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Jobs For All From Rent of Land

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STRICTLY speaking there *is* no economic rent on vacant or very poorly utilized land or on subsoil assets held out of use and not available for purchase or lease. Henry George points this out when he speaks of rent actual and rent potential. The final figures are rental value, not rent.

This article is based on a report by Professors Keifer, Kurnow, Clark and Siegel of New York University, published in 1961 and based on 1957 census figures which contain a great deal of information on 1956 local property values.* The authors discuss three kinds of land: taxable land excluding public utilities, public utilities, and subsoil assets. Information on the first is far more accurate than on the other two.

The census shows assessment figures for different classes of property by states. Ratios obtained by checking measurable sales against assessed values to determine the relationship between assessed and market values and estimate are made of the ratio of land value to total value of real property. This last ratio varies widely since it is one to one in the case of vacant land and may be as low as one to ten in the case of a new skyscraper.

The authors give the 1956 value of public utility land and subsoil assets at one-third of the market value of taxable land, excluding the latter. My figures are based on multiplying the taxable land figures by one and one-third. Most economists before and after Henry George agree that land value taxes cannot be shifted, but the four who researched this subject under auspices of the Lincoln Foundation chose to justify their ignoring of the 1956 tax on land values of taxable real estate with the following quotation from Edwin R. A. Seligman's 9th edition of *Essays in Taxation*: "While a real estate tax falls on the

**Theory and Measurement of Rent*, The Chilton Co. 1961

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owner in case of a stationary or declining population, a considerable portion of the tax is shifted on the tenant in the normal case of a prosperous town or city district."

Were the authors unaware of Seligman's conclusions in the 8th edition reprinted in 1915 and 1917 where he stated: "Mr George said that the tax on land values will stay where it is put, namely, on the landowner, and that it is to be recommended precisely because it will *not* be shifted to the consumer . . . there is a substantial consensus of opinion among economists that Mr. George is correct . . ." In fact the authors of the report state elsewhere that the land value tax is one of several factors that determine land values.

If taxes cannot be shifted by the landowner then the market value of the land is less than it would otherwise be, and if the tax is large enough the market value falls to zero. If the tax is still larger the land is a liability, for no matter how well improved it is there is still a loss to the owner.

The census figures indicate that assessed values of real estate are about 30 percent of the market values, and changes since 1956 are negligible. Once the market value is known, one has to obtain the land value portion. The authors indicate that in 1922 this ratio was 0.608. In 1930 it fell to 0.526, in 1938 it was 0.519 and in 1956 it had again fallen to 0.36. The data from which these figures were obtained are too meager and unreliable as a basis for these results; nevertheless I used 0.333 for 1961 and 1966.

So far we arrive at the market value of land and must translate it into annual value or rental. This requires an assumed rate of interest from which by capitalization, market value is derived from annual rental, or vice versa. The authors choose a low figure, 3.6 percent (based on the yield of long-term corporate bonds in 1956), a medium figure of 6 percent (the then current institutional rate on first mortgage real estate loans), and a high figure of 11.3 percent (the average return at that time on the net assets of leading industrial corporations), thus obtaining a low, a medium and a high estimate for total rental value. The low and high rates are too unrealistic and unsophisticated, and incidentally, very divergent. The answer is largely one of experience. I would say that over a generation a figure of 8 percent per annum is on the low side for a non-liquid investment of this nature, further complicated by changing income tax laws and rules as to depreciation and capital gains and losses.

The accompanying table shows the final figures, using the 1956 figures of Messrs. Keifer, Kurnow, Clark and Siegel, and my own fig-

ures for 1961 and 1966, to all of which I have estimated land value taxes and added them to the current rental value in order to obtain the full rental value if there were no taxes on land values.

| Year | Land Value | Yield | Rental Value after Taxes | Land Value Taxes | Total Rental Value |
|------|-------------|-------|--------------------------|------------------|--------------------|
| 1956 | \$323 bill. | 8% | 25.8 bill. | 3.3 bill. | 29.1 bill. |
| 1961 | 400 bill. | 8% | 32.8 bill. | 5.0 bill. | 37.8 bill. |
| 1966 | 562 bill. | 8% | 44.9 bill. | 7.0 bill. | 51.9 bill. |

My figures are rough and just as likely, if not more likely, considering subsoil assets, to be on the low side. The rental values of tax-exempt private and public real property are not included. Such private property includes charitable, religious and educational institutions. The public property includes the federal government and all its subdivisions. The first would add at least 10 percent, the second at least 20 percent, to the total rent as presented (both keep on growing).

In fairness each public owner should pay rent for land. The federal government pays for space that it leases and for merchandise that it buys—why should it not pay the rent of land that it owns and occupies in very unequal amounts in various states and municipalities? If governments collected nearly the full rental value of land and made it accessible to all there would be more decent jobs than job seekers and less welfare needs. We could then do away with an incubus that distorts and suppresses the healthy operations of government and business and consumers.