ARGUMENTS FOR CHANGING THE REAL ESTATE TAX TO A LAND VALUE TAX

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All taxes and changes in taxes may be evaluated in terms of economic, equity, and public finance criteria. Any change in the real estate tax, such as the untaxing of buildings and the heavier taxation of land, must be judged by these criteria. Recently "discovered" is the ecological standard which is of unique importance in the taxing of land and buildings. It considers the effect of the tax change on the physical environment of communities on account of shifts in land use and their influence on the quality of the environment. All four standards are interrelated and perhaps most dependent upon the economic effects that will be generated.

In keeping with the present assignment, questions of (the feasibility of land) assessment as well as the personal property tax are avoided entirely. I do, however, assume that the same amount of revenues will be raised in shifting the real estate tax to a land value tax. In some instances, I assume that even more revenue will be raised by increasing the tax on land values. Moreover, in order to avoid any entanglements with straw men I further assume that such a tax shift would be made voluntarily in a community by its exercise of local option under state enabling legislation and a friendly state constitution.

The arguments for changing the real estate tax to a land value tax are many and complex and little more can be achieved here within the necessary space limitation imposed than to present a bare sketch of some of these arguments. Explanations for most of the arguments will be unavoidably short and incomplete. No proofs are attempted to support many arguments. For this the writer begs the reader's indulgence. Other writings by the author as well as those by Gaffney, Harriss, Heilbrun, Netzer, and others, must be consulted for a fuller and more adequate treatment of the points raised.

ECONOMIC ARGUMENTS

The supply of building facilities will increase. It is generally agreed that placing the present real estate tax on land alone will stimulate the investment of more funds in buildings. More buildings will be built and they will be built to include a larger number of usable units whether they be dwelling units, offices, stores, or other facilities. The total supply of housing, manufacturing, and mercantile building facilities will increase although each category of facilities will not necessarily be increased uniformly.

The quality of building facilities will increase. Under a system of land value taxation, a considerable share of the investment in improvements will be expended on a higher quality of building facilities which will be found profitable for income-producing property or financially feasible for homeowners and renters. More spacious homes, offices, stores, and factories will be constructed to better satisfy producers and consumers. Buildings will be graced with better designs, and a higher quality of building materials and superior construction skills and methods will be incorporated into buildings.

The rehabilitation and remodeling of buildings will increase. The removal of the tax on building values will encourage the rehabilitation and remodeling of buildings which have deteriorated and become obsolete. Remodeling, in some instances, may involve the conversion of buildings to a (higher) use for which there is a greater demand. However, the real estate tax on improvements encourages the decay and obsolescence of building facilities.

Urban redevelopment will be accelerated. The reduction of slum and blight with land value taxation will be most dramatic in the clearance of structures that are no longer economically functional. This will come about primarily in two ways. The net revenues of the existing land use will decline with the higher tax on land while the potential net revenues of a new structure will be enhanced because it will not be burdened with taxes regardless of how valuable the structure may be. Of course, such redevelopment can only be expected where locational advantages indicate a strong market for the potential level of land use.

The allocation of resources will be more efficient. The real estate tax on improvements adds to their costs and dampens almost every decision on the amount of capital invested in improvements. With the land value tax, however, the unburdening of improvements will increase the capacity of a site to absorb profitably additional quantities of capital investment. This increased capacity to utilize greater quantities of investment in improvements will draw capital for building from other areas of investment. An important advantage arising out of this increased capacity of land to absorb capital improvements profitably is that it also offers greater opportunities to achieve economies of scale in the use of land.

The replacement of the real estate tax by the land value tax will also cause a substitution of capital for land, and thereby cause land to be used more efficiently. If land taxes are larger than present real estate tax yields, the price of land will fall and the transfer of land ownership to the most intensive user and with the highest time preference will be facilitated.

Private enterprise will be stimulated rather than government action. The inadequacy of private housing and urban renewal through natural land use succession under the real estate tax has brought forth a vast array of governmental programs concerned with the provision of public housing, community facilities, and urban renewal. These programs are massively complex, fraught with delays and inequities, and are not able to cope with the rate of physical decay and lack of adequate housing in urban areas. They also are self-defeating in that they become capitalized into land values, thus further obstructing redevelopment.

Land value taxation, however, can harness the private initiative of present and aspiring property owners in the struggle to maintain and rebuild our physical environment. It is preventive medicine which can revitalize private enterprise and enable it to play a more successful role in this area and thereby diminish the need for government intervention and the magnitude of its role in achieving national goals.

