

LVT – PROS AND CONS EXAMINED

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THE September-December 1970 issue of *Tax Policy* (published by the Tax Institute of America, Princeton, N.J.) was devoted to "Land-Value Taxation: Pro and Con." An issue of the same publication several years ago dealt with land-value taxation but in a mostly unfavourable way. The present issue contains four articles—two favourable, one sceptical, and one negative. This would seem one indication that land-value taxation is gaining in acceptability.

The first article, by Prof. C. Lowell Harriss, is titled

"Equity of Heavier Reliance on Land Taxation (Location Value) and less on Improvements." He finds that land-value taxation passes the test of equity. "Socially created values would go for governmental rather than for private use." He argues that a higher tax on land values and a lower tax on buildings would encourage improvements. One of the main obstacles to the adoption of this programme, he says, is the great respect that most people have for land speculation.

Prof. Harriss's support for land-value taxation is most

welcome, although he does not go all the way to full land-value taxation and abolition of taxes on improvements, but proposes a three or four to one ratio. He also stresses that this would only be for local revenue, thus offering no prospect of relief from the income and other taxes. And he offers assurances that the land-owner would not lose as the resulting building boom would enhance land values—scarcely a soothing argument for the purist.

Prof. Arthur P. Becker, in his article "Arguments for Changing the Real Estate Tax to a Land-Value Tax" lists anticipated results of land-value taxation: "Private enterprise will be stimulated Employment opportunities and/or wages will increase The untaxing of improvements removes a heavy tax on the fruits of man's labour Taxing land values stresses the taxation of unearned income compared with earned income It will promote greater quality in the distribution of income and wealth It will increase employment, lessen poverty, and fight inflation, etc. . . ." Yet Prof. Becker is dealing primarily with the building industries. Current



academic and professional interest in land-value taxation hinges mostly on the question of better housing; the concept of land-value taxation is based on a much broader treatment. However, if the housing problem will get the matter discussed, that is by no means to be slighted.

Prof. Becker concludes by stating that when he discusses land-value taxation he finds that opposition is based on lack of understanding or on spurious assumptions.

The sceptics follow with their articles. Prof. A. H. Schaaf writes on "Some Uncertainties About the Desirability of Site-Value Taxation." He does not completely oppose land-value taxation but has doubts and admits he is not even sure of his negative arguments. He thinks the tax on land values is "neutral" and would not be influential in determining the kind of building that would take place. (Would not "highest and best use" take care of this?) He believes the tax would mean higher rents to tenants, thus erroneously supporting the theory that the land tax can be passed on.

One very interesting argument is raised by Prof. Schaaf. In discussing the under-maintenance of slums, he says "the main reason is the low per capita housing expenditure of slum households primarily as a result of low income." The better housing brought about by land-value taxation would simply be beyond the reach of

the poor, he contends. This argument shows the shortcoming of discussing land-value taxation in relation only to housing. Land-value taxation would, by discouraging land speculation, raise the margin of production and so raise wages. Better housing would be a subsidiary effect.

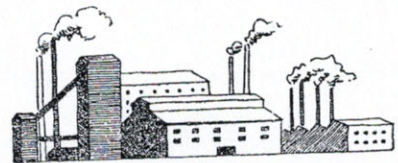
Prof. Manuel Gottlieb joins the issue in his article "Differential Taxation of Urban Site Values—No." But even so, he does not oppose taxation of future increases of land values, as proposed by J. S. Mill and L. Walras.

Among Prof. Gottlieb's objections is a doubt that land values have risen as steeply as estimated (the Douglas Commission said they doubled in the U.S.A. between 1956 and 1966). This does not seem a valid argument; the proponent of land-value taxation is interested only secondarily in the amount of land values—at stake is the principle of securing the rent of land as a rightful and prime source of government revenue.

Other objections include anticipated "forced density, the turmoil of the transition, and the unmerited losses and benefits splashed on innocent parties." Unlike Prof. Schaaf, Prof. Gottlieb thinks the land tax is "unneutral" because it promotes intensive use of land. But why *too* intensive, when it will become easier for people to gain access to as much land as they can reasonably put to use? As for problems of transition and so-called "unmerited losses and benefits," Prof. Harriss points out that land-value taxation will be preceded by a period of discussion and consideration and probably will be spread over a number of years, so no one need be taken by surprise.

Interestingly, Prof. Gottlieb mentions the farmer, who he thinks will be unfavourably affected by land-value taxation. This is not likely, as usually a farmer's crops improvements, etc., are worth more than the bare land. But at least the subject was mentioned, thus enabling the discussion to be broadened, instead of limiting it to better housing for cities.

The above points to a curious reversal in discussions on land-value taxation over the years. For a long period, Henry George's ideas on land-value taxation were thought



to be "agrarian" and no longer applicable in an industrial society. Now that this misconception has been overcome, a new one has taken its place, and that is that land-value taxation applies exclusively to the problem of urban renewal and municipal revenue. But land is needed and used for all activities—commercial and industrial, rural and urban, residential and recreational. The value of land arises from all these activities, and it is to be hoped that a future discussion of land-value taxation will take fuller note of its implications.