

## A. R. Prest's Investigation of the Case for Site Value Taxation

By WILL LISSNER\*

ABSTRACT. *Urban site value taxation*—an application to one of the several types of *land* and *natural resources* of Henry George's proposals for recapturing for *the public's* benefit the value its presence and activities accord to land—has been investigated by a leading *British fiscal economist*, A. R. Prest. He finds that the *taxation* of *urban land* is badly in need of reform. Considering the options available, he declares: "With *site value rating (land value taxation)* there surely is a very strong case for further experimentation." Professor Prest surveys the whole literature of the question in a strictly objective fashion.

### I

HENRY GEORGE, a self-taught scholar who was one of America's most original economists and social philosophers, made and campaigned for a revolutionary proposal in the last quarter of the last century. He urged that the economic rent of natural resources and of urban and agricultural land be collected by taxation and used as public revenue. He proposed that it be substituted for taxes that burden labor and capital, as part of a total program of tax reform that would take account of the economic, social and political effects of the exactions of all levels of government.

For many years the advocates of George's proposal have urged that scholars investigate it. Some economists did. One was John R. Commons, one of the founders of the institutionalist school; another was Harry Gunnison Brown, protégé of the co-founder of econometrics, Irving Fisher. Still others were Paul H. Douglas, Arthur Becker, C. Lowell Harriss, Richard Lindholm, Dick Netzer and William A. Vickrey. The list could be extended on and on. The opponents were not persuaded. "They were sympathetic to start with," they said. They dismissed the work of other scholars with equal illogic; George R. Geiger is a professional philosopher; Charles Albro Barker an historian, and so on.<sup>1</sup>

Now, however, a distinguished specialist in public finance has made a thorough, full scale investigation of George's proposal as it applies to one type of

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land, urban land, taking into account and strengthening, where necessary or possible, all the arguments against it. A. R. Prest, professor of economics at the London School of Economics and Political Science, reports on his inquiry in a book that seeks to avoid all normative judgments, *The Taxation of Urban Land*,<sup>2</sup> and in his final chapter, considering alternative improvements in such taxes, declares:

“With site value rating (land value taxation) there surely is a very strong case for further experimentation” (p. 188).

In his conclusions (happily placed in the front of the book), he expresses doubt about the wisdom of land acquisitions by the public sector beyond what is necessary to discharge minimum functions and proposes that Britain study the U.S. system of zoning and land use planning. Then he goes on:

“There is a case for re-examining site value rating (SVR) (site value taxation) given the present unsatisfactory position with the local rating (taxing) system. Further test valuations need to be made to see whether SVR would be an acceptable alternative or addition.

“The case for continuing development land tax in its present form is extremely weak on both economic and administrative grounds. Probably the best alternative is to abolish the tax and subject all land gains to capital gains tax. *If local site value rating were viable* this solution would be perfectly adequate; if not, capital gains taxation on increments in land values could be tightened up in various ways, if thought absolutely necessary” (p. 5).

## II

INVESTIGATIONS BY A LINE of empirical researchers have proved that land is indeed, as George and a number of other economists have maintained, a special factor of production, a different form of property, from various types of capital.<sup>3</sup> Returns from the ownership and sale of land have escaped taxation adequate for ending speculation in land, which has been shown to be one of the causes of the maldistribution of wealth, the existence of a dangerous amount of unearned income<sup>4</sup> and one of the causes of disastrous fluctuations in the business cycle.<sup>5</sup>

For these and other reasons, persons of various political allegiances have come to believe that receipts from land ownership and sale should be the subject of particularly heavy taxation. Professor Prest considers these concerns from the viewpoint of modern statistical and mathematical economics and its subdiscipline, public finance. He traces the evolution of the theory and practice of urban land taxation over the last century, when Henry George in America

and Alfred Russell Wallace, the co-founder of evolutionary theory, in England, raised the question of the quasi-monopoly of land and made it the burning issue of the time. The status quo was strongly defended by many leading economists, even though the defense involved sustaining absolute private property in land when capital and labor were subject to increasing limitation and regulation. Their positions evaporated, however, when practical necessity required that land use be subjected to increasingly more drastic controls and heavier taxation.

