

Concludes with excellent  
proof - LVT + rebutals  
two objections

LAND VALUE TAXATION IN AN IDEAL SYSTEM OF  
URBAN PUBLIC FINANCE

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A fair proportion of all economists who have given any thought to the question appear to be convinced that the theoretical case for land value taxation as a distinctly superior instrument for financing the urban public sector has long since been made, in no small measure by the writings of Harry Gunnison Brown. A nagging question must occur to those who are so persuaded: why do so many others remain unconvinced? More relevantly, why has it been so difficult to persuade governments of the merits of land value taxation? There are some obvious answers: fiscal institutions, especially at the local government level, are notoriously slow to change; the case for land value taxation is difficult to explain to the layman, like so many other theoretical propositions that to economists are seemingly obvious -- propositions as general as the conditions for economic optimality, the efficacy of decentralized economic decision-making through markets, and the case for internalizing

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externalities, and as policy-specific as fractional reserve banking, compensatory finance, and floating exchange rates. Furthermore, however good the explanation, the persistence of ignorance and error is remarkable in human affairs; and, finally, landowners are peculiarly influential in public affairs while the gainers from land value taxation -- all the rest of us -- are diffuse and relatively uninfluential.

These obvious answers are not really persuasive, singly or in combination, for the case for land value taxation has had decades in which to pierce through inertia, ignorance and vested interests. My own explanation is that alternatives to land value taxation as a means of financing the urban public sector that have been easier to comprehend and sell, despite all their substantive drawbacks, have been available to public officials. Given the extremely short time horizons of elected officials, the long-term costs of easy policy alternatives will be recognized only when such options are exhausted, or -- what is often the same thing -- when the long-term costs become short-term ones. I suspect that the very real widespread revival of interest in land value taxation in recent years reflects a realization that the easy options will no longer suffice.

Therefore, it would seem an especially appropriate time, for public policy consideration as well as in the long and distinguished life of Professor Brown, to appraise the role of land

value taxation in a normatively satisfactory system of urban public finance. Such is the purpose of this paper -- to consider how land value taxation can fit into an appropriate overall solution, focussing mainly on the circumstances of the large urban concentrations which are in important respects special although not necessarily truly unique.

### The Structure of Urban Public Finance

The conventional analytic framework for normative appraisal of the finances of the public sector is Musgrave's familiar division of the sector into three budget "branches," those concerned with economic stabilization, income redistribution and resource allocation aside from stabilization or distribution.<sup>1</sup> In examining the sub-national components of the public sector, one finds that the stabilization branch is in fact of trivial importance, as indeed it should be by almost anyone's appraisal. Allocating actual expenditure among the/<sup>other</sup>branches is a hair-splitting exercise at best, since the motives underlying many of the major functions are far from unequivocal. However, most of the more important functions can be ascribed to one or another of the branches on the basis of what appear to be the predominant motivations or effects. But in one case, the public schools, this is extraordinarily difficult, for while compulsory education

requirements and public organization to facilitate provision of schooling clearly amount to a "merit good" in the allocation branch, there is substantial income redistribution effectively generated by the school finance system. Therefore, in my own examination, I treat it as a separate mixed-goal branch.

In 1970-71, civilian public expenditure in the United States amounted to \$250 billion. A crude estimate (shown in Table 1) is that about \$134 billion of this was incurred in or for the 72 largest metropolitan areas, all with 1970 populations over 400,000, that included just over half the total population of the country. In my classification, just under half this urban public expenditure was in the allocation branch, one-sixth for the public schools and the remaining 36 percent for the distribution and stabilization branches. In total, the federal and state governments directly made \$70 billion of the \$134 billion in expenditure, with the remainder done by the local units. However, the federal and state governments financed two-thirds of the total, considering both direct expenditure and fiscal transfers to the local units.