Employment opportunities and/or wages will increase. The rise in building investment with land value taxation will naturally provide an increase in employment opportunities in the building trades, the building materials industry, and allied professions such as real estate, law, architecture, finance, and engineering. Moreover, the various firms utilizing the new and expanded facilities will provide additional job opportunities down to clerking and cleaning. The wide spectrum of new jobs ranging from the most highly professional to the least skilled will provide immediate benefits to the newly educated and trained as well as many presently unemployed.

The increased demand for labor can lead not only to more employment but will also provide the opportunity for labor to earn higher wages. The labor market has many imperfections and this may well result in higher wages and a smaller increase in employment than would be possible under a more competitive labor market. Nevertheless, whether more employment or higher wages may be favored the most, the share of labor in the gross national product will rise.

The costs of building facilities and the prices and rentals for their derivative products and services will decrease. Increases in the supply of housing and office units will force down their rents and sales prices. Similarly, increases in the supply of storage, wholesale, retail, and manufacturing space will reduce their rentals. Businesses using such space will gain generally by enjoying lower costs per unit of space although total costs of space may not change. The greater productivity of goods and services rendered by these various firms will force down the prices of their products.

An increase in land value taxes provides automatic and permanent financing of land acquisition to new developers. Any increase in land value taxes will not increase total land costs to new developers. Total land costs remain constant regardless of the amount of the tax. This phenomenon derives from the fact that higher land taxes are capitalized into lower land prices. It will become more apparent with an increase in land value taxes levied after the shift from the real estate tax has been made. (The effect is camouflaged during the transition to land value taxation because the removal of the tax on improvements will tend to increase the value of land.)

The cost of land consists of two components: the (imputed or actual) interest on the market (purchase) price and taxes on the latter. An increase in the tax on land, after land value taxation is established, will "merely" reduce interest, with no change in total costs. However, in reality, this is no "mere" matter since credit is not equally available to all potential developers. In fact, the matching of potential developers with land is improved as the land value tax is increased. In any event, the equivalent of an automatic grant of credit is highly desirable from both the developers' viewpoint as well as that of the financial system, which will be freed from unnecessary demands and use its resources for other more productive purposes.

Purely speculative land holding will decrease and competition in land development will increase. Present owners of land (vacant or poorly developed) for purely speculative purposes will find their holding costs rise with the shift to land value taxation. This liquidity effect will discourage their continued speculation in land. Speculators already holding land will be encouraged to put their land to whatever use the market will permit or sell to other developers who will do so.

Speculation by new owners will still occur, as someone must hold land that is in transition from one use to another. Holding costs will not increase for new speculators since higher land taxes will be fully offset with lower interest costs (because of the lower purchase price of land). However, the possibility remains that higher actual taxes on land which carry a legal liability may be weighed more heavily than lower imputed interest (since most land is purchased out of savings) which is free from any legal liability even if the dollar amounts involved are equal. If this surmise is correct, the change in composition of holding costs for new land speculators may also dampen some enthusiasm for speculation.

Speculators including those with "shoestring" finances will not find so many opportunities for windfall financial gains which have attended the rapid horizontal development of urban areas. The arena of land speculation will tighten and its focus will shift to the central cities and places of special locational advantage. This will involve more often land with existing urban uses and whose initial investment per acre or square foot will be higher and the possibilities of financial gain via redevelopment more complex and subtle, all of which will have a screening effect on would-be speculators.

Equity

The supply of land is a gift of God. Undoubtedly the oldest and one of the most persuasive of equity arguments for land value taxation is that the supply of land itself is not manmade but a gift of God. The point is not essentially weakened even though improvements *in* the land are often necessary before improvements *on* the land, such as buildings, can be constructed. The essential attribute of land is the three-dimensional space that it provides the user, a commodity which to this day has eluded the inventive genius of man.

Inasmuch as the supply of space is not produced by man, that is, its existence depends neither upon man's efforts nor upon granting him a reward, it is entirely appropriate that the return to land as a factor of production be drawn upon as a source of public revenues instead of private income. Since the economic rent of land is the only surplus income not attributable to man's effort it seems most qualified to finance the common needs of the public or "social wants" as they are often called today.

The value of land is not determined by the owner. Whereas, under competitive conditions, the market value of a product bears a fairly close relationship to its cost, that is not the case with land. Instead the value of land springs from its natural characteristics, local public improvements, and external advantages arising out of the presence of the private sector. Once land is brought into use, the original cost of improvements in the land bears a steadily less meaningful relationship to its value as time goes by. Since the attributes which endow land with its value are natural or social in origin this value is an especially appropriate source of public revenues.

