

**LOCAL RESPONSIBILITY AND LAND TAXATION:  
LESSONS FROM THE UNITED STATES EXPERIENCE**

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## LOCAL RESPONSIBILITY AND LAND TAXATION: LESSONS FROM UNITED STATES EXPERIENCE

C. LOWELL HARRISS

### Introduction

The fundamental reasons for extensive use of property (more specifically, *land*) taxation to finance (local) governments are powerfully compelling. At least they are, if such a revenue source can be administered reasonably well. And persuasive, logical reasons argue for greater reliance on local (as against national) government authority than now prevails in much of the world.

In our country, local government has wide responsibilities, including much of the finance of education. Until the 1930's, localities made about half of all government expenditures, and from taxes they raised. These were chiefly annual taxes on the capital value of property. The dollar amounts are now much larger, but the national government has become relatively much greater.

The American use of property taxation remains high, but it departs substantially from anything approximating an ideal, or even a goal which ought to be attainable by human beings, subject as we are to man's limitations. American experience may help others in attempts to make effective use of what seems to me, one of the best possible revenue sources — land values.

First and most important, however, will be an explanation of why it seems to me that high and rising land prices in cities over the world ought to provide more funds for local government. To date, the achievements fall far below the potential.

### **Urbanization and Rising Land Prices**

Populations grow, especially in cities. The desires for governmental services outstrip the quantity that can be supplied with the funds available. Streets and water facilities and sewers and police and schools — infrastructure of many kinds — are needed. The quality of life suffers because funds are not adequate for the facilities which governments are expected to provide. Yet, people pay heavily for space to live and work, especially in cities. The demand for room sends land prices up and up and up. And most of the amounts which urban residents pay for the use of land go to private owners. Little (in much of the world *none*) of these payments will help to meet the present costs of government or to provide better services.

The growth of population and income which multiplies the need for governmental services also creates a source of funds for meeting some of the costs (1) without making the user of land as such worse off and (2) without endangering the supply of land. Moreover, a tax which brings about this result can also exert powerful pressure to put land to best use; such incentives would often have constructive results because of the vital importance of good land use for human well-being.

### **Universal Nature of the Problems**

Obviously, (1) the need to use land is universal; almost as obvious is (2) the fact that nature, rather than the owner, created the land. These two conditions combine to create a situation with elements of similarity in cities which differ widely in most respects. The opportunities for taxation of local property (especially land) to support local progress are tremendously appealing.

Yet taxation principles which have been known for generations and which were recommended in the nineteenth century, and more recently in the 1950s and 1960s, still remain more potentialities than realities. Because the potentials are so promising, man's failure, to try harder to benefit from them, presents a challenge worth more effort.

The responsibilities of city governments — for street, water, and other capital facilities and for such current services as policing, education, and garbage collection — vary widely from one country to another. Both the national government and the private sector have different obligations. And popular expectations about what to expect from financing by charges for services also differ. The role of the

national government, both in spending and taxing, reflects old traditions, new developments, and a host of conditions which combine to make international comparisons hazardous. Except for one fact common to all — the need for revenue is high!

Attitudes and traditions about land ownership and use also differ, sometimes in subtle ways. Systems of land titles and ownership, methods of financing and leasing, governmental use of zoning and the power of eminent domain (compulsory acquisition), all bear upon the potential use of land as a tax base.

For the most part, urban land prices are much higher than in the past, going up from one year to the next. As more people with more purchasing power seek to utilize the limited space of cities, the amount they are able and willing to pay per square yard or square meter rises. And it goes up by more, as a rule, than prices generally in this world of inflation. Farm land prices have also risen markedly in many countries.

#### **Land as a Product of Nature**

As a productive resource, land resembles labour and capital in some respects but is crucially different in others. The similarities include the fact that parcels of land differ in desirability as do human skills and machines. An outstanding difference is the source, the way they come into existence. Labour and capital are manmade. The quantity and quality of training, the vigour of human endeavour, the amount of machinery and structures, depend in part upon incentives, upon what individuals expect to get in compensation. And the payments actually received also affect what becomes available. To get such productive capacity, society must pay. Moreover, attempts of society to take back through taxes what has been paid in the market for the services of capital and labour, will affect the quantity and quality supplied in the future.

