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IN MY OPINION

Taxing Land Values

Today's Contributor

The author of today's column is Steven Cord, a professor of history at Indiana State College. Prof. Cord, whose book, "Henry George: Dreamer or Realist?" is to be published soon by the University of Pennsylvania Press, has been asked to express his views on a subject of his own choice. He writes about taxing land values more heavily than improvements as a means of spurring construction in urban areas.

Although we live in prosperous times, the cities of our nation are presenting us with difficult problems. Private construction has stopped in many urban neighborhoods; the natural process of renewal has come to a halt. The injection of billions in tax money has been necessary to slow the spreading blight.

In this regard, Johnstown is in no way unique. Urban renewal projects such as Market Street West are steps in the right direction, but also needed is a change in the real estate tax which would provide an incentive rather than a hindrance to private construction and rebuilding.

This is my proposal: That we follow the advice of leading urban renewal experts and tax land values more heavily than improvements. The present real estate tax rate is the same for land and buildings; I propose that we increase the tax rate on land while we decrease it on improvements over a period of a dozen years or so until buildings become exempt. To do this, all that is required under Pennsylvania law is an ordinance by the city council.

Is It Good

"What's so good about that?" you may ask.

In the first place, if we exempt improvements we'll have more of them, and the biggest renewal force in any city is new private construction. A 3 per cent annual tax on improvements is equivalent to a 50 per cent excise tax on new construction! Who can doubt that the removal of such an obstacle in Johnstown would result in a healthy building boom through private investment?

Removing the tax on improvements would result in lower rents to tenants, for the improvement tax is passed on to the tenants just as a sales or excise tax is passed on to the consumer. And if we wish to attract new industry, wouldn't tax exemption for factory buildings be a great inducement?

"But," you might say, "won't a heavier land tax discourage new construction and industrial prospects? We'd give with one hand and take back with the other!"

Surprisingly, a tax on land values has the exact opposite effect than an improvement tax, and therein lies the second main advantage of this proposed tax shift. For who could keep land vacant or only partially improved if he had to pay a tax on his land approximating its annual rent? If the real estate tax did not fall partially on land as it does now, then downtown land could be used to grow vegetables.

A Lever

A heavier land tax, then, would force land to be put to its most productive use as determined by the market at any given time. If a piece of land could be rented for $1,000 a year, then the owner would have to put up an improvement that would earn at least $1,000 a year plus whatever profit he could earn in addition by doing business at that location. This $1,000 rent measures the special advantage of doing business at that spot rather than in the boondocks.

Instead of decreasing the amount of land available on the market, a land value tax would increase the supply of available land. There is much underused land in our cities today, especially in Johnstown, and a land value tax would force it all to be properly developed. Here is a tax that would spur production!

Take a look at our slums and blighted commercial areas. Here you find aged and dilapidated buildings on valuable centrally located land. Shifting the tax burden from improvements to land values would force this high-rent (therefore high-tax) land to be more fully developed and at the same time make it easier to do so by untaxing new construction and improvements! Thus we would provide a double incentive to gradual and continuous slum clearance and urban renewal.

No wonder such respected magazines as Fortune, House & Home, Practical Builder and Nation's Cities advocate heavier land value taxation on their editorial pages. Sixty-three urban renewal specialists at a recent conference in California also endorsed it. A recent pamphlet issued by the Urban Land Institute calls it "the golden key to urban renewal. . . . .and not public expense." (Write Box 147, Indiana, Pa., for reprints.)

Some people may wonder, "The idea sounds good but how do we know whether it would work?" Well, Australia and New Zealand have employed land value taxation at the local level for more than 60 years. At the turn of the century, hardly a municipality in either country supported itself by such a tax, but now two-thirds of the taxing units in Australia do, and they cover 92 per cent of the continent's land area. In New Zealand, more than 75 per cent of the municipalities have switched to land value taxation. Generally, a healthy construction boom has followed the switch.

In the special polls taken before a locality can switch to a land tax, only landowners are allowed to vote. If this change did not serve their best interests, they would not vote for it. They benefit because most landowners derive the greater part of their income from the improvements on their land and not from the land itself. Thus, they benefit by switching taxes from improvements to land. For instance, over 90 per cent of homeowners pay less in taxes under this plan. The reason: Homes are much more valuable than residential land. This is also true for all those progressive owners of commercial and industrial land who have adequately improved their sites.

Only those laggard landowners who have not done so would have an increased tax bill. This would include the owners of vacant lots, slum buildings, blighted commercial property etc. But they have hindered the city's renewal and need the spur of a land value tax. Untaxing new construction would give them added incentive.

Ability to Pay

Of all the taxes available to Johnstown, the land value tax is in greatest agreement with the "ability to pay" principle. Most people own land, but only the wealthy can own the most valuable land which would pay the heaviest tax. Sales or improvement taxes, on the other hand, are passed on to all consumers—rich and poor alike—in the form of higher prices.

The rental value of land arises not from anything a landowner does but from what society or government does. When a shopping center goes up nearby, or when the government builds schools, streets, sewers, and parks, land values increase.

We are then confronted with an unavoidable ethical choice: Should we allow the government to tax what individuals have produced, namely income and wealth, or should the government tax what it has produced, namely land values? It's either one or the other—isn't the verdict of ethics and common sense clear?

Don't you think this idea merits further examination?