The untaxing of improvements removes a heavy tax on the fruit of man's labor. The elimination of the tax on improvements in land value taxation will do away with what has long been regarded by many as the unfairest of all taxes. The tax on improvements penalizes and discourages initiative and enterprise. This practice has aptly been described as "harnessing the profit motive backwards." Nothing can be more demoralizing to a worker than to see his invested savings in buildings assaulted with property taxes up to as much as one-third of its annual earnings in addition to federal income taxes, and sometimes state income taxes as well.

Taxing land values stresses the taxation of unearned income compared with earned income. An important principle of equity in taxation is that unearned income be taxed more heavily than earned income. The preceding three points show how this principle can be implemented ideally by means of land value taxation. The income (economic rent) of land arises out of the bounty of God along with public and social value attributes generated by government (primarily local), organizational activities (business and other), and individuals other than the owners of a particular parcel of land.

Income from unearned land value is unearned income and as such is suitable for heavy taxation. However, improvements which are the product of labor constitute earned capital. Income from earned capital constitutes earned income and ought not to be taxed as heavily as land income, as it is under the uniform real estate tax.

It has been customary to regard all property income as unearned. This practice fails to recognize the differing origins of land and capital and the economic necessity of earnings only for drawing forth the latter. It has also been popular to disregard unearned income if received by persons with low earned income. However, a low earned income does not make unearned income any less unearned. The reasons for taxing land and improvements differentially in terms of what is earned or unearned are many and persuasive. The public stake and moral claim on unearned income and value of land should not be ignored or recognized only nominally for tax purposes.

The tax on real estate will be shifted to surplus value and removed from social costs. A shift to land value taxation will not increase the overall tax on real estate, but merely collect it in a way based on a long established principle of fair taxation. Tax philosophers have long considered it folly, or impossible, to tax social costs and have recommended that wise tax policy be restricted to taxes on social surplus, the best example of which is the economic rent of land. A tax on land values cannot be shifted from the owner and consequently will remain on social surplus, the economic rent of land. However, a tax on improvements constitutes the taxing of social costs, with the result that the tax will be shifted in the form of higher rents to tenants using building facilities.

The untaxing of improvements will generally offset higher taxes on land values. Under land value taxation all landowners will receive the benefit of having their improvements exempted from taxation. Because of this, many landowners will experience little or no change in tax burdens by shifting from the real estate tax to the land value tax. The change in tax burden can be determined readily by each property owner by comparing his improvements to land value ratio with the ratio for the local government in general. Thus, if a locality has a 2.5 to 1 ratio of improvements value to land value, those landowners with similar ratios for their own real estate will have a land value tax no different from what their real estate tax would have been. Those landowners with a higher ratio of improvements to land will enjoy a reduction in taxes while those with a lower ratio would pay more.

Only a relatively small percentage of landowners will experience a large tax rise. They will be owners of land that is vacant or in a relatively low use compared with the potential use value as determined by the market (value). These landowners with higher taxes to pay receive in return (under land value taxation) the assurance that their taxes will not rise if they develop their land with a suitable improvement. This assurance will even allow them to sell at a higher price if they cannot, or do not wish to, develop their land themselves.

Land values will rise in general. The untaxing of improvements and the fixed cost characteristic of the land value tax will increase the capacity of land to absorb investments in improvements profitably and raise present and/or future land income so that the value of most land will rise. This has been the experience of major cities in Australia and New Zealand where land value taxation is practiced.

Of the small percentage of owners who will experience a substantial fall in land value, an even smaller percentage of owners will have the value of their land fall below their investment costs including a fair rate of return. Land values have risen so much in recent years that most landowners have a considerable cushion to absorb a possible drop in land values. In terms of original land costs alone, very few investors, indeed, will find their land values reduced by more than the amount that they have appreciated since acquisition.

It can facilitate financially the transfer of land to the developer most interested in putting it to its highest use. If land value taxes are raised above present real estate tax yields this new and added tax will be capitalized into lower land prices. While the cost of holding land will not change for new owners, higher taxes will be substituted for interest. As stated on pages 17-18, lower land prices are the equivalent of a permanent loan provided automatically to any buyer of land. This will increase the number of land developers and greatly widen the market for homes and other real estate as many more customers will be able to buy land that previously was priced beyond their reach.