Local government financing amounted to over half the expenditure for the public schools, 40 percent of the allocation branch expenditure and one-eighth of the distribution-stabilization branch expenditure. Looking at it another way, the schools

Table 1

ESTIMATED CIVILIAN PUBLIC EXPENDITURE IN AND FOR  
72 LARGEST SMSA'S IN 1970-71<sup>a</sup>

(In billions of dollars)

Level of Government	Purpose of Expenditure			All Purposes
	Economic Stabilization & Income Redistribution	Public Schools	Resource Allocation	
All Levels	48.7	23.1	62.0	133.8
Provided Directly by:				
Federal & State Govts.	37.5	0.3	32.3	70.1
Local Govts.	11.2	22.8	29.7	63.7
Financed by:				
Federal & State Govts.	42.5	10.4	37.3	90.2
Local Govts.	6.2	12.7	24.7	43.6

<sup>a</sup> Estimated by author, with control totals for entire U.S. and corresponding detail from U.S. Census Bureau releases.

absorbed close to 30 percent of locally raised funds, the allocation branch 57 percent and the distribution branch only 14 percent. At first blush, this does not seem an unreasonable outcome: local governments should have a minor role in income redistribution and a larger role in the provision of public and quasi-public goods for other reasons. However, these aggregative data conceal some significant departures from the prescriptions of what are now the conventional normative models of efficient systems of multi-level public finance. The departures fall largely into two major categories: those relating to the distribution branch and those relating to geographic externalities within the allocation branch, which are heavily a function of the very limited spatial extension that characterizes individual units of local government in urban areas in the United States.

Economists are not known for their ability to achieve consensus, but there is near-unanimity among writers on fiscal federalism that deliberate efforts to achieve income redistribution through the fiscal system should be the exclusive preserve of the central government in a federation.<sup>2</sup> There are at least three arguments for this proposition. First, sub-national efforts to achieve differentially large degrees of income redistribution must be of limited efficacy, since the losers from local income-redistributive taxes can and do move their labor and reproducible

capital, over time, to jurisdictions where their net fiscal residuals are more favorable. Thus, in the long run, differentially large redistribution must be limited to that which can be done on the basis of taxation of geographically immobile factors of production. Second, the locational shifts of the more mobile factors stimulated by this kind of fiscal effort must be presumed to be inefficient. Third, the debate on and resolution of the issue of the appropriate degree of income redistribution is one of the few truly central concerns of a democratic national political entity. To frustrate the national resolution by local deviations is to generate highly undesirable political instability of the most fundamental kind.

In the light of all this, local finance of more than 10 percent of distribution branch expenditure (and state government finance of another 15 percent, as well) is by no means a satisfactory outcome. Moreover, the local finance share is highly uneven; the local share of responsibility is far above the national average for the municipal and county governments that serve the larger central cities. For example, in 1970-71, the municipal governments of the 48 largest cities accounted for roughly one-fourth of the local tax revenue of all local governments in the 72 largest SMSA's, but they accounted for about 45 percent of the local-tax-financed redistributive outlays of those SMSA local governments. Thus, redistributive services absorbed nearly



25 percent of the tax revenue of these municipal governments, but only 15 percent of the tax revenue of all local governments in the 72 SMSA's.<sup>3</sup>

There is, as I have noted, a fair amount of quite conscious income redistribution involved in the system of public school finance, in addition to the more overtly redistributive poverty-linked activities in the health, welfare, public housing and similar fields. Were we insensitive to the redistributive aspects, we might elicit the "merit good" element of school services simply by compelling parents to send their children to schools at their own expense, with the only tax-financed costs the regulation of school standards and the enforcement of attendance. Instead, we finance 90 percent of elementary and secondary schooling from taxation that, on balance, is far less regressive than the distribution of public school children by income group. Indeed, the distributive goals of the school finance system are the basis for the current court challenges, on inequality grounds, to the system and of the related reform efforts by commissions, governors and legislatures. As with the explicit distribution branch, that component of school costs that is publicly incurred for redistributive purposes is most appropriately a charge against central government, not local government, taxation.

No doubt a considerable share of all the benefits from public school expenditure are both internal to the child and his parents and free from redistributive goals. Such, for example, is likely to be the case in a relatively homogeneous residential suburb. However, there is generally said to be a significant externality, in the form of the advantage in a democracy of having a well-educated voting populace. Since ours is a highly mobile population, this benefit is external both to the family and to the local jurisdiction in which the child is educated, and the attempt to finance such a benefit from local taxation should result in inefficient under-investment in education. To be sure, the quantitative magnitude of this benefit is unknown and probably unknowable, but it is a fair guess that the redistributive and "merit good" aspects of the schools in combination call for non-local tax financing of the schools to a much greater extent than is now the general rule, in particular a substantial expansion of the federal role, perhaps using education vouchers as the main redistributive instrument.

