

# WALSH MEMORIAL LECTURE 1989

Dr Steven Cord  
President  
Centre for the Study of Economics  
Columbia, MD, USA

## LAND TAX

The Hard Evidence

You undoubtedly are familiar with the phrase "bearing coals to Newcastle," a city which in times gone by was a centre of coal production in England. Well, here we are in Australia (not too far from *your* Newcastle, incidentally), a veritable centre for land value taxation, and here am I bringing you information about that very topic. But I have done research in the United States and can hope to add at least a little to your knowledge of land value taxation.

I presume no translation of my remarks will be necessary, despite my occasional Americanisms, as we share a common language. I gave my last speech on this general topic in the Dominican Republic last month and had to have it simultaneously translated into Spanish; my audience had to hear the speech twice, once in English and then again in Spanish. At least you will not have to suffer through such an inconvenience.

First, let us talk about the evidence for land value taxation in the world at large. It is considerable<sup>1</sup>. Every city in Denmark, except for Assens, taxes land more than buildings for purposes of local revenue<sup>2</sup>, but I do not have evidence as to the success of this approach, or the lack of it. That could be because nearly every city is doing it and so comparisons are not possible. Almost all the cities and counties in New Zealand tax only land and although the evidence as to its success is sparse, we do have some<sup>3</sup>.

Let us closely examine a very comprehensive study which has been performed in the Republic of South Africa. Kindly put aside considerations of apartheid as they would be entirely irrelevant to the topic we are confronting. This South African study compares the increases in building assessments from 1959 to 1984 in all 112 major towns in that country and found that the 55 cities rating only on site values (there, I'm using the Aussie lingo!) showed much larger building-assessment increases than the 33 two-rate towns (taxing land more than buildings), which in turn showed a much greater increase than the 12 flat-rating towns. Especially large building-assessment increases were registered by the many towns which switched to either two rate or site-value-only<sup>4</sup>. This study was compiled from government statistics by Godfrey Dunkley, a reputable engineer.

There are other African nations containing cities which are taxing land values more than buildings; they are Kenya, Uganda, Tanzania and Zimbabwe. Unfortunately, I don't know of any studies in those countries on the effectiveness or ineffectiveness of land value taxation.

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1. Incentive Taxation, June 1984. This article lists some of the many countries practising land value taxation in the world. Others are referred to in detail in this paper. Incentive Taxation is a semi-quarterly bulletin published by the Centre for the Study of Economics, 2000 Century Plaza (238), Columbia MD 21044 (301-740-1177).
  2. Ibid., October 1983.
  3. Catalyst! (1979: HGFA, 2000 Century Plaza (238), Columbia MD 21044, 115 pp.), p. 87, quoting Progress Magazine (Melbourne), April 1977, p. 10, using government statistics.
  4. Incentive Taxation, Jan.-Feb. 1988, citing statistics from the 1985 South African Municipal Year-book (Govt. assessment statistics).

There is extensive evidence on the effectiveness of land value rating coming from this country - Australia - and it will be worth some examination on our part.

Much of it emanates from the neighbouring state of Victoria. The researcher was your very excellent Allan Hutchison (M.I.E., Aust.), a long-time member of the City Council of Camberwell. Unfortunately, Mr Hutchison recently died but his work will long live on. He compared the taxable building-permit growth in all 24 cities which, since 1954, switched to rating only on land values, and found that in each case their new construction growth, as measured by building permits issued, far exceeded the average construction changes of the other municipalities in the same statistical district. The government of Victoria divides the state into ten districts for statistical purposes.<sup>1</sup>

Another study shows that construction in land-rating Sydney exceeds that of Melbourne, 1981-82 as compared to 1976-77.<sup>2</sup> While other factors might account for the superior construction performance of the land-rating municipalities as compared to their comparable neighbours, can that be a reasonable explanation in all of the hundreds of cases so far cited? And we haven't even referred to the Western Australian study covering dozens of localities, both in city and in country.<sup>3</sup> Nor have we yet referred to the evidence from the United States, to which we should now turn.

The State of Pennsylvania has long allowed its cities to tax land at a higher rate than buildings, at their own local option. Ten cities have now taken up that option and the evidence from them so far corroborates the evidence from elsewhere in the world: building permit issuance (which is the measure of new construction, job creation and economic development) increases after these cities institute a building -to-land switch in their municipal property tax.

