

# THE MAGIC OF LAND VALUE TAXATION

W. WYLIE YOUNG

81475  
Long before economics had become a subject of formal study our present real estate tax policy had become fixed. Before Adam Smith wrote "The Wealth of Nations", or Ricardo discovered the Law of Rent, or Marx got mad at everyone and tried to blast the free enterprise system into oblivion we were following the practice of taxing land and buildings alike in America.

Few people realize that this particular method of taxation is the cause of most of the evils that plague our economic life. Actually there are few chronic evils that cannot be traced to our reluctance to place most of the tax burden on unimproved land and a correspondingly smaller burden on buildings and improvements. Ignorance of this fact is so general that it is difficult to persuade people that great and almost unbelievable results would be obtained by shifting taxes from buildings to land value.

"What difference does it make?" is the usual reaction. "You have to have so much money to run a city. Why should it matter whether you levy taxes against land or buildings?" Our reply to this is that it makes all the difference in the world.

To tax only those things that have been produced by human labor and to let no tax at all fall on land is to court social and economic disaster. Where such a policy is followed you find poverty, ignorance, disease and premature death for millions. It sets the stage for all land to fall into the hands of the few, who become exorbitantly wealthy, while the masses become victims of caste systems and all sorts of inhuman regulations.

To tax land and buildings alike may be better but since the average value of buildings is from four to six times greater than the value of land this means that the tax on buildings is too heavy and the tax on land is too light. Such a policy sets the stage for a boom and bust economy. It hinders progress by penalizing those who would improve their properties. It depresses wages, increases rents, encourages inflation of land values and increases the prices of all consumer goods. These are the effects it has had upon our own economy. The damage would have been much greater except for the fact that in America there was to begin with a vast amount of free and available land and this fact had a tendency to postpone the consequences of such a policy.

Our immediate concern is the effect that a change in tax policy might have upon the life of a city. It is now possible for forty-seven cities in Pennsylvania to shift taxes from buildings to land value.

The process is simple. At present land and buildings are assessed separately. Each city is required to raise part of its budget from real estate taxes. When

budgetary needs are determined a tax rate is arrived at by adding land and building values and multiplying by as many mills as will produce the necessary amount.

A land value tax is calculated in the same way except that land values alone are taken into consideration. All building values are disregarded entirely.

Any City Council of any Third Class City in Pennsylvania can now adopt land value taxation. A decision to do so is optional. It does not require a vote at the polls. It can be done all at once or it can be done by gradual processes. It can only be done with Municipal taxes. School and County taxes must be levied in the conventional way.

### ADVANTAGES OF A SHIFT IN TAX POLICY

We predict that any city that has the wit and will to adopt land value taxation will discover that:

1. It will reduce taxes for from 65% to 85% of all homeowners. Reductions will vary from \$1 to \$100, depending upon the size and quality of the house and how well it has been preserved. Well improved houses located on average sized lots will find taxes lighter than before.
2. It will allow the land owner to improve his property in any way he might choose without incurring any additional tax penalty.
3. It will bring into immediate use many vacant lots. With no municipal taxes to pay on the new building the owner would be encouraged to improve his lot even if he was obliged to borrow the money. Should this be out of the question he could sell to someone who could improve the property.
4. It will reduce the cost of home ownership by reducing the cost of land.
5. It will initiate a building boom in all kinds of construction. With the tax penalty on new buildings or improvements removed many will carry out improvement plans.
6. It will lower the taxes on industries, which usually require extensive plant equipment. This, coupled with the availability of vacant land at reduced prices, will provide powerful incentives for new industries to be brought into the town. It will also encourage established industries to remain.
7. It will lower the asking price of poorly improved but potentially valuable land and so encourage progressive action on the part of those who have money to invest in capital enterprises.
8. It will attract newcomers who will occupy houses and apartments where "For Rent" signs are now hanging.
9. It will greatly stimulate trade in the business district. Small stores and shops on side streets will all feel the effect of the increased business tempo.
10. It will eliminate long standing property eye-sores.

11. It will provide the economic motivation for owners of commercial properties to put their buildings into good repair.
12. It will result in a solid build-up in the business district. Old, one story buildings will no longer be profitable investments in the high land value areas.
13. It will give the green light to all builders of new homes to build "big" to begin with.
14. New business ventures will become profitable as the two major deterrents, high land prices and high taxes on buildings, are removed.