The "merit good" aspects of public school expenditure are one illustration of the geographic externalities that originate in the small size of local government jurisdictions. An ideal governmental structure for the provision of allocation branch services would be one in which the geographic extent of

the governmental unit providing each service corresponded to the area in which most of the benefits from that service were realized, adjusted to capture economies of scale to the greatest possible extent. Clearly the ideal is unrealizable, for it would yield an utterly unworkable collection of overlapping jurisdictions with monstrous information and transaction costs imposed on electors and officials alike. So, a second-best solution that depends heavily on the use of multi-purpose governmental units is inevitable. But it is clear that the multi-purpose units we do rely upon in urban areas are in general far too small to internalize the benefits generated by such regional activities as transportation, environmental protection and most public-sector housing, planning and developmental services, among others.

It is also clear that many of the multi-purpose units are too small to maximize scale economies. For example, only one-third of the population living within municipalities is in cities of 200,000 or more, often alleged to be the point at which the average cost curve reaches its minimum; the other two-thirds of the urban population lives in municipalities with a mean size of less than 5,000. All this does not suggest massive consolidation of local government. Rather, it suggests the selective transfer of functions that have large natural service areas or exhaust scale economies only at relatively large population sizes

to units that have regional rather than local spatial extension. This of course is increasingly being done, in many cases by the entry of state governments themselves into functional areas traditionally considered the province of local government, either as direct providers of service or as partial financiers of locally provided service. This is especially true of state governments in the most heavily urbanized states on both coasts in regard to public transportation and environmental protection. But a very large share of regional-benefit services continues to be provided and financed by local governments that cover very small geographic areas indeed.

In summary, an optimal multi-level system would seem to require that the federal and state governments finance a good deal more than two-thirds of urban public expenditure, the federal government in regard to the distribution branch (including most of the redistributive expenditure now financed from state-level taxation) and the state government in regard to region-wide allocation branch services. Each observer will specify this differently; in my own scheme, the locally financed share of urban public expenditure would be closer to one-sixth than to one-third (roughly, a 40 percent decline in requirements for local finance at the 1970-71 expenditure levels and mix), with some of the sharpest changes for the larger central cities.

Objectives for Local Finance

Even so, local governments would have a substantial job of revenue-raising, equivalent to at least 5 percent of gross urban product and probably significantly more than that in the most densely urbanized areas. The general criteria for local finance are easy to state: local revenue instruments should minimize the excess burden of taxation (indeed, where possible, maximize what might be called "excess benefits," by internalizing negative externalities from private decision-making), subject to the constraint of conforming with generally accepted notions of equity. If income redistribution is held to be a function of the central government, the constraint calls for a local finance system that need not be more than proportional in overall revenue incidence, but with a high degree of horizontal equity.

Local taxation can involve three types of excess burden, or dead-weight losses. First, there are the distortions of production and consumption decisions among types of investment, factor inputs, output mixes and consumer choices, distortions that are common to taxes regardless of the level of government at which imposed. Second, and also applicable to all levels of government, there are information and collection (transactions) costs, which are ordinarily a minor factor although seldom trivial. Third, there are the excess burdens unique to taxation

imposed at the sub-national level, distortions in locational decisions by producers and consumers. Such distortions should vary inversely with the geographic size of the taxing jurisdiction; they should also be much more serious among taxing jurisdictions that cover small portions of economically-integrated entities, like metropolitan areas, than in taxing jurisdictions that are economically free-standing and relatively remote from places that afford good substitute locations for producers and/or consumers.

Convincing empirical evidence on the excess burden of taxation is always hard to assemble, however clear it may be in models constructed with simplifying assumptions, mainly of the ceteris paribus type. Nonetheless, the scattered evidence supports the theoretical expectations that virtually all the major sources of local finance now in use in the United States do impose significant excess burdens. Let us examine the major sources, in ascending order of revenue importance, beginning with local nonproperty taxes which in 1970-71 accounted for 10 percent of locally-raised revenue for all local governments in the U.S., 12 percent for those in the 72 largest SMSA's, and 25 percent for the municipal governments of the 48 largest cities. By and large, local nonproperty taxes, mainly on income and sales, are imposed at very modest rates (indeed, in the aggregate they equal only about one-half of one percent of GNP), and therefore should not be expected to

cause discernible non-spatial economic distortions. For example, local consumption taxes that reach about one-third of consumer expenditure and amount to about one percent of that expenditure should not result in a significant shift to nontaxed forms of expenditure. One exception might be the widespread use of local utility gross receipts taxes, at rates of as much as 5 percent, but this expenditure (perhaps erroneously) has been generally thought price-inelastic, so the effect would be mainly an income effect and the excess burden therefore small.