Land in a basic physical sense, was created by nature, not by work and saving. In the sense of space (though not of all usable qualities, such as levelling and clearing and the creation of usable surface by drainage and filling) the amount of land in existence will depend scarcely at all upon the amount paid for use. The payment, however, does make a difference in what actually becomes available and the timing as against speculative withholding. Occasionally, payment will determine whether land is used at all or held essentially idle. More often, the amount paid will govern the particular use to be made of a parcel, its allocation among alternative uses.

### **Payment for Land Affects Use but Not the Amount in Existence**

Parcels of land, especially in their characteristics as space and location, do differ immensely. Therefore, something to help allocate use efficiently, is of utmost importance. Payments for the use of land do perform a function of outstanding significance in the allocation among uses. Payments do NOT, however, as for man-made productive capacity, also perform the function of inducing the creation of the productive resource.

Land is fixed. Tax it heavily, and it will not move to some other place, or decide to take a vacation, or leave the inventory of productive resources by going out of existence. Tax land lightly, and the favourable tax situation will not create more space on the surface of the earth. Low taxes on land, or none at all, will not lead to the creation of more land.

The ethos which ties economic justice to rewards based on accomplishment does not lead to justification for large rewards because of ownership of land. Economic justice, I believe we would generally agree, calls for compensation which reflects the worth of a person's contribution to output as the recipients value it. Equity in society relates rewards to production. To impose taxes which run counter to these results may, or may not, be equitable. Differences, perhaps very big ones, in payments for human services or for the use of capital can rest equitably upon what the recipient has done.

For the owner of urban land, however, the same kind of justification cannot be found. And the absorption of much of what he gets can be taken to help pay for (local) government without, I submit, violating standards of equity. In fact, taking values created by society can rank high on the score of equity.

### **Private Ownership of Land**

The institutions of ownership of land reflect history and a large variety of conditions. Outside of communist countries, individuals and private groups own most of the 'bundles' of rights which go with most of the space on the earth's surface. Rights to minerals and other things below are more generally retained by government. (Ownership of air rights is less clear.) Outright governmental ownership may consist of little more than the areas of streets, governmental buildings, parks, and so on. Sometimes, however, government owns much more, not only land in its entirety but also in the form of restrictions on what nominal owners can do.

Extensive governmental ownership of land might seem to be indicated by the general policies you can sense that I recommend. But my doubts about the wisdom of governmental ownership are extensive.

Private owners have much control over how land is to be used. They can insist upon being paid for the use of this land. The private owner may do nothing or very little, to affect the usability of land. Yet from year to year owners can get more from occupants. They have incentives to find the best use.

Land price increases in and around cities have made rich men out of owners of farm land, vegetable plots, and waste areas. More than one owner of a few acres of rice land near Tokyo or Bangkok or Taipei have reaped handsome gains because of the pressure of population. In America, North and South, and in Europe and Australia and Africa, private enrichment has come to the passive owner of land who has done little or nothing to enlarge its worth as part of the city whose growth has brought his good fortune. In fact, he may have paid no more than an infinitesimal fraction of the taxes which have paid for the streets and other governmental facilities which have helped to elevate the value of his land.

The "moral" justification of private ownership of property gets a bit thin and tenuous when related to such increments in land prices. The owner's contribution to production of goods and services to meet consumers' desires may have been negligible. He may have done something constructive in getting land into better use. But compared with labour and capital, land offers much greater possibilities of enhancement of private wealth without regard to the creative contribution of the person benefitting.

Private ownership of land does serve a purpose of great importance. The owner has incentive to allocate and to direct use into better rather than poorer alternatives. The scarcer the land and the greater the price it can command, then the more important for the community that it be used well. As urban congestion grows, the social need for efficient use of space multiplies. Private ownership that can profit from getting higher income will tend to bring about this result. By requiring annual payments in cash, tax policy can reinforce the moral pressures of self-interest on the owner to seek the best result possible.

Failures to come close to the best use of land are most likely to result when the owner is free from great pressure to search out the best opportunity and then to exploit it. If he is ignorant of the possibilities,

he will not get land into best use. Or he may be well enough supplied with income to be able to indulge his preferences for some suboptimal use. Perhaps he may delay change in land use because sale of his land would bring a heavy tax on capital gain. Although there is no single remedy, tax pressures which are desirable for other reasons will also exert powerful influences toward best use.

### **Rent and Price**

Land as a physical thing yields services which are associated with periods of time. Payment for these services may consist of an amount each period, say each month — rent. Or the payment may be a lump-sum in advance as one acquires the land by purchase, paying a capital amount.