Two cities - Clairton and Oil City - switched to two-rate in 1989 and hence do not yet have a track record we could report on. Clairton taxes land assessments at 10% while taxing buildings at only 2.1% (assessments are officially at 25%), instead of taxing both at approximately 3.8% to raise the same revenue. Oil City taxes land at 3.86% and buildings at only 3.14% (assessments are officially at 100%).

Aliquippa Pa. adopted a two-rate municipal property tax of 8.1% on land and 0.5% on buildings (assessments are officially at 50%); in 1988 it experienced a marked construction surge far out-pacing its comparable neighbours Ambridge and Beaver Falls.<sup>4</sup> Aliquippa posted this increase despite the bankruptcy of the huge J&L steel mill which caused monumental unemployment in the town. It could, however, be reasonably argued that more time is needed to assess the Aliquippa experience with land value taxation; "so far so good" is now all that can be asserted.

1. Ibid., Oct. 1977 (citing Aust. Govt. statistics as reported in "Public Charges Upon Land Values", (1961: Melbourne Land Values REsearch Group)); Jan. 1978 (citing official Commonwealth Bureau of Census & Statistics as prepared by Allan Hutchinson for Progress Magazine, 5/75, p. 10); also Nov. 1978 (Aust. Bureau of Statistics, as quoted in Progress Magazine, 6/75, p.8); also Dec. 1985 (citing Aust. Govt. statistics in Progress Magazine, Feb. 1985).

2. Ibid., Dec. 1985 (citing Government statistics in Progress Magazine, Feb. 1983).

3. Ibid., April-May 1986 (citing Aust. Bureau of Statistics data from 1971, prepared by the Melbourne Land Values Research Group.)

4. Ibid., May 1989 (citing City Hall records). I have myself performed or helped perform all the Pennsylvania research.

The large city of Pittsburgh has been taxing land assessments at a higher rate than building assessments since 1913, but in 1978 it obtained a home-rule charter from the State of Pennsylvania which enabled it to increase the ratio of land-to-building tax rates from 2:1 to much higher. Starting in 1979, the city began to raise its land tax rates, with almost no change in building tax rates, so that today the land tax rate is 15.5% and the building tax rate is 2.7% (the official assessment-to-market ratio is 25%; the actual might be half that). My own study of building-permits issued showed that they were 3.9 times higher in the three-years-after period (1979-81) as compared to the three-years-before (1976-78). At the end of the period included in the study (1981) new construction was 6.9 times higher than the pre-switch three-year period, whereas US office building starts (to which Pittsburgh's construction record could legitimately be compared) had increased only 3.5 times.<sup>1</sup>

An independent and highly regarded research organisation, the Pennsylvania Economy League, found that 1980-84 building permits issued in Pittsburgh were 3.92 times higher than in the earlier 1974-78 period on an inflation-adjusted basis whereas for the nation at large, the building permit increase was only 1.06 times greater in 1980-84 as compared to 1974-78.<sup>2</sup> I welcome this independent corroboration. I would add that the pace of new construction has continued nearly unabated since 1984, and all this despite the horrendous big-steel depression of the early 1980's, the continued pace of suburbanisation in the region, and the ripping up of the downtown district for many years due to the construction of anew short subway.

In 1980, Scranton, Pa. adopted the two rate property tax (plus a generous tax abatement on new construction but not on the underlying land). Scranton's taxable-building-permit issuance thereupon jumped 23% in dollar value as compared to neighbouring and comparable Wilkes-Barre, which suffered a 47% decline in the same period.

Now we can move on to McKeesport, a steel-making suburb of Pittsburgh which has suffered many economic reverses in the last decade. That city adopted a two-rate property tax of 10% on land coupled with 2% on buildings (at an official assessment-to-market ratio of 25%). In 1980, plus in that year it passed a generous abatement of property taxes on new construction (but not for the underlying land value). Taxable-building-permits issued jumped 38% in the three years after period as compared to the three years before, whereas in neighbouring the comparable Duquesne, the decline for that period was 20% and for neighbouring and comparable Clairton, the decline was 28% (in those years, neither Duquesne nor Clairton had adopted the two-rate property tax).<sup>3</sup>

The state capital of Pennsylvania, Harrisburg, adopted the two-rate approach in 1974 and also generous new construction abatements, and it went from a moribund city to being one of the fastest growing municipalities in the eastern United States. However, other factors were present: a large landowner in the city, the state government, granted more generous payment-in-lieu-of-taxes to the city, and a more vigorous city administration took over city hall in 1982.

