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Author(s): R. W. Lindholm

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# Land Taxation and Economic Development

By R. W. LINDHOLM\*

**I**N FREE VIET-NAM where income earned arises largely from land and where some 75 per cent of the population<sup>1</sup> make a living as farmers, the property tax provides less than 1 per cent of government tax receipts. In the state of New Jersey, which is one of the world's most highly industrialized areas, property taxes provide 64.8 per cent<sup>2</sup> of the grand total of state and local tax collections.

In 1962 not more than 3 to 5 per cent of total government revenues in South America were property taxes. In the United States about one-sixth of all taxes are property taxes. The tax mix in Latin America generally approximates 0 to 10 per cent in property taxes, about 75 per cent in excise and customs duties, and about 25 per cent in income taxes.<sup>3</sup>

The examples, and the many more of a similar nature which could be developed, demonstrate that property as a tax base is related to something more than the importance of agriculture in a nation's economic base. The property tax, which has enjoyed its greatest development in the United States, was an expression of the political and economic beliefs and realities of the nation just as was the (Gabelle), the famous salt tax which formed a basic portion of the revenue system of the Ancient Regime in France and the Manchu and more ancient empires of China<sup>4</sup> an expression of the philosophies and realities existing in those empires during their period of disorder and decline.<sup>5</sup>

## *United States Development*

The property tax was developed in the United States in an effort to express fiscally the principles of the American Revolution. Later this half-conscious realization that democracy and taxation of property was closely related was combined with Ricardian economics by Henry George in his famous book, *Progress and Poverty*. In this book Henry George showed that the increase in land values arose from increased productivity which was closely related to the increase of population and wealth. He also showed, through Ricardian type rent analysis, that this entire amount of income that gave land value could be collected in taxes without decreasing the incentives

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\* Dean, School of Business Administration, University of Oregon, Eugene, Oregon.

<sup>1</sup> R. W. Lindholm, *Analysis of Viet-Nam's Tax System* (mimeographed) (Saigon, Viet-Nam; Michigan State Viet-Nam Group, 1956), p. 5.

<sup>2</sup> Bureau of the Census, *Government Finances in 1962*, (Washington, D. C.: Department of Commerce, 1963), Table 22.

<sup>3</sup> *Economic Developments in South America*, Joint Committee Print, 87th Cong. 2d Session, pp. 4, 5.

<sup>4</sup> See the very interesting discussions of the use of China's ancient salt tax as security for loans to China by Western nations before World War I. Esson M. Gale, *Salt for the Dragon*, (East Lansing, Michigan: Michigan State College Press, 1933), particularly pages 100-106.

<sup>5</sup> When the governments of both France and China were strong, the taxation of land provided the bulk of government revenues. In speaking of China's land tax Han Liang Huang in *The Land Tax of China*, (New York, New York: Columbia University Press, 1918), p. 141, calls the land tax "this important source of national revenue which has almost from time immemorial been the main source of national revenue."

for efficient production. This tax George called the "single tax" because he calculated the collections would be enough to cover all government expenditures.<sup>6</sup>

With the death of the Federalist party and the rise of Jeffersonian and Jacksonian democracy the people of the United States continued the revolution outlined in the Declaration of Independence. Therefore, the conservative European notion of exempting the property of the large landowners from whatever modified land taxes existed did not find favor in the United States as it did in Latin and South America, where the revolution did not take hold, and where as in Bolivia, "the land taxes on rural property made it easy to hold large tracts idle for prestige or speculative purposes."<sup>7</sup> It was not until 1920, and then in Mexico, a border nation, that a south-of-the-border country experienced a genuine revolution.<sup>8</sup> These political facts seem to be important in explaining the development of the taxation of real estate in the United States and the failure of the tax to develop in other areas where population growth has been rapid and where land resources were under-developed.

Despite the economic and political revolution in Mexico the property tax provides less than 1% of current government income. In the primarily agricultural and land-based economy of India, land revenues are reported as insignificant. In Syria a land tax collection figure is not reported.

These countries undoubtedly possess an economy that proved in the United States to be suitable to the use of the property tax with emphasis on property consisting of land. What they do not possess is the requisite political climate for the development of this tax source.

During American colonial days the chief revenue sources were various excise

taxes and in New England there developed what became known as "faculty" levies. The tax upon "faculty" was a type of income tax and was levied at various rates upon the earnings of the colonists. The new interior states did not adopt the prevailing tax measures of the older seaboard states. In these more democratic and land-abundant areas of the United States, the property tax developed as the original and major support of government activities. It was not until the revenue demands of the War of 1812 made it necessary for the older states to raise additional sums of money that the property tax already developed earlier in the interior states became a major source of Atlantic seaboard state revenue.