The relation between periodic payments (rent each year) and a price for rights into perpetuity (a capital sum) will depend heavily upon market rates of interest. These rates indicate what one can get by using his funds to purchase other forms of property (or to make loans to others). The total income stream from land as well as one can judge it into the future — say \$100 a month — must be compared with the yields obtainable from alternative investment opportunities. The greater the yields from bonds, as indicated by rates of interest, the less one will pay for a monthly income stream of \$100 or any other fixed amount. Suppose that taxes are imposed and reduce the amount which will remain for the owner, perhaps from \$1,200 to \$800 a year. Then the price which anyone will pay for the land will drop, in this case by one-third. The services produced by the land do not change. But government through taxes pre-empt more of their worth.

### **Capitalization**

In this way property taxes are 'capitalized'. They reduce the price which a buyer will pay for land. Thereafter the user (buyer) of the land turns over, in effect, a part of the yield (some of the economic produce) to government. But the person who has purchased after the tax became effective does not suffer from the tax. The owner of land at the time 'paid' the tax increase in perpetuity. Future benefits expected from the land can also be capitalized.

When the expected increase in net yield goes up, the owner at the time will get the capitalized value. A large increment of value can occur in a short time. The owner then in effect gets the future yield increases in perpetuity — even if he sells the land soon.

In some countries owners rarely sell land. Land use may change. New tenants may take over, perhaps signing an agreement which extends for many years; but the new users ordinarily do not invest a large capital sum to get access to the land. Periodic payments go to the owner. The amount has no necessary relation to inputs of labour and materials to enhance the usefulness of the land.

In the United States, the common procedure is sale with full transfer of all private rights to the land. The buyer may borrow most of the money needed for payment: usually he must repay the borrowings systematically so that after 20 or 30 years he has paid for the property entirely. Monthly payments in such cases obviously bear resemblance to rent. The total should not be more than the expected yield from the property, net after taxes — but expectations are subject to change. And in the modern world they will typically include hope for rising demand as cities grow bigger and incomes rise.

The 'output' or yield of city land does not have the tangible form of farm crops. Money rental payments are not subject to a limit imposed by nature's output of crops. Owners of urban land can get periodic rents, or prices from sale, which vastly exceed anything obtainable from land used for agricultural purposes. No sort of natural limit applies.

As rising population and purchasing power have raised the demand for land, owners have gotten more, sometimes fabulously more. Whatever the origin of a person's ownership of land — perhaps inheritance — community growth has enabled him to siphon off a growing amount from the stream of production and income. Is it not both logical and just to rechannel some of this flow to finance public services? I believe that it is. Considerable revenue would be obtainable without forcing buyers or users to pay more than they would otherwise.

### **Taxing Land**

The American Henry George (1839-1897) was only one of a large group who over many decades has urged the heavy taxation of land. Whatever the reasons for not doing so in the past — and only a portion of the potential has been realized — conditions today call for new efforts. The propriety of drastic new burdens on present owners may be debated. Changing 'the rules of the game' suddenly can be unfair. But as to the future, the principle has convincing appeal. Here should be a most promising of means to finance (local) government.



The taxation of land (more accurately, the taxation of people on the basis of their ownership and use of land) can take somewhat different forms. The objectives can also differ somewhat.

- (1) Getting funds to pay for governmental services will stand as perhaps the prime objective. There may be some question about whether to use this as a source for local governments only or perhaps for national finances. To me, local use would seem generally preferable, but conditions will differ from one country to another. Where the choice is for financing local government expenditures, there can be important questions about the size of each separate taxing jurisdiction — considerations of administrative feasibility, competition among neighbouring communities, and other elements.
- (2) There will be question about how much the method of imposing tax should seek to influence land use and in what ways. Great pressure can be placed on owners to put land to its highest and best use. 'Speculative' withholding from the best potential use can be made difficult and highly unattractive. More land can be made available for most up-to-date use.
- (3) The relation of tax to benefit from specific local expenditures can be considered. On grounds of fairness, and also for inducing efficiency in use, there will be good reason for differentiating the amounts payable according to the various services provided by the government.

As a practical matter, can such a tax be administered with rates high enough to bring substantial revenue? More than one possibility need to be considered.

