

THE ASSESSMENT OF LAND VALUES

By Hon. Lawson Purdy

(Late President of the Department of Taxes and Assessments, New York City)

Thirty years ago there were few, if any, books and treatises on the subject of the assessment of land. Since then that lack has been supplied. Thirty-two years ago the Assessment Roll in the City of New York was published and has been published annually ever since. Twenty-seven years ago Land Value Maps were published for the City of New York, have been published annually since, and similar publications have been made in various cities in the United States and in Copenhagen, Denmark.

Reports of State Tax Commissions in the United States contain many references to methods of assessment. Good books on the subject are available. Much of this work was done by followers of Henry George or was stimulated by them.

LAND VALUE TAXATION

In the United States, Canada, New Zealand, and Australia land has been taxed for many years, the tax being a percentage of the assessed value which is determined at regular intervals. In many places the assessment is annual, in some at intervals of four years. In some places methods of administration are very good. In many places such methods are poor. Experience is ample. I believe that that experience demonstrates that assessors should be employed on the basis of their competence to be ascertained generally by competitive civil service examination, that they should be removable only for cause, and that they should be employed continuously throughout the year. The number of assessors depends upon the area to be assessed, the population in the area, the stability or otherwise of values. Where values change slowly one assessor can assess a larger territory with a greater number of parcels than where values change rapidly.

Ever since *Progress and Poverty* was published there has been much discussion as to whether the annual value of land is adequate for the necessities of government. Some used to contend that it was far more than sufficient; others have contended that it is much less than sufficient. It really makes no material difference. What we wish to accomplish by the taxation of land is the acquisition for the public treasury of so much of the annual value as may suffice for the needs of government or as may be obtained whether it may be sufficient or not.

I think it must be clear to almost anyone that if countries indulge themselves in the luxuries of war and great public debts, land values will be insufficient to pay the bill. I am inclined to believe that with no annual charge for debt and under conditions in which people took care of themselves and did not receive all kinds of help from the State land values would suffice. After all, it seems that the value of land measures all the advantages of living in a country and naturally should be adequate for all proper public needs. Whether that theory is sound or unsound is immaterial for our purpose. We need claim nothing more than that the site value of land is a publicly produced product and belongs to the public and should be taken for public use.

The discussion of whether land values suffice for public needs is not confined to persons who are not followers of Henry George. Single Taxers hold diverse views and I think many of these views are based on inadequate information and a failure to realize the extent to which the apparent selling value of land is in many places far

in excess of the economic value. In the United States I know we have millions and millions of acres of land held at a price for which a few acres may sell. That represents a scarcity value and produces an appearance of value that is a mirage. In a rural section ten acres may be sold for one hundred dollars an acre. In fact it generally is not true that the five thousand acres are all worth one hundred dollars an acre. Each owner is encouraged to think that his acres are worth one hundred dollars because of the single sale. This is true of rural land; it is equally true of the land that surrounds cities, large and small. There is no conspiracy to hold land out of use. Owners of vacant land and idle acres would be glad to sell them for a price. That price is usually based on what some parcel has been sold for. If an attempt is made to buy a large area of land or acres the price rises as soon as the demand is known.

We are accustomed to base our calculations on the assessed value of land under existing conditions under which it is the exception for the tax rate to exceed two per cent of the actual selling value. That tax rate is large enough to do a great deal of good, but not large enough to squeeze out the fictitious value I have attempted to describe.

To what degree, in any town, city, or state the apparent market value exceeds the true economic value, no one knows or can know until we try. We should not base high hopes of large revenue on fictitious values.

Few people realize the extent to which a tax on land reduces its selling value. If the capitalization rate is five per cent, a tax of one per cent would take one-sixth of the annual value and reduce the capital value by that much. If the annual tax rate should be five per cent the value would fall to one-half what it was before, and the tax would consume one-half the annual rent and reduce the selling value by one-half. These examples are given on the basis of economic value, not of the scarcity value we have now. We should have these facts in mind, and not indulge in the expectation of excessive revenue from an increasing tax rate on land values. Our tax base will shrink as the tax rate increases.