#### *Property Tax Principles*

The basic position that the tax on land should absorb most economic rent, making land approach its original state of a free good, is divided into three principal streams.

*Social Production Theory.* Under this concept of property taxation, the fundamental relationship is the widely accepted *social production* theory. This approach to the rights of private property concludes that an increase in the value of property that is not directly due to effort and wisdom of the owner has been created by society and should be shared by society. This position epitomizes the thinking of Henry George.<sup>9</sup>

<sup>6</sup> Henry George, *Progress and Poverty* (New York, New York: The Vanguard Press, 1929), pp. 59-64.

<sup>7</sup> United Nations Technical Assistance Administration, *Taxes and Fiscal Policy in Under-Developed Countries* (New York, New York: United Nations, 1943), p. 47.

<sup>8</sup> James G. Maddox, *Mexican Land Reforms* (New York, New York: American Universities Field Staff Study, 1957).

<sup>9</sup> Henry George, *op. cit.*, p. 132.

Obviously, this concept of economic justice can be extended far beyond the taxation of economic rent arising from land use.

*Land as Free Good.* A second closely associated relationship used to support a property tax on land alone emphasizes that originally land was a free good, while labor and capital are never free; therefore the market price of the products of land is determined by the cost of labor used in their production, including capital equipment. On this basis the amount remaining for distribution as land rent is an excess. The amount received by the owners of land as rent is not a necessary payment for it is not required to bring this factor of production into existence. It follows from this that the level of the tax placed upon land will not affect the price of products produced with the assistance of land, nor will it cause land to be withdrawn from productive activity; in fact, the impact is seen to be just the opposite. A property tax based only on land becomes perhaps the only administratively feasible tax that falls nearly entirely on economic surplus. This position can be elaborated considerably and finds its tap root in the economic writings of the classical economists.

*Stimulation of Investment in Buildings and Improvements.* A third stream of opinion favoring inclusion of land alone in the property tax base and making the rate approach the level of the economic rent is quite different and has both very ancient and very modern supports. The position is that when the property tax includes in its base real estate other than land and also personal tangible and intangible property, it acts to discourage investment and general improvement of the conditions of economic life. Therefore improvements on

the land and other types of property should be excluded, and only the value of the land itself should be included in the base that is subject to the property tax. In a study of the tax system of Jamaica completed by Professor J. R. and Mrs. U. K. Hicks,<sup>10</sup> this concept was partially adopted and also subject to some criticism. Nevertheless, Jamaica has changed its property tax to correspond more closely to this concept of property taxation.<sup>11</sup>

The special treatment of real estate improvements is the woof of the majority of the studies completed by western trained economists of the tax systems of low per capita income-producing and largely agricultural areas. The Hicks' study recommends exempting improvements to land for a limited number of years. The Chinese have generally felt throughout their historical use of the land tax that improvements should not be taxed.<sup>12</sup> The United Nations experts are somewhat doubtful of the advantages of exempting improvements to land. They point out that this procedure, particularly in the cities, stimulates speculative building and is likely to cause a misallocation of scarce investment funds.<sup>13</sup>

Another aspect of the question of excluding or including improvements and buildings in the land tax base is that of justice. The lands bearing large buildings and enjoying considerable improve-

<sup>10</sup> J. R. Hicks and U. K. Hicks, *Report on Finance and Taxation in Jamaica* (Kingston, Jamaica: Government Printer, 1955), p. 139.

<sup>11</sup> D. J. Morgan, "Land Valuation and Land Taxation in Jamaica," *Public Finance*, Fall-Winter, 1957, pp. 232-238.

<sup>12</sup> Han Liang Huang, *op. cit.* p. 170.

<sup>13</sup> United Nations Technical Assistance Administration, *Taxes and Fiscal Policy in Under-developed Countries* (New York, New York: United Nations, 1954), p. 47.

ment efforts are frequently the lands which are also owned by wealthy owners<sup>14</sup> while the unimproved lands are frequently owned by persons lacking capital, which fact partially explains the unimproved nature of the land. The relationship of this situation to the obvious requirements of a just distribution of the tax burden are too obvious for a government to pass over, especially by a democratically oriented political regime.