I am pleased to report that researchers from Fortune Magazine independently corroborated all of the above data from Pittsburgh, Scranton, McKeesport and Harrisburg for their Aug. 8, 1983 article on the subject (except that they did not refer to the other factors noted above for the latter city).

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1. Ibid., Oct.-Nov. 1982 (citing City records).

2. Ibid., Dec. 1988, citing the 1985 study of the Pennsylvania Economy League (603 Stanwix St., Pittsburgh, Pa.), p. 16. This study was based on city statistics, inflation-adjusted. For US Building-permit issuance, see "Construction Review", (US Dept. of Commerce) Nov.-Dec. 1984, Tables C-1, C-4, C-6.

3. Ibid., Nov. 1983 (citing City Hall records).

Three of Pennsylvania's ten two-rate property tax cities still remain for us to discuss. New Castle's taxable-building-permits issued jumped 70% in the three years after it adopted two-rate in 1984 as compared to the three-years-before. In neighbouring and comparable Sharon, the construction decline was 90%, while in neighbouring and comparable Farrell, the decline was 66%.<sup>1</sup>

You New South Welsh (is that the proper name for residents of this state?) may be particularly interested in New Castle because of its name. Let me say that it is a city of some 30,000 souls and has suffered grievously in the 1980's because of its reliance on heavy industry. It is immediately contiguous to Sharon and Farrell, and the three cities form one homogeneous economy.

Washington, Pa., another industrial Pennsylvania city, experienced the usual construction surge after it went two-rate in 1985: its taxable-building-permit issuance increased 33% in the three-years-after period as compared to the three-years-before, and this was greater than neighbouring the comparable Monsoon though not quite as high as in neighbouring and comparable Uniontown; but the number of its taxable-building-permits issued were markedly greater than in both of these latter cities.

Duquesne, Pa., - a steel town, you will remember - went two-rate in 1985, but it suffered a decline in taxable-building-permits issued in 1986-87 as compared to 1983-84, but then so did neighbouring and comparable Homestead although neighbouring and comparable Clairton enjoyed an increase. Other factors were present here and demand our comment: Duquesne lost its gigantic Dorothy steel mill in the three-years-after period whereas Homestead lost its steel mill in the earlier period, and that skewed the comparison to favour .p170 Homestead over Duquesne; Clairton has a huge coke mill which has been unaffected by the steel-industry decline (indeed, its mill received a long-overdue overhaul in the three-years-after period.)<sup>2</sup>

This brings to a close our detailed report on the building-permit studies we have conducted in the ten two-rate cities of Pennsylvania. The preponderance of evidence clearly indicates that construction spurts have generally followed a building-to-land switch in the local property tax. It is legitimate to ask, "if these ten Pennsylvanian cities had switched all their local taxes onto land values instead of making just partial switches, and if all the cities in the US did likewise, wouldn't that provide an electric boost to the economy? Wouldn't the economic ship jump out of the water, take wings and fly?"

Enough about building-permit statistics in Pennsylvania. You have a more extensive record down here in the Lucky Country. The many hundreds of studies throughout the world which I have cited make it improper to ascribe the construction increases, and the consequent economic prosperity and job creation, to factors other than the taxation of land values.

Let me now call your attention to six additional considerations:

- (1) If we can expect a more efficient use of land to result from land value taxation, then here we have a potent tool for the containment of urban sprawl into the clean-and-green countryside. If you are really serious about preserving open space, then realise that it is low-density land use that is gobbling it up, in your country as well as mine. Realise that if you don't advocate land value taxation, you are contributing to the premature development of open space.

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1. Ibid., Nov. 1986 (citing City Hall records).

2. Ibid., Oct. 1988 (for Washington, Pa.) and May 1989 (for Clairton and Duquesne), citing City Hall records in both cases.

- (2) International trade is becoming increasingly important to both your country and mine. If we want to increase our exports, then don't tax them! That only makes them more expensive and less competitive. If we were to tax land instead, we would in fact decrease the cost of goods sold because we would decrease the cost of land use.
- (3) Do you want to tax according to ability-to-pay? Then tax land values. Isn't it clear that land owning is more concentrated than even income ownership? Most everybody has an income while only a few own land and fewer still get a significant portion of their total income from land, isn't that so? Thus it can be said that a tax on land values is going to be much more of an ability-to-pay tax than even an income tax, let alone a sales or VAT tax.

