A Professional View of Land Taxation

by P. R. HUDSON

Review of the paper "Land Taxation: Lessons from International Experience" read by Colin Clark, M.A., Director of the Agricultural Economics Research Institute, Oxford, at the Colloquium on Land Values held in London under the auspices of the Acton Society Trust.

"EVERY STATESMAN designing a system of taxation has to take into account three quite different considerations, which may often lead to conflicting conclusions, namely social justice, economic efficiency and administrative practicability".

These words, used by Professor Clark to introduce his paper at the Colloquium adequately express the dilemmas facing both politicians and economists when considering changes in the tax structure. It is interesting to note the order of Professor Clark's priorities of value judgement for these priorities are of paramount importance when discussing tax policies affecting land.

Taking first for further scrutiny the impact of taxation on economic efficiency, Professor Clark stated that "among the range of practicable taxes there is none so *economically efficient* as land tax." Since a land-value tax is paid out of rent surplus, he argued, the effect of such taxation is different from that of taxes on currently earned income which must, to a greater or less degree, discourage both production and earnings. As to practicability, Professor Clark cited the valuation techniques used successfully in Australia and New Zealand for land tax assessments. Practice had shown that this was an administratively simple exercise. Turning to social justice he then pointed out that land should be taxed most of all because "the gain arises out of the efforts of persons other than the owner of the land himself." If attempts were made to collect economic rent by way of a land value tax, Professor Clark asserted, it would be found that such a measure would also reduce the price of land. This could be proved mathematically and from experience in other countries.

Using such figures as were available to him Professor Clark had reached the opinion that taxable land values in the U.K. were probably in the order of £4½ billion agricultural, £30 billion residential and another £30 billion for commercial and industrial land. He considered that the Whitstable pilot survey emphasised the high price of residential land in the South East region and thought that the proportions of residential value per head of population there were higher than one would expect the national average to be. Similarly, the relatively small commercial and industrial acreage in Whitstable tended to produce lower proportional values than estimated national averages. Analysis of the U.S. land values suggested that commercial - industrial site values were about the same total as residential values, taking wide area averages.

Discussing land value trends in general terms, Professor Clark postulated that the evidence indicated that economic rent expressed as a percentage of national income at factor cost would appear to be higher in the U.K. than in the U.S.A. This was attributable to a number of trends and influences. Relative densities in the U.K. were higher and the U.S. had achieved a greater degree of urban decentralisation. Town planning controls in the U.K. clearly influenced site prices and where, as in Munich in Germany, land use control was very tight, values were extremely high. If American examples could be taken for future trends in this country it would appear that the relative values of inner (but not central) urban areas would tend to decline as a proportion of the total, with an increasing movement of population to the suburbs. American experience might also be taken as a warning against expensive publicly sponsored urban renewal schemes which represent a transfer of public funds to landowners maintaining values which otherwise would have fallen. This situation, described by Senator Douglas as "a welfare state for the wealthy," could arise in England if urban sites were acquired by the State in the hope of increasing treasury income. Such schemes could involve huge losses.

As to the practical application of land based taxes, Professor Clark considered that due exemptions should be made for publicly owned land, open space and schools and land used by genuine charitable bodies for their functions but not for investment. Such land should, however, be valued and perhaps taxed at least according to existing use. In this way the effects of exemption could be clearly seen. He thought that similar exemptions might also apply to buildings of architectural and historic significance which were physically capable of being maintained in good condition and where an undertaking was given that this would be done.

In Professor Clark's view a land value survey should be carried out and the values per head of the population calculated. Progressive State taxes should then be levied in the high value areas and he considered a national tax on these lines was the answer to redistribution of unequal site value income. Where values per head were relatively low he felt there should be exemption from this tax.

This proposition, perhaps, has the least merit, for what has been overlooked is the existence of individually high land values in low land value areas and of individually low land values in high land value areas. In addition, this proposal would dislocate the land market by creating a new set of differential land values. Land of equal rental value would sell at different prices.

Professor Clark's contribution to the Colloquium was perhaps the most interesting. It contained the seeds of a future site rent taxation policy which could emerge with enlightened political support in this country. Soundly based on firm principles the progressive collection of site rent through local and national taxation could go a very long way in solving the problems of compensation and betterment, stimulating the efficient and proper use of land and decreasing land cost to the purchaser — all questions which were examined in detail during the two-day meeting. While those attending the Colloquium lacked unanimous agreement as to the most desirable policies to pursue, there can be no doubt that a great deal was gained from the frank exchanges of views. In this respect it can be hoped that the material presented by Professor Clark will be examined in greater detail. No one can lose from further research and a fundamental examination of principles, least of all the present government!

Taxation's Two Sources

DESCRIBED by the *St. Louis Globe Democrat* as a "prolific writer," Noah D. Alper, President of Public Revenue Education Council in St. Louis, Missouri, has produced a forceful pamphlet entitled *Economic Problems — Whose Responsibility*? The Council is a non-profit organisation dedicated to the proposition that most economic ills result from unscientific taxation policies. Mr. Alper puts the main point clearly:

"Taxes are not revenue sources. There are only two of these —the rent of land and rewards of human effort." Any society is faced with two clear alternatives. Either it can tolerate high-priced land with high-priced products and services, or it can have low-priced land with low-priced products and services. The first alternative arises out of massive, complex, compounding, unjust and costly-to-collect taxes that may be shifted or evaded. The second can only come through land-based direct taxes and the abolition of indirect taxes. Academic and professional economists, in Mr. Alper's view, tend to ignore the issue of the choice of sources, ignoring also "the tremendous unrealised potential" in land rent.

The Council is strongly endeavouring to enlighten American public opinion of the available land rent tax source. It produces numerous pamphlets in clear, concise language setting out the principles of taxation and the effects of alternative tax systems on the United States economy. The Council also disseminates reprints for articles, speeches and books concerned with economic theory and land-value taxation studies and research.

Leasehold Problem

A DILEMMA faces the Government over its proposed Leasehold Reform Bill: whether or not to include Crown land.

If Crown land is to be excluded from the provisions of the Bill, Crown lessees will be denied the opportunity given other lessees to buy their freehold compulsorily. On the other hand, if Crown land is included, land that is at present state owned will revert to private ownership — something that goes rather against the policy of the present Government.

The Crown Estates at present bring in a worthwhile annual income. It would be a pity for this to be lost to the nation, particularly as the price at which lessees will be able to buy their freeholds will in all probability be less than the market price.