*Tax on Sale or Turnover.* A tax of a portion of the selling price of land is a possibility. Transactions each year involve only a small portion of the total parcels in a community. Often sales must be matters of public record so that officials would have some chance of learning when tax was due. Along with such a tax there might also be one on the capitalized value of leases or other agreements governing use for more than a few years.

Tax on sales and long leases, however, would bring only a small fraction of the yield potential envisaged in my discussion. Instability of revenue would be expected. Separating the land and building portions of terms of sale or lease would present difficulties if the tax rate were high.

One serious obstacle would be the discouraging of transactions. A tax high enough to bring meaningful revenues would deter sales and induce avoidance subterfuges. Mobility and flexibility would suffer. And economic progress benefits from the ability to shift land to more favourable uses. Incentive to distort the terms of agreements would be expected. Considerable happenstance would influence the amount of tax paid by one person as against others because the special influences on particular sales would play a large role in individual cases. Persons engaging in frequent turnover of land ownership would bear more burden than those holding on to land. Would not such results be inequitable? I believe they would.

At one time the national (U.S.) government imposed low taxes on property sales. Today many state governments do so — often one-tenth of one percent or so. The objective is not for revenue but to get information on the terms of sale.

*Increment Tax.* The form of land taxation with greatest appeal for some advocates would be a tax on *increments* in land value. In the United States outlays of local governments (for streets, schools, and other infrastructure) have much to do with some increases in land prices. A very high rate could be considered — 70 per cent of the increment, or even more, or a less extreme but still impressive 40 or 50 per cent. In terms of the fairness of such a tax, very high rates may seem to survive criticism. How could the persons forced to pay complain that they were being deprived of something of their own creation?

What is being taken away is presumably not any reward for their effort and investment. To assure this result, however, provision must be made for the cases in which the owner has in fact made an investment of labour, materials, and good management judgment. When there is a building on the land, the separation of value elements between land and structure can raise troublesome difficulties; and if a very high rate of tax is involved, controversy would be lively and difficult. The strains on tax administration would be serious. Few, if any, of the places where I have looked into the capacities for administration over the world, can expect to make such a tax work well.

(1) To administer such a tax on values *regardless of sale*, would be exceedingly difficult. (2) To limit tax to cases of sale only, would be properly criticized as unfairly unequal. Moreover, the large incentive against sale would exert powerful influence. Actions to put land to better use would encounter an adverse tax factor. Holding land off from more desirable use would be a normal result.

Another problem would arise out of the possibility of using methods of land transfer (or shift of some elements, as by more use of long-term leases) which permit escape of tax, perhaps legally, perhaps outside the law.

A serious stumbling block is the absence of reliable data on values as of some base period. Unless an accurate set of values has been established, there would be a long time indeed before much increment could be taxed fairly at high rates. Looking to the future, countries might begin to prepare now in establishing values to permit future heavy taxing of increments.

Including realized gains (and losses) in a base subject to any tax on capital gains (and losses) would achieve some of the objectives. Revenue would probably not go to local governments, however, and their services and facilities do help to account for some changes in land prices.

A 'betterment levy' resting upon changes in value which are due to an action of government — such as a more favourable zoning or development permission — has much appeal in principle. If a public authority confers benefits (or losses), a special justification for recognition in taxation exists. Unfortunately, the difficulties of good administration, the fixing of values of what can be intangibles of uncertain worth, presents problems which only the best of staffs can solve well, especially when the tax at issue is large. (Johannesburg, South Africa, is attempting a development levy whose history will be interesting to follow).

*Annual Tax on Value: Income Basis.* The system used in the British Isles and adopted to some extent by several members of the Commonwealth offers another possibility. The tax base consists of the annual income payment, or the rental value, as to an owner-occupant. The tax may be a small, or a very large fraction of the annual rental value. When the tax is an obligation of the *user* (whether or not he is the owner), the burden can be more than 100 per cent of the net amount which remains for the owner. For example, government might tax two-thirds of the annual flow of benefits (money or value in use), leaving one-third to the owner.

If this method of tax is to serve the important function of inducing the best use of land — and, of course, if revenue yield is to approximate the possible maximum — the tax base must be, not the *actual* rent but the amount which could be obtained from the best use. Applying this principle of taxing the highest benefit attainable, under-

used land bringing rather little income, that is, yielding less than it could from better use, should occasion tax on a *potential* income base. The potential may seem unreasonably and unfairly high if one thinks of the tax as one on income rather than on land. But the basic principle of this *levy* is to get funds for government as related to land, not on actual income of the owner. In fact, the 'true' income in a *real* sense will include changes in the worth of the asset, not merely the money flow at the time.

