TAXING LAND VALUES AND EXEMPTING IMPROVEMENTS

WHAT'S HAPPENED WHERE THIS HAS BEEN TRIED

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1.
WHERE IT HAS BEEN TRIED

When people first hear about land value taxation – with improvements and other man-made capital partially or wholly exempt – they frequently ask: "Has such a method of taxation ever been tried anywhere?"

Queensland (Australia) has been using this method of taxation for 72 years, or since 1890, for all local taxes, as has New South Wales for a shorter time. In the States of Victoria and South Australia more local governments are constantly changing over to land value taxation. In West Australia all local governments other than municipalities follow this system, except that some of them while exempting improvements in rural areas, tax improvements in the towns. A few of the municipalities tax only the unimproved land value. Tasmania is the only Australian state in which no local government has adopted land value taxation. There the local taxes are on both land and capital as is the case in the United States, Great Britain and many other countries in the world.

Whenever the land-value tax system is used in Australia or elsewhere, the tax rate payable on any given plot of ground is the same whether the site is vacant, poorly used or highly developed. As a result, holding of land out of use is penalized and land is used more productively. On the other hand, no penalty by way of increased tax levy is incurred when the land is drained, fertilized, terraced, or trees planted, buildings enlarged or new ones constructed. Industrialists and homeowners are more ready and financially able to improve their properties when their buildings are exempted from taxation than when each new improvement draws a "fine" of a higher local tax.

Since 1902, Wellington (New Zealand), a neighbor of Australia, has used land value taxation. Today 70% of New Zealand towns have this system.[1] By 1958, fifty-six communities were levying local taxes on land values and relieving —in some areas, only partially relieving—capital, with an average of four additional communities each year changing over to the land-value tax system.[2] A few years ago it was estimated that, at the present speed of adoption, in 22 years the system of taxing both land and capital will be completely replaced in local taxation by taxing only bare land.

Dr. Rolland O'Regan, a leading Wellington surgeon and president of the New Zealand League for Land Value Taxation, commented on the slum problem during a visit in 1958 to the United States.[3]

The reason cities have slums, says Dr. O'Regan, is that slums are more profitable than highly developed areas. **"One reason you get dead hearts in your cities is that you tax improvements...** Homes have a very high ratio of improvement value as compared to the bare land. About 80 percent of the homeowners of New Zealand found their taxes reduced under this system," i.e., the land-value tax system.

In New Zealand the weight of land-value taxation on decadent areas becomes so heavy that the site holders are compelled to put their land to better use than rundown, unsanitary tenements.

"We simply don't have run-down residential housing," Dr. O'Regan insisted, **"in any community that has adopted land-value taxation. In fact, the city of Auckland is the only one in New Zealand in which it has been necessary to undertake slum clearance...And it is worth noting that these projects are in the city which still hasn't adopted the land-value tax system."**

Dr. O'Regan emphasized that any city, anywhere in the world, that adopts the New Zealand method of waging war on slums will find that land value taxation is **"a silent, wholesome influence that makes for wider and better ownership of land."**

Some cities in other parts of the world have successfully been using land value taxation for decades. One such city is Johannesburg, South Africa. In this city all local taxes are levied on land values alone. An independent committee was appointed in 1944 to examine complaints of alleged inequities. The committee recommended that no change be made. And the City Council adopted the recommendation.

As to the results obtained from this change in tax policy, we shall refer to a letter of April 9, 1953, written by Mr. H.S. Mabin, Secretary of the Johannesburg Chamber of

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Economic Science analysis shows taxes draw from only two sources: RENT-of-land and REWARDS-of-human-effort (Wages and Interest). Both productivity and rewards of labor and true capitalists increase as we use more RENT-of-land and less Wages and Interest to support government. Unfortunately, governments at all levels are misled into using more and more non-land value taxation. (See our free "The Great American Tax Shift.")Extensive and intensive economic and social problems result; and government wastes the tax payer's money treating symptoms forever, never curing anything. To give more people some of the facts we are pleased to publish the above article. For information about our purpose and methods, write: PUBLIC REVENUE EDUCATION COUNCIL, Room 308–705 Olive St., St. Louis 1, Mo.

