

A Case for a Land Tax Two Arguments

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Introduction

This paper argues for the increased use of land taxes over other forms of taxation. This is not a plea for instant tax reform nor is it assumed that this particular reform will resolve all the world's financial problems. Instead, consideration of the economic benefits of a land taxes are explored and common objections answered. If the arguments are found persuasive, the author believes a slow and careful replacement of existing taxes with land taxes is in order insofar as they are consistently shown to be of greater benefit than the taxes they replace.

Two arguments are considered. The first is a purely economic exercise considering the deadweight losses of varying taxes. A land tax, it is shown, has the unique benefit of creating no deadweight losses and, therefore, no loss in economic activity. Diminishing other taxes while increasing land taxes will benefit society as deadweight losses from these other taxes disappear.

The second argument considered economic benefits unrealized in any society not utilizing land taxes. These benefits take the form of resolving positive and negative externalities and diminishing the winner's curse problem inherent in land speculation. Resolving these market failures through the use of land taxes will create more efficient and beautiful cities.

Lastly, consideration is given to practical implementations of land taxes and the empirical studies done. Studies have shown that land taxes increase construction activity in Pennsylvania cities and diminish distortions present in the taxes they replace.

Preview

As economy shifts to land taxes from other taxes, the net effect is to diminish inefficiencies and spur economic growth. Buyers and sellers still produce and exchange as many if not more goods at prices similar or lower than before.

Also, many benefits will accrue to society. Externalities will be resolved resulting in less pollution and traffic congestion and more parks and civic art. A negative form of speculation will diminish, creating less urban sprawl while increasing land use intensity in cities. These benefits are unrealized without a land tax.

Lastly, a land tax has been tried in cities and countries around the world with great success. Though few have tried it intensely enough to witness the profound benefits the economic theory predicts, the process has been worked out and no argument can be made against the feasibility of a instituting a land tax system.

Argument 1 – Taxes, Markets, and Distortions

The economic impact of taxes

Taxes generally impact consumers and producers by shifting the supply curve such that producers are not willing to sell the same number of goods at the same price (if the tax falls on the producer) and similarly (if the tax falls on the consumer) the consumer is not willing to pay as much for the same number of goods. This creates a loss of utility and both parties are worse off. The price of taxed goods goes up and the quantity sold goes down. Economists call this utility loss a “deadweight loss”.

Three examples of deadweight losses are explored below. The first corresponds with an elastic supply and elastic demand curve, the second with a highly inelastic demand curve and elastic supply curve, and the last with a perfectly inelastic supply curve and elastic demand curve.

Figure 1 below was developed by Joseph Haslag, a professor of Economics at the University of Columbia, to illustrate deadweight losses present in the Kansas City earnings tax¹. Similar illustrations are present in common undergraduate economic texts.² In Haslag’s example, a tax on income from labor is levied (an earnings tax). Here W_0 and N_0 represent the pretax equilibrium wage and quantity of labor, respectively. The after-tax reduction in wages (WL) seen by the laborer leads to a corresponding decrease in effort since the monetary benefit of working is diminished. This leads to a substitution effect where the workers choose to avoid the tax by working less or working elsewhere.

The entirety of the tax (W_f minus WL) does not, however, get paid by the worker. Part of the tax - the difference between W_0 and W_f - is covered by the firm. As a result, not only is the worker working less, he is costing the firm more per hour.

The tax generates revenue for the government equal to the area of the rectangle bounded by the dashed lines at W_f and W_l . If we assume the government uses this revenue to purchase goods that are perfect substitutes for those lost by the workers then the tax can be considered a transfer payment between the private sector to the government and back. The net result of the tax is an economic loss on society shown as the shaded portion of the triangle. This loss of utility is a deadweight loss.³