Determining the proper amounts of full (potential) income will sometimes be very difficult. The guide will be 'the market' as well as it can be determined — what informed and active participants would agree upon through free bargaining.

One problem of administration would arise from the fact that the typical urban rental agreement will include payment for the use of both land and structures. Making reasonably accurate separation to get the pure land portion is not insuperably difficult, as experience in Australia and New Zealand shows. But success requires considerable effort of a high order, especially when a relatively great amount of tax hinges on the division between the two portions.

As with other aspects of making property taxation successful, a major problem arises in keeping assessments abreast of changing conditions. Taking account of rising values will obviously encounter opposition. And recognizing declines will be difficult if only because the needs of government for revenue will discourage downward adjustments which are required for purposes of equity.

*Annual Tax on Value: Capital Basis.* The system of property taxation in the United States relies on capital value of land and structures and to varying extent, the machinery, equipment, and inventories of businesses.

The annual tax is a percentage of an assessment. Although much in the American system seems to me to fall far short of what is desirable and reasonably attainable, the capital value (price) basis seems to me the best. Land, not buildings, should constitute the chief tax base. In fact, the value of buildings and other man-made capital might better be excluded entirely if one were able to start fresh. (The next possibility I note could be used instead.)

Generally, our law, and what I recommend, calls for valuation, presumably at what the property would sell for in an arm's length transaction, free from unusual pressures. Actual market prices, however, are almost never the tax base used; instead, some fraction of

the estimated market value serves. The reasons for this practice of undervaluation need not be adopted elsewhere. In fact, one element of good advice for other countries would be to avoid what is certainly a deficiency in the United States. Full market value of land should be used. The price reflecting present use is not necessarily the goal. It should be the best use reasonably possible.

Actual tax rates in American cities may be 3 or 4 per cent (occasionally even more but often around 2 per cent) of *full current market value* of both land and structures. A much higher rate on land alone would seem to me a reasonable objective, not only in the United States, but in much of the world. The higher the tax rate, of course, the lower the market price of land as the process of capitalization operates. Therefore, after time for adjustment, higher tax rates could be imposed — on *land* values.

Structures, however, could hardly bear such tax burdens, assuming that investors had other alternative uses of funds. The supply of new capital for buildings would decline. People need capital facilities, including housing. To impose tax can only hurt. How foolish, it seems, to tax the instruments needed to produce, to tax the man-made capital which does much to provide the goods and services which support the levels of living. Land, however, will not move away. Price of land would be much less. The buyer would pay a lower price but then more each year to the tax collector.\*

Before developing the points further, I wish to comment on an additional possibility.

*Annual Tax: Size or Other Physical Basis.* Another basis has merit, not as the entire tax but as a supplement to one resting on value. The tax payable (each year or month) could be related to the size of plots of land with adjustment for location, particular services provided, and perhaps other *objective* factors. The failure of American states and localities to develop this type of tax (as a substitute for one on the value of buildings) has long seemed to me to be a lost opportunity.

Such a tax could be relatively easy to administer. It could adjust the tax somewhat according to the costs of some services provided by the (local) government. Substantial advantages attach to pricing as a

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\* Adequate comparison with the income basis requires more space than is possible here. If properly designed and administered, either can transmit to government a substantial portion of values created by social processes. The earlier one or the other is put into effect, the greater the opportunity for government to tap what in the terms of economics is a 'pure economic surplus'.

means of inducing efficient allocation of resources — restricting use and inducing supply on a basis related to real factors and to consumer preferences. Charges could be related to costs.

This method would capture to some extent, values growing out of governmental spending. Per amount of area in a building — e.g., per square meter — some services, such as streets, sewers, and fire protection may cost less in the centre of cities, and more far out, because of the investment needed to extend the service to the distant location. Intensity of use of services could perhaps be measured and to some extent, serve as the basis for charges.

Such an objectively based tax would not serve the full needs being discussed in this paper. Something substantial would remain for value as a base, notably the value of land.

### **Administration**

To administer a land value tax at rates high enough to yield substantial revenue requires more staff, with higher skills, than are generally available. There are other requirements — maps, records, all the practical elements for billing and collection. The total cannot be achieved easily. But reasonable success is possible. They are among the elements of policy which *any* country *must* have — getting funds to run government and deciding by some means the methods by which the limited space is to be used. Land taxation offers great promise.

