

Incentive Tax League of Pennsylvania

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Land tax: impact on jobs in basic industries

It is our contention that land value tax is a superior alternative to most other taxes for a broad variety of reasons. One important reason is its effect on the economic market as a stimulus to productive job-producing investment.

Land value tax is based on the unimproved value of the land parcel. The tax changes only as the value of the parcel changes. It is the same whether the parcel is developed or undeveloped, used or vacant. Parcels in the central business districts of large cities are taxed highest. Parcels in rural areas are taxed lowest.

We believe that land value tax generates jobs in general, but, more importantly, that the failure to adequately tax land has led to job losses for basic industries in the Northeast. There are a number of points which support this view:

1. Productivity generates profit in the form of income, which is subject to income tax, but land and resource speculation generates "paper profits" which are not subject to income tax for as long as the land is held.
2. Productivity involves labor costs, and the laborers wage requirements depend on the purchasing power of his wages after taxes. Payroll, sales and property taxes as well as other taxes passed on to the working consumer all increase the wage a laborer must demand in order to maintain a standard of living. These taxes raise the costs of productivity as surely as taxes which fall directly on the producer, and give a competitive edge to speculation, which generates no labor costs.
3. When land taxes are low, the holding of idle factories can be a profitable alternative to either selling the property or to developing (modernizing) it. When land taxes are high, the owner of prime factory sites suffers a tax loss for as long as those sites are idle.

4. Because the oldest, largest and best established companies have monopolized resources and prime factory sites, new entrants into major industries are placed at a competitive disadvantage, and vigorous competition diminishes. This in turn leads to industrial stagnation and a loss of jobs.

5. As land becomes monopolized, the availability of unmonopolized land is reduced, and the price of land rises beyond what potential users are willing to pay. (This is similar to the price of gold rising to the point that people become unwilling to have their teeth fixed.) The cost of land and natural resources has risen more than twice as fast as wages, construction costs, or the costs of manufactured goods and professional services. We believe that the inflated prices on land and natural resources is a primary cause of general inflation, and that business is slow largely because neither businesses nor workers can afford to purchase goods at their inflated prices.

6. The rapidly increasing price of land over the past 30 years has given land speculation a competitive advantage over saving money in banks, especially for large investors. We believe this is a contributing cause of high interest rates. Some people are even engaged in the dangerous practice of speculating with borrowed money.

7. As speculation in the South and West has come to appear more profitable than reinvesting in industrial production in the Northeast, industrial corporations have stopped reinvesting in northeastern factories and have instead invested in southern and western lands. To accelerate development of those lands, thereby increasing their speculative value, they are inclined to locate new plants there.

8. According to a study conducted by the Highlander Research and Education Center of a cross-section of Appalachia covering 80 counties, United States Steel owns over 1% of Appalachia. Their surface holdings cover more than twice the area of their mineral holdings.

9. Foreign investors are spending money in the United States, but they are not buying labor products, nor are they building many factories to employ American workers. Mostly they are buying up land. Over the past two years in California, foreign land holdings have increased by more than 60%. We believe a major incentive for "dumping" is to get money to invest in American real estate. Then, after the Toyotas and Volkswagens have worn out, the land will still be there, and the rent will have to be paid--month after month, year after year.

10. Australia and New Zealand, where most municipalities use land value tax as their only local tax, have unemployment rates of less than 1%. Also in these countries and others, mineral rights are owned outright by the state and leased to the highest bidder.

11. Virtually every Australian municipality experienced a construction boom after switching from a property tax to a land value tax. American cities have experienced similar increases in construction after increasing land taxes.

12. The advantage of land value taxation in attracting industrial developers is obvious to Australian municipal officials. The city of Moorabin features its site taxing policy in advertisements in publications like The Australian Manufacturer. Moorabin introduced land value taxation in 1946. Although it has only 1/25 the population that neighboring Melbourne has, it has nearly as many factories as the larger city. Melbourne's decline as an industrial center could well be due to it being one of the few Australian cities that still taxes buildings.

There are other advantages to the site value tax pertaining to intelligent land use and savings to homeowners, but the above items relate specifically to jobs. It should be pointed out that we regard the land value tax as a fundamentally fair tax as well, and that our call for a shift to the land tax is a call for justice, not for a special favor to workers and investors.

The relationship between land monopoly and jobs is not a new one. Thomas Jefferson sized up the situation well when he compared the United States, where land was plentiful and unemployment was virtually unknown, with Europe, where the land was monopolized and unemployment and poverty were rampant. Jefferson wrote from France to the reverend James Madison,

"Whenever there is, in any country, idle lands and unemployed poor, it is clear that the laws of property have been so far extended as to violate natural rights. The earth has been given as a common stock for men to labor and live on. If for the encouragement of industry we allow it to be appropriated, we must take care that other employment be provided to those excluded from the appropriation. If we do not, the fundamental right to labor the earth returns to the unemployed."

It is our opinion that the only way to solve the unemployment problem short of invalidating the titles of large landowners is to shift our tax base toward land value taxation.