Six Ways To Win Popular Support for a Land Value Tax

Professor Steven Cord
Indiana University of Pennsylvania
Indiana, Pa. 15705

Literally hundreds of land reform experts, from many countries as well as from the United Nations, have urged the adoption of a heavier tax on land values in place of as many other taxes as possible. It has been adopted in a number of places in the world and with marked success, according to objective studies (see attachments and Catalyst!).

In brief, the land value tax can claim these advantages:

- The higher the tax on land values, the more incentive is given to landowners to utilize their land efficiently as determined by market demand (and as limited by land use plans). Who could afford to keep land out of use, or in partial use, if he had to pay the full annual land rent in taxation?

- The higher the tax on land values, the less individual labor and capital investment need be penalized by taxes. This could provide a powerful incentive for an economic surge, particularly in the agricultural and construction sectors.

Additionally, a high tax on land values discourages absentee landownership. Who would want to collect rent from a tenant, only to pay it over to the government at the end of the year? Tenants would gradually assume ownership of the land they till.

- If eventually the tax on land values becomes substantially high, then it will deter land price inflation and by reducing the taxes on labor products which are passed on to the consumers, it will reduce consumer prices as well. Moreover, because land prices would be low, investment money which would have gone into the purchase of land would now be diverted into the production of machinery and construction. Land, no matter how highly taxed, cannot be reduced in supply (in fact, if taxed, land previously held off the market would be released for productive use).

These are only the economic reasons for taxing land more, labor and capital less. There are compelling moral reasons also: a landowner *qua* landowner produces nothing, and so whatever return he gets must come out of the labor of others. A landowner reaps, but he does not sow. Furthermore, land values are created by the community when it provides roads, schools, hospitals, police and fire protection, also jobs and shopping facilities; shouldn't the community tax what it creates - land values - before it taxes the wages and investments which individuals create?

Despite all these clear advantages which the land value tax affords, there are some short-run or special-case problems which must be seriously considered before the tax is introduced. Here are some alleviations of those problems:

(1) National Land Rent Dividend - Land values are very unequally distributed among the population and so a tax on land values would be very much in accord with the ability-to-pay principle. Nevertheless, it is also true that there would be some hardship cases. Some small farmers would pay more taxes than they are now paying, and so would some poor elderly homeowners. While it could be said with some justice that if they can't pay the tax, they are not using their land efficiently and they should sell it to someone who can, still humanitarianism requires that we help them over their short-run plight. Also, good politics requires it - my experience in trying to spread land value taxation in western Pennsylvania indicates clearly that such people are numerous and powerful enough to obstruct the adoption of such a tax. Even those who would pay less with a tax switch to land oppose such a switch out of sympathy for the losers.

Fortunately, there is an easy solution to this problem. The government should levy a slightly higher land tax rate than it would otherwise require (a 2.2% tax rate, say, instead of a 2% rate), and then it should distribute the extra revenue gained on an equal basis to all voters in the country (that should get the voters out to the polls!). This could be called the National Land Rent Dividend. Or this Dividend could be distributed equally to all citizens, or the agricultural land tax revenue could be distributed equally among all agricultural landholders. The Dividend should not be so high as to encourage shiftlessness. It should be like a nice Christmas bonus. Such a Dividend would immediately create a strong pressure group in support of the land value tax, especially for its continual extension in ensuing years. Because land value ownership is so unequally distributed, fully 95% of the population would get back more in Dividend than what they would pay in extra surtax to finance the Dividend. Could this possibly fail to guarantee popular support for the land value tax?

Additionally, this would go a long way toward eliminating any hardships which the land tax might impose on poor landowners. And it is interesting to note that this Dividend adjustment is in accord with moral principle, since it is one way by which all people can share equally in the opportunities afforded by Nature.

(2) Agricultural Land Tax Index - Farming is a risky business. In some years the harvest is good, in others not. Commodity prices rise and plummet. In bad years, many farmers might be hard put to pay their land value tax - unless that tax is indexed to agricultural production and prices. If the total value of sugar production, let us say, falls off 20% from normal, then the land value tax which sugar farmers are required to pay should be reduced by 20%, or perhaps 30%. If the total value of sugar production is 10% above normal, then the land value which sugar farmers pay should be increased 10%, or perhaps 15%.

If the government finds that its revenue from an indexed land tax is too uneven, it could set aside a small amount of the land tax each year (bigger amounts in above-normal years), and draw on that extra fund in below-normal years.