No doubt the land value tax will favor those persons who have been unable to save quite as much or who have a greater difficulty in qualifying for loans—but nevertheless may have a stronger desire to put land to a higher use than the present and perhaps other potential owners. Conversely the real estate tax relatively favors the wealthier whose accumulated savings are the most or whose credit standing is the stronger. It can be stated fairly that the power of relatively poorer persons to compete in the bid for land development will be significantly strengthened. While the wealthier would gain from the land value tax compared with the real estate tax, the gain would be even greater for poorer persons.

It will promote greater equality in the distribution of income and wealth. Equality in the distribution of income and wealth will be promoted both directly and indirectly by land value taxation. It appears that the ratio of improvements value to land value per dwelling unit is lower for high-income families than for low-income families. If extensive investigation finds this to be generally the case, a shift to land value taxation from the real estate tax will lower taxes for low-income families and raise them for high-income families. At the very least, the land value tax will be less regressive. There are even some indications that it might be progressive.

Yet it is in a broader context and by indirect means that land value taxation will accomplish far more in promoting equality in the distribution of income and wealth. These means by which persons of low income and wealth will benefit greatly, and no less than persons of high income and wealth, are mentioned throughout this paper.

It will increase employment, lessen poverty, and fight inflation, etc. As more jobs are created, poverty and welfare needs will diminish. As more goods are produced price increases will be curbed. It is important to emphasize the equity that flows from the benefits of work, economic abundance, and the amelioration of hardships. By providing these benefits in greater measure than is possible under the real estate tax, the land value tax combines an increase in profitable investment opportunities with easier land acquisition opportunities for a wider number of businesses and persons. Superior circumstances for the harnessing of these incentives are provided so that individuals can achieve for themselves and their families a more satisfactory place in society, economically and socially.

Public Revenues and Expenditures

The aggregate land value base will increase immediately. If no more revenue is raised from a land value tax than from a real estate tax, the size of the land value base will experience an immediate increase. This reflexive jump in land values will come about because of the sudden change in investment and earnings potential of land. Expectations of realizing these benefits will cause the market value of land to be bid up. These expectations derive from the untaxing of improvements and the fixed cost nature of the land tax. The higher holding cost of some owners will produce a temporary effect of increasing the supply of available land for development. If the land tax yield were increased beyond current real estate tax levels this would have the effect of permanently increasing the demand for land for development and redevelopment.

It should be noted that the increase in the land value base would hold true for a central city or a satellite city, in a metropolitan area, with relative locational advantages. If the land value tax were established throughout a metropolitan area an increase might not occur in a satellite city with locational disadvantages unless it is generally expected that past population growth in the city will continue.

The land value base will continue to rise as increased economic development occurs. After land value taxation is instituted the greater volume and rate of development, redevelopment, and rehabilitation will cause a steady increase in the value of land. The greater amount of economic activity, the production of new and more efficient linkages, the replacement of slums, the rehabilitation of blight, the general upgrading of the physical environment, the more efficient use of land, the increase of positive amenities, all these constitute but a few of the reasons why the value of land will rise and provide an expanding tax base for possible additional local revenues.

The financial independence of local communities will be restored. Local communities, unaware of the large potential revenue source available to them, have turned increasingly to their state and the federal government with hat in hand. In exchange for assistance, local autonomy and freedom of choice and action have suffered seriously as the federal and state bureaucracies have grown along with red tape and delays.

Land values constitute a rich revenue source, literally under the feet of local governments, waiting to be tapped. Its potential can reduce the dependence of local governments on state and federal governments. The movement toward centralized government can be slowed with the regeneration of local self-reliance.

It will produce pressures to correct the undervaluation of land and raise the assessment for a higher assessment ratio. The relatively low real estate tax rates place little pressure on governing officials of localities to increase assessment ratios. However, under land value taxation the narrower tax base will require unconventionally higher rates unless steps are taken to (a) correct the undervaluation of land, and (b) increase the assessment of land to approximately full value. Even if these two objectives are achieved in determining the land value tax base, the rate that will be necessary to raise the same yield as the real estate tax may still be high enough to require a considerable adjustment for some taxpayers.

Fortunately there is a great deal of room available for improvement in valuing and assessing land at full values. The Census Bureau and Commission on Urban Affairs both reveal a typical undervaluation of land compared with improvements and also the undervaluation of "outer" urban land compared with "central" urban land. The assessment of land also is but a fraction of its full value. Since a shift to land value taxation would require an increase of present real estate tax rates of 2 to 3 times *without* any increase in assessed values of land, this increase in rates can be minimized by assessing land at full value. The reader need only be reminded here that assessment at full value has been a vital as well as elusive goal of the real estate tax. It would appear that this goal may be more nearly achievable under the land value tax because of the added incentive to minimize tax rates.