Commerce, in which he said that the Chamber of Commerce strongly favored the taxation of land values only. They felt that this system had had much to do with the development of Johannesburg into the most important commercial and industrial city in South Africa. Furthermore, three government-appointed commissions in the Transvaal have reported favorably on the system of land value taxation.[4] Johannesburg was the first city in the Transvaal to make this change in its tax system. Now 19 other cities in the Transvaal levy the real estate tax wholly on land values.[5]

Nairobi, the capital of Kenya, made this change in 1921 and Mombasa in 1949. In Rhodesia, Livingstone, the capital, and four other towns changed to land value taxation even earlier. Kimberley and a few other cities in the Cape of Good Hope province have been shifting taxes from capital to land. Some advance has been made in this direction in the provinces of the Orange Free State and Natal.

In Europe, Denmark taxes land values much more heavily than improvements.

Two of the cities in Canada to make this change in their tax system are Regina (Saskatchewan) and New Westminster (British Columbia). In New Westminster, land has been taxed more heavily than capital (improvements) for over 50 years. This city taxes improvements only one fifth as high as land. Commenting on the effects of this system of taxation, Mr. W. M. Mott, mayor from 1943 to 1948, has said:[6]

"Our citizens have no hesitation about improving their properties knowing this will not increase their annual taxes."

Mr. Mott went on to say that the abolition of taxes on goods produced by labor had helped build up the city to a point where it ranked third in British Columbia.

An earlier mayor of New Westminster, F. J. Hume, also commented in similar vein in the March 1935 issue of *The American City*. In that article he wrote:

"...This city is believed to have the largest percentage of individually owned, unmortgaged homes of any city on the continent. It now has the largest invested capital per person of any city in...Canada, and this capital investment is not in inflated speculative land values but rather in factories, machinery, stores and goods...

"There is therefore but a small percentage of non-productive property in the city and a small proportion of property reverting to the city for non-payment of taxes... has meant more business for lumbermen, paint dealers, furniture factories and all building trades..."

In assessing municipal taxes Regina (Sask.) – which introduced land value taxation in 1911 – levies taxes on improvements at a rate not much more than 1/7 of the rate on land.

Since 1925 the city tax rates of Pittsburgh and Scranton, Pa., Pennsylvania's two "second class cities," have been, by state law, only half as high on improvements as on land. Pittsburgh's recent mayor, now Governor David L. Lawrence, has said that "the graded tax law has been a good thing for Pittsburgh. It has discouraged the holding of vacant land for speculation, and provides an incentive for building improvements."

More studies have been made of the effects of taxing land, while at the same time decreasing or abolishing the taxes on capital, in Australia than in any other part of the world. Many newspaper reports have come from that continent as to the effects of that system of taxation. Comparisons have been made between states, cities and rural areas which have changed to the land-value taxation system and those which continue to tax both land and capital (improvements) at the same rate. The latest statistical study which has been made in Australia, is summarized in Section 2. A magazine account of the effects which followed a change to land value taxation will be found in Section 3.

[1] "Assessors Conference Takes First-Ever Look at Rates on Land Value," House & Home, Nov. 1961.

[2] The account of New Zealand's local tax policy is presented more fully in Christian Science Monitor, July 29, 1958, Pacific edition.

[3] Loc. cit.

[4] H. Bronson Cowan, Municipal Improvement and Finance, New York, distributed by Harper, 1958, p. 5.

[5] Land Value Taxation Around the World, New York, Robert Schalkenbach Foundation, 1955, pp. 40–7.

[6] Cowan, op. cit., p. 7.

2.

IMPORTANT NEW EVIDENCE ON TAX POLICY - SOME OF IT STARTLING

(Abridged from "Public Charges Upon Land Values," Melbourne, Australia, 1961)

During the 37 years from 1921 to 1958, the number of dwellings constructed per 100 marriages was greater in EACH of the three states (Queensland, New South Wales and West Australia) where all local governments—excepting a VERY FEW in West Australia—levy their real estate taxes on land values solely and exempt improvements, than in ANY of the other three states (South Australia, Victoria and Tasmania) where the taxes are on land AND improvements, as in the United States.

Although in Victoria most local governments tax land and improvements at the same rate, some municipalities and districts have changed to the system of taxing only land values. In the period 1921–1933, 7 per cent of the municipalities of Victoria taxed only the land values. But 46 per cent of the dwelling construction during that period was in these land value taxing municipalities; the other 54 per cent of the new dwelling construction was in the remaining 93 per cent of the municipalities.

In the years 1947–1954, the municipalities using the land-value tax system were up to 12 per cent. These 12 per cent accounted for 42 per cent of the new dwelling construction, and the remaining 88 per cent of municipalities accounted for 58 per cent.

