

Land and Property Taxes an Encouraging Symposium

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Land and Building Taxes—their effect on Economic Development
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THERE WAS a time when the advocacy of land-value taxation by respected academics, economists and policy advisers was hardly heard at all. But this situation has changed considerably in recent years. It is interesting to speculate on the trends which have led to this softening of established thought. No doubt dissatisfaction with the results of past policies has encouraged a deeper examination of cause and effect. Perhaps also the continuous pressure from the property tax reformers has made an impact over the years. Whatever the reason, however, it is refreshing to note the new interest which is being taken. Land-value taxation is very far from being a lost cause.

In recent years much has been done, particularly in the U.S.A., to encourage positive thought about the effects of alternative systems of property taxation. One of the organisations which has been most effective in this field is TRED—the Committee on Taxation Resources and Economic Development which has sponsored four significant symposiums since 1964, the proceedings of which have all been published.

The 1966 symposium dealt with land and building taxes and their effects on economic development. As the introduction to the proceedings points out: "Support seems to be growing for the view that suburban development may be inhibited by the property tax." In a brilliant analysis of the principles of taxing land and buildings, Arthur P. Becker (Professor of Economics, University of Wisconsin) clearly argues that the combined effect of increasing taxes on land values and decreasing or eliminating taxes on buildings will be that of producing a larger aggregate demand or Gross National Product. Continuing

in the same vein, J. A. Stockfish illustrates, by using both Keynesian investment theory, classical analysis and resource earnings methodology, that property taxes influence total levels of investment and that provided land is taxed more heavily than all other assets, there will be a reduction in land price through the capitalisation

effect. Like Arthur Becker he also notes that in so far as the property tax is imposed on buildings, the marginal efficiency of capital falls, taking with it the levels of both investment and consumption spending. These effects result in a decline in overall income.

Dealing with the incidence of alternative tax systems on the supply and quality of rental housing, James Heilbrun, Assistant Professor of Economics at Columbia University, concludes emphatically that a site-value tax is the only tax variant which has no harmful effects of any sort on housing quality. On the other hand he did not feel that a site-value tax should be considered as an outright substitute for the present U.S. tax system as he doubted whether the tax base would yield enough revenue to cover the present needs of local government. He therefore favoured a differential tax system with a higher rate of tax on land and a decreasing rate on improvements.

Another contributor, Arthur L. Grey, Professor of Urban Planning at Washington University, considered that land-value taxation would have an ameliorating effect on urban renewal problems and that the importance of tax reform as a means of accomplishing renewal could not be overstated. This contributor was firmly convinced that land-value taxation would lessen the need for public clearance projects, partly as a result of better maintenance and partly on account of the increase in private initiative which would be spurred on by land-value taxation.

Professor Grey pointed out, however, that there might well be cases for special consideration if land-value taxation were to be introduced on a wide scale. The need to preserve buildings of architectural and historic interest for their own sakes, for example, would give rise to pleas for tax abatement if the only way to meet the tax bill was by redevelopment. Similarly land to be allocated for recreation or public open space would have to be covered by a special procedure if such land had a high value alternative use.

There should, however, be no difficulty in devising suitable administrative machinery to deal with such cases provided that the community is aware of the revenue it would have to forego to maintain the socially desirable assets. In some instances, of course, the result of an exemption for an open space might easily be offset by higher values of adjoining land—values arising from the proximity of a valuable and sought-after amenity. In a brief summary to his contribution at the symposium, Professor Grey remarked that the “push and pull” forces of land-value taxation, together with the benefit of taxing surplus or unearned increment, had particular merit. The introduction of land-value taxation, he concluded, should go hand in hand with income and capital gains tax reform as well as a review of depreciation allowances.

Turning to the “Political Aspects of Real Estate Taxation in Relation to Metropolitan Growth,” Ernest A. Englebert, Professor of Political Science of the University of California, painted a clear picture of the administrative and assessing problems facing American cities. The blame for urban disorganisation in America he claimed, could be fairly placed on the property tax and its administration because:

- *it produces premature and unwise land use development.
- *the current practice of assessing vacant land and newly developed properties at lower values than those for well established areas produces excessive urban dispersal.
- *it hastens the deterioration of city centres by high tax rates on improvements and tax rates on vacant land too low to stimulate development.
- *multiplicity of taxing jurisdictions promotes inter-area tax policy rivalry to give concessions.
- *the tax system itself leans too heavily on federal and state grants rather than promoting local self sufficiency.

To counteract the influences of these pressures, Professor Englebert proposed a three pronged reform to rationalise taxing jurisdictions, remove state limitations on tax rates and to raise taxes on the differential assessments of land values. “If locally controlled government is to survive,” he said, “standards other than those of political expediency will be required.”

Concluding the contributions to the first part of the Seminar, Max Neutze from the Urban Research Unit of the Australian National University, discussed the effect of taxation on multiple family housing. He concluded

that site-value taxation would help to concentrate apartment developments in the inner city areas where they are most needed. In addition there would be a tendency to redistribute land to the less wealthy, resulting in a growth of single family housing at the development margin of cities.

The second part of the Symposium dealt extensively with five detailed case studies of different forms of property taxation throughout the world. These included land-value taxation for irrigation districts in California, site-value rating in Australia and New Zealand, and land taxes in Chile, Colombia and Jamaica. The examples illustrated the benefits that the policies had brought in their wake and indicated the limitations of the administrative practices in the countries concerned. None of the cases dealt with could be considered as full-bodied land-value taxation. However, they represented working models of the main theme and principle of site taxation when adapted to the very varied circumstances of countries of widely different cultures at different stages of political development.

The full report of the proceedings is well worth a close study by those interested in the development of academic ideas in the field of property taxation and their application to modern problems. It is encouraging to see that more attention is now being given to the study of land-value taxation in relation to economic development. The need for its practical application is growing quickly as urgent problems caused by sporadic growth are faced by both developed and developing nations.