# A Global Look at the Use of Land Values for Public Revenue

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A second edition of *Land -Value Taxation Around the World* is scheduled for publication this year. Edited by Robert V. Andelson, it is similar in format to the original, published in 1955 and edited by Harry Gunnison Brown and others. The edition is most welcome and almost entirely new because many changes have occurred within the tax systems of the countries covered by the former, and there are noteworthy developments in countries not covered before. By no coincidence the new edition comes on the centenary of the death of Henry George, the great American economist and social philosopher whose eloquent *Progress and Poverty* (1879) is still the definitive statement of why, both economically and ethically, governments should derive their revenue from land values, and unburden buildings, income in general, sales, imports, value added by industrial processes, etc., from taxation.

The new edition consists of an introduction by Andelson and twenty-two succeeding chapters by various contributors. The first two chapters are primarily historical (concerning feudalism and classical antiquity). The remaining twenty cover more recent developments (generally in the last century or two, with emphasis on the last few decades) in some twenty-eight countries. Each chapter is written by someone who is directly acquainted with these developments and in most cases has been involved in recent political struggles to reform land policies, in some cases at great personal peril. There is very little duplication of material published in the first edition. It does share with the first edition the liveliness and authenticity of writers who are committed to, and deeply involved in, the effort to collect for public purposes the value that has been created by the public, and to free private endeavour from burdensome taxes.

The book is important for many reasons. It is as comprehensive as could be hoped. It is thoroughly documented, certainly a boon for those who would wish to study the subject further. It brings together in one volume previously unpublished material with information from sources that might be inaccessible to many readers.

What strikes the present reviewer most strongly is the diversity of mechanisms by which various governments have sought to capture land values for public revenue. Let us survey some of the most important.

**Site-value rating**. Coming closest to Henry George's recommendation, this is the collection of local property taxes, often called ratings, from land values only, entirely exempting buildings and other improvements. All or many local jurisdictions in Jamaica, Kenya, the Republic of South Africa, Papua New Guinea, Australia, and New Zealand, among others, collect much of their revenue from SVR.

**Abu Dhabi**. Abu Dhabi is unique among the countries studied because it generates virtually the entirety of its public revenue from land rent, in the form of taxes on oil. However, Abu Dhabi collects none of the land rent that is attributable to its dramatic urbanization which has occurred since its oil began to be exploited in the 1960's. Moreover, only its own citizens are allowed to own land even though the vast majority of its inhabitants are not citizens of Abu Dhabi. This is clearly not the Georgist ideal.

**Public ownership of land**. Many countries, such as the United States and Canada, own much of what this writer would call wilderness land. Indeed, Garry B. Nixon's story of the Canadian experience in trying to recapture the value of natural resources from its wilderness is instructive, even if mainly a story of how not to do it. Much more important, however, is *urban land that is government owned*. The best examples of this are in Hong Kong and Singapore. The extent to which these tiny and remarkably prosperous city-states approach the Georgist ideal is of course entirely dependent on the terms under which they lease land to private companies and individuals. It is surprising that **Hong Kong** derives only 21% of its revenue from leasing land even though it owns all of the land in its territory. **Singapore**, on the other hand, owns most, but not all, of the land within its territory and generates about two fifths of its revenue from leasing land. It also generates another fifth of its revenue from quite high charges on motor vehicles, presumably a way of recapturing the very high value of the long narrow continuous strips of land that it has retained for streets and highways.

**Split-rate property tax**. In many countries land and buildings are assessed separately. In some, such as the Republic of China, **Taiwan**, a tax on land is imposed quite separately from a tax on buildings and may be at a higher or lower rate depending on circumstances. In jurisdictions in which land and buildings are assessed separately but in which the assessments are then summed and the taxpayer receives a bill for a rate on a total, without ever seeing that it has two components, it is certainly possible to tax the two components at different rates. Fifteen cities and one school district, all in the state of **Pennsylvania**, USA, and the tiny island nation of **Montserrat** (which is sadly being made more inhabitable by volcanic action), do just that, in some cases taxing land at several times the rate that they tax buildings.

**Land value increment taxation**. The idea is to tax the value that land has appreciated above some baseline, such as its value at a particular point in time, say the time when the law is to go into effect, an idea that is perhaps more in line with the thinking of John Stuart Mill than with that of Henry George. Taiwan, South Korea, Kiao-chau, Germany, and Denmark do use, or at some time have used, LVIT. There are at least three major variants. One is to collect the tax at the time of sale. Another is to collect the tax periodically, say at the same intervals as reassessment is done. A third variant is not actually to collect that tax at all, but to attach a mortgage to the land in the amount of its appreciation (or in some proportion to its appreciation) and then generate revenue by issuing bonds secured by the collateral of the mortgages the government holds. Jurgen G. Backhaus reports that the latter approach was taken by Kiao-chau while it was a German protectorate. Another dimension of variation is whether the tax is based on assessed values or actual sale prices.