You will find many studies corroborating these obvious facts in the endnotes of this paper.<sup>1</sup>

- (4) Society creates the locational value of land when it provides nearby jobs and shopping, also roads, schools, hospitals, police and fire protection, etc. Thus, it should collect via taxes what it creates before it taxes what individuals produce (e.g., wages, buildings, income, sales and so forth).

Australia's entire Gross National Product is produced by its workers and capital-investors. Shouldn't they get what they have produced? But they don't because they must share what they have produced with land owners, who are non-producers.

Keep in mind that landowners, as landowners, produce nothing. They didn't produce the land - God did that long before anyone arrived in the world. Didn't God provide natural opportunities equally for us all. Shouldn't all of us have equal access to these opportunities? But landownership is necessary to access, so either landownership should be equal - but that is grossly impractical - or it should be taxed so that the government can use that income for the benefit of us all.

- (5) It obviously is easier to assess land value only than land-and-building values or real estate income, quite apart from the question of economic development.<sup>2</sup>
- (6) The issue we are discussing here today goes far beyond mere property tax reform. Land values are important in the economy and so is the taxation of land values. In the United States, the total of all land values of 1.4 times the value for all publicly held corporate stock.<sup>3</sup> The US Federal Reserve Board estimates that land values are a quarter of US net domestic worth, but one of the authors admitted to me by hope

1. Ibid., Nov. 1980, Sept. 1981, Oct. 1981, May-June 1982, Summer 1982, Nov.-Dec. 1982, May 1983, June 1983, Oct. 1983, Dec. 1983, Dec. 1984, April-May 1985, June-July 1985, Dec. 1986, Jan. 1987, Feb. 1987, Mar. 1987, Oct. 1987, Mar. 1988, Sept. 1988, plus eleven other short notes under "from the Editor" on the ninth page of the Table of Contents of Incentive Taxation, bound Volume IV. This evidence reports on studies (most of which I performed) showing that most homeowners pay less with a building-to-land-switch in the property tax (esp. poorer and middle-class homeowners where that was determined), all renters will pay less, while most downtown property owners (who are generally well-off) pay more (most industrial properties save, especially new ones); also these studies compare the incidence of a tax on land values with the incidence of alternative taxes raising the same revenue for the government; these studies also report on the concentration of land and land-value ownership throughout the world.

2. Ibid., Oct. 1986, citing the Woodruff-Ecker/Racz on-the-spot report in Tax Executive, Oct. 1985. Ted Gwartney, formerly the Chief Assessor of British Columbia (among other positions held), has asserted that "a reassessment for a community usually costs between \$15-25 per parcel, but a land-only reassessment would cost only 10%-18% of that" (statement made at Common Ground meeting, March 1988, Baltimore, Md.).

3. Wall Street Journal, Nov. 30, 1988, p. A30.

that this was a gross under estimate because the authors, and she was one, didn't have all the necessary information).<sup>1</sup> My own extensive study indicates that land rent was well over a quarter of US national income.<sup>2</sup> I would be confident that land rent is at least a similar percentage in Australia.

We are met here in the 150th year after the birth of Henry George, who first advanced the concept of land value taxation in its modern form. The day will shortly come when this concept, now fully substantiated by empirical studies, will burst across the front pages of the world's newspapers. Thousands of experts have already endorsed it, and it only remains for us, and other like us, to spread the word.

Let us not be found wanting in this great task.

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1. US Federal Reserve Board, "Balance Sheets for the US Economy, 1984-87", Oct. 1988, p. 5 (Wash. DC 20551).

2. Steven Cord, "How Much Revenue Would a Full Land Value Tax Yield? Analysis of Census and Federal Reserve Data", American Journal of Economics & Sociology, July 1986, pp. 279-93. This study was for the year 1982, the latest year for which full data is available, but anecdotal updates, indicating that my estimate was too low, are to be found in Incentive Taxation, Aug. 1986, Aug.-Sept. 1986, Dec. 1986, Oct. 1987, Dec. 1987, June 1988, Dec. 1988, also see the sixteen short items under "From the Editor" on the seventh page of the Table of contents of Volume IV of Incentive Taxation.1

## ADDENDUM

### **THE TAXATION OF LAND VALUES IS AN ABILITY-TO-PAY TAX**

First of all, let me strongly assert that the criterion of ability-to-pay is not moral in any way. It is the rule of the highway robber who says (in effect) to his victims, "Stand and deliver what you have according to your ability-to-pay". It is the communist standard, which sees wealth as the enemy, not the goal. Let us rather tax unearned income and make no presumption that the wealthy have, because of their wealth, not therefore earned their income. Maybe they have, maybe not. If not, then they should be taxed or be denied the income in the first place.

