

Incentive Taxation

Land Rent is 20% of U.S. National Income for 1986 Conservatively Estimated

About a thousand cities worldwide are taxing land values at a higher rate than buildings and wages. Many of them are taxing only land values. The evidence from these cities clearly indicates that they have benefited greatly from so doing. It would seem these conclusions can be reached:

- A land value tax encourages landowners to put their sites to optimum use; otherwise, the small income from an inadequate improvement would be insufficient to cover the cost of the higher land value tax plus a reasonable profit on the improvement itself.

- The reduced tax on buildings (maybe none at all) makes the new construction, repair and operation of buildings more profitable, and the reduced tax on wages permits more take-home pay. (1)

No wonder so many urban tax experts endorse a higher land value tax. Seven recent Nobel prize winners in economics have endorsed the idea, as has the president-elect of the American Economics Assn. (If eight Nobelists endorsed it, would that move you to action?) A research study by the prestigious Urban Land Institute calls such a tax "a golden key to urban renewal, to the automatic regeneration of the city - and not at public expense." (2)

But we still must ask, how important would a land value tax be if it collected all or nearly all the annual rental income of land? The quick answer is - very important. Let's look at the evidence.

20%

The best substantiation comes from the U.S. Census Bureau report entitled "Taxable Property Values, Vol. 2 - 1987 Census of Governments." It gives figures for 1986, the latest available. (3)

- From this highly detailed tabulation, we can conservatively estimate the total assessed market value of all real property in 1986 to be \$10.8 trillion. (4)

- We can conservatively estimate the total assessed market value of all land at \$4.322 trillion for 1986. (5)

- In 1986 the conventional 15-year fixed home mortgage rate was 10.05%, which meant that annual land rent approximated \$434 billion. (6)

- In 1986, \$37 billion (conservatively estimated) was collected in property taxes, for a land-rent total of \$471 billion. (7)

- \$6 billion was collected by the federal government in land leases, so our new land-rent total becomes \$477 bil-

lion; we overlook state-owned land leases because their amount was unspecified. (8)

- Tax-exempt land value (conservatively estimated) would bring the 1986 total to \$572 billion. (9)

- Mineral land value (conservatively estimated) for 1986 came to \$109 billion more than the ridiculously low U.S. Census estimate; this includes both producing as well as reserve mineral land value. (10)

LAND RENT (CONSERVATIVELY ESTIMATED) IN 1986 THUS TOTALED \$681 BILLION, 20% OF U.S. NATIONAL INCOME FOR THAT YEAR. (11)

Indirect Effects

If we were to fully tax land rent, we must take into account four indirect effects, three of which would increase the amount of land rent in the economy:

(a) When land rent is collected by the government in place of taxes on labor and capital, those latter taxes disappear but we get the government services anyway (only now they are funded by the new land rent tax). A good part of this tax saving would increase land rent.

(b) If land is not taxed, it need not be used efficiently because landowners often hold sites out of full current use, hoping to sell for a higher speculative price in the future; or they don't know how to use the land efficiently or they lack the capital to do so; or because land appreciates over time while buildings tend to depreciate. Withholding land from full current use creates an artificial land shortage, thereby increasing the rental price for land.

But once we start to tax land values heavily, inefficient land use is penalized and less land - eventually none - will be held out of full use. In effect, this increases the available supply of land on the marketplace and reduces the percentage of national income going to land rent.

On the other hand, because some valuable sites are under-used, other sites will be over-used although probably there would be more under-use than over-use.

(c) It is entirely reasonable to expect that GNP would increase if land rent were taxed (for the reasons given at the beginning of this article), in which case we could expect land rent to increase as a percentage of national income.

(d) If GNP increases as land rent is increasingly taxed, then welfare taxes could decrease, in which case the saving therefrom would increase land rent as a percentage of national income.

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Conclusion

If land rent were taxed, what would we do with all that revenue?

Surely, land rent taxation is no tempest in a teapot. It does not concern itself with a minor part of the economy, but with its core.

Don't do economics without it.

INCENTIVE TAXATION



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Endnotes

The full report, on which this article is based, is available from the Center for the Study of Economics (2000 Century Plaza [238], 21044) for \$3 postpaid.

(1) See Steven Cord, The Evidence for Land Value Taxation, (1987) Columbia, Md. (2000 Century Plaza [238], 21044):

(2) Mary Rawson, "Property Taxation and Urban Development," U.L.I. Research Monograph No. 4, p. 28 (1959, Washington, DC.: Urban Land Institute, 54 pp.)

(3) U.S. Department of Commerce, Bureau of the Census: 1987 Census of Governments - Taxable Property Values - Volume II. (Washington, DC. This Census report is based on assessments data collected from the states and D.C.), which are in turn (for the states) collected from local assessors.

(4) 1987 Census of Governments, Vol. II, p.4 Actually, this is a very conservative estimate, since few states have personal property taxes anymore and most states assess only railroad and utility property which contain little or no personal property.