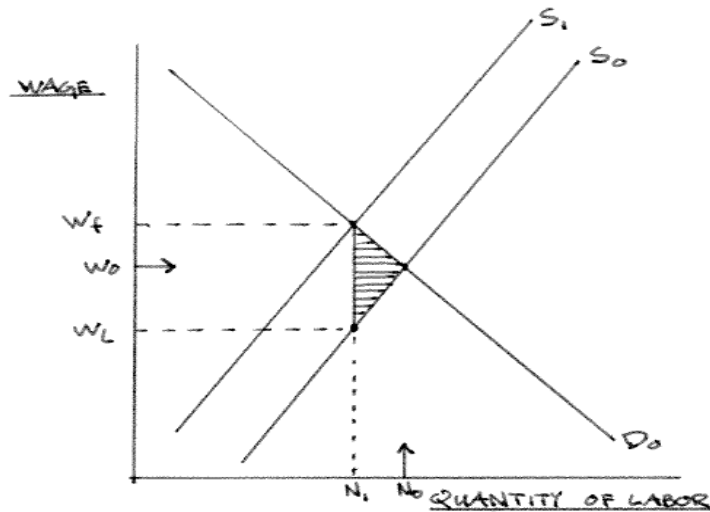


Figure 1 - Deadweight Loss of Earnings Tax in Kansas City

The deadweight loss of any tax is directly related to the elasticity of the supply and demand curves. A highly inelastic demand curve (such as the demand for healthcare or gasoline) is shown in figure 2 below. When a tax is implemented the supply curve shifts to the left. In this case the tax hits the consumer the hardest. Since the consumer is willing to pay nearly any price for the goods demanded the supplier is able to pass the tax directly to the consumer with only minor decreases in quantity sold. So while nearly the same number of goods are being sold in this market (very small deadweight losses) there is a substitution effect in other markets. A large deadweight loss is present in the supply and demand curves of other goods as shown in figure 3 below. Since the tax is passed on to the consumer, the consumer's total income is lowered and the demand curve for all other goods shifts to the left. Thus a tax on goods or services with inelastic demand curves creates a substitution effect and results in deadweight losses.

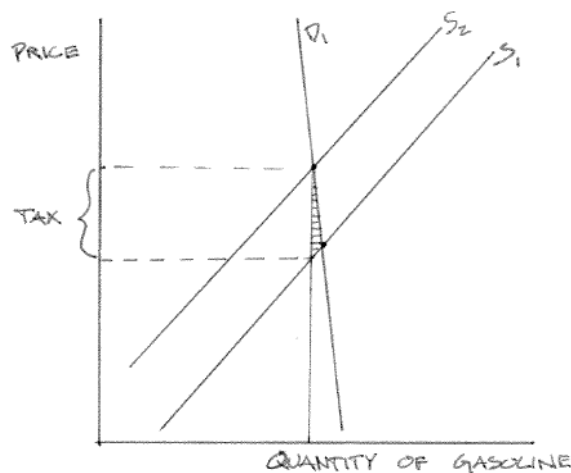


Figure 2 - Deadweight Loss of Gasoline Tax

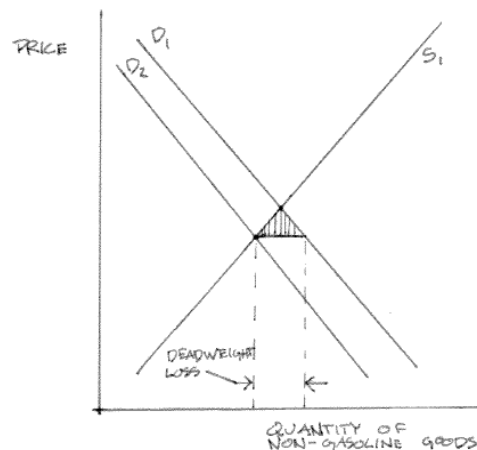


Figure 3 - Substitution Effect

Consider the impact of taxes with respect to goods that have a perfectly inelastic supply curve. Whereas taxing goods with inelastic demand curves is born almost entirely by consumers, a tax on goods with inelastic supply curves are born almost entirely by producers. For whatever reason, the producer is unwilling or unable to change the quantity sold or the after-tax price for his good.

For example, let's consider the effect of taxing a baseball player who loves to play baseball and will play just as hard no matter what he's paid. Let's assume the player makes \$200,000/year. If a tax of \$50,000/year is levied his net income will be \$150,000/year. But since his supply curve is perfectly inelastic the player continues to play just as hard as before. The tax is not passed onto to the "consumer" via poor performance but is instead born completely by the baseball player. The \$50,000 revenue is added to the state treasury with no economic loss to society.

A careful thinker will notice a deadweight loss is still present. It is seen in the market for baseball players. Although an individual baseball player may have a perfectly inelastic supply curve, other potential baseball players do not. Thus a deadweight loss is present in the supply and demand curves for baseball players in general.