#### *Revenue or Capital Value*<sup>15</sup>

A revenue-based tax related to land may be assessed as a per cent of the current gross revenue or rent paid or even assessed on net income, as is somewhat the case in all nations having a highly developed income tax system. This procedure results in a lower property tax payment by owners of under-utilized land, than by owners of fully-utilized land. The prevalent use of this procedure in low income countries outside of Latin America arises partially from the introduction of Western European practices and the failure to modernize the inheritance; partially because of ancient procedures, particularly in East Asia, and to a considerable extent because the system favors the landowning class.

The cadastral or capital value tax related to land is based on the location and fertility qualities of the land. One piece of land producing no income would be liable to the same tax payment as land producing a considerable income. The tax is levied on the land rather than on the receipts or the owner as is the situation with the revenue-based land tax.

The two procedures blend together as normal income or anticipated income becomes the basis of a land revenue tax. Actually, the determination of capital values from prepared cadastres cannot be based completely on physical charac-

teristics and must include some concept of normal and future productivity.

When capital value rather than revenue is taxed, it is a means of taxing both wealth and income. However, both wealth and income may be largely "notional" if the land is not being managed effectively. Capital value or cadastral-based property taxation encourages full use of land and a revenue-based land tax encourages holding of idle or partially idle land for speculative or prestige purposes.

Actual land tax practices vary infinitely. For example, in 1962 a uniform land tax was adopted in Iran to supply the funds needed to support the army which was being used to bring the scattered tribes together into a nation. This land tax was "based on the gross produce."<sup>16</sup> The land tax in use in South Viet-Nam is a copy of the tax in France which, when applied to rural areas, varies with the type of crop grown on the land and is limited to land producing an income.<sup>17</sup> In Latin America there is some use of revenue from land use as the base of the property tax but land value as the base predominates and the trend is in this direction. For example, the land tax of Guatemala is based on the assessed value of real estate.<sup>18</sup> The ancient property tax of China divided

<sup>14</sup> D. J. Morgan, *op. cit.*

<sup>15</sup> The generalization included in this section is based on the first chapter of Haskell P. Wald, *Taxation of Agricultural Land in Under-Developed Economies* (Cambridge, Massachusetts: Harvard University Press, 1959), pp. 7-41.

<sup>16</sup> A. K. S. Lambton, *Landlord and Peasant in Persia*, (New York, New York: Oxford University Press, 1953), p. 183.

<sup>17</sup> *Code National de l'impôt Foncier, Etat du Viet-Nam* (Saigon, Viet-Nam; Ministre des Finances du Plan et de la Reconstruction, 1953).

<sup>18</sup> United Nations Technical Assistance Administration, *op. cit.*, p. 73.

land into many categories and combined labor to work the property (actual size of family) with the value set on the land in order to develop a combined land-labor tax on rural property. The effect of this was to make the property tax here also more of a tax on the produce or gross receipts from the use of the land than a tax on the land itself.<sup>19</sup> In Japan, the taxation of rural land, at least in the nineteenth century when the revenues played such an important role in economic development, was based on assessed valuation. By refusing to change either assessed valuations or the tax rate between 1881 and 1885, when prices in Japan were falling sharply, the Japanese finance minister of that time was able to materially increase the government's real income. In this way he expanded substantially the funds available to the government to subsidize economic expansion.<sup>20</sup> In Korea a tax in kind is levied on the basis of what is considered to be the average harvest. A commentator states, "This provision was intended to encourage heavier application of fertilizer and improved production methods."<sup>21</sup> This is a property tax base somewhere in between the cadastral and the revenue base. This compromise, officially or unofficially, is actually a very common situation and is perhaps always somewhat true. Finland, for example, taxes farm income but this income is the average earned on the type of land the farmer owns and for the three fiscal years preceding the taxation year. Under these conditions a particularly efficient farmer bears no greater tax burden than an inefficient one.<sup>22</sup>

Although the taxation of property, particularly in underdeveloped areas, is naturally first associated with agriculture and rural life, these are not the limits of its applicability even in these areas. Land

values of urban areas increase rapidly along with the rising urban populations. Speculative holding of idle city land under these conditions results in uneven city development. Land taxation could substantially reduce these speculative land holdings while making substantial revenues available to the government and decreasing the cost of providing municipal services.

The above theoretical concepts, experiences, and background inter-relationships of the property tax can be applied to certain basic requirements of an economic development policy recommendation.