The income tax yield will increase by reducing allowable depreciation to true levels. In order to minimize his income tax liability a taxpayer will use all possible means to maximize his allowable depreciation for real estate improvements on income-producing property. His best evidence for allowable depreciation is the value of improvements as derived from his assessed value. Undoubtedly, the income taxpayer prefers to see most of his real estate's value allocated to improvements rather than land. It would be surprising if taxpayers did not make this preference known to officials in almost every locality throughout the land, and equally surprising if some of these officials did not respond by complying with these requests.

It should be apparent that land value taxation will create counterpressures to the above-mentioned depreciation practices which favor those income taxpayers with the greatest local influence. The income taxpayer's vested interest in wanting the overassessment of improvements and underassessment of land favors a system of unprofessional assessors and the election to office of malleable local officials. However, with land value taxation, it will be important to everyone concerned with the financial well-being of the local government to have land assessed at full value, or as close to it as it is reasonably possible to achieve. Local officials as well as taxpayers (land value) will want to minimize the land value tax rate and this will occur only if land is assessed at full value. In the face of this pressure, the influence of income taxpayers will wane.

It will tax capital gains which escape the income tax because of the underassessment of land. With the underassessment of land, the real estate tax aids and abets the avoidance of a business's full and proper income tax obligations not only by overstating allowable depreciation but also by causing greater capital gains on land than if it were equally assessed compared with improvements. Thus, income that should have been taxed at regular rates is converted to capital gains which in turn are taxed at only one-half of regular income tax rates when realized. Moreover, the deferment of the tax by converting taxable income to capital gains results in the additional loss of interest on the amount of the deferred tax that the government might earn or save during the period of deferment.

Capital gains in land arising out of the underassessment of land are enjoyed not only by the business deducting excessive depreciation but also by land without improvements that is held for speculation. Underassessment of vacant land in the newer and growing sections of an urban area provides the holders of such land with substantial, and often windfall, appreciation in the value of their land, in good measure because of low land taxes. The land value tax would make up for the underassessment of land to a considerable degree and will hold down the amount of capital gains arising therefrom.

It will tax income sheltered from federal and state income taxes by real estate (including farm) operating losses. A professional or salaried person with a high income can reduce his taxable income by deducting any losses he may have in operating a real-estate-using business such as an apartment building or farm. He is encouraged to have such a business because he can include as legitimate costs such items as depreciation allowances (multiple-life and accelerated) far in excess of actual depreciation and certain consumer expenditures (as with hobby farms, allocation of service and supplies) only remotely connected with operating the enterprise on a profitable basis.

These real estate operating losses can save the owner from paying a considerably higher income tax. This saving tends to be capitalized into higher land values of those properties most sought after as tax shelters. As a consequence land values have increased enormously, which indicates how inadequately land is taxed as well as its capacity as a tax base.

It taxes unearned income which is not and cannot be reached as well under federal and state income taxes. See discussion on pages 19-20.

It will allow a reduction in public expenditures. The real estate tax along with the automobile must share the major responsibility for the rapid horizontal development of urban areas in the twentieth century. Transportation and other distributive facilities such as water and sewer mains are either publicly owned or heavily subsidized. Other new community facilities including schools and municipal service buildings have had to be built in new suburban communities. Central cities living in the wake of this horizontal development have required public expenditures from all levels of government also in attempting to solve their problems with a variety of programs including public housing, urban renewal, expanded welfare, and unemployment compensation. The real estate tax is prejudiced against and punitive against vertical development in urban areas. Vertical distributive facilities such as stairways, elevators, escalators, water and sewer pipes which run between floors of buildings not only must be privately owned and financed, but are even taxed.

The land value tax would remove the tax on vertical distributive facilities so as to establish a tax neutrality, at least, with respect to vertical development. Much greater vertical expansion of urban areas would occur and accordingly less horizontal expansion. Private expenditures for vertical distributive facilities will be substituted in place of public expenditures on horizontal distributive facilities. Moreover, with the vertical development of central cities with private funds and initiative, the need for public financing of housing, urban renewal, and other programs can be reduced.

It can redress the fiscal disparity between a central city and its suburbs. At present, income earned on property in the central city as well as managerial, professional, and highly skilled salaries and wages are carried out to the suburbs to increase their fiscal strength usually in terms of a relatively large real estate tax base. The ensuing lower real estate tax rate in the suburbs is in turn an attraction for the relocation of commercial and industrial firms in new building facilities which still further strengthen the real estate tax base of suburbs.