(5) 1982 Census of Governments, Vol. II, table 11, p. 20, for the 37.2% figure. 1987 Census of Government, Vol. II: table 3, p.6, for the 34.85% figure. Conference on U.S. Land Values, June 1990 (University Club, N.Y.C.: Robt. Schalkenbach Foundation) for John Behrens' remarks. Keep in mind that this figure is based on assessments which are generally at least three years out-of-date during a period of rapidly rising prices. Also, while the Federal Reserve Board also estimates land values, its figure is lower than the Census Bureau's, one of the authors of its study admitted to me on the telephone (7/11/84) that the land value estimate was low even though it was based on the best data available. In any case, the F.R.B. estimate offers no descriptive data on how land value figure was arrived at. So we would do best to use the Census Bureau data.

(6) Mason Gaffney, "Adequacy of Land as a Tax Base," in Daniel Holland, ed., The Assessment of Land Values, (Madison, WI.: Univ. of Wisconsin Press, TRED Series, 1970), p.173.

(7) Allen Manvel, "Trends in the Value of Real Estate and Land, 1956 to 1966", National Commission on Urban Problems, Report No. 12, Washington, D.C.1968.

(8) This figure for U.S. land values is at least two-thirds more than the value of all corporate stock before the recent stock price decline- see Wall Street Journal, Nov. 30, 1988, p.A30 editorial page.

(9) U.S. Statistical Abstract, 1990 991 pp., table 836. Source: Board of Governors of the Federal Reserve System, Federal Reserve Bulletin, monthly, and Annual Statistical Digest. The conventional new home and existing home mortgage rates were slightly higher - 10.0% and 10.09% respectively.

(10) Ibid., table 466, based on a mail canvas from state and local officials, but financial data for each of the state governments and for many of the large local governments are compiled from their official records and reports by Census Bureau personnel. See also p.923-4 for source information.

(11) Ibid., table 531. Source: U.S. Bureau of Land Management, Public Land Statistics, annual.

Landownership is Concentrated

Landownership is concentrated, hence a land tax is based on ability-to-pay more than any other tax.

The Weyerhaeuser Corporation, for instance, owns 6 million acres of timberland (Frank Capiello, Hume Moneyletter, 3/8/89, and they say this land is worth more than the company's entire stock value).

The entire area of New Jersey (including water) is 5.26 million acres.

Don't even think of doing economics without land.

IT Editor Visits the Soviet Union

The invitation was encouraging: I was one of four who were the invited guests of the Economic Reform Committee of the Supreme Soviet; we were to present our case for tax reform at a work session on Monday, May 13.

I will admit to a few trepidations on the British Airways flight into Moscow: isn't the Soviet Union our sworn enemy? Don't they threaten us with atomic bombs? They kill people in the USSR, don't they? It's a dictatorship, no? Anyway, doesn't the Communist Party dictate to the Supreme Soviet? Won't the people be unfriendly?

Well, OK, I'll only be there a week. I'll take my chances. They want me to testify because of the research I've done indicating that when cities tax land values more and other things (esp. buildings) less, there is economic development; here is a tax which actually promotes production and will make the Soviet transition to a market economy a little easier. Such a tax causes land to be used efficiently, which is not now the case in the Soviet Union. If production isn't taxed, there'll be more of it. But enough of all that.

So there I was, ushered in with my three American colleagues to the Economic Reform Committee of the Supreme Soviet, Americans on one side, Soviets on the other. A pic-

ture of Lenin glared down at us. We capitalist Americans urged them to socialize the rent of land; they acquiesced, but Russians in general simply don't have a natural understanding of how a free economy works; land, to them, has no rental value because it is not a product of labor; yet they agreed in principle it was good to tax land, not labor or capital (if the latter is taxed, then the tax is passed on to consumers in the form of higher prices, but the Russians weren't sure of that).

Hey, they didn't mean to do it but they nearly killed me with kindness and cholesterol; the Russian diet is 45% fat, 45% cholesterol. In one week, I probably lost two years off the end of my life. Plenty of eggs and cucumbers (the latter is neither fatty nor oily, but it was served for breakfast, lunch & dinner and bathed in sour cream).

Did we sell the land value tax to the Soviets? Well, they showed more genuine interest in it than did most Americans, who are so relativist they wouldn't recognize the truth if they bumped into it. We shall see what action will occur; much depends on follow-up letters (faxes, actually, it is the best way to communicate with the Soviets).

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From the Editor

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- Fairhope, Alabama (our collect-land-rent-not-taxes town) is listed as one of five top places in North America for retirees interested in recreation and culture, by retirement expert Peter A. Dickinson.

- A columnist in the Wall Street Journal (11/30/88, Editorial Page) listed all U.S. land values at \$3.7 trillion and all stock exchange stock value at only \$2.6 trillion.

