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## Taxing Land Values and Taxing Building Values

By RICHARD T. ELY ✓

Director, Institute for Research in Land Economics and Public Utilities; Research Professor in Economics, Northwestern University, Evanston, Illinois

THE very title suggests to the writer of this article that in economics certain traditions have come down to us without any critical examination. Sometimes these traditions may amount to an obsession. The late Allyn A. Young, not long before his death, speaking about the Ricardian theory of rent, remarked how long it has taken economists to overcome this obsession. It is no credit to the economists that so many things have passed from one generation of writers to another without critical examination. Now is a good time to smash some of these traditions.

There are those who still think that it is possible to lay down one general rule for taxing land values and another rule for taxing building values. They believe it possible to establish a formula which will be generally applicable. Those who hold to views of this kind have failed to grasp the ideas of relativity and of evolution which were brought forward by the historical school of Germany more than two generations ago. Even in reputable writers, we find such expressions as: "Tax land to bring it into use." It is also often said: "It is well to lessen the tax on buildings so as to encourage building." Examine these two statements somewhat critically. There are all kinds of land. What will apply to one kind of land will most certainly not apply to another kind of land; also, what will apply at one time and place will not apply at another time and place.

### EFFECT OF TAXATION ON FORESTS

Let us suppose we are talking about forests in the United States in the year 1930. Do we want to tax the forest land in order to bring it into use? Taxation as it has existed in this country, let us say, in Wisconsin, has led to the destruction of the forests and has increased the supply of land offered on the market for agricultural use. Those who are the best judges in Wisconsin tell us that what is needed is an increase in the area of land devoted to forests rather than the destruction of forests on land that is best adapted to forests, as is the case in a large part of northern Wisconsin. They tell us, moreover, that there is already an excessive supply of land used for agricultural purposes. Among the best authorities on this subject, in the opinion of the present writer, are Professors Benjamin H. Hibbard and George S. Wehrwein, of the University of Wisconsin. They tell us that we cannot have any proper land policy without a classification of the land, and we must certainly classify the land before we frame our tax policies, in order to bring them into harmony with the desired use of the land.

Now let us turn to urban land. Do we always want more construction of buildings and do we need to frame our tax policies to encourage construction? A survey made by the Institute for Research in Land Economics and Public Utilities a few years ago disclosed a number of vacancies in office buildings

which showed a tremendous oversupply, and this oversupply revealed a waste of capital and labor of national significance. Do we want a system of taxation which will encourage unnecessary construction of office buildings?

In many parts of the country the researches made by our Institute show a great oversupply of apartment buildings, and this oversupply is sufficient to be of national significance, in that it involves a loss of labor and capital. Unhappily, the financial loss caused by an oversupply of office buildings or of apartments too often falls upon those ill able to bear the loss—for example, widows, teachers, preachers, physicians—all of whom are regarded by the less scrupulous men in the real estate business as easy marks, or, to use the phrase of the utterly unscrupulous, as "suckers."

#### HEAVY TAXATION RESULTS IN CONGESTION

In a great many cities of this country, as for example, Madison, Wisconsin, we find an unfortunate congestion of population, and for this our present system of taxing urban land values is in great measure responsible. Lots that are of suitable size for private dwellings are further divided, and houses are placed too close to each other. The æsthetic appearance of the locality is very much marred, and the conditions are rendered less favorable to health on account of the diminution of sunlight and the free play of air around the dwellings. If one inquires into the cause of this congestion, one is told again and again that it is the heavy taxation on land values. It does not necessarily follow from this that the tax on the land should be decreased and the tax on buildings increased, although this would suggest itself. What is needed is a more careful and critical examination of the situation

and an appraisal of the various forces at work leading to the unfortunate conditions mentioned.

In great cities like New York we find a utilization of the land which many of our best authorities on urban development regard as too intensive. We have skyscrapers which many authorities regard as unfortunate in their number and in their height. It is admitted that there is a difference of opinion about the skyscrapers of New York and those of Chicago. The dominant opinion in the City Club of New York, whose members have given a great deal of attention to the subject, is that we have a very unfortunate situation. If it is conceded that the use of the land is too intensive, the suggestion is a natural one that the land should be used less heavily and the buildings made less heavily taxed. One idea is that we should tax the buildings at a progressive rate when they go beyond a certain height.

If we turn to single family dwellings and examine the situation in various cities of the country, especially those up to, let us say, fifty thousand inhabitants, we discover in some places such a large supply of dwellings that the owners receive a small return upon the costs involved in their construction even if due allowance is made for depreciation. Do we wish a policy which in its influences tends to increase this oversupply? Should we make a distinction between buildings occupied by the owners and buildings rented to others? It may be that even if the rental value of a single family dwelling is such as to yield only ten per cent of the cost, less depreciation, the ownership of the home is worth while. Home ownership means many things that cannot be expressed in pecuniary returns. No attempt is made now and here to give a solution to this problem; but it is something that

should be borne in mind in any tax policy if it is to be considered with respect to its social and economic consequences.

