

The German Building Land Tax

"IN the German Federal Republic landed property of any kind is now the only property that is practically untaxed," states Gustav Bohnsack in a conference report. "It is obvious that this state of affairs cannot be permitted to remain unchanged." Mr. Bohnsack is a surveyor of land in the city of Hanover.

Like most other countries, West Germany has a housing shortage, and nearly all areas suffer from a chronic lack of building land. Building costs on subsidized residential houses have doubled since 1956 and quadrupled on the unsubsidized buildings which are not controlled. Rentals have risen proportionately.

Of the 17 million dwellings now in use, one million are ripe for demolition, 3.5 million need costly repairs and renovation, and 3.5 million need modernizing. Thus almost half of the houses now occupied in West Germany do not come up to modern housing standards. Improvement of this situation will put a strain on building and rentals for a long time, quite apart from its effect on land prices.

Of the 18.5 million households, nearly 12 million are tenanted. The highest rents fall on those who are not eligible for subsidized dwellings, such as young married couples. The number affected will be further increased with the addition of tenants now living in slums and blighted areas, that is, unless the state further subsidizes buildings and rents.

The planned economy, in trying to supplement former real estate tax provisions, left a blemish on Professor Erhard's free market economy. At one stroke the Federal Building law freed land from price control (1960) and prices were thereafter influenced freely by supply and demand. It was obvious that prices would rise tremendously,

but the government, in an effort to offer land suitable for building at prices corresponding to current wages and price levels, attempted to establish safeguards against land speculation. The building land tax was the most important of the three devices proposed by the politicians.

This regulatory tax was intended, therefore, to increase the supply of building land and thus to work as a price stabilizer. But it was mistakenly levied only on a small selected group of empty sites ripe for building. Until then these sites had been taxed at their existing-use value, for example, as useful for agriculture only. When they were revalued as being already developed they moved into a more highly taxed class.

Class A included agricultural and forest land; Class B, developed sites; and Class C, empty sites ripe for development. The effect on the landowner when agricultural land came into the class of building land was that his tax increased a hundredfold. The effect of changes from Class B to C was inconsequential.

The tax on building land was introduced in January 1961 and massive attacks were made on it in the press. Charging that it encroached on the principle of equality guaranteed in the constitution, all these attacks seemed to come from the same general source. One could therefore conclude that the law was much more efficient than the housing committee was willing to admit when it reported "the building land tax is to be abolished, as it has failed to put new life into the building land market or to prevent land speculation."

A few newspapers expressed more favorable opinions, such as "it is incorrect to say the building land tax has failed since it had a good influence on

the supply of building land," and "building land prices have dropped by 20 per cent . . . perhaps the building land tax plays a part?" But even those positive voices could not prevent the tax from being withdrawn after four years. Immediately thereafter the financial committee of the Bundestag noted that "a tax more in line with the present-day values of land can be carried out only after a new valuation of land."

In the summer of 1963 the government completed the draft for a new valuation law, approved by industry and at first even by the landlords, to become effective in January 1964. It continues the same three divisions of land, and when it becomes law it is hoped that all sites ready for development, or likely to become so, will be revalued and taxed according to true current market value.

Under the proposed legislation, farm lands and forests (now taxed at only the merest fraction of their market value) will, if considered suitable for early development, be included in Class B, along with land that has been zoned for building by the planning authority. The Class C category, as before, includes vacant sites ripe for building, also slum areas and derelict bombed sites.

If this measure puts an end to land speculation it will be a stimulus to general land value taxation, for this

principle is being considered in West Germany, as evidenced by the fact that the government sent a committee to Denmark to study the Danish method. When the constitutional validity of the building land tax was in doubt, the Berlin Kammergericht declared against protection under the constitution of land holder's unearned and speculative economic rent, since it was the whole community that had brought about the increased values.

But the land question, which has been a part of German politics for generations, is not solved. The present economy favors landowners at the expense of everyone else; the landowners have and use the power of monopolists; the law supports them in doing so. Land speculation is unethical, anti-social and politically dangerous.

Everybody knows that the transformation of agricultural land into building land, or even the mere suggestion of it, causes land prices to jump. But few notice that the higher prices are being paid, not always by the tenants, but by the governments through the network of subsidies.

Correcting the balance of our social order is the task of our administration; it can be accomplished by transforming the existing real estate taxation into a land value tax. Countries that desire freedom and enjoy a free economy can find no better solution.

THE DUTCH "JUSTICE AND FREEDOM ASSOCIATION"

A Dutch magazine edited by a Geogist, A. Sevenster, is published monthly in St. Annaparochie, Netherlands, and called "Ons Erfdeel" (Our Heritage). A statement on its masthead proposes raising a tax from landowners which should be low in the beginning and gradually increased, based on the capitalized rent of land in the towns and country, and reflecting the equal right of every human being to the land.

The Dutch society takes as its authority Psalms 24:1 — "The earth is the Lord's, and the fullness thereof; the world, and they that dwell therein," and the economic philosophy of Henry George in *Progress and Poverty*, that the rent of land arising from the activity of the community belongs to the community and should accrue to its members.