Experience has been accumulated in many places, lessons about what to do and what not to do. Today, of course, automatic data processing facilities can be used with great effectiveness for property tax administration. But preparation for using computers to good advantage takes long effort. Space limits prevent me from commenting further on the potentials.

### **Local Government: Role Relative to Centralized Power**

The relative reliance upon local as against central government appears to be an issue of concern in many lands. Economic theory of the type developed and endorsed, at least in the Anglo-Saxon tradition, supports the use of large as against small areas for production and distribution.

The greater the extent of the market, the larger the benefits from the division of labour. And these benefits are massive indeed. Hence, economists have been supporting the expansion of trading areas. We deplore moves to set up new restrictions on the free flow of goods and services, as by tariffs and other barriers to trade.

In the political sphere, however, governance over big areas — large bureaucracies — does not, it seems to me, offer the same prospects of beneficial service to mankind. Any generalization so sweeping must, of course, be somewhat inaccurate; there are types of government activity, notably national defense, which require performance on a large scale. But for many of the things we seek from use of political processes — services of government in policing, education, street and other facilities, and so on — centralized responsibility has often been disappointing. Results include many failures. And does not pure logic leave no doubt that men can often serve themselves better through local, than through national policies and bureaucracy?

This paper does not offer scope to develop my reasons for believing that in my country, and in many others I have visited, the future of mankind will be happier if local (and state or provincial) governments assume more responsibility while the central authority reduces its activities. For performing those services to which people look to politics, as against the processes of the market, local performance offers hope for better results than does the national government. For years, I believe, centralization has been accepted, often implicitly, by persons who confuse size with wisdom. They hope that politicians and civil servants with great power will have the capacity (and the good will) to use power well over large countries which often include great diversity. Yet results will not, it seems to me, convince serious observers that such assumptions are correct.

For those who agree with my general conclusions, the strengthening of local government will rank high on the agenda of reform. One essential for discharge of a larger role is more money. Grants from the central government can do much to provide funds. But additional sources are called for. If there is to be true responsibility and freedom, then local authorities must have some independent sources of revenues. People can then adapt. They can do more to achieve what they, the people being served, want badly enough to pay for. Property taxation, especially land taxation, offers highly significant opportunities to get revenues on a meaningful scale.

In arguing for relatively greater use of local, as against national government, I recognize that neither theory nor experience will indicate clear boundaries. In the United States, for example, much debate has not yet led to agreement about the extent to which education, the provision of welfare aid for the poor, health services, recreational facilities, and other functions of government should be left to local choice. Personally, I believe that more than merely a little freedom

for local choice should remain. My reasons cannot be developed here except to say that human opportunity could and hopefully would be greater. Men and women would have fuller scope for realizing their potentials — and those of their children.

### **Some Lessons from United States Experience**

The United States has relied more heavily than most countries on local government. It has used property taxation to bear substantial costs — around \$48,000 million in 1974-75. Yet the actual structure and operations of the tax have fallen far short of what we ought to have and what I believe other countries should seek. In preparing for the future, mankind can benefit from the experience of the United States and try to construct a tax which has high potentials for serving well. The United States, I hasten to add, also has vast opportunities for improvement.

*Understanding of the Principles and Objectives.* Popular understanding of the principles and the objectives is necessary. To me they seem rather clear and uncomplicated. But experience in trying to explain them to others in America leaves no doubt that the job of education presents formidable challenges. The decades of failure to utilize the truths (as they seem to me) of site-value taxation bear witness to difficulties of 'moving' the public.

Not everyone, of course, is expected to understand effective governmental policy. Every adult should have the opportunity to learn what a major tax involves, but conditions of literacy may foreclose any expectation that the choices can be understood widely. In America, certainly, the extent of popular understanding remains very restricted.

Depending upon political and social conditions, the laws will be made by relatively small groups. Some support in popular opinion will be required. In some countries, at least, most of those who enact statutes will be lawyers with little or no grounding in economics. Persons with military background which has probably included rather little training in economics, exert considerable influence in numerous countries.

Leadership, or lack thereof, will be decisive in altering tax laws. Human beings do not instinctively learn about matters such as the reasons for taxing land differently from other property. Nothing in daily experience prepares us to discover and understand new principles for possible tax policies which depart by much from that which prevails.