(3) Tax Deferral - In cities, elderly poor homeowners might be hard put to pay the land value tax, and in some cases they might be forced out of their homes. To obviate this, the government should allow them to defer their land value tax in whole or in part until the time they sell or bequeath their property. At time of sale or bequest, the back taxes must then be paid by the next owner of the property.

Here's how this could work: if the land value tax on the residential property of a poor elderly homeowner is more than, say, 10% of his total income, then the excess plus reasonable interest is deferred as a lien against the property to be collected by the government when the property is sold or otherwise transferred. The amount of deferral should not exceed the amount of the unmortgaged part of the property value, and the mortgage payment precedes the tax deferral lien. No such tax deferral should not be used during the first four years of ownership of the property. Such a deferral could also be extended for a one-year period to unemployed landowners and to other landowners subject to special hardships.

(4) LVT Installment Payment - Hardships will be created if the land value tax bill comes due in One Big Annual Lump Sum. Many taxpayers will be caught short in ready cash. To obviate this, tax bills should be issued quarterly, perhaps monthly. Rent is customarily paid quarterly or monthly. Alternatively, the taxpayer can require his mortgagee or employer to pay the tax withheld from his mortgage payment or salary.

(5) Interim Reassessment Adjustment - If land only is taxed, it could be re-assessed annually. If it isn't, a problem develops - the re-assessment, when it comes, might be much higher than previously, especially in inflationary times. This will result in sudden increases in the taxes that some landowners will have to pay, and hardship and opposition may result. There may even be pressure to delay re-assessments, or to see to it that re-assessment increases are less than market value increases.

To obviate this situation, all land assessments should automatically be adjusted annually, until the next re-assessment, according to changes in the general price index. If, for example, the general price level increases 10%, then all land assessments are automatically increased 10%, but all such inflation adjustments are negated by the next re-assessment.

(6) PAD Purchase and Demolition Guarantee - When neighborhoods change to higher uses, land values shoot up. So also do land assessments and taxes. The old owner may not be in a position to pay the new higher tax; nor could he sell his land for very much, nor even could he sell his

improvement which might now have a negative value since it must be abolished to make way for a new and more appropriate improvement. He faces severe hardship from which zoning regulations give him inadequate protection.

Examples of such neighborhood changes to higher uses are - agricultural use to single-family residential, to multi-family residential, to industrial or commercial, to natural resource use.

Suppose, for example, a single-family neighborhood becomes ripe for apartment house development. A homeowner there can't pay his higher land value tax any more since it is now predicated on apartment house use. He can't sell his land site, not at least with a full land value tax on it. And his house has no value at all - it will be demolished - unless he can move it to a more appropriate location, and that is unlikely. He has problems.

Fortunately, a solution exists: the government should pay the old owner the appraised value of his about-to-be demolished house. This would give homeowners and others a real feeling of security since they need never fear that rising land value taxes would expropriate them. It would make land value taxation even more saleable, especially at high rates.

Additionally, it would significantly spur the re-building of cities. No longer would the prospective developer have to expend a large sum for the purchase and demolition of a useless building. These large expenses must now be incurred even before actual construction can begin.

Some technical provisos are needed to accompany this Purchase and Demolition (PAD) Guarantee: the building must be at least 12 years old and the guarantee should not exceed the land tax times twice the interest rate percentage. The rationale for these provisos can be found in the PAD article in Catalyst! (HGFA, 580 N. Sixth St., Indiana, PA. 15701), pp. 55-56.

It is imperative that the government obtain popular understanding and support for the land value tax. People should be made aware of its advantages through a radio, television and billboard campaign (details upon request), and little leaflets describing the idea and its advantages should accompany all tax bills that are sent out.

The taxation of land values can do more than provide revenue for the government: it can also provide a powerful stimulus to economic growth. Although there may be certain short-run or special-case problems which its introduction might raise, we have seen how they are certainly amenable to a solution. There is no need to keep the land value tax rate low in order to protect those few people who might experience hardship. They can be adequately protected by the six adjustments described above. I recommend them for reasons of humanitarianism as well as good politics.

Addendum

There is a way to ensure that the land value tax will provide the maximum incentive to land owners to develop their sites fully: it should be announced in the first year that the land value tax rate will be 1% of land price, but in each year thereafter the rate shall be increased by 1% until the tenth year, at which time the rate will be 10% and an evaluation of the process will be made before proceeding any further. In this way, land owners will have plenty of time and incentive to adjust to the new tax. If the announcement of land tax increases is made each year, then constant political disputes will occur annually, and land owners will be subject to excessive uncertainty in their future planning for the development of their sites.