But what if all baseball players had perfectly inelastic supply curves? That is, all are willing to play just as hard no matter the compensation? In this case, no deadweight loss from a tax on wages of baseball players exists. It is a perfectly efficient tax from an economic perspective.

The economic impact of land taxes

Land, like our baseball player example above, is perfectly inelastic. The aggregate supply of land is fixed. There are no land factories. So while land may be used more or less intensely according the market demand, the quantity supplied is unchanged. And since all land is fixed in supply, there is no deadweight losses present from substitution effects.

Consider a land owner today. Unlike a supplier of goods or services the land owner does not have the ability to increase or decrease the supply of land he sells. His supply is limited to his legal holdings. His only options are to refuse to sell, sell at the market price, or sell below the market price. He cannot increase production of "land" to meet market demand as a car maker might increase production of cars. Though the land owner desires to pass the tax on to the future buyer

of land he is unable to do so because he has no influence on the price the market sets for his land. It is entirely determined by the demand curve. Thus a land tax is born entirely by the land owner. The owner may be disgrunteled and choose not to put his land to use but this will only worsen his economic position further. And if he chooses to leave the community he cannot take the land with him. There is nothing he can do to avoid the tax or change the supply of land.

In figure 4 below the amount of the tax is represented by the change in price from E_1 to E_2 . From the perspective of the buyer the total cost of land remains unchanged. As the new owner he is responsible for future tax payments putting his effective total cost at E_2 plus the tax. This sum is equal to E_1 which is the amount the buyer was willing to pay before the tax. This is reasonable because the tax does not change the aggregate *post tax* demand for land. From the landowner's perspective, the value of his holdings has decreased by the amount of the tax. He is unable to increase the demand for his land holding and, unless he controls many other properties, he is unable to decrease supply enough to create greater scarcity for the property he is selling. Thus, he is forced to bear the entirety of the tax as he is unable to affect supply. And since supply is unchanged there are no deadweight losses.

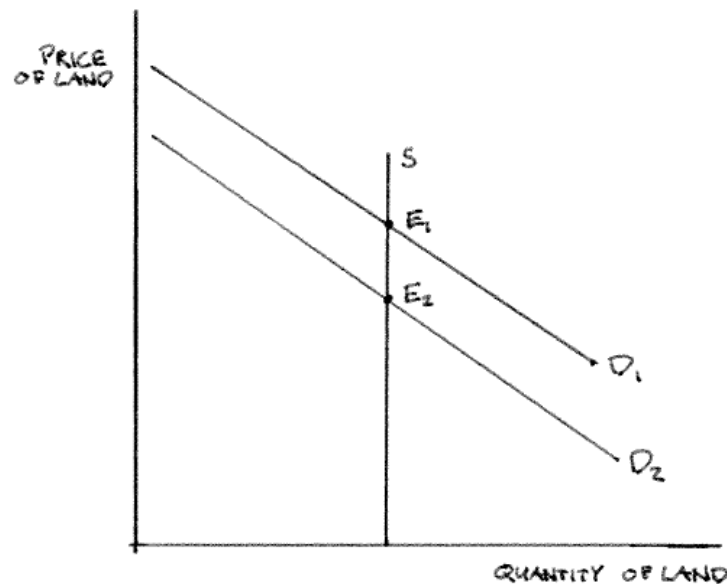


Figure 4 - Tax on Good With Perfectly Inelastic Supply

Though there is a transition problem discussed in appendix of this report, the net effect of removing taxes from goods or services with elastic supply/demand curves or inelastic demand curves and taxing land instead is to free these markets from the deadweight losses they suffer under presently. A shift from taxing labor and capital to taxing land will increase productivity as labor and capital markets begin acting more efficiently.

Argument Two – The Many Unique Benefits of a Land Tax

Not only does a land tax diminish deadweight losses as other taxes are lowered, the tax also improves economic efficiencies over and above what would be the case in a tax-free world. This section shows how through resolving externalities, and diminishing the “winner’s curse” problem present in present land speculation.

Land Tax as a Tool to Resolve Externalities

Externalities are costs or benefits to third parties not directly involved in an economic transaction. A common example is pollution. A coal fired powered plant will diminish the land values of surrounding properties and possibly make entire towns nearby less desirable places to live. Likewise, the health of nearby residents and the cleanliness of structures might be affected by the plant. These costs do not show up on the balance sheet of the power plant and the plant has no incentive to stop polluting until some incentives in the form of regulation or fees become present.