Land value taxation, however, will promote the development and redevelopment of central cities, provide more housing for the affluent as well as the poor, and stimulate more commercial and industrial construction in the central city. As the flight from the central city is not found to be "necessary" by as many persons and firms, the growth of suburbs will decelerate.

Since the central city possesses most of the land with high surplus value because of its locational advantages, and since the surplus value of land can be increased by untaxing improvements, a central city would be well advised to maximize the surplus value of its land in this manner. The surplus value of central city land is caused by the total population of the entire urban area and its demand for goods and services. The central city has possession of this metropolitan treasure of surplus land value and can tap it once it decides to do so.

The general proposition here is that a locality shifting to land value taxation can create for itself a relative advantage in developing its economic base and land values compared with adjacent localities still utilizing the uniform real estate tax. The setting into motion of this set of economic and fiscal forces would seem to be justified almost exclusively by a central city.

Land Use Patterns, Environmental Quality, etc.

A more orderly development of urban land from rural land will be promoted. The horizontal development of urban areas has a history of haphazardness. Urban sprawl is a term of opprobrium describing the checkerboard characteristic of urban land development on the outskirts of our cities. This kind of urban growth is generally recognized for its costliness and inefficiency in providing and operating distributive facilities, in minimizing the costs of friction, and in promoting more efficient linkages.

The real estate tax encourages urban sprawl in many ways. Among them are the failure to replace depreciated and obsolete structures in older parts of urban areas, the failure to put vacant urban land to use, the failure to put valuable land to more intensive use, and the holding of urban fringe land for speculative gain.

If land value taxation were adopted in an urban area, particularly in the central city, the horizontal development of the urban area would be more orderly. There would be less sprawl and the development of more compact and efficient urban areas would occur. The planning and provision of public improvements (sewers, schools, and streets) and open space will be more deliberate and not panicky which leads to the construction of inefficient community facilities and miscalculations as to their suitability, adequacy, and time of production. With the land value tax, public actions will have a better opportunity to lead and shape new urban development, whereas under the real estate tax they are called upon and expected to do a good job under extremely adverse conditions and only a bad job can be done at best.

Pressures on agricultural land surrounding urban areas will lessen. The rapid horizontal development of urban areas since World War II has placed enormous economic pressures on prime agricultural land surrounding our cities. The demand by city dwellers for rural land for urban uses and tax shelters rather than to be operated as productive farms has driven up greatly the market value of such land and real estate taxes have increased accordingly. By selling his land, the farmer can often realize a windfall gain. However, as we have seen above, much horizontal urban development is unnecessary and a large portion of it is disorganized and extends excessively far into rural areas.

Land value taxation in a central city is able to reduce these unnecessary and avoidable pressures on much urban fringe agricultural land. It will protect many efficient commercial farmers from giving up their highly productive enterprises. At the same time it will maintain unimpaired the supply of truck garden produce for the urban population, keep down produce transportation costs, and will keep the price of food from rising as rapidly as it has.

It is appropriate to mention here that the disturbance to agriculture caused by rising land values and taxes has led to the questionable practice of assessing farm fringe land on "use value" rather than market value. This can give rise to grave inequities and does not really get at the cause of the problem, which is the excessive demand for farmland for urban use and the speculative holding of farmland that should have priority in urban land development. As a matter of fact, the latter cause of disorderly urban development is aggravated with real estate taxes based on "use value" rather than market value.

By "preferential assessment" of "farmland" surrounding urban areas the cost of holding land for speculative gain is reduced and the market price of land rises even more sharply. Windfall gains are greater and speculation and the amount of land in speculation increase, and it should not be surprising that all speculators immediately become "farmers" to qualify for the preferential assessment which often can reduce their taxes to only one-tenth of what they would otherwise be. Urban fringe land can be held out of urban use much longer and the domain of urban sprawl is vastly enlarged. Land value taxation would produce just the opposite effect.

The amount of valuable land that is held idle will fall. With the untaxing of improvements the opportunities to put land to a profitable use will expand greatly. It is, therefore, less likely that valuable vacant land will remain unused for long. Moreover, owners of vacant or poorly used land at the time of transition to land value taxation will make every possible effort to meet the increased tax burden on their land by putting it to a more productive use, at least high enough to cover the new taxes as well as other costs entailed in the higher land use. While a new owner will not have higher land costs (because his higher taxes would be offset by lower explicit or implicit interest), if he owns the land free and clear, he may well feel more impelled to use the land productively because more of his total land costs are explicit (taxes) than under the real estate tax. In general, landowners will be more conscious of the scarcity and costs of landownership and therefore will tend to use this resource more wisely and less wastefully.

