
If the Tax on Land Value Were to Go Up

To the Editor:

Your endorsement of a graded property tax that would tax land values at higher rates than improvements (editorial July 10) is welcome. It likely gives wry satisfaction to contemporary followers of the oft-maligned or ignored Henry George, who popularized the idea in New York City a century ago.

Still, since you describe only sketchily the underlying economic rationale, your argument may lead smaller-property owners who do not rank themselves with the Donald Trumps of the world — or do not care much one way or another about those who own or inhabit slum properties — to conclude that higher taxes on land values will simply add to their own already burdensome tax load.

It almost surely will provoke a negative outcry from past critics of similar proposals as well as from public and private interests that would be forced to relinquish economic privileges if land-value taxation were introduced.

In fact, taxing land more than improvements would likely result in lower overall property taxes for most owners of sites that are not under-improved (given that revenue demands do not increase). The Pennsylvania land economist Steven B. Cord maintains that numerous studies have shown "that almost without exception, most homeowners pay less with a building-to-land tax shift."

To anticipate other critics, one might object that there is no way in practice to distinguish site (location)

value from improvement value of land, that present landowners have invested so much in already high-priced land that to expropriate rents now would be grossly unjust or that a land tax would further increase land prices. These reservations and objections have plausibility.

But it is hard to see how greater taxation of site values would pose problems that are much different from those already confronting real-property tax assessors (or other tax authorities, for that matter).

As for the argument that land prices would rise even further, the opposite seems more likely. The market value of each site or unimproved parcel of land reflects two considerations: the expected gross rent from the site and the tax on the site. An increase in the tax on a site would not increase its gross rent or usefulness, but it would decrease the net rent of the site by the amount of the additional tax, and so pressure prices downward.

The objection that present landowners who have paid high prices for their land would be unfairly deprived of anticipated rents has some merit. A gradual introduction of the graded tax would seem the practical way to cushion this impact. Again, the experiences of a number of cities in Pennsylvania suggest that gradual introduction of the land tax can be accomplished without severe disruptions.

ROBERT A. GILMOUR

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The writer is a senior associate at the American Institute for Economic Research.