What I have said is based upon other conditions remaining the same. Other conditions will not remain the same. With each increase in the tax on land values and reduction of the tax on products of labour in the form of buildings or otherwise, industry will be stimulated, it will feel the lightening of the load and the easier access to the materials of production. The larger the production of wealth the greater the value of land.

Many of you know this as well as I, or better. Some of you may think that this stimulus afforded by the

SOME CONFERENCE PAPERS

Price 3d. each

TRUE FREE TRADE AND LAISSEZ FAIRE. By W. R. Lester.
HENRY GEORGE AND KARL MARX. By Frank McEachran.
THE LAND QUESTION IN RUSSIA. By M. Daudé-Bancel.
THE HENRY GEORGE SCHOOL OF SOCIAL SCIENCE. By Lancaster Greene.

TEN YEARS OF LAND VALUE TAXATION IN DENMARK. By Abel Brink.

THE BRITISH MUNICIPAL DEMAND FOR LAND VALUE RATING. By C. A. Gardner.

Complete Set of 26 Conference Papers, 4s. Post Free.

relief to industry of taking taxes off the products of labour and increasing the tax on land values will result in a very great increase in the value of land, sufficient to offset the reduction in the scarcity value and even the reduction in the economic value. Whether this result will follow or not we should have the facts clearly before us and not base our hopes on dreams which may not come true. If they do come true, so much the better. Do not count on them.

LAND ASSESSMENT

Wherever, as in the United States, land is assessed regularly at frequent intervals and an annual tax imposed upon the assessment, the machinery of assessment has been created and is functioning. Usually it can be improved but new machinery does not have to be created.

In countries unaccustomed to the assessment of land at frequent intervals there is an exaggerated idea of the difficulty of making such an assessment. When it is proposed many think that the task of making an assessment will take years. One of the reasons for that notion, I believe to be the theory that an assessment should determine the value of the interest of each person who owns some part of the fee. If that task be attempted, it is very difficult and an assessment would take a long time. In many places in the United States the assessor is entirely unconcerned with the ownership of the fee and how that ownership may be divided, whether vertically or horizontally.

There is a good deal of land in the United States in one place or another under ground lease. Usually the lease provides that the tenant shall pay the tax. The land is assessed as though there were no lease and the parties are left to determine who shall pay the tax by their own private contracts. The State is not concerned with it. The State is not concerned with whether a property is mortgaged or not mortgaged, with whether the owners are one or many in number. The property is dealt with, as we say, *in rem*. The land is assessed, the tax is imposed upon the land. If the tax shall not be paid, the land is sold by proper procedure and the tax collected.

Where there is no existing assessment, my recommendation would be that for the first few years a very small tax should be imposed, say one-quarter of one per cent for the first two years and an additional quarter of one per cent every year. Should we ever proceed so far, I think forty per cent is about the maximum we can ever reach. If the capitalization rate of that neighbourhood is five per cent, a forty per cent tax rate would take eight-ninths of the ground rent in theory.

MAPS AND UNIT VALUES

The machinery of assessment should be set up. Assessors should be required to use Land Value Maps and they may find it expedient to invite persons interested to appear and give their opinion as to unit values. Let the assessment be made two years after the effective date of the Act and a tax be imposed at one-quarter of one per cent. That is such a small rate that no harm will be done by such inequalities as are inevitable with a new assessment. Opportunity should be given for persons interested to apply for a reduction of the assessment. Knowledge will be gained by the assessors as a result of such appeals. The following year the assessment should be better and so each year the assessment should approach more nearly the actual value of the property.