Land taxes can help resolve externalities. In the case of pollution, the polluter could be said to be “using” the land which it pollutes and is therefore responsible for the land tax on these properties insofar as the pollution has caused the drop in land value. This will prevent polluters from engaging in polluting activities except when the benefits to society outweigh the costs.

Another negative externality is car traffic, or congestion, in cities. Congestion is a pricing problem where the user does not see the full cost of his activities. A “shortage” in highway real estate is perpetually present since the good “freeway” is given free of charge. The end user sees no incentive to diminish consumption until congestion forces his hand. A congestion charge (land tax) equivalent to the “cost” a user forces on other users in the form of higher travel times would resolve congestion problems, improving economic efficiencies, and provide a source of revenue to government for highway infrastructure.

Positive externalities also exist in land markets and could be exploited more fully with the help of land taxes. Consider a private expenditure, such as a fountain or public artwork, which raises the land values of nearby properties. Though the net benefit of the good is greater than the cost, it will seldom be provided by a private entity without compensation. If, however, the government compensated them for these expenditures (rebated their land taxes), the provision of these public goods will reach efficient levels. The goods will become self-financing insofar as they are financed from the land tax revenue increases they create.

In fact, governments seeking to maximize tax revenues will choose to invest in these public goods so long as the investment is less than the increase in land tax revenue – creating a virtuous cycle benefiting both the public and private even when the government acts in its own self-interest to maximize tax revenue. Assuming American cities are underserved by public goods, as many urban planners argue, a land tax will turn our cities into urban gardens.

Consider also the struggle American cities have to build transit lines. Kansas City recently failed to pass a sales tax increase to finance light rail. Many other cities have struggled as well even though countless studies show the benefits outweigh the costs in the long term. The problem is always financing, yet governments consistently fail to consider tapping the marginal increase in land value the transit line creates. If this value were fully considered, many transit lines could be shown to be self-financing in the same way that parks and other goods could be self-financing as discussed above.

The Effects of a Land Tax on Land Use

Many consider urban sprawl to be an ecological and environmental tragedy. Regardless of one's view, it seems clear that more efficient land use is possible and need not involve heavy government intervention.

Consider the effects of speculation on land use. It is both beneficial and harmful depending on the circumstance. Beneficial speculation occurs when the wise speculator holds land out of use for a period foreseeing the land will be used more intensely at a later date. Any present improvement constructed on the land must be razed to make way for the more intense land use in the future. By holding the land out of use, the speculator increases efficiency keeping suboptimum construction from occurring in the present.

On the other hand, land speculation can also suffer from the winner's curse. In game theory, the winner's curse is when an item is auctioned of roughly equal value to all bidders but the bidders don't know the item's market value when they bid. Assuming the average bid is equal to the market value the winner will have overpaid.

Now, if we assume those who attach the greatest value to land are those who are unwilling to improve land now because they believe future increases in value will require sacrifice of present improvement when higher value is realized, and if the average bidder is correct in his estimate of a given plot of land's value, then the most foolish bidder who overestimates the value of land will win the bid. Since this bidder's new land holding will be held out of use, an artificial scarcity of land for current use arises.

Land can either be used presently or held out of use in speculation. If the winner's curse dominates more land than would otherwise be speculated on will be held out of use and the supply of land for current use will diminish. This shift in the demand curve increases the price of land for current use and fuels more speculative investment due to the price rise. This cycle repeats itself bringing more and more land out of use. What land is used must be used far more intensely than would otherwise be the case due to the artificially high land values. In practice this phenomenon results in skyscrapers next to surface parking lots in city centers and housing developments built further and further from the city core.

As one observes cities, this second phenomenon seems to be often the case. In any major city, and even most small cities, it is easy to find places with little to no development next to patches of intense development. It does not make sense that beneficial speculation is at play. These underused lots next to skyscrapers have often been vacant for decades. Landowners practicing beneficial speculation could have built and fully depreciated smaller buildings in this time. Rather, it seems that land values are artificially high due to the winner's curse problem.⁴

The land tax solves the winner's curse problem by diminishing the profits a landowner has the potential of making through speculation and thereby reduces the speculative demand for land. Without speculation land stays near its natural equilibrium price influenced primarily by the current use