However, one would expect even small local tax rate differentials to have discoverable location effects within metropolitan areas, where ceteris paribus assumptions tend to be valid. The possibility of shifting the taxable event -- the sale of goods and services or the receipt of income -- to another nearby location within the area is generally a very real one. This is especially true since the prime users of nonproperty taxes in metropolitan areas are the central cities, already suffering from decentralization of population and economic activity. The tax rate differentials thus reinforce rather than counter powerful nontax forces, in most cases. Naturally, the reasonably good empirical evidence is for situations in which the tax rate differentials are large ones. One such case

is Philadelphia's 3.3 percent tax on gross earnings in the city, which compares to tax rates that range from zero to 1.0 percent in surrounding jurisdictions. The tax on wage earners in practice is collected almost entirely by withholding; not surprisingly, there appears to be a good deal of tax-induced location of plants and shopping centers just outside the city line. Another case is New York City's sales tax. Back in 1964, the city tax rate was 4 percent and there was no sales tax in New Jersey or in the adjacent New York State counties. A careful econometric study estimated that the tax had diverted nearly one-fourth of retail sales of apparel and house furnishings to the adjacent sales-tax-free locations.<sup>4</sup>

In the aggregate, local governments in urban areas collect 25-30 percent of their locally raised revenue from charges, fees, taxes and other receipts related to the use of public services and facilities, broadly defined. In a true voluntary exchange situation with an economically determined price, there is of course no excess burden, by definition. However, the user charges imposed by American local governments cannot be so described. Marginal cost pricing is unknown; average costs are bizarrely calculated; cross-subsidization and monopoly profits are common. Thus, excess burden should be the rule, rather than



the exception, especially since collection costs do tend to be high. More often than not, the distortion takes the form of over-utilization of, and over-investment in, high-cost facilities and services, like excess consumption of water, central area street space and public recreational facilities. The locational effects are not clear-cut, but in a good many instances, the way in which user charges are applied appears to encourage household location in outlying and low-density sections of a city in preference to closer-in, higher-density sections.

By far the most important source of local finance remains the property tax, which in 1970-71 accounted for 57 percent of the locally raised revenue of all urban local governments and was close to 40 percent even for the municipal governments of the 48 largest cities. Now, it is possible to conceive of a property tax that entails a very minor excess burden and easily satisfies the equity constraint, at least in regard to vertical equity. Such a tax would be a uniform percentage of the value of all capital, uniform with respect to both types of capital and location of capital. If the supply of savings is price-inelastic, as it is conventionally held to be, this uniform tax would have only one significant first-order economic effect: it would lower the rate of return on capital generally. The second-order effects on production and consumption would depend upon

how great the differences in preference patterns between capitalists and non-capitalists are, but it would not be unreasonable to ignore such effects.

However, the property tax we have is very far indeed from this ideal and, indeed, it must be always so. First, it is hard to imagine a real-world property tax that actually covers all forms of capital, much less covering them uniformly, and any major exemptions convert the property tax into an excise tax, at least in part, with the excess burden associated with any type of excise taxation. One major exemption is that based on ownership: capital owned by public agencies and many non-profit organizations is not taxed. Another major exemption is that of most capital not held in the form of real estate. It may be alleged that the century-old trend toward removing most personal property from the tax base has been in error, but the administrative difficulties in discovering and valuing personalty afford arguments that must be persuasive to anyone concerned with the implementation of tax policy, not merely with theoretical purity.