The level of use of land with a more valuable potential will rise. The untaxing of improvements and the fixed cost characteristic of the land value tax provide new investment and profit opportunities for many landowners. These opportunities will appear immediately for some owners of vacant, slum, or even what appears already to be highly developed land. Initial investment will create spillover benefits so that other landowners will find it in their interest to raise the level of use of their property. In general, the present restraints on building due to the real estate tax will be removed and permit the profit motive to operate more effectively so as to bring the level of land use closer to that for which it is zoned.

The redevelopment of urban land will be accelerated. The horizontal development of urban areas is in large measure a reflection of the wasteful nature of our culture. Affluent America has developed the "throw away" practice of junking anything that gets old, unattractive, or unusable. This practice has been extended even to urban land as though it existed in endless abundance. So much of our urban land is, in effect, thrown away when its improvements deteriorate sufficiently. Instead of replacing a dilapidated structure with one that will satisfy the owner or prospective tenants, the land is abandoned and new buildings are built on vacant land on the urban fringe.

What is clearly necessary is to recycle the use of urban land when improvements become blighted, and the original level of use begins to fall sharply. The economic feasibility of an early and timely recycling does not exist under the property tax unless the land possesses exceptional locational advantages. However, the land value tax will establish the economic feasibility (see page 16) necessary to recycle the use of much urban land with deteriorated and obsolete buildings that now provide the lowest levels of housing or commercial use or are even abandoned, partially or entirely.

More land will be made available for public uses at lower costs. By reducing urban sprawl and the overall urban area, the land value tax will reduce the pressures that have driven up the market value of most urban land. A more compact urban area will make available a great deal of presently vacant land for public purposes and further growth. The higher the tax rate on land values, the more the market price of land will decline.

It should be noted that the most valuable land will be taxed the heaviest, which in time will minimize price increases of this land. Land with lower than average improvements to land value ratios will have tax increases upon transition to land value taxation. The market price of land will tend to stabilize, and possibly fall slightly, unless it feels pressures of population growth or is endowed with exceptional locational advantages.

It will promote better planning of urban land use. A major frustration of urban planners has been their inability to implement planning and zoning decisions. Land value taxation is a powerful tool that can help remedy this problem without taking individual land use decisions away from landowners and centralizing them in the hands of the planners. Under the real estate tax the actual level of most property use is far below that for which it is zoned, but with a shift to a land value tax there will be strong incentives for landowners to put their land to the highest use for which it is zoned. Zoning regulations will take on real meaning for many more landowners, and not be merely a theoretical set of rules.

Putting land to its highest use means that it will best complement the use of other sites. The cost of friction in effecting linkages will be minimized and the number of linkages expanded to make urban living more efficient and satisfying. As interdependence in urban living is increased, the need for community facilities will grow. These can be provided more readily as land becomes more available and at lower costs.

Even today, with the function of urban planning held in high esteem in central cities and some older suburbs, new urban growth is virtually unplanned. Rapid sprawl-like urban development occurs in local (agricultural) jurisdictions that have no appreciation for planning and no organization, personnel, or authorization to implement planning and land use controls. After urban development is largely an accomplished fact the new subdivisions are brought within local jurisdiction with land use controls—too late, with the pattern of land use already set, and with little prospect of changing to the use that will relate best with the land use of the locality to which it was annexed or consolidated.

It is this practice of effectively by-passing planning in urban growth under the real estate tax which will be changed by turning to land value taxation. The reason lies in the simple fact that land of the central city and older suburbs will be redeveloped and more urban growth will be vertical in localities with established planning functions. Horizontal urban expansion will be limited and compact and more often in areas of localities with established planning services.

It will restore the population density that is a precondition for reviving mass transit. The exodus of persons from central cities to the suburbs has spelled the demise of mass transit which depends upon a relatively dense population pattern in order to be efficient and even economically feasible. The underpricing and heavy subsidization of automobile use is as much a cause of this problem as is the real estate tax. The contribution of the latter, nevertheless, is very substantial as we have already observed. And it is well known to students of urban transportation that the use of the automobile must somehow be discouraged and other forms of transportation encouraged if we are to improve the overall transportation capabilities of our larger urban areas.

