be easier to acquire land sites for small-business purposes. The idea was implied in Henry George's thinking. Again, though it would be very difficult to calculate this effect in quantitative terms, it is by no means pure speculation.

It is fair to project that land-value taxation could make a noticeable contribution to the levels of the national income. This would come largely from the various ways in which such taxation would foster investment expenditures—a major determinant of the national income. Some increase would come from the more efficient use of land resources. It would flow also from the desire to make the other factors more productive in order to compensate for the decline in income coming from the land itself.

Finally, such a tax could make a substantial contribution to a broader distribution of income and wealth. The ownership of land could be more widespread, the construction of residential housing could become more general and ownership could extend to a much larger number of people because land sites would not be so costly. Small- and medium-
sized businesses would become more numerous and create more income for those who might otherwise be wage laborers. Wages also would go up in response to the greater demand for the nonland factors of production.

IV. Land-Value Taxation and the Level of Employment

In general, to the extent that land-value taxation tends to increase national income, it would also augment the employment of both human and capital resources. This would be true because, as national income rises, more funds will be available for both consumption and investment expenditures in the ensuing period. That in itself could create a stronger demand for labor. Under such a tax the land factor would become the costly factor (because of the extent of the tax). Good theory would then dictate that labor and other factors be used more extensively so as to enable the allocation of a larger fraction of the total product to these factors rather than to land.

Specifically, employment would be encouraged to the extent that such an approach tended to stimulate improvements on land; employment would be increased first in the construction of the improvements and later in the operation of those of a commercial or industrial character. This would be bound to happen also to some degree in relation to the construction of residential housing. Construction, whatever its form, is very important in creating national employment.

Self-employment in small- and medium-sized business entities would probably expand in some measure. Under land-value taxation it would probably be easier to acquire land sites as bases upon which to develop business units. In recent years urban land values have gone sky-high, thus making it more difficult for prospective small enterprises to gain a foothold in private business ventures. There is strong reason to contend, therefore, that both hired and self-employment would be augmented in some measure as a result of such taxation.

V. Land-Value Taxation and Economic Stability

It is generally recognized that speculation in land and real estate has been a contributive factor in many of our booms and subsequent recessions. This type of speculation probably is not as significant as it was earlier in our history. Nevertheless, since World War II, speculation in urban real estate has been very extensive during our infla-
tionary periods. Speculative capital gains on land have been quite exorbitant in many of our large-city areas.

Since 1950, land prices for home building have skyrocketed anywhere from 100 percent to 3760 percent. In Miami, Florida, in 1960 builders were paying $7,500 an acre for land that could have been bought for $500 per acre ten years before. Outside Seattle, acreage that could formerly be bought for $250 an acre was selling for $3,000 an acre in 1960. In the suburbs of Chicago, land valued at $350 an acre in 1946 brought $3,500 a decade and a half later. South of Sacramento, California, land pegged at $200 or $300 an acre is now bringing $7,500 per acre for subdivision purposes. Forty miles from the heart of Los Angeles, even the Federal Government got $19,000 an acre at auction for the Santa Anna Air Force Base bought for $350 to $500 an acre in 1942. The same general pattern prevails in and around all large urban areas in the United States today. This condition is one of the major drawbacks to more extensive housing construction of the low- and medium-priced character. In fact, if it were not for extensive and cheap housing credit supplied by the Federal Government, housing construction would now be very seriously restricted. Home builders maintain that land values represent the most critical problem in the entire residential construction area.

To the extent that land-value taxation tends to reduce speculation, it can make some contribution to economic stability. This is possible for two reasons. First, the increases in the market value of land are likely to be relatively mild because the tax would tend to absorb any increase in economic rent that would accrue as a result of the growth of the community. These increases could not, therefore, appear as a higher capitalized value in the market price of land. Ordinarily, there is not much desire to speculate in those assets whose prices remain relatively stable or increase quite slowly.

The second reason is that under such a tax it would not be advantageous to hold land for any length of time for speculative purposes. It must be remembered that the land value tax would have to be paid each year during the holding period. This would materially increase the speculator’s investment and costs and thus reduce his possible gains even if the market price of land were to rise in some measure by the time he was ready to sell.

12 House & Home (August, 1960), p. 101. This entire issue was given over to a consideration of the urban land-site problem in the United States in 1960.
It is true, of course, that it would still be possible to speculate in other assets and goods. So the tax under consideration would by no means eliminate all undesirable speculation and the instability which can flow from it. Nevertheless, any reduction of speculation in such a basic factor of production as land is bound to reduce economic instability to some degree, difficult as it might be to measure.

Other aspects and effects of land-value taxation also may contribute to stability in a positive way. Any broader distribution of income induced by this form of taxation could add to a stronger and steadier flow of consumer expenditures over the phases of the cycle. It is not inconceivable to claim that this flow might mitigate the downswings and add a stimulus in the stages of recovery. Though the net contribution here might not be great, it surely would be welcome.

VI. Land-Value Taxation and Economic Growth

Any contribution that land-value taxation could make to increased real investment, employment, and stability in the short run could also foster economic growth in the long run. This is especially true of investment in commercial, industrial, and residential property on land sites. Productive capital formation is the very core of economic growth.

Then, too, to the degree that land-value taxation tends to strengthen human capital formation and more effective use of labor power and entrepreneurship, more goods and services will be produced. This can increase per-capita welfare.

In recent years it has been recognized that high land prices have been a factor in slowing the rate of growth in our highly populated urban areas. In proportion as land-value taxes tend to keep the market prices of land down, they can make some contribution to the greater application of other factors of production to land sites and thus promote economic development.

VII. Conclusions on Land-Value Taxation

There is a valid place for some form of land-value taxation at the local levels of government in the United States. It is at the local levels in Australia where it has had its largest measure of success. Many of our large city governments are in difficult financial straits. A land-value tax can be administered quite well by these governments. Such a tax could add materially to their fiscal adequacy.
If such a tax could be adopted on a fairly universal basis, there is a strong likelihood that it could augment the national income, contribute to economic stability, and foster economic growth.

However, care should be taken not to claim too much for land-value taxation in the way of constructive macro-economic effects. We have fairly good indications of the character of the tendencies which could flow from such a tax. However, our knowledge of the quantitative strength of these tendencies is quite meager. It may be that more study and research over time are required to assure us more firmly. If pilot experiments with the tax could be conducted in a fair sample of American communities, more empirical evidence might be forthcoming out of actual experience, and that assurance might be forthcoming.