Second, if the tax is to remain a major element in local finance, it is hard to see how it could be applied at a geographically uniform rate. Equalization of taxable resources may go very far, but differences in local tax rates will remain as long as local authorities are permitted to reflect differences in preferences for public goods, geographic and demographic

characteristics and everything else that makes decentralized decision-making efficient in the public sector, as in the private sector. Clearly, if the property tax is viewed by each taxpayer as the equivalent of the price for a package of public services, with alternative packages and prices readily available at substitute locations, that is, if the conditions for a Tiebout solution exist, then the tax will not be distorting.<sup>5</sup> But, as the extensive literature on this shows, those conditions are even more restricted than Tiebout himself allowed and simply do not exist, except in the rarest of cases. And, in any event, were the property tax to be used as the local tax in a Tiebout solution, it would have to be one confined to household property, thus violating the first uniformity condition, uniform application of the tax to all forms of capital.<sup>6</sup>

Thus, the real-world property tax is both rampantly non-uniform and anything but an element of a Tiebout-optimality solution. Since so much capital is not taxed at all, the tax rate on a very large fraction of the capital that is taxed is well-above the average effective rate calculated with the value of all capital as the denominator. Therefore, excise tax effects are at least as important as capital tax effects. Since the effective rate of property tax is by now non-trivial in most urban areas, the excise tax distortions cannot be trivial.

The distortions are both sectoral and spatial. The sectoral effects include increasing the land-intensity of site uses (since buildings generally bear high tax rates relative to land), deterrence to investment in types of structures that generally attract especially high tax rates, like office buildings, and negative impacts on all activities that are relatively real-property-intensive. Among the most important of such activities is housing. I have argued elsewhere that, except in those cases where the residential property tax-public service nexus is very close indeed, the residential property tax must discourage housing consumption in favor of non-housing consumption, since the excise tax effect of this tax on housing expenditure is far greater than the corresponding consumption taxes applied to nearly all forms of non-housing consumer expenditure.<sup>7</sup>

The spatial effects are like those of other local taxes where the rate differentials are large ones. There are aggravated effects for central cities, because the tax-public service nexus tends to be wholly invisible to central city taxpayers and because central cities generally have more rental housing than suburbs, so that fewer central city households can offset residential property taxes with income tax deductions.

This also bears on the ancient claim that the real-world property tax is objectionable on vertical equity grounds, a claim

now undergoing heavy revisionist attack.<sup>8</sup> It is possible to grant virtually all the points of the revisionists and still maintain that the residential component of the property tax is very regressive indeed, provided one recognizes the pattern of tax rate differentials in metropolitan areas, the associated geographic distribution of renters and owners at various income levels and the way in which assessments are actually done. Full explication of this argument, however, would require a paper all to itself.

#### Local Finance Solutions

It is not inconceivable that major tax reform efforts, of the kind widely advocated in recent years, in respect to both the conventional property tax and the income tax, together with the intergovernmental restructuring necessary to minimize non-Tiebout local tax rate differentials, could be successful in time. If so, they would reduce both the excess burden of the property tax and its real-world regressivity, perhaps to acceptable levels. In my view, this is not a near-term prospect, and even so, the conventional property tax would be far from an ideal instrument of local finance. Instead, I would advocate focussing on two types of local finance instruments whose inherent attractions are overwhelming: if applied, they would in fact be ideal instruments of local finance. The first, and less

important, is the perfection of certain types of user charges. The second -- and at last the main point has been reached -- is land value taxation.

Excess benefit taxation. Imagine a public service produced under conditions of steeply rising marginal social costs. Imagine, too, that a good part of these marginal social costs are not perceived by individual consumers as costs to them individually, occasioned by specific private economic decisions, but instead are negative externalities: the costs that each consumer's individual decision imposes on all other consumers. Then, clearly, a user charge set on the basis of marginal social costs would have some combination of the following effects: it would produce substantial revenue in excess of governmental resource costs (since the price, set equal to marginal social cost, would be far above average governmental cost) and it would reduce the quantity of the service demanded, and thus reduce negative externalities. The precise combination of public profits and reduced negative externalities would of course depend upon the price elasticities. In such a situation, the user charge could be described properly as an excess benefit tax, since the net social gain from the charge (or tax) would exceed the revenue collected.