Results from actual governmental policies have in many places been less than hoped for. Voters may not be foolish to be skeptical of new proposals. Heavier taxation of land would encounter opposition from landowners, some of whom would unquestionably be made worse off. They can be expected to fight the proposal. The concentrated and highly motivated opposition of a small minority of the public can offset the diffused and individually small interest of the majority.

Each country has its own political forces and processes. The failure of Americans to do more to take advantage of potentials which have been explained for many decades should not mean that leadership in other countries cannot succeed. Progress depends upon many factors, including determination, clarity of understanding, and access to news media and other vehicles for informing and persuading the public.

*Clear (and Simple) Objectives and Structures.* Many important hopes have been expressed for site-value taxation. Enthusiasts have sometimes claimed more than could reasonably be expected. A temptation to seek multiple objectives invites complexity. The problems of administration are of central importance, and the structure of the tax should be devised with careful attention to what can be done well in making it work.

If objectives include, as I think they should, encouragement of better land use (as well as obtaining revenue), then plans for land use are obviously desirable. Somehow, the tax needs to be integrated with longer-range plans for urban, suburban, and rural development. An element of crucial significance will be the relation of values for tax purposes to the outlook for permitted — and prohibited — uses.

*Concerns for Equity: Initial and Longer-Run.* Any sudden change in the taxation of property will confer benefits and losses which can be large. (Recall the process of tax capitalization.) Existing conditions may, or may not, seem to represent reasonable fairness in the ownership of property values. But any major revision would alter net worth. Advocates of change have an obligation to consider the equities of proposals. Transition provisions which in some sense may seem to conflict with 'pure' goals may be essential for success. Yet such compromises will probably not epitomize justice as some may conceive it. Assuming that *permanent* changes are the goal, gradual introduction over a period of years may not violate even rather austere standards of fairness.

Recent American experience has revealed another factor to be considered. As property tax burdens went up, pressure for relief on grounds of 'equity and fairness' for various groups gained strength. All states have now enacted some form of relief, especially for persons over the age of 65. The details differ. Whether or not one endorses the arguments — and they vary in merit — the political forces have compelled action. "Relief" of a different sort has also received considerable support. Agricultural land on the outskirts of urban areas can frequently escape taxation on its full worth. To me, such provisions are likely to do more harm than good unless they are carefully and explicitly integrated with well developed plans for land use. The possibilities for abuse must be recognized as large. A few lucky owners of land can reap large net benefits over time. The broader public can suffer, in part, because the full range of alternatives is not clear when decisions are made.

In starting from no such tax, or one of slight significance, efforts to adjust the tax to the personal circumstances of the owner do not, in general, have a proper role in a tax on *land* values. Despite the appeal of favours for persons with low income, especially the aged and those with large families, concessions in a tax on land are an unsuitable means.

*Exemptions* in a tax on land should be narrowly restricted. In principle, all governmentally owned land should be taxed — or a tax element computed and made clear, so that the worth of sacrificed alternatives will be clear as a part of the cost of government. Land already owned by churches and various non-profit organizations should probably not be subjected to a tax on existing values; to require payment would in effect be a capital levy and could bear heavily on institutions which presumably serve useful purposes and which have no effective means of capturing the funds from customers by charging higher prices. The same argument does not hold, however, for values which develop in the future.

*Integrating with Land-Use Policies.* Legal (and any other effective) restrictions on the use of land, along with planning for community development, which will include the government's own uses for streets, schools, and other purposes, will affect land values. And, of course, the taxes imposed will influence land prices (through capitalization). Taxes will therefore give directions for allocating land. They can add directions and forces for efficient choices. The pressures of taxation will be somewhat indirect and integrated with market forces — the full net influences will rarely be measured and certainly not

recognized completely. But good property taxation has tremendous potential for 'harnessing the profit motive' to produce constructive land-use results.

American experience in relating the two — land-use planning and taxation — has been widely varied, but on the whole, far below what could reasonably be attempted. Looking ahead, in my country or elsewhere, the most constructive long-run policy would seem to me to try to make land-use decisions on the basis of criteria which seem appropriate. The community characteristics desired would guide choices. Then market forces should be free to adapt to such decisions. Land prices would reflect these forces.