In the United States, for urban land probably the most common unit in use is a depth of 100 feet, and the value of land is expressed in terms of the value of a parcel

100 feet deep of suitable size for development. There is nothing holy about a unit of 100 feet in depth. Assessors should conform to the practice of the community. In some places known to me lots are normally 125 feet deep. In one place I know the common unit in use is the square foot. That is used but it is understood to mean the value per square foot for a lot of normal depth, which in that community, I think, is 100 feet.

There are tables in use in the United States giving the normal value of a lot which is shorter or deeper than the ordinary lot. Such tables must vary according to the practice of the community and must vary in different parts of the same community. Experience indicates that the variations are not very great. They do not vary very much above or below a norm, a lot 50 feet in depth being worth two-thirds as much as a lot 100 feet in depth. On a business street where small shallow stores are in demand the first 25 feet of the lot may be worth almost half as much as a lot 100 feet deep, whereas in a residential section in which the demand is for lots of full depth a short lot is often a damaged parcel and has less value per square foot than a lot 100 feet deep.

In these matters it is well to be acquainted with the rules in common use but they must be used as servants not as masters, and the experienced assessor must be guided by what is the truth in the particular location. That he can find out from his own experience and the experience of others.

The assessment of corner lots presents a problem which must be solved in the same way as the problem of short lots and deep lots. When two streets intersect each other, being about an equal value, and the demand is for retail shops, the ordinary sized corner lot may be worth twice as much as an inside lot. In certain favoured locations it may be worth even three times as much. On the other hand, in a residential area the value of a corner may be very little in excess of the value of an inside lot. These are problems to be solved by intelligence and experience.

In general, I believe that an assessing department should be so administered that the actual work of assessment should be performed so far as possible by men thoroughly familiar with the locality in which they work. An administrative unit might be an area of considerable size containing various sized towns, cities, and rural

Speaker's Note-book

The series that has been running under this head in our columns during recent months and the "land instances" that are on record over the past few years provide the ounce of fact which it is said is worth a ton of argument. With a view to effective use of this persuasive material, a special file has been made of the cases arranged geographically and the aim is to have one or more for every constituency in the country. This has been done at the instance of Mr R. R. Stokes, and when election candidates get these aids and abets for their speeches they will have occasion to be grateful to him. Just what form the "Notes" should take—whether on cards, on loose sheets, or in a printed brochure (suitable for the pocket), embodying the lot, is under consideration. We will be grateful to readers for any suggestions, and also for typical examples of the operation of the land monopoly in their own localities, which can be added to make this publication still more complete.

districts. Under these circumstances so far as practicable men having local knowledge should be selected for duty in each section.

In English-speaking countries the ordinary unit for rural property is the acre. Whether it is an acre or a *hectare* is immaterial; people think in terms of the value of the unit to which they are accustomed.

CONCLUSION

The sum of the matter is that the assessment of land for purposes of taxation upon its capital value has been carried on in various parts of the world for a good many years. There is plenty of experience to guide an assessing department. There are certain elements common to all countries and to all times. The administration of an assessing department is an art which differs little from the administration required for any other function of government. It is above all things a human problem. It may be met with reasonable intelligence and diligence and it can be improved progressively year by year.

We know that as taxes upon land increase, land will become more and more available for use. As taxes upon the products of labour decrease, more and more of the products of labour will go to the producers, and more and more prosperity will bless the land.

[NOTE.—The foregoing Paper was presented to the Fifth International Conference in typewritten form. We are now glad to have the opportunity both of offering it to a wider circle of readers and presenting it in a more permanent form.]

Mr Lawson Purdy is known all over the world as one of the foremost authorities upon the practical problems arising in connection with the valuation of land for purposes of taxation, and it was during his tenure of office as President of the Department of Taxation Assessment of New York City that the method of assessment there was placed upon a systematic and scientific basis enabling the valuation to be made with precision and the taxpayer to be satisfied that it had been so made.