#### **DISADVANTAGES OF A SHIFT IN TAX POLICY**

Despite the fact that an entire community will take on new life and that an overwhelming proportion of the people will be better off there will be a few people whose situation will temporarily be effected adversely. Adjustments will quickly be made and eventually all will find their situations improved.

1. Quite a few property owners will find their taxes increased. Some will be caught owning vacant land. Their predicament will not be altogether bad. They will be in a position to improve their property without tax penalty. If they cannot do this they will be obliged to sell to someone who will make the improvements.

Lest we allow our sympathy for the owner of vacant land to carry us away let us consider what the policy of speculating in bare land does to our common lives. Consider all the wasted energies of postmen, milkmen, delivery services, garbage collectors and even paper boys, who have to go by all vacant lots day after day. Consider the colossal waste of having to run power lines, telephone lines and sewers by each of the 13 million vacant lots in America today. Consider the endless miles of streets that have to be built and serviced, the commuters that have to travel by vacant stretches of real estate day after day, or the cost of just keeping some neglected lots from becoming public nuisances. Then think of the contribution to the inflation of land values that speculation in land creates. When you realize that the greatest single cause of economic depressions is found in the inflated land values that keep steadily increasing as the boom period advances, you will have some concept of the extent of the evil that comes into all our lives by the practice of buying and selling at a profit bare, unimproved land. It is the duty of our legislatures to make the buying and selling of vacant land unprofitable and the sooner they do so the better it will be for all of us.

2. Some downtown properties will find their taxes are lighter under a land value tax system. However the great majority will draw heavier taxes. This is strictly as it should be. It is in the high land value district that society has conspired to increase land values. The presence and activity of people has brought this about. Actually these are socially created values but we have been allowing individuals to appropriate them for themselves. When society learns to collect these values and to use them for social purposes we will all be better off. Yes, even the downtown

merchants will be better off. Wherever land value taxation has been adopted there land values have gone up in the business districts. If the increase in taxes was not off-set by a big increase in business this would not be so. Downtown merchants and land owners need have no fear of an increase in taxes.

3. A few people, say 1%, will find that their taxes are increased because they own old houses located on large and especially valuable land. A few such might not be in a position to improve their houses. However, the welfare of the entire community is at stake and this is by far the more important consideration. Within a short time following a switch to land value taxation all property owners will be in a better situation than ever before. Improvements will be made everywhere. The community will assume a prosperous appearance and pride of ownership and incentive for more profitable investments will dictate the shape of the new look.

### **THE CHOICE BEFORE US**

Now that a new approach to the taxing of real estate is possible we can either let things ride as they are and keep the old system grinding out its decay and obsolescence or we can set the stage for real progress. If we elect to stay as we are we will continue to:

1. Discourage homeowners from improving their properties.
2. Keep the price of vacant land so high that enterprising citizens cannot afford to bring it into use.
3. Encourage the processes of decay and neglect in downtown commercial properties.
4. Guarantee that ugliness and neglect will feature the perimeter of the entire downtown area.
5. Make conditions difficult for local industry by taxing unnecessarily plant facilities.
6. Hold a club over all who might wish to improve the physical aspects of the city.
7. Make home ownership expensive and new homes an impossibility for the laboring classes.
8. Give the city no strategic advantage over any other town in attracting new industries.
9. Protect those down-at-the-heel property eye-sores from being razed.
10. Keep the cost of building and maintaining new homes so high that only the favored few can afford to live in them.

### **GOVERNOR LAWRENCE ENDORSES THE GRADED TAX LAW**

A partial land value tax policy has been used in Pittsburgh for 35 years. Governor Lawrence recently said:

"There is no doubt in my mind that the Graded Tax law has been a good thing for Pittsburgh. It has discouraged the holding of vacant land for speculation and provides an incentive for building improvements. In the distribution of the tax burden it is particularly beneficial to the home owners."

"Pittsburgh is now in the midst of a very extensive Urban Redevelopment Program and it is a matter of record that the owners of many of the fine office buildings, hotels, apartments and industrial plants that have been built in recent years are paying substantially lower taxes than they otherwise would pay because of the Pittsburgh Tax plan, which encourages all private improvements on real estate by the lower tax rate on buildings."