

# *Land Value Taxation—Its Possibilities And Effectiveness in the United States*

THE Missouri state conference of the Henry George School's St. Louis and Kansas City extensions, held in Columbia, Missouri in May, featured two guest speakers from the University of Missouri: Dr. Pinkney C. Walker of the Department of Economics, and M. Mason Gaffney of the Department of Agricultural Economics.

Dr. Walker pointed out four areas in which land value taxation and the untaxing of capital and production would solve, or help solve the problems. He said it is in the area of income distribution that we do our worst job, since we do not relate income adequately in proportion to individual contribution, and this produces an adverse effect on incentives.

He felt too little emphasis was being placed on the untaxing of capital and urged the Henry George School to make available to its students and graduates, additional information about the functions and purposes of the Federal Reserve Bank and U.S. Treasury, regarding the control and stabilization of the amount and purchasing power of our exchange media.

In conclusion, Professor Walker said that if we can establish free trade, secure effective anti-monopoly ownership or regulation arrangements, achieve an effective monetary policy and establish land value taxation, we will get advantages "wage-wise" and "interest-wise" in terms of capital accumulation, low land sale prices, a higher gross national product, and a more appropriate distribution of income. Then we will have an economic system of which we can be justly proud and one that is conducive to economic growth and development, because it will permit individuals to

gain by performing socially important functions.

Professor M. Mason Gaffney, in his approach to "Rural and Urban Conservation Problems," said the development of the water law in California came along when Henry George was writing, and he believed George's point of view had a considerable effect on the development of this law. It was in connection with water development that the irrigation district movement developed—this is a 50-year-old application in practice of George's principle of taxing land values and exempting improvements.

In 1870 irrigation began to claim public interest and the question of who owned the water took on new meaning. California, having no water laws, the federal government relinquished title to water, leaving the Western states to do what they pleased.

Two systems grew up as a result. The Riparian system was based on the English common law, and this was applied by the courts when they had no statutory direction. According to this law water belongs to the landowner along whose banks it passes. Every landowner along the stream has the right to insist that the stream be allowed to pass undiminished and unpolluted. The owner does not have to use the water to claim this right, he can hold it out of use without any penalty and he has the added benefit, as compared with other forms of land speculation, that water is not subject to local property taxes.

The second system, known as the Appropriated doctrine, reflects the ideas of Henry George, because ownership is based on use. If a man diverted water from a stream and put it to productive beneficial use, he was

considered to have a perpetual right; it wasn't called ownership, but he had this right as long as his beneficial use of the water lasted. If he stopped using the water for a period of three years, theoretically he no longer had the right of use and the water was open for appropriation by whoever wanted to use it.

The two systems grew up simultaneously, though not side by side. The second was practised first by the gold miners. In the mountainous areas the Riparian system was not in evidence until 1886 when Henry Miller, a cattle king, holding more than a million acres, fought tax levies on his land.

Like many shrewd Westerners in the early days he laid out claims along the banks of the San Joaquin River for long distances. In an arid country ownership of water is more important than ownership of land, so it was very much to Henry Miller's interest to establish the Riparian doctrine, and when it was adopted by the Supreme Court of California, he was *in*.

Dr. Gaffney admitted that land value taxation itself might not solve the problems of California water rights and distribution, and that in any case there would have to be much battling in the courts and legislative bodies over this complex issue.

### HIGHER L.V.T. SUGGESTED FOR MICHIGAN

Representative S. James Clarkson, together with Representatives Waldron, Nill, Gilbert, Baird and DeMaso, have offered to the 70th Michigan Legislature, at its regular 1959 session, House Resblution No. 58. It proposes investigation of the effects of a higher differential rate of taxation on land values as compared to improved values of real estate, for the following reasons:

Whereas, The question has been raised that a higher tax on land value compared to a tax on improvements may stimulate production, increase employment and encourage productive investments; and

Whereas, There is a continual struggle between local units of government and the State government for additional taxes and sources of revenue; and

Whereas, Land, which has the one publicly-created form of value, has not been realistically appraised since 1933; and

Whereas, The enactment of the sales tax in 1933 supposedly pre-empted the State's right to a share of the real property taxes in preference to the sales tax; and

Whereas, The local units of government have received ever larger proportions of sales tax revenues until now five-sixths of such revenues revert to local units; and

Whereas, The State has never recovered from the loss of its share of real property taxes, causing its present financial condition; now therefore be it

Resolved by the House of Representatives, That there is hereby created a special committee, consisting of five Members to be appointed by the Speaker of the House, to function during the interim between the 1959 and 1960 Regular Sessions of the Legislature, to investigate the effects of a higher differential rate of taxation on land values as compared to improved values of real property, and to report its findings and recommendations to the 1960 Legislature; and be it further

Resolved, That the committee is authorized to administer oaths, subpoena witnesses, and examine books and records of any person, partnership, association or corporation, public or private, and of any agency of the State or its political subdivisions, and may call upon the services and personnel of any agency of the State or its political subdivisions; and be it further

Resolved, That the Members of the committee shall serve without compensation, but shall be entitled to actual and necessary travel and other expenses incurred in the performance of official duties, to be paid from the appropriation to the House of Representatives, but not to exceed \$1,000.00.

The resolution was referred to the Committee on Rules and Resolutions.