The situation described above is by no means imaginary. It exists in the real urban world, in two distinct, but related, respects: congested urban transportation facilities and air and water pollution. In the first case, the aptness of the description should be obvious: each additional peak-hour user of congested streets and roads imposes costs in delay and discomfort on all other users; road traffic charges specific to the location and time of road use, of the type discussed at some length in the transport economics literature, would be far above average public agency costs, if set at marginal social cost, and should do precisely what has been outlined above.<sup>9</sup> Pollution charges could work the same way, but one must alter the language a bit: the "service" being provided is clean air or water, or rather the assimilative capacity of the ambient air and bodies of water; each polluter consumes some of this capacity, his consumption damaging all others combined more than it does him individually. Again, the environmental literature contains an increasing amount of informed discussion of both the advantages of sensible pollution charges and mechanisms for applying them.<sup>10</sup>

There is only a limited range of urban public sector activities in which user charges that are capable of yielding both substantial net revenue and significant excess benefits can be applied; that range includes some recreation services, but

conceivably not much else, aside from transportation and environmental protection. However limited these opportunities, their attractions are striking. Moreover, there is a much wider range of opportunity for application of sensible user charges, which may do no more than cover the public sector resource costs of the service and yield neither excess benefit nor excess burden. But even these more modest achievements are far better than what is generally done by the prevailing local finance system, including the prevailing user charges. Among the more obvious candidates for sensible public pricing are fire protection services, water supply and higher education. In each case, it is possible to substitute pricing regimes that are more or less neutral for inefficient taxes of general application.

Land value taxation. It should be entirely unnecessary to review the arguments for land value taxation at length. Like any tax that is confined to economic rents, land value taxation has only income effects and no substitution effects. Therefore, it imposes no excess burden: optimal decisions on land uses before the tax remain optimal decisions after the tax.

Also, land value taxation satisfies the vertical equity criterion; indeed, it must be reasonably progressive in incidence. There is a horizontal equity problem, but it is not the



one often alleged, that is, differential treatment of wealth held in different forms. The appropriate standard of comparison for appraising horizontal equity in this case is how economic rents are treated, not how wealth is treated, for the philosophic rationale of the tax is that the tax base has been generated by public and community action, not by individual endeavor. The only horizontal equity defect, therefore, is the failure to tax other types of rent.

Our economy does generate rents and quasi-rents in many forms aside from land rents. However, few if any of them can be identified and quantified in the precise way that is essential for actual taxation, and in any case such identification would be virtually impossible (as well as unreasonable) on the local government level. Local governments can and do tax land rents; moreover, the rents generated by the actions of local governments usually do show up in land values (occasionally, reduced land values or negative rents), since local government action is location-specific, unlike most other things that give rise to economic rents.

In the course of the renewed discussion of land value taxation in recent years, skeptics have advanced two other arguments for hesitation about enlisting in the cause. One is the claim that the revenue potential from land value taxation is too

inadequate to permit it to be a major element in local finance, even were the tax rate set so high that the tax absorbed 100 percent of the rent on land. This argument, which I for one accepted some years ago, was founded on the estimates of land values used in Raymond Goldsmith's national wealth calculations.<sup>11</sup> More recent evidence, especially that assembled by Allen Manvel for the Douglas Commission in 1968, suggests that the Goldsmith estimates were gross understatements. Manvel's evidence indicates that land comprises close to 40 percent of the total value of taxable real property in the country as a whole.<sup>12</sup> This suggests that the existing property tax could be replaced by a land value tax with rates averaging less than 6 percent, which surely must be well below the average before-tax rate of return on land, in the light of the rate of appreciation in urban (and rural too) land values in recent years.

Moreover, in my ideal system of multi-level finance, the total revenue required from all forms of local finance, including user charges, would be no higher than the present yield of the property tax. My ideal system of user charges would be more productive of revenue than the present one, so that the net requirement from land value taxation would be well below the present yield of the property. I conclude that the revenue inadequacy argument will not hold water in the aggregate, and

probably will not do so in most large urban areas as well.