So! Land values are 1.4 times all publicly-held stock (actually the disparity is much greater than this since U.S. land values far exceed 3.7 trillion, and some of the \$2.6 trillion includes much land value.)

- "Boston is the costliest city for office-renting - \$48/sq. ft. New York and Washington are close behind at \$47/sq. ft. However, these cities don't come close to Tokyo \$186 sq. ft. and London \$152 sq. ft.

The Wall Street Journal (5/16/89, B1), which presents this data, concludes as follows: "In Tokyo land acquisition accounts for as much as 80% of total costs of new office space, with construction making up the rest. In New York, land costs are so much less that the ratio is reversed."

- AT&T's net income for 1987 was 6.1% of total operating revenues. It was considerably less than that in 1985 and 1986 (source: 1987 Annual Report, p.27).

Significance: profits don't boost prices because they're a small portion of total revenue; we'll have to look elsewhere for the culprit (hint: look to a non-producer).

- Residential land values are growing at the rate of \$10,000 a month in Orange County, Ca., according to appraiser Ted Gwartney, 1/14/89. Only 10% of the residents can afford to buy new homes. The percentage is declining. Commuting 60-80 miles is fairly common. One cause: foreign demand. One solution: LVT.

- Are you one of those who say, "Yes, LVT is a great idea, but I'll wait until 'they' make it popular"? If so, aren't you part of the problem?

- Progress with Poverty: 78% of women aged 35-44 are now working (USN&WR, 4/2/90, p.10). This is the only way families can afford the escalating land cost of homes.

Endorsements 341 - 342

Professor James Buchanan (1986 Nobel Prize winner in economics, at NYC St. Johns University lecture): "The landowner who withdraws land from productive use to a purely private use should be required to pay higher, not lower, taxes."

President Theodore Roosevelt (Century Magazine, October, 1931): "The burden of taxation should be so shifted as to put the weight upon the unearned rise in the value of the land itself, rather than upon the improvements, the effect being to prevent the undue rise of rents."

IT Editor Visits the Soviet Union, cont'd

• Our chief host, a member of the Supreme Soviet, asked some high advisors of George Bush on a recent trip he made to Washington about Henry George and land value taxation; only one in the ten heard of either and all of them advised against land value taxation, even though they knew next to nothing about it, and certainly had done no research (they were oblivious of the 15 cities in Pennsylvania which are taxing land more than buildings, all successfully). They caused my host to wonder if he could trust his own reasoning. So much for our Bush-men.

• The State legally owns all the land but gives it away for nothing to individuals and enterprises; this requires the State to tax incomes and production heavily.

• What is transpiring in the Soviet Union still mystifies me (no one seems in charge), but I saw much disaffection with state direction of the economy, and never have I been more optimistic about the future of freedom in the USSR.

• Don't talk to me about making war on the Soviets, not as long as my wonderfully warm hosts in the Soviet Union are living there. They are not abstractions any more. I used to be a foreign-policy hawk, but I can only make war on abstractions. Put away your war toys. They can hurt good people.

Hard Empirical Evidence for LVT

In ALL ten two-rate Pa. cities which have more-than-one-year track records, construction spurts have followed the adoption of the building-to-land switch in the property tax.

The dollar value of building permits issued in the three years following the two-rate adoption have been compared to the three years before in the two-rate cities, and this has generally been compared to neighboring and comparable cities covering the same periods; the two-rate cities have always done better. Exactly the same results have been recorded in hundreds of overseas land-taxing cities.

Tax land more, and we require it to be used efficiently; tax buildings less, and we encourage their new construction. Write to us for a booklet summarizing these studies (enclose \$3).

Limited-time offer: if you have a friend who could benefit from receiving a free one-year subscription to Incentive Taxation, then let us know. We'll put him on our list.

1. The Soviets are warm, naturally ethnocentric and admiring of high-tech; but also very militaristic, internationalist (re communism), and poor (imagine if every decision concerning the reconstruction of particular buildings had to be made at City Hall; don't city halls have enough to do now without having to make such decisions?) Imagine that nothing moves until city government decides....

2. Nearly everyone lives cramped in huge big-city public-housing projects; much public space is vacant.

3. The Kremlin is unimpressive (much wood) and Moscow is dusty; seven Stalinesque wedding-cake skyscrapers dominate the city.

4. Fear, fear, fear, but the young people seem to favor privatization nevertheless.

5. Moscow in May and September - wonderful weather.

6. Much talk, little action. Many laws, but people constantly flaunt them.

7. What is Russian, what communist?

8. Moscow is north of the Aleutians and most of Hudson Bay; dawn at 3:30 a.m., sunset at 10:30 p.m.

9. I have not seen a telephone directory, don't think there is one; but don't ask about the lack of it, as Muscovites are sensitive about it.

10. The President of Estonia just passed his doctoral exam; imagine Bush or a governor doing likewise.

Center For The Study Of Economics

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