Having said all that, I would nevertheless ask that the land value tax be judged by the ability-to-pay standard, first because it is popularly accepted, also because the rich have more money than the poor, and lastly because the land value tax wins when that standard is used. Let's see what the evidence says.

The evidence comes in three parts:

- (1) **LAND OWNERSHIP IS MORE CONCENTRATED** than is the ownership of income, buildings, or retail purchases. Common observation tells us that the poor own very little land, not only in terms of acreage but also in terms of land value (after all, if they owned a lot of land value, they simply wouldn't be poor!). Consider:
  - 0.1% of all California landowners own 13.5% of the state's land area (L.I. Georgist, Sp. 1973, citing a 1971 study by 25 researchers headed by Ralph Nader and Robt. Fellmeth).
  - The largest 2.3% of farmers in the US had 43% of the farm land in 1950 (Mason Gaffney, PhD dissertation), and the figure is probably even more concentrated today.
  - At least 2.1% of all the landowners in Indiana, Pa. (pop. 13,000) own 26.3% of the total land values in the town. But this is really a considerable underestimate, since the researchers, Eric Sobczak and I, could not possibly have been aware of all the interlocking of land owning among the top 2.1% of landowners, as when they own shares in land-owning corporations of a different name, or when members of the same family own land. In larger cities, where commercial land values are very high, and where many people are apartment dwellers and own no land at all, we could expect the concentration of land value ownership to be even greater.
  - The richest 10% of landowners own 73% of the total land value in Vancouver, BC. Canada (1976 report by Mason Gaffney, then a land tax consultant for British Columbia).
  - The richest 10% of landowners in Milwaukee own 76% of the land value (L.I. Georgist, Sp. 1973, citing a Gaffney study of Milwaukee).
  - The highest income suburbs of Milwaukee have ratio of total assessed land values to total assessed building values of 48%, as compared to 41% for the medium-income suburbs and 37% for the low-income suburbs (Professor John Riew, Penn State U., TRED-7, 1974).
  - In Washington, DC. Professor Harold Brodsky (U. of Md.) ranked census tracts by median income and found the land share in real estate rises when income (Gaffney speech, 12/12/70 Conf. on Pty. Tax Reform, Washington, DC).

- In Los Angeles County, a shift to land value taxation would have lowered property taxes in Baldwin Park, a working class suburb, by 34% as compared to a 22% tax increase in upper-income Beverly Hills (1973 PhD research of Wm. Truehart). These two towns figures prominently in the well-known Serrano v. Priest decision concerning equalisation of financial support between various school districts.
  - The Weyerhaeuser Corporation owns 6 million acres of timberland (Julius Westheimer column, Baltimore Sun, citing Frank Cappiello, Hume Moneyletter, 3/8/89, and he says this land is worth more than the company's entire stock value). The entire area of the State of New Jersey (including water) is 5.26 million acres.
  - In Great Britain, 1% of the population owns 52% of all land (1979 report of the Royal Commission on the Distribution of Income and Wealth, as quoted in Land & Liberty, 1-2/83).
  - 3% of the US population owns 95% of the privately held land acreage (USDA study, 1978, by Gene Wunderlich).
- (2) OTHER TAXES ARE LESS PROGRESSIVE. In other words, the land value tax is based more on ability-to-pay than they are. Or to put it in still another way, the poor are better off with a land value tax than with any other tax alternative.
- Well over three dozen studies which I either have personally performed or which others have been performed show that about 70%-80% of homeowners pay less with a shift in the property tax from buildings to land; see Incentive Taxation, 12/76, 10/78, 9/81, 5-6/82, 11-12/82, 12/84, 12/86, 10/87, plus many as yet unpublished studies.
  - It would be gilding the lily to describe all these studies, but allow me to describe three typical ones chosen at random: if the towns and cities in Bergen County, NJ, were to replace the current property tax with a tax only on land values (at full-value assessment), homeowners would save \$5,518,555. Source: a study by Philip Finkelstein and George Kerchner of the Center for Local Tax Research, 121 E. 30 St., NYC 10016.
  - A recent study in Chicago, Ill, found that the building-to-land ratio for ranch-home owners was higher in the less affluent neighbourhoods, meaning that a building-to-land shift in the property tax would shift taxes from the poorer ranch-home owners to the richer (Robt. Jene study, summarised in the Illinois Geogist, Winter-Spring 1989. Jene cites building-to-land ratios of 1.5:1 for affluent Barrington Township, 1.7:1 for Schamburg, 3.8 for Thornton, 4.2 for the West Side, the poorest).
  - 72 landowners hold 92% of all the privately held acreage in Hawaii, according to a June 1984 article in the N.Y. times.
  - 3% of the people in 83 countries owned or controlled 80% of the agricultural land (World bank study, 1975 in Land Reform, American Style, Charles Geisler & Frank Popper, eds., p.8).
- It is possible to exempt poorer property owners from the land value tax, or to subsidise them from revenue received from other taxes; this would ensure even greater ability-to-pay. The state of Pennsylvania sets aside about \$30 million to assist 3,000 eligible homeowners to pay their mortgages and taxes. Unemployed or underemployed homeowners can get loans at below-market interest rates; when they get financially sound, they go off the programme. Pennsylvania also offers tax rebates to poor elderly homeowners and renters (Incentive Taxation, April-May 1986). Also, see the REPH proposal, Incentive Taxation, Nov. 1980.