#### *Stimulation of Productive Agriculture*

The major industry of the emerging areas is agriculture. The efficiency of the agriculture industry of these low per capita income areas is only about one-tenth that of this industry in the United States, and between 70 to 90 per cent of the total population must be engaged in agriculture to provide a minimum diet. The basic requirements for an agriculture industry that provides food for the cities, food for export, and an income base for tax collections are: (1) land operating units of sufficient size for low cost production,<sup>23</sup> (2) sufficient capital to assure the optimum level of fertilization

<sup>19</sup> Han Tiang Huang, *op. cit.*, p. 168.

<sup>20</sup> Thomas C. Smith, *Political Change and Industrial Development in Japan: Government Enterprise, 1868-1880* (Stanford, California: Stanford University Press, 1955), p. 81.

<sup>21</sup> Haskell P. Wald, "Use of Tax Collections in Kind to Combat Inflation in the Republic of Korea," *Public Finance*, Summer, 1954, p. 183.

<sup>22</sup> Lauri Kivivuori, *The Taxation of Farmers in Finland* (mimeographed) (Helsinki, Finland: The Central Union of Agricultural Producers, 1955).

<sup>23</sup> Land holdings are frequently too small for efficient agricultural operations. Peter T. Bauer and Basil S. Yamey, *The Economics of Underdeveloped Countries* (Chicago, Illinois: University of Chicago Press, 1957), p. 178.

and use of mechanical equipment, and (3) adequate technical and managerial abilities. Each of these requirements is vital for an efficient agriculture industry and an efficient agriculture is the first major requirement of a program to bring about economic development.<sup>24</sup>

*Impact of Capital Value Land Tax.* Capital value land taxation properly utilized can be very helpful in speeding progress toward an efficient agriculture industry. This has not been adequately realized as the tax collection data and programs for development from emerging areas indicate. The ways in which capital value land taxation can be helpful to economic development are: (1) improved land use, (2) stimulation of productive activity, (3) efficient use of capital, (4) orderly urban growth, (5) improved expropriation of land, (6) minimizes incentive and potential government graft.

The capital value land tax and its emphasis on the potential value of land, based on best use and maximization of income, provides a prod to owners and users of land to experiment with new managerial and technical procedures. The owner or user of land able to make best use of land develops the superior economic position under land value taxation. Land value taxation exerts a continuing pressure to use land more efficiently. At the same time as land value taxation has this continuing positive desirable impact on the agriculture industry and land use generally, it also decreases the possibility of harmful speculation in land values.<sup>25</sup>

In many sections of the world the initiation of capital value land taxation would be a basic political revolution. It would be very helpful in establishing the economic basis for local government democratic institutions. This is the case

because land value taxation can provide funds for local government and local social capital projects. Here is a fundamental element in the development of interest in government by ordinary people and therefore the development of responsible political leaders and democratic institutions. It deserves more attention by economic development policy makers.<sup>26</sup>

The burden of capital value land taxes is the heaviest on those making the least efficient use of land for these landowners pay the largest portion of earned net income as taxes. The situation in the agriculture industry of emerging areas is frequently but not always complicated by the excess of unskilled workers located on the land. Agriculture under these conditions is apt to be considered in welfare terms rather than in business efficiency terms. Communists have exploited this relationship and the reaction of the free world has been too much in the direction of welfare concepts which lay the base for future problems. *Capital value land taxation by applying a continuing pressure toward efficiency in land use and by lowering the tax burden on capital can be of considerable*

<sup>24</sup> In the underdeveloped countries . . . , the agrarian structure is generally characterized by great inequalities in the distribution of land, by fragmentation of holdings, high rents, and insecurity of tenure, by lack of adequate credit facilities and considerable indebtedness, and by inefficient utilization either of land or labor or both. . . . United Nations, *Progress in Land Reform* (second report) (New York: United Nations, 1956), p. 1.

<sup>25</sup> Peter T. Bauer and Basil S. Yamey, *op. cit.*, in their discussion of "measures affecting agriculture," fail to mention the method of taxation; also, Louis J. Walinsky in *The Planning and Execution of Economic Development* (New York, New York: McGraw-Hill, 1963) fails to consider agricultural tax policy or land taxation.

<sup>26</sup> R. W. Lindholm, "Analysis of the Land Use and Land Taxation Policies of non-Communist Underdeveloped Areas," *Economic Development and Cultural Change*, April 1960, pp. 252-256.

*assistance in resolving this situation.*

*Impact of Revenue Land Tax.* The income and excise taxes, the other two major types of taxes, tend to bear more heavily on the person who produces products and markets them through regular commercial channels. This is not the case with land value taxation.