The land value tax will tend to reverse the depletion and destruction of the older portions of an urban area. Land will be redeveloped to meet market needs, thereby enabling many persons to find facilities without being forced to look to the suburbs for what they want. Vacant land will be put to use. Vertical growth will be stimulated; urban areas will become more compact. As land is put to more efficient use, the density of population per acre will rise even as crowding (the density of persons per dwelling unit or commercial unit) will fall. This can be achieved by means of low buildings with better land use design as well as high-rise structures.

An increase in density of population per acre is necessary in order to increase the role of mass transit in serving the transportation needs of urban dwellers.

The decreasing density of population per acre in our cities has removed or rendered inadequate the only form of transportation available for many persons. The old, young, infirm, and poor are left completely stranded without mass transit. Those persons with automobiles lose the option of mass transit and are forced to turn to the automobile at all times in order to have satisfactory and convenient transportation. However, by restoring population density per acre, land value taxation will give dwellers a choice once again of using mass transit if they cannot, or do not wish to, use automobiles.

It will promote more vertical transportation and neighborhood pedestrian traffic for automobile traffic. The untaxing of buildings and fixed cost effect of taxing land will stimulate a greater vertical development of land and a corresponding increase in vertical transportation facilities such as elevators, escalators, and stairways. Other facilities for the vertical movement of material things include conveyer belts, chutes, and vacuum tubes. The comparative safety (with fixed "road beds") and greater efficiency (with higher average loads) per vehicle and capital invested will be extra advantages in addition to the reduction of automobile traffic and its congestion.

With large-scale vertical development, with the full utilization of vacant lands for buildings or parks, and with the more compact urban areas, it can be expected that neighborhood pedestrian traffic will rise considerably and make neighborhoods become alive once again. It is this sort of physical nearness of diverse groups of persons that can prevent human beings from becoming estranged from one another. If neighborhood pedestrian traffic becomes dense enough, it may even prove worth while to provide moving sidewalks. At any rate, reliance on the automobile for effecting every single linkage with dwelling units, a typical and unfortunate condition of suburban living, will not be necessary for those who choose to live without complete dependency upon personal automobile transportation.

The quality of our environment will improve. It should be apparent that changing the real estate tax to a land value tax will induce great changes in the physical landscape as well as in the patterns of land use in urban areas. The changes will result in a decided improvement in environmental quality, and in general can be attributed to the fact that people will have a higher regard for land and an incentive to use it with greater care. Littered yards will be cleaned up to enhance rather than detract from adjacent structures. Vacant lots will be built upon or incorporated into well-kept yards or gardens. The ugliness of slums will disappear with clearance and redevelopment. The depressing appearance of blight will give way to stability and progress with the conservation, rehabilitation, remodeling, and the occasional redevelopment of buildings.

Slum areas are the junkyards of dwelling units. The recycling of this scarce land with new dwelling units will give the entire urban environment a badly needed lift by demonstrating that it is not necessary for urban dwellers to live surrounded by thrown away buildings when there is no away.

With the containment of urban sprawl the scandalous waste of rural land surrounding urban areas will be curtailed. A drive to the country will be possible without a long distance of uncertainty as to where the country begins. Greenbelts can be established not too far from the center of town, and the beauty of unbroken farmland will be found only a little further beyond the greenbelt.

As various modes of vertical transportation and pedestrian traffic assume far greater roles in urban living patterns, it is possible to reduce the use of automobiles and much of the damage or problems it poses to our environment. A checklist of these would include air pollution, noise, the unsightliness and barriers caused by freeways, oil slicks, auto junkyards, many surface parking lots, traffic congestion, and interference with pedestrian travel, in addition to property damage, human injury, and loss of income to support the quality of environment. While the benefits of the automobile are many, it does seem that its unrestrained and subsidized use in urban areas is excessive and that a more balanced system of transportation will improve the quality of urban living.

CONCLUSION

The arguments given here are numerous and in the author's view, quite formidable. Nevertheless, care has been taken to maintain a high level of objectivity in presenting the various advantages of the land value tax compared with the real estate tax. Moreover, the arguments and their supporting rationale possess a logical consistency that should reinforce the weight that can be assigned to the arguments.

Of course, any new tax change may produce some individual disadvantages that will have to be weighed against its advantages for the economy in general. In this case, the advantages of changing the real estate tax to a land value tax seem to outweigh the disadvantages very decidedly, more so than with most other taxes. It has been the author's experience in discussing land value taxation with many persons including economists of considerable standing that many of the "disadvantages" raised against land value taxation are based on lack of understanding or spurious assumptions about the conditions under which a land value tax would be established.