A second argument is of quite a different character. It starts off by granting that the present property tax discourages investment in buildings, fosters speculative withholding of sites and generally promotes low-density urban development. But its proponents go on to say that, in view of environmental concerns, a slower rate of urban development, low densities and idle land is good, not bad. However, to use this as an argument for the property tax as it stands and against land value taxation is to assume that we have no other policy instruments available to control and shape urban development, or that the existing property tax is the superior policy instrument to this end. Either assumption seems patently absurd. In this country and in others, a whole battery of land-use shaping instruments have been deployed in the past fifty years, including zoning and subdivision controls, open space acquisition and easements, betterment charges and the like. All have the virtue, which the existing property tax with its over-taxation of buildings and under-taxation of land does not, of selectivity. That is, they prescribe those sites that should be preserved in their natural state or acquired for public use and they specify hierarchies of densities and land uses. They do not simply encourage under-utilization of land, period. Indeed, it can be and has

been argued that land value taxation would be a great ecological boon, by encouraging users to economize on land and to develop it continuously, not erratically.

One of the more dismal characteristics of the very recent past is the emergence of bad ideas whose time seems to have come, from the re-imposition of the death penalty and other medieval punishments to the use of direct controls on prices in a peacetime economy. Land value taxation really is a good idea, and its time may be at hand, at last.<sup>13</sup>

## Footnotes

1. See Richard A. Musgrave, The Theory of Public Finance (New York: McGraw-Hill, 1959), Ch. 1.
2. Musgrave argues this persuasively; a rather different approach ending up with a similar conclusion can be found in James Buchanan's classic article, "Federalism and Fiscal Equity," American Economic Review, Vol. 40 (September 1950), pp. 583-599.
3. These data are calculated from Census Bureau releases, using the same classification of expenditure as that shown in Table 1.
4. Henry M. Levin, "An Analysis of the Economic Effects of the New York City Sales Tax," in Financing Government in New York City (New York: New York University Graduate School of Public Administration, 1966), pp. 635-692.
5. See Charles M. Tiebout, "A Pure Theory of Local Expenditure," Journal of Political Economy, Vol. 64 (October 1956), pp. 416-424. In the Tiebout model, local jurisdictions within a metropolitan area compete for residents by offering alternative combinations of public services and local tax rates. The Tiebout model involved a number of simplifying assumptions which seldom hold in the real world of local finance. Thus, the pattern of tax rates and public service levels and the residential migration patterns the model would predict are hard to discover in American metropolitan areas, although a fair number of doctoral dissertations and journal articles have been written in recent years about the empirical validity of the Tiebout model. However, if the necessary assumptions did hold, the model would be a "solution" in that, by enabling individual preferences for public goods to be revealed, it permits outcomes that approach Pareto-efficiency.
6. In the Tiebout model, all taxes must fall directly on households; the ideal such tax might be a proportional income tax.
7. See the following: Economics of the Property Tax (Brookings, 1966), pp. 74-85; "Housing Taxation and Housing Policy," in Adela Adam Nevitt (editor), The Economic Problems of Housing (New York: St. Martin's Press, 1967), pp. 123-136, especially p. 133; and

footnotes continued . . .

"Federal, State and Local Finance in a Metropolitan Context," in Perloff and Wingo (editors), Issues in Urban Economics (Baltimore: The Johns Hopkins Press, 1968), p. 446.

8. See, for example, Peter Mieszkowski, "The Property Tax: An Excise Tax or a Profits Tax?" Journal of Public Economics, Vol. 1 (April 1972), pp. 72-96 and George E. Peterson, "The Regressivity of the Residential Property Tax," Urban Institute Working Paper S1207-10, October 1972.
9. A classic article is A.A. Walters, "The Theory and Measurement of Private and Social Cost of Highway Congestion," Econometrica, Vol. 29 (1961), pp. 676-699, reprinted in Denys Munby (editor), Transport (Penguin Modern Economics Readings, 1968).
10. A concise hard-headed discussion of environmental policy can be found in Charles L. Schultze, Edward R. Fried, Alice M. Rivlin and Nancy H. Teeters, Setting National Priorities: The 1973 Budget (Brookings, 1972), Chapter 11, pp. 367-393.
11. See my Economics of the Property Tax, pp. 210-212.
12. Allen D. Manvel, "Trends in the Value of Real Estate and Land, 1956 to 1966," in National Commission on Urban Problems, Three Land Research Studies (Research Report No. 12, 1968).
13. One indication of this is the increased official willingness to examine empirically the probable effects of land value taxation in specific communities, a necessary step if voters are ever to be persuaded that this strange type of taxation is a superior instrument. Such empirical studies have been done or are under way in cities in Connecticut, New York, New Jersey and Wisconsin, among other places.