The emerging nations are characterized by a large portion of the economy being carried out on a barter basis. This is a very inefficient manner of carrying forward economic activities and a considerable portion of economic development consists of establishing an efficient market based on economic organization. This fact is well known. What does not seem to be realized is that the development of a tax system based on income and transactions decreases the likelihood of development of a market system. *The old inefficient barter system is being indirectly subsidized by the taxation of only the market portion of the economy through the emphasis on income and excise taxes.*

It is also true of many economic emerging areas that large tracts of rather good land are not being exploited up to their highest economic use because their ownership is in inactive hands. The use of land value taxation reduces this tendency for the accumulating tax liability either forces sale of the property or a higher level of utilization. This economic pressure can be rather serious at times and can cause considerable damage of pride and individual hardship.<sup>27</sup> However, the over-all impact on productivity and efficiency is definitely desirable.<sup>28</sup>

#### *General Economic Impacts of Extensive Use of Capital Value Land Taxation*

*Industrial Growth.* The current prevailing situation in emerging nations is to have the tax rates levied on profits,

incomes, and imported luxury consumer goods, particularly high. In fact, they are frequently very nearly the only tax sources. This type of tax system may be politically acceptable because it hits the rich in such an obvious fashion. However, it is not an acceptable system for economic development.

An emerging nation wishes to attract foreign investment and to hold in the country the earnings and savings of its residents. Also, they want the reinvestment of earnings in productive equipment and income producing projects. Actions of this type are discouraged by high income and profits taxes. These desirable types of activities would be stimulated if profits or income taxes could be reduced and this would be possible if more revenues were raised from land value taxation. Also, a higher tax in this area would not discourage investment and efficiency but would actually encourage this type of effort, for to encourage the best use of land is to encourage investment in the agriculture industry and this is a principal impact of land value taxation.

It is also important to realize that in emerging nations the number of persons able to manage capital and labor to produce a high quality, low-cost product

<sup>27</sup> Panama's tax reform package of 1962, includes "for fiscal purposes a minimum value on farmland . . . to reduce the 'sometimes laughable' declared valuations for real estate tax purposes." *Economic Policies and Programs in Middle America*, Joint Committee Print, 88th Cong. 1st Sess., p. 18.

<sup>28</sup> Thomas F. Carroll, "The Land Reform Issue in Latin America," in *Latin American Issues* (New York, New York: Twentieth Century Fund, 1961) (Albert O. Hirschman, ed.) fails to consider how capital value land taxation might help "strike an appropriate balance between social equity and productive efficiency (is) perhaps the most important and urgent task of land reform experts." p. 198.



is limited.<sup>29</sup> Therefore when income- and profits taxes, also taxes on the types of goods consumed by successful managers are high, the very likely result is to transfer these resources into the hands of persons possessing less ability to manage them.

*Urban Growth.* The urban areas of the emerging nations have been experiencing a very rapid growth. This has led to much land speculation and also a population growth that outstrips government-provided facilities of various types. Here land value taxation can be of assistance again. Land value taxation would increase orderliness of the urban growth while siphoning a large portion of the expanding economic rents into the city treasury. The orderliness of growth would considerably decrease the cost of making municipal services available and the increased revenues would be very helpful in meeting continuing municipal needs.<sup>30</sup>

One of the major political and economic problems of the emerging areas is the brutalizing of the peasant as he is forced off the land and into the cities. Yet this must be done for practically by definition economic development requires a rapid decrease of the rural population and a rapid increase of the urban population. Capital value land taxation, by providing a sound municipal income base, by removing the most undesirable aspects of urban land speculation, and by encouraging full utilization of land areas, can be very helpful in improving urban living conditions and, in this fashion, in improving the long-run efficiency of urban communities as a productive unit, while reducing brutalizing forces and therefore a base for the growth of communism.

*Private Property.* The basic tenet for the accumulation of capital and the de-

velopment of productive activities is protection against an arbitrary seizure by government or a throttling of growth by private monopolistic interest. Again, land value taxation can be of assistance to a nation seeking to increase its economic productivity.

Government seizure of large land holdings in order to provide land for the landless is very likely to reduce the confidence of all holders of assets in the government's willingness or ability to resist arbitrary acts detrimental to those who develop enterprises or accumulate capital. The effect is to apply a strong brake to the capitalistic development process. This, in turn, will develop pressures to use the socialist or communist approach.

Land value taxation, by placing a considerable tax burden on landholdings and an unbearable burden on landholdings not being utilized in the most efficient fashion, sharply reduces the appeal of land expropriation and fragmentation. The increased productivity of agriculture to be expected by this turn of events will be added to by expanded growth in all areas stimulated by renewed confidence that arbitrary actions will be avoided.

