

## How Much Money Could A Land Value Tax Raise?

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By [Ashok Rao](#) / 17 October, 2013

For a long time the economics profession has quietly noted that a land value tax is economically efficient but, having sussed out its theoretical benefits, left the subject for more intellectually rewarding pursuits. The result is a frustrating dearth of scholarship on the subject. But the few detailed papers that do exist suggest land taxes can replace most levies on labor and capital which—if true—suggests that the failure to switch to land value taxes is a much bigger deal in practice than most economists realize.

To be fair, there's a bit of selection bias here. Since land is just not a studied subject, the few people that go out of their way to write peer-reviewed papers probably have strong priors towards viability. The most comprehensive work on this subject I could find is Steven Cord's 1985 paper in the American Journal of Economics and Sociology, "[How Much Revenue Would a Full Land Value Tax Yield](#)".

His answer was that it could replace much more than half all taxes on labor and capital in that year. That's stunning, so let's detail the process of estimation and assumptions on the way.

Fundamentally, it is difficult to separate land from building value. Because most commercial and government procedures measure property value, any practical measure of land value has to make some assumption on the land-to-building ratio. Cord uses [a study](#) from the National Commission on Urban Problems - established by LBJ in 1968 - estimating that the land component of total real estate is approximately 41.6%. Using a 1968 study is, if anything, conservative as the trend has been an increase in land values relative to total real estate (over the decade before 1966 building values grew at an annualized rate of 5.6% compared to 6.2% for real estate values - the delta representing the growing importance of land). This dynamic is largely a result of urbanization and more intensive land use.

Using this along with Census Bureau estimates and a study of national wealth from the Federal Reserve, he added mineral value estimates based on expected coal recovery rates to reach a lower bound approximation that land rent taxation, excluding

current local and state government property taxes, could yield between \$565 and \$762 billion in 1981, or much more than half all taxes on labor and capital in that year.

What's fascinating is that as [I've argued before](#), the 1980s probably represented the trough of land rents relative to income of the rich. As inequality increased, the ultimate venue of conspicuous consumption is beachfront property or a panoramic view of Central Park. As Thomas Piketty and Gabriel Zucman document in [an important paper](#), total wealth-to-income ratios have doubled over the past several decades to a level last seen since the Industrial Revolution. If productivity growth halts, we won't stop saving and our capital accumulation will continue to chase land.

One or two papers from the 1980s is no basis for policy. For example, as Tyler Cowen told me, "papers [like this one] elide the distinction between marginal and average values of land". That's part of the problem with any economic measurement, but it is important to note that a big benefit of land taxes is the incentive to bring land into intense use which, by definition, would be valued on the margin. Land taxes might not work, but that's an argument nobody is making. Maybe mainstream economists need to take the "classical" in "neoclassical" more seriously.