During 1954–1958, 19 per cent of the municipalities in Victoria – a bit less than one fifth – had the land-value tax policy. The investigators reported this 19 per cent of municipalities as having about 62 per cent of the new dwelling construction, with the remaining 81 per cent, over four fifths of the municipalities, having only 38 percent of such construction. It is significant, too, that cities and districts which adopt land value taxation do not revert to the old system.

A survey of the Melbourne area showed that the municipalities taxing land values and exempting improvements, built 2.12 times as many dwellings per acre available during 1921–1940 as did the municipalities that taxed both land and improvements. A more recent survey revealed that for the four years 1954–1957 inclusive, the municipalities taxing land values and exempting improvements built 1.68 times as many dwellings in proportion to available acreage as did those taxing improvements.

In connection with the stimulus to improvements from the land-value tax policy, it is noteworthy that in the three states of Australia where all or practically all the local governments exempt improvements and levy correspondingly high taxes on land values, EACH taxpaying landowner, on the average, has at least 30 per cent more improvement value on his land than does the average taxpaying landowner in ANY of the other states. Indeed, in Queensland, where the tax on land values is the highest, the improvement values owned by the average land taxpayer are worth within less than half of one per cent of the total value of the land and improvements together of the landowning taxpayer in Victoria, which ranks highest among the states that tax improvements.

Then there is the question of attracting industries into a state, city or town. In the period 1930–1939 (pre-war) EVERY state in the land value taxing group–improvements exempted–had a greater per cent increase in plant and machinery investment in factories than ANY of the improvements taxing group of states, some of which suffered actual decreases. In the post-war period also, 1948–1958, EACH state in the land value taxing group had a proportionately greater investment in plant and machinery than ANY of the improvements taxing states. And data from Victoria indicate that in that state, "there has been concentration of factory development in those local units where buildings are untaxed." Thus, in 164 "extra-metropolitan councils" or units, during the two-year period 1955/56 to 1957/58, there was an increase of 42 in the number of factories; and 21 of these were in the 17 units having the land-value tax system. Also, in these 17 units or "councils," employment in factories increased by 445 whereas in the remaining 147 units – those taxing improvements – employment DECREASED by 361.

A survey was made, also, of retail stores in 353 towns located in New South Wales, Queensland, Victoria, South Australia and Tasmania, to determine the effect of local tax policy on the appearance of the retail stores in them. The survey showed that in the towns taxing land values more heavily and exempting improvements, a much larger proportion of the stores were modern and a much smaller proportion were obsolete than in the towns taxing improvements.

The towns surveyed were classified on the basis of the number of retail stores in them. Thus, the towns exempting improvements and taxing land values more heavily and having, each, more than 300 retail stores, were compared with the improvements taxing towns having over 300 stores. A similar comparison was made of land value taxing towns and improvements taxing towns having from 91 to 300 retail stores. Also, comparison was made of land value taxing with improvements taxing towns in which the number of stores was from 41 to 90; then of towns having these two divergent tax systems where the number of stores was from 21 to 40, and finally of towns where the number of stores was from 5 to 20.

In each of these classes, the land value taxing towns had a much larger per cent of modern stores, indeed more than double the per cent in three of the five classes. And in each of the classes the land value taxing towns had a smaller per cent of obsolete stores, a per cent less than a twelfth as high in the largest towns and only about half as high in the next three classes.

Land value taxation appears to promote agricultural as well as industrial and commercial development. Thus, in the pre-war – and depression – years, 1929/30 – 1938/39, all of the Australian land value taxing states (Queensland, New South Wales and West Australia) had an increase in acreage under all crops. In Queensland, with the highest local land value tax rates, the increase was 68 per cent; in New South Wales, with the next highest taxation of land values, the increase was 22 per cent, and in West Australia it was 3 per cent. All the other states (Victoria, South Australia and Tasmania) suffered decreases.

"Agricultural development," say the authors of "Public Charges Upon Land Values," is "intimately connected with the price of land. This is strikingly shown by the changes in area under cultivation in each of these periods," pre-war and post-war. The higher taxes on land values in the land value taxing states "curbed the speculative rise in the price of land. This speculation had freer rein in the states taxing improvements.

"Result was that with the collapse of world prices of primary products (particularly wheat) in the depression, the lower price of land in the land value rating [taxing] states enabled substantial extension of cultivation to be undertaken in those states. On the other hand the higher price of land in the other states led to failure of farms bought at those prices, surrender of holdings and reduction in the area under cultivation.