The fact of land fragmentation is already a serious problem to the development of a surplus-producing agriculture in most underdeveloped countries. The expropriation of land and the dividing of this land among the landless increases the intensity of the difficulty. Actually,

<sup>29</sup> In discussing Korea, Yong Sam Cho in *Disguised Unemployment in Underdeveloped Areas* (Berkeley, California: University of California Press, 1963) p. 134, suggests that capital funds are used most efficiently if employed locally where created.

<sup>30</sup> Robert C. Mayfield, "An Urban Research Study in North India," *Urban Systems and Economic Development*, Eugene, Oregon: University of Oregon School of Business Administration, 1962) (Forrest Pitts, ed.) pp. 45-52.

the situation that arises from these developments provides a made-to-order political and economic base for communism and its communal agriculture. Therefore, capital value land taxation by continual pushing for efficiency and economic growth can be very helpful in avoiding economic breakdown and growth of the popularity of communist alternatives.

*Need to Minimize Incentive and Potential of Government Graft.* Over and over again emerging nations have experienced serious difficulties because the expectations for government action have been greater than possible government performance. It takes many years to develop an efficient and honest corps of government employes. In this regard most nations with low per capita incomes cannot expect to reach the optimum level in the immediate future. Therefore, it is prudent policy to reduce to the lowest possible level temptations for graft and possibilities for inefficient management by government personnel. Here, again, the use of capital value land taxation can be of assistance.

The administration of land value taxation is necessarily much more open to public scrutiny than any other major tax source.<sup>31</sup> The administration of the income tax and profits taxation requires a very high level of competence and honesty in government and among the general population. Excise taxes vary a great deal relative to administrative difficulty, but in all cases where a stamp is not attached and the value of the individual item is not relatively small, administration requires qualities similar to those of income and profits tax administration.

Land value taxation also encounters administrative problems<sup>32</sup> but this tax has the great advantage that the quantity of land is limited and land cannot be

hidden in the back warehouse or in the accounts of the controller.

Also, as has been mentioned in this analysis previously, land value taxation is oriented toward efficient management of resources by private individuals and institutions. This emphasis assures the development of human resources in a variety of circumstances. It is particularly helpful in avoiding wastage of human ability in considerable quantities when a political turnover takes place. Also, it is helpful in reducing the portion of control and managerial functions being carried out by persons who must think in political terms, and who therefore find it very difficult to seriously undertake long-term planning. Actions of persons in this type of a position will always be influenced by a very human desire to assure economic well being while conditions make this possible. The result in developing areas is very likely to be graft and resource waste.

It does not seem possible to eliminate these characteristics of politically managed undertakings—even in the relatively long run. Therefore, the wise course is to reduce the potential to the minimum consistent with sound development programs. Here, again, land value taxation can be very helpful for it is a tax that provides a minimum of possibilities for “under the table dealings” and encourages private enterprise and decentralization of government revenues.

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<sup>31</sup> Better assessment methods require officials to appraise “the capital value of land, either by reference to the prices at which land is being sold or in accordance with established standards of appraisal, and then to compute rental value on the basis of an assumed rate of return.” Haskell P. Wald, *op. cit.*, p. 17. The result is, of course, “presumptive” or “notional” valuation.

<sup>32</sup> The American custom of having the values set on various properties open for public scrutiny is a very helpful administrative device available to capital land taxation officials.

### Conclusions

Land taxation based on capital value is used very little by the governments of developing nations. This is an undesirable situation as this tax can be a good government revenue raiser and, while performing this fiscal function, it stimulates sound private enterprise generated economic development.

A land value tax is paid out of economic land rent unless the tax makes possible further decreases of production costs or increases in product sales prices. The immediate active efforts of landowners to shift the tax backward or forward has been used by anti-land tax elements as proof that the long-run economic effect of the tax will be to reduce incomes of farm workers that are typi-

cally already at the subsistence level and raise food prices and rents of city workers. Instead of having these economic effects, the tax sets in motion economic pressures which will increase the productivity of agricultural land and reduce the cost of urban housing. Both of these expectations provide the economic base for higher real wages of urban and rural workers.

Secondary favorable features of the tax are: (1) it provides through accepted government actions a method of reducing the political need for land ownership fragmentation, and (2) the revenues provided by the tax reduce the fiscal pressures for high taxes on exports or domestic profits. Both of these impacts can be conducive to more rapid economic development.

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