Two things are clear about LVIT. (1) If a land tax such as SVR were imposed and set high enough, and assessments were at market value and kept current, then the increments that LVIT is intended to capture would simply not exist. (2) LVIT is totally unsuited to the collection of land values below the necessarily arbitrary baseline, which would surely be huge in any developed country. There is, however, a more subtle aspect to LVIT that cannot be ignored. What distinguishes the increment in land value from the baseline is that the former value is more obviously a windfall than the latter, even though the latter must have been equally a windfall in the past. But when one focuses one's entire attention on the obvious windfall nature of the increment one may easily lose sight of why land, as land, is peculiarly and uniquely appropriate as a basis of taxation. One is then tempted to cast about looking for other windfalls. The Superior Widget Corporation, let us say, has just come up with an innovation which, until its competition catches up, affords it a higher than usual profit margin. So we need to capture this windfall with an excess profits tax. Ken Griffey, Jr., has just discovered in himself a more prodigious ability to spank baseballs out of major league parks than anyone knew he had in him, and so he will reap a windfall next time his contract comes up for negotiation. So we need, at the very least, a steeply graduated income tax, and perhaps even an absolute cap on salaries in order to capture this windfall. Human envy knows no end to the windfalls it can detect. The pathological aversion to windfalls, of whatever nature and from whatever source, leads to a socialistic rejection of market based distribution in general. The antidote is a firm grasp of what is special about land values: all land values, not just those above some arbitrary baseline.

Of course in the context of political reality, it is better to collect some land value than none. Moreover, the affinity alleged above that the LVIT has with more broadly socialistic proposals may account, ironically enough, for the frequency of its adoption. In order to get anything at all accomplished Georgists have often needed to form an alliance with some more numerous group, in this case with socialists, notwithstanding their fundamental disagreements.

**Income tax**. Although income taxes are likely to harvest some land rent simply because land rent is received as income, they are more notable for special provisions by which certain income is exempted from taxation. Accordingly, not much is said in this volume about the income tax except by Backhaus who describes special provisions in the German income tax by virtue of which much redevelopment after each of the two war defeats suffered by Germany in this century escaped taxation and was thereby allowed to flourish much more quickly than it otherwise would have. From the contrary point of view, in his far reaching chapter called "Mesopotamia and Classical Antiquity," Michael Hudson traces how the adoption of the income tax has enabled landed wealth to escape taxation to a greater and greater extent.

Although the book describes many other ways in which governments have sought to capture land values, the following comments will suffice to conclude this review.

**Controlled experiments**. Although genuine controlled experiments are usually impossible in the social sciences, the next best thing has been done. Most localities in the Republic of South Africa use SVR but some still tax buildings as well. Perhaps more than half of Australia's local jurisdictions use SVR and the remainder tax buildings to some extent. Numerous studies have been conducted in the Republic of South Africa and Australia comparing the SVR jurisdictions with those that also tax buildings. In all such studies the SVR jurisdictions have been found to be more prosperous than those that also tax buildings, by whatever measure of prosperity chosen. Similarly, many of the split-rate cities in Pennsylvania have been compared with neighboring flat-rate cities of approximately the same size and economic base, and in every case the split-rate cities have prospered more than their counterparts.

Most contributors to the book have judiciously made no attempt to answer the old and troublesome question: Are land values alone large enough to support the legitimate needs of government (discounting such obviously special cases as Abu Dhabi)? The contributor of the chapter on Australia, however, Geoff Forster, reports that a government official estimated in 1993 that land rent could provide 50% of Australia's public revenue at that time. More recently an academic town planner has estimated that Australia's uncollected land rent amounts to $40 billion, compared to total public revenue of $148 billion. In contrast Godfrey R. A. Dunkley, reporting on South Africa, estimates that in 1986-87 the rental value of the country, i.e. the maximum that could be raised from the taxation of land values, was 164% of the revenue that the government actually collected from all sources at all levels of government. The huge difference between Dunkley's estimate and the estimates reported by Forster are not due merely to the fact that they are for different countries. Dunkley's methodology relies on the Georgist assumption that all existing taxes ultimately come out of rent. While this assumption is not under question here, and is indeed endorsed, however cryptically, by leading contemporary economists (see for example Harold M. Groves, *Financing Government*, New York: Holt, Rinehart and Winston, 1964, p. 120), had that assumption not been made Dunkley's estimate would have been 64%, still a huge proportion compared to the 3 or 4% of their total revenue that countries using SVR typically derive from it.