Professor Prest records the history of this period of evaluation of the theory and practice of urban land taxation with due regard for the opinions and claims of its opponents and presents a cool appraisal of it. Then he goes on to present and consider the policy options available. The United Kingdom has pioneered in trying out such devices as the development land tax. But on various grounds these devices have been found wanting. The option of choice is found to be site value rating (land value taxation). This judgment is based on a logical and lucid analysis of the role of land in the national economy, and of the roles of the several levels of government, together with the role of the individual in a market-oriented economy.

### III

THE PUBLISHER SAYS that "this is the first book to discuss taxation of urban land at both national and local levels in the United Kingdom in a systematic fashion" and certainly it is one of the very few which do so. But Professor Prest also takes into account American and Canadian experience and the American and Canadian literature. So the book has a scope that distinguishes it among works on public finance.

One criticism that must be made is that the book, which runs only 207 pages, is too highly condensed. Public finance, at least in the United States, is a subdiscipline of economics that has a following much too small in the light of its public responsibilities. In many institutions it is taught, if at all, by the specialist in macroeconomics (the economics of the nation). Professor Prest's comprehensive but not totally complete bibliography occupies 11½ pages. Even the reader familiar with much of this literature must torment his memory to recall the bases on which previous students have reached judgments. If a questioned opinion were based on an empirical investigation, how reliable were the data, how good was the methodology? Or if its basis was a mathematical analysis, how adequate and how realistic was the model? Professor Prest could have helped us here, but he did not. Too often in the field of public finance we accept the work of authorities on faith when a more critical attitude might

disclose that their claims should be questioned, even challenged and, if not disputed, at least discounted.

But we should be thankful for what we have, a remarkable work of scholarship as important for understanding urban land taxation in the United States, Canada, Australia and New Zealand as in the United Kingdom. Professor Prest has placed us all in his debt. He has not written the last word on the subject, for his book is a gold mine for specialists in public finance who need research topics to assign to aspirants for the doctorate. But whoever writes the last word will have to acknowledge the aid he or she will have received from this book.

#### Notes

1. See, for example, Harry Gunnison Brown, *The Economics of Taxation* (1924) (Chicago and London: Univ. of Chicago Press, 1979; Midway Reprint), and C. Lowell Harriss, ed., *The Property Tax and Local Finance* (New York: The Academy of Political Science, 1983).

2. Alan Richmond Prest, *The Taxation of Urban Land* (Manchester, U.K.: Manchester Univ. Press, Oxford Road, Manchester M13 9PL, 1981; dist. in U.S. by Longwood Press, Ltd., 51 Washington Street, Dover, N.H. 03820, \$25.86 pp.), 207 pp., index, biblio.

3. Cf. M. A. Qadeer, "The Nature of Urban Land," *American Journal of Economics and Sociology*, Vol. 40, No. 2 (April, 1981), pp. 165ff.

4. Paul E. Junk, ed., *Selected Articles by Harry Gunnison Brown* (New York: Robert Schalkenbach Foundation, 1980).

5. Fred Harrison, *The Power in the Land* (London WC2H OHY, U.K.: Shephard-Walwyn Publishers, Ltd. 26 Charing Cross Road), £8.95.

### ***The Cost of Inflation***

INFLATION HAS PROVED to be a disastrous tax on the poor and the lower middle class, levied not only by the government but by all in the economy who enjoy monopolistic positions. What has been its effect on the national economy? Axel Leijonhufvud, professor of economics at the University of California, Los Angeles, has investigated that question. In *Inflation and Economic Performance* (Tübingen, West Germany: J. C. Mohr (Paul Siebeck, 1983, DM 6), he argues that the unstable money regime and inflationary tendencies in the United States have hampered the country's economic performance. Real interest rates become negative and capital accumulation and investment decline. Many activities are misallocated.

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