"The post-war comparison follows the same pattern as the earlier one, though with less difference between the extremes of the two groups. Public charges [taxes] on land values in the second group were much higher and closer to the first group in this post-war period. Although there is now little difference between the total proportion of the ground rent represented by the weight of public charges [taxes] levied on land values in Victoria and in South Australia, there is great difference in their distributive pattern. The post-war extensions of site-value rating [taxing] in Victoria have been mainly in urban areas, while in South Australia they have been mainly in rural farming areas. Hence it is particularly significant that, alone among the states where local taxes upon improvements still apply to a majority of municipal units, South Australia shows a small increase in area under crops."

3.
BEATING THE BUILDING RECESSION

From *Progress* (Melbourne, Australia), November, 1959

Rural Victorian cities of Wangaratta and Mildura have recently shown how the current building recession can be turned into a boom. These cities are now passing through *the greatest wave of building activity in their history at a time when building in most other provincial areas is at its lowest ebb for years.*[1]

For rural Victoria the year 1956 was the peak with a total value of £35,869,000 in building construction activity. Compared with that level the value for 1957 fell by 9% and in 1958 by 14%.

Contrasting with this general pattern of decline, *these two cities successively made an enormous advance in each year on their previous high level of building activity.* The 1958 value in Wangaratta was up 100% and in Mildura up 69% above the 1956 high mark.

In both cases reason for the wave of development was that their local municipal finance system was changed to exempt buildings and cultivation from local rates [taxes] and to base these only on the unimproved capital value of the site. Many Victorian towns before had made this change so far as their general rates [taxes] were concerned with less stimulating effect on building activity. But Wangaratta and Mildura were the first to switch all their rates to the site value basis and completely exempt buildings. Wangaratta put its water, sewerage and general rates [taxes] on the U.C.V. [unimproved capital value] basis. Mildura did so for its general and sewerage rates but could not do so for water which was controlled by a separate authority. Significantly, the stimulation in Wangaratta, where the change was complete, is greater than for Mildura.

In both places, although the previous building level had been stable at a high figure *there was an immediate upward leap in all classes of building following the change.*

In the two years since the change, Wangaratta's building permits totalled £1,518,000 compared with £740,000 under the old system of taxing buildings. For Mildura the figure was £1,111,000 against a reasonable expectation of £662,000.

With this development, employment opportunities have kept pace and enabled the growing output of the schools to be employed locally. As most of the money spent in the building industry passes through the local business community, the shopkeepers [merchants] are in clover with an extra £778,000 in Wangaratta, and £449,000 in Mildura, plus the spending of the new customers occupying the new houses. Some are paying higher rates but these are a minute fraction of their increased turnover due to the development. *Shopping Centers have been transformed in a wave of modernization.*

The above article from *Progress*, by A.R. Hutchinson, was published or used as the basis of reports by *West Australian, Country Leader, Sunraysia Daily, Geelong Advertiser, Benalla Standard* and *Wangaratta Chronicle.*

The experience of these two Australian cities — and this is but a small fraction of the evidence — has significance for American cities, too.

[1]*All italics are supplied.*

4.
PENNSYLVANIA'S LEGISLATURE POINTS THE WAY IN IMPORTANT RECENT LEGISLATION

The General Assembly of Pennsylvania has taken a long step, unprecedented in the United States, toward the establishment of a land value taxation policy in the third class cities of that state. In 1951, by an act passed unanimously in the Senate and with only a single dissenting vote in the House, third class cities had been given the option of taxing land at a higher rate than buildings. Now a 1959 act, also passed unanimously in the Senate, removes the limitation on the rate at which land may be taxed, so that any of the forty-eight third class cities of the state can raise as much revenue from taxing land values only, as they could previously raise by taxing both land and buildings. The 1959 act permits tax rates indefinitely higher to be levied on land, provided that "the respective rates on lands and buildings are so fixed as not to constitute a greater levy in the aggregate" than the real estate levy now authorized for third class cities.

A third class city in Pennsylvania can, therefore, if its Council so desires, substantially reduce its taxation of buildings and make up for this reduction by increasing the tax rate on land values. *Or it can completely abolish its taxation of buildings.* And it can do this either at once or by successive steps over a number of years.

The evidence presented in the preceding sections indicates that cities which *take full advantage* of this recent Pennsylvania legislation are likely to enjoy much greater commercial and industrial development and to suffer far less from obsolescence, deterioration, slums and blight than cities which do *not*, — or than cities in *other* states, which *cannot.*

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