In the present paper Mr Purdy deals with a number of questions which will, wherever land value taxation has reached a certain point of development, become of greater and greater importance. He draws attention to the effect of a tax on land values in reducing the selling value of land (approximately by the capitalized amount of the tax). The result of this is that wherever the selling value of land is made the basis of assessment the assessable value will steadily diminish, other things being equal, as the amount taken in taxation increases. If half the economic rent is taken in taxation the selling price will have fallen to a half of the untaxed value; if three-quarters is taken in taxation the selling price will fall to one-quarter of the untaxed value and so on.

One result of this is that the rate of taxation has to be increased rapidly because the basis to which it is applied is being reduced. It is therefore conceivable that a point might be reached as Mr Purdy suggests at which the rate of taxation might be perhaps as much as forty per cent of the selling value.

The difficulty of explaining the real meaning of this to people who do not thoroughly understand the economic theory of rent and the relationship of selling value to economic rent is very great. It is therefore a matter for serious consideration whether the adoption of selling value as the basis for land value taxation does not create an obstacle to the ultimate progress of the reform and whether it is not desirable that the economic rent of land should be taken as the basis of taxation. The practical difficulty of this in countries where selling value is the basis of existing taxation is no doubt considerable.

Another point raised by Mr Purdy is that the assessment of land should be *in rem* and that no attempt should be made to ascertain the value of the interests which individuals may have in any particular piece of land. It will be clear that it is only when each site is valued as a whole that it is possible to make a valid comparison between one site and another, and as relative fairness is one of the essential items in a just valuation the necessity of ascertaining the value of each site as a whole is self evident.

It would appear, however, that Mr Purdy infers that the collection of the tax should be made in the same fashion and that no regard should be paid to the interests which individuals may have in the same plot of land, and that whoever happens to be registered as the owner should be obliged to pay the whole of the tax without contribution by any other persons interested in the land.

It may be that such a procedure would do sufficiently exact justice in the circumstances of land tenure prevailing in the United States, but in countries such as Great Britain, where it is usual for land to be let for very long terms of years or in some cases in perpetuity, much injustice would be done if either the lessor or the lessee was obliged to bear the whole burden of the tax. It is suggested that in such cases substantial justice would be attained if the lessee on paying the tax was empowered by law to deduct from the rent which he pays to his lessor, a proportion of the tax equal to the ratio which that rent bears to the annual land value or economic rent of the site. This would require no valuation of individual interests in each site nor conflict with the general principle that the value of each site should be ascertained as a whole.—EDITOR, *Land & Liberty*.]

The *Bristol Evening Post*, 9th December, reported the proceedings of the Bristol "Parliament" where with a "Labour Government in office" a Bill for the Taxation of Land Values was under debate on a motion declaring that: "This House is of the opinion that the rating system is inequitable in its incidence, that site value is a subject peculiarly suited for local taxation by reason of its arising from community influences including local expenditure, and that it is accordingly desirable that the present burden of local expenditure should be transferred either wholly or in part from rates to site value." The motion was carried by a majority of four. The subject, the report stated, proved an exceedingly interesting one in view of the developments in rebuilding so much of the centre of Bristol and the extensions of building activity on the outskirts, and the debate proved particularly fierce. The Bill provided for a tax of 3d. in the £ of the capital value of all land, including agricultural, the revenue from it to be used wholly for reducing taxes on trade and industry.

* * *

It will clarify any man's understanding of justice and injustice in our national life to read *Progress and Poverty*, written as it was by an earnest and sincere Christian, who devoted his whole life to advancing the cause of social justice which shone in his soul as a heavenly vision.—Dr Paul W. Harrison, of Museat, on the "Christian in Present Day Society" in the *Calvin Forum*, May, 1936.

* * *

A NEW YORK JOURNAL OF NATIONAL REPUTE. Thanking for the German manuscript of a paper on the Land Policy of the City of Hamburg with many particulars of housing schemes, allotments and land prices. Translated for research work in connection with municipal administration and copy of translation sent to *Land & Liberty*.