#### THE RADBURN EXPERIMENT

Is a building site a gift of nature, or is it a product of labor and capital like the building itself? To what extent have economists or others analyzed the cost of building a modern city? Is the current theory based to too great an extent upon traditions that should be smashed? This article, which is simply suggestive, attempting to raise questions but not to answer them, may properly close with an analysis of costs of making land available for use in the building of Radburn, New Jersey. Radburn is in process of construction by the New York City Housing Corporation, which is a limited dividend company. The officers receive no salary and the stockholders realize only six per cent on their investment. It has been publicly pronounced by Mr. Thomas S. Adams, General Director of Plans and Surveys of the Russell Sage Foundation, to be the outstanding success in housing in the United States. In the judgment of the writer, it is the outstanding success not only in this country, but in all countries. It is, moreover, the laboratory of our Institute for Research in Land Economics and Public Utilities.

Radburn is situated less than fifteen miles from the heart of New York City. The cost of the land as purchased by the company is so small that if it had been given to us the monthly charge for the houses sold on the installment plan could not be appreciably lessened. The cost of making land utilizable in a modern city is more and more a public utility cost, if we construe the word "public utility" broadly so as to include approaches to

the land. In Radburn, of which the writer is a director, the one item of putting the wires underground amounted to a good deal more than twice the cost of the land, and was so expensive that the attempt to do so had to be abandoned. We were obliged to rest content with making the overhead wires as little objectionable as possible. The table shows an analysis of costs made by the technical staff of the City Housing Corporation. An analysis like this is required if we are to adopt proper policies with regard to the taxation of land and buildings.

It will be observed that no ripening costs and no carrying charges are included. Probably Radburn will ultimately house at least twenty-five thousand people, and the present writer would not be surprised if the number of residents considerably exceeded twenty-five thousand. It would be difficult to complete the city without waste in less than ten years; this means a very rapid development. If we allowed an average five-year carrying charge, this would add at least two hundred dollars to the original cost of the land. In all probability, if we do the very best we can to expedite construction, the one item of a carrying charge will exceed the original cost of the land to the company.

#### CONCLUSION

Those concerned with the theory or the practice of the taxation of land values have too often ignored the cost of making land utilizable. It has frequently been argued that land is a "gift of nature." Writers who take this position forget how much of man's toil goes into bringing land into use. Recent studies in land economics have shown that land is one form of capital, in the sense that capital is "stored up effort." Making land utilizable involves real costs and heavy expenditures.

ESTIMATED COST OF IMPROVED RESIDENTIAL LAND IN SUPERBLOCK  
SUBDIVISION—BERGEN COUNTY, NEW JERSEY  
SECOND DEVELOPMENT OF CITY HOUSING CORPORATION

Item	Explanation	Cost Per Square Foot of Salable Lot	Cost Per Salable Lot ±,000 Square Feet
Land Cost of Lot . . . . .	Purchase price of unsubdivided gross land area, including title and title survey expenses averaging \$2,500 an acre	\$.06	\$240
Land Cost of Beds of Street and Park Areas . . . . .	Land area devoted to streets and parks, forty per cent of gross land area, leaving sixty per cent as net usable or salable area—consequently add 40-60% or $\frac{2}{3}$ to above amount, making \$4,000 an acre	.04	160
Improvement Cost . . . . .	Cost of grading streets, installing storm sewers, sanitary sewers, concrete paving, curbs, sidewalks, street trees, street lights (electric, gas, water being installed gratis)	.20	800
Landscaping Cost . . . . .	Includes the extra costs of a garden community: (A) Park development, park walks, lights, grading, top soil, shrubs, benches, play equipment (B) Private lot development or yard planting work. (This item is usually not included as part of the cost of real estate and is either omitted or considered an extra item in construction cost)	.06	240
Overhead Cost . . . . .	Engineering and architectural fees and expenses for planning of the above and supervising, plus interest and taxes on the land during construction period only (No carrying charges, i. e., interest and taxes, have been added to the cost of the land for the period from the time of purchase until construction commences. When this is added the cost of the land will be even greater)	.09	360
		.05	200
Total Improved Cost . . . . .		\$.50	\$2,000

It is probable that less "unearned increment" accrues to the holders of land than to the owners of any other agent of production. Our taxation policies must look facts in the face. In drawing up schemes for the taxation of land and buildings, it is necessary to bear in mind the fundamental laws of demand and supply. We now have an oversupply of agricultural land and a surplus of food products. This article has shown that.

in many cities, an oversupply of buildings has been the result of mistaken taxation policies.

One of the factors leading to the confusion which has surrounded the taxation of land values is the old theory of economic rent. Those who hold this theory regard land income as the result of the spontaneous action of nature and land values as the consequence of the niggardliness of nature in failing to provide an adequate supply of land in relation to man's need for it.

Economic evolution has disproved many of the hypotheses on which the Ricardian theory of rent is based. Thus, old traditions, which are closely bound up with obsolescent theories, must be smashed. With the aid of patient studies of facts and data we must formulate new theories and new policies. The concept of economic relativity must lead us to draw up plans for the taxation of land values which will meet the needs of different times and of different places.