MORE THAN

George's land value tax has been a success when put into practice

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HENRY George proposed the taxation of the value of land in order to encourage new construction, re-employment, and over-all economic growth. But what hard evidence is there that his theory, when put into practice, really works?

First, this is how the land value tax (LVT) is supposed to work. By down-taxing buildings, we make them cheaper and more profitable to construct and maintain. If we concurrently tax land values more, then landowners would be encouraged to put their sites to a more efficient use in order to gain enough income to pay for the improvements themselves as well as for the higher land tax. Thus, we have a two-pronged approach spurring new construction and re-employment.

Fortunately there is ample evidence which proves that the land value tax can and does work. There are at least 14 countries practising land value taxation to some degree.

Australia – About two-thirds of Australia's municipalities are taxing only land values; they levy no other local taxes.

In the southeastern state of Victoria, all 23 of the localities, which since 1954 have switched to taxing only land values, have experienced spurts in new construction. More importantly, the rate of new construction in these localities has far exceeded construction rates in neighboring and comparable localities. Similar studies in other parts of Australia show the same results.

New Zealand – 81 per cent of the localities tax only land values, nothing else, and most of them have been doing so for decades, some for more than 100 years. The same rise in the rate of construction has occurred.

South Africa – 35 per cent of the

WHERE THE SYSTEM IS IN ACTION

BARBADOS: The annual value system was replaced by a tax on site value by the Valuation Act, 1969.

GREECE: Municipalities with a population over 20,000 are authorized to levy an annual tax on the value of unimproved land within the town plan area. The tax is graduated with a person's total holdings.

IRAQ: The urban land tax is base market value of unimproved land located within cities. In 1970 the rate was 5 per cent. (There is also a real estate tax based on gross annual income derived from all real estate holdings.)

JAMAICA: Jamaica converted to a site value tax by a law enacted January 18, 1957; the transition was interrupted in 1962, leaving a dual capital value and site value system in operation.

REPUBLIC OF CHINA: Tax on the unimproved value of land is based on self-assessment; a separate tax at higher rates is imposed on vacant and underimproved land. A highly graduated Land Value Increment Tax is also imposed on increases in value over a 10-year period, and at time of sale.

KENYA: All municipalities and most towns and county councils tax site values.

TANZANIA: Urban council areas tax only unimproved values although they are authorized to tax improvement as well. Specified townships in district council areas levy house taxes, and Zanzibar employs a tax on net rental value.

TRINIDAD AND TOBAGO: The Valuation of Land Act, 1969, provided for replacement of the annual value system by one based on modified site value; improvements are taxed only when they have a high ratio to land value. The new tax is expected to be implemented in 1974.

◄ From Page 95

you have the right to sell or give it away at any time. Inheritance isn't wrong. Only the ownership of untaxed commodities not produced by human labor is wrong.

● **Income** – Marx wanted to equalize all incomes. George demurred, saying that labor should be rewarded and not everybody labors equally. Smith agreed with George's view on this, but in practice he and his followers would go along with taxing incomes according to ability to pay, thereby falling somewhere between Marx and George.

In short, these three economists present the three most likely ownership possibilities available to us. You, by your conscious action (or inaction) must choose from among them.

JUST A THEORY

● Pittsburgh by night — it has seen George's light!

322 largest cities tax only land values, 33 per cent tax land at a higher rate than buildings and 32 per cent levy the same rate on both land and buildings. The trend has been steadily toward taxing land more, buildings less. The figures corresponding to the above were 11 per cent and 58 per cent for 1951. Why the switch? No doubt it is because the more these cities tax land, the greater has been the increase in new construction.

Denmark – Every city but one (little Assens) taxes land only, or land more than buildings. Unfortunately, there are no studies available on the impact on construction.

United States of America – LVT examples are few, but they are noteworthy. The prosperous, interior agricultural counties in California would be near-deserts without extensive and expensive irrigation networks, but the State's Wright Act (1903) specified that the construction and maintenance of networks would be paid for by a tax on the value of irrigated land in the counties affected. Taxpayers throughout the state have not been called upon to bear this expense. Here is a successful and popular example of LVT in agricultural areas.

Two small towns – Arden, Delaware and Fairhope, Alabama – were established at the turn of the century as Georgist experiments. Followers of Henry George set up these new towns with the ownership of the land vested in a single-tax corporation (Fairhope) or the town itself (Arden). Individual sites were rented out to homeowners, commercial and industrial building owners.

The rent from these leaseholders was used to pay all municipal expenses as well as all school and county taxes. These towns are essentially free of a local tax, and still all the land-rent is not collected. This is unfortunate, since the money could be used for more local services or to buy more land to put under the single tax.

Nevertheless, these towns have grown steadily. A study shows that Fairhope (pop.: 7,000) has grown faster than its neigbors, although its location is not quite as economically advantageous, and both towns are especially pleasant communities to live in.

Pennsylvania contains seven cities which are taxing land more than buildings. They have a two-rate property tax instead of the usual one-rate tax. Their rate on land exceeds their rate on buildings. In Pittsburgh, for example, the land tax rate is currently 15.15 per cent, while the building tax rate is currently 2.7 per cent. (Assessments are officially 25 per cent of market value.)

Pittsburgh, along with Scranton, has had the two-rate tax since 1914. The other cities with a two-rate tax are Harrisburg (the state capital), McKeesport, New Castle, Washington and Duquesne.

The latter two cities have only recently adopted the two-rate approach, but studies, including those done by *Fortune Magazine*, on the other five cities have shown that construction spurts have followed the building-to-land tax switch. These land tax cities have far out-constructed their comparable neighbors. This Pennsylvania two-rate approach would seem to be the best model for reforming the current property tax.

It no longer can be said that Henry George's land value tax is an untested proposal supported only by attractive theory. There is now ample empirical data to support the theory.

We should not be surprised that good eithics is good economics as well. When the government leaves to individuals what they individually produce – i.e. their wages and capital investments – and when it collects what it creates – the locational value of land – then the greatest economic incentive for the people will result.