Almost without exception, the homeowners in Lancaster, Pa. would pay less with a two-rate property tax as compared with the then current one rate (see my 1967 study funded by the city, which was fully corroborated by Rev. Wylie Young's 1982 study of the same city).

57% of the property owners in Tasmania would save in taxes with land value rating, 5% would pay about the same, and 38% would pay more. (Source: statistics on a survey of 14,786 properties in five municipalities by the Municipal Reform Group, GPO, Box 1370P, Hobart 7001, Aust., as quoted in Progress Magazine, 7/77, p.6).

The way to test whether homeowners pay more or less is to compare their average building-to-land ratio to the citywide average; if higher, they pay less, if lower they pay more, if the same, they pay the same in property tax as now (for how to do such a study using a truly random sample, see Incentive Taxation, 10/81).

Generally, the lowest income homeowners are big savers with a building-to-land switch in the property tax. For example, my own study of low income homeowners in Pittsburgh (1985) indicated they would save at least \$728,741 per year, and the savings would likely be much greater than that.

- The average wage earner in Philadelphia paid \$806 annually from the wage tax, whereas the average homeowner would pay only \$407 from a land value tax raising the same revenue for the city as the wage tax does (Incentive Taxation, Summer 1982). I have done similar studies in Indiana, Pa. (IT 12/84), Anchorage, Alaska (IT 4-5/86), Pittsburgh, Pa. (IT 1/87) Columbia, Md. (IT 10/87), Pittston, Pa. (IT 3/88) - all of which arrived at the same general conclusion.

- Sales taxes (also excise taxes, tariffs, VATs, profits taxes, etc.) are notoriously regressive (see Incentive Taxation, 8/86 and 8/88).

Key to the analysis of the progressivity of the land value tax is the generally accepted law of economics that a tax on land values can't be passed on to the tenant or ultimate consumer, but must be paid by the owner himself. It sticks to him. It is a true direct tax. Check any textbook. If you wish to argue with the Economic Consensus on this, count me out. But taxes on buildings or retail sales are indirect taxes and can be passed on to the ultimate consumers.

Briefly, the textbooks reason as follows: since a tax on land values can't affect land supply, it can't affect the land-rent price (buildings and retail sales, on the other hand, can have their supply constricted by a tax on them).

And now for the significance of all this: since the land value tax must be paid by the landowners, and since landowners are richer than average, then it must follow that the poor will pay less in taxes if land is taxed rather than labour (or the products of labour). Clearly, all renters (no exceptions) would pay less with a building-to-land tax shift since there would be no building tax forwarded to them in the form of a higher space-rent; bear in mind that most renters are poorer. And as for consumers, they will not be paying the building tax in the form of higher consumer prices.

So clearly, there is much evidence both logical and factual, to support the contention that a tax on land values is based more on ability-to-pay than any other tax alternative. But do also bear in mind that there are many other even better reasons to institute such a tax as soon as possible.

## **FIVE STUDIES which could test the efficacy of land value taxation.**

The moral case for land value taxation seems sound enough: if the whole Gross National Product (GNP) is produced by labour and capital, then they should entirely own it and there should be no income left for landowners. Landowners are non-producers and if they own part of the GNP then the real producers are thereby robbed.

The economic case for land value taxation seems equally compelling: if as many taxes as possible were shifted to a land value tax, then taxes on production would be significantly reduced (quite possibly to zero), the current level of governmental services could still be maintained, the general accessibility of land would be greatly enhanced because land prices would be significantly reduced, and all land sites throughout the economy would have to be efficiently utilized.

The moral case for land value taxation can only be tested morally -- that is the nature of morality. But the economic case can be subject to empirical as well as logical test. There are six studies which any careful researcher can perform to obtain evidence either pro or con concerning the workability of a tax switch from all other taxes to a land value tax, either in whole or in part. They are described below.

### **WHO PAYS MORE, WHO LESS**

The first tax to be shifted to a land value tax (hereinafter, LVT) should be the property tax on buildings. That's because both land and buildings are usually taxed at the same rate (either based on property income, as in many English counties or the property's capital value as in the U.S. and Canada). Also, a tax shift from buildings to land will moderate the impact of the tax on landowners since they also tend to own the buildings on their land.

Every city official wants to know how various types of property owners would be affected by such a building-to-land shift. For example, how would homeowners, renters, farmers, vacant-site owners, commercial and industrial owners be affected? Research can easily answer that question. Here are the steps to take:

1. Here's how to determine the land tax rate needed to raise enough revenue equal to what the current land-and-building property tax yields in revenue: multiply the current tax rate on both land and buildings by the citywide ratio of taxable building assessments to taxable land order to arrive at the required land-assessment tax rate.

For example: if the current tax rate is 1% on both land and buildings, and if the citywide taxable building-to-land assessment ratio is 2:1, then the land tax rate needed to replace the revenue produced by the land-and-building tax rate will be  $1\% \times 2 + 1\% = 3\%$ .

Any individual property or group of property owners (e.g., homeowners) who have a building-to-land assessment ration larger than 2:1 will pay less; any having a lower-than-2:1 ratio will pay more, and any with a 2:1 ratio would experience no change at all.

2. If your assessor (or valuer) can tell you what the total land and building assessments are for your entire group (single-family homeowners, say), then see if the building-to-land assessment ratio for that group is larger, equal to or smaller than the citywide average in order to determine whether it pays less, the same or more.

By calculating the payments of your group by the current land-and-building property tax and by the land-tax only, you can see by what percentage your group either saves or pays more. By dividing the difference by the total number of property owners in your chosen group, you can find out by exactly how much money the average member of your group will pay more or less.

3. Choose a method for random-sampling all homeowners (or whatever classification you wish). About 200-400 randomly-chosen names for a city of 20,000 population should be adequate. your sample is truly random.

4. List the name, address, building assessment, land assessment, save (S) or pay-more (PM) columns in your sample, and compare the building-to-land ratio of each property to the citywide building-to-land ratio to determine whether each property is S or PM. Or you could survey more properties if you list only whether properties fall into an S or PM column.

5. It is possible to add up all the building and land assessments (separately) in your random sample, and then compare their current total property tax and their land-only or two-rate property tax to see by how much your group of property owners either saves or pays more. In this way you could determine the percentage difference between the two property tax systems, or if you were to divide the difference by the number of entries in your sample, you could then determine the average saving for each member in the group you have chosen to sample. Be it noted that in almost all the surveys we have made in a couple of dozen cities, about 75% to 85% of homeowners save.

6. If you want to see what would happen if you were to transfer some other tax than the property tax on buildings to a land value tax, then first calculate what the average person in town is paying with one of these other taxes (say, a wage or income tax), and then what the average property owner is paying with a land-assessment tax.

Now we have to figure out what to do with this information. First, realise that ALL renters (both commercial and residential) pay no land tax at all (every economics textbook will tell you that the land value tax is a direct tax paid only by the landowner of record and cannot be passed on to his renters, although the property tax on buildings is very likely passed on); so every renter saves with a shift to LVT from all other taxes.

Second, since the average landowner is likely to pay less in extra land tax than the average person will pay in any other tax increase, then clearly most people in town will save with a tax shift toward land. But this should be documented with hard data beforehand.