Tax would then be based on the best estimate possible of market prices of land. In turn the tax (and government spending) would affect land prices. Interrelations would exert their effects. From year to year, changes, especially in assessments, would be needed. And it is at this point that practical difficulties have presented serious obstacles in the United States. Administration cannot be expected to operate as automatically as most market-place adjustments. And governments do not provide the personnel and other conditions for keeping up-to-date.

*Abuse of Local Authority.* Recent American experience has included abuse by local authorities. Some local governments have used power to exclude people and types of property that will involve costs greater than the corresponding revenue. Complex considerations require compromises between local freedom on the one hand and controls from larger jurisdictions.

*Administration.* The quality of administration will be crucial. Experience in Australia, Canada, South Africa, Taiwan, the United States, and other countries now provides a store of experience to be drawn upon. Professionalization lies within man's capacity, and I shall limit my observations to one possibility which rarely receives attention.

To what extent, if any, can a property tax rely successfully upon participation of the taxpayer in determining the tax due?

A taxpayer's power to take an active part in determining his tax obligation can be useful. But it invites abuse. If his report can make for higher or lower tax, the incentive to act for a low burden will be real. Yet relying to some extent on him does deserve consideration.

For one thing, the taxpayer may have essential information. He may, for example, know what he pays each year as rent; a tax on annual value, therefore, may draw upon useful information from the taxpayer. A tax utilizing physical characteristics as a base, directly or indirectly, may also benefit from relying on the taxpayer as a source of information.

Because of the obvious bias of the taxpayer, some checks and controls must be exercised to protect the government's revenue. Penalties for misinformation can, of course, be put into the law. But the taxpayer must believe that they will be enforced. A government, therefore, must be able and willing to make penalties effective. Doing so can put substantial burdens on the administration, more than most governments will be in a position to discharge in fact.

One possibility is for the owner to declare a valuation and for the government to stand ready to acquire the property at the owner's valuation or that figure plus some margin, such as 25 per cent, to recognize change and uncertainty. The power to acquire might apply to any property at any time. Or it might apply only when property is to be taken for streets, government buildings, or some other official purpose. The practical effectiveness of such authority would vary tremendously depending upon conditions. It could not expect to operate fairly, impartially, and uniformly. How great and extensive are the prospects of government acquisition of land for its more or less normal activities?

A still broader power to acquire as an instrument for enforcement can hold greater potential. But if it is to be effective, taxpayers must believe that it will be real, that the unit of government has the resources and the determination to utilize the power. Funds on a large scale would be needed to acquire property to any significant extent. Yet rarely, if ever, will 'disposable' funds be available in such amounts; governments are too pressed for money to devote much to buying property as a means of discouraging taxpayers from undervaluing property.

More effective as a potential for making taxpayers report accurately would be the granting to individuals and businesses the right to buy property at the taxpayer's assessment plus some margin. In a world of essentially stable prices, such arrangements might work successfully, but even then, the obstacles would be formidable. (Most owners would be less aware than specialists of changes and of special developments.) Under conditions today, taxpayers would face great risk from any system strict enough to exert effective pressure. If the margins

were, say 25 per cent, the changes of a year or two (of price level for property in general and of relations among prices, one type of property or another) could convert a good self-assessment into one sometimes offering outsiders an inviting opportunity to take undesirable advantage of the taxpayer.

The United States has had some experience with self-assessment under a property tax. To varying extent, the law 'required' owners to identify (report on) the possession of certain kinds of property and in some cases to indicate its value. Often, business firms could not escape the need to report rather accurately, but individuals more frequently ignored requirements, perhaps completely.

The inventory of possessions — household furniture, jewelry, and securities — was sketchy. Valuations were typically far below what the law seemed to require. Yet, little effort was made to enforce the law. Self-assessment was a farce.

Several elements combined to create the reasons for failure. The contrasts with self-assessment for personal income tax are striking: voluntary reporting for income taxation was substantial, though not complete. Individuals would report the receipt of income from securities whose ownership would not be listed for property tax. The American experience regarding self-assessment tends to confirm doubts about the potentials of successful reliance upon this technique. Nevertheless, imaginative, resourceful framing of a law drawing upon local conditions might develop methods of some value.

### **Concluding Comment**

Looking back at man's accomplishments in utilizing to advantage the knowledge he has gathered, one sad failure seems to me evident. We have not used to anything approaching the extent possible, one highly promising method of financing (local) government. Looking ahead, can we not take fuller advantage of potentials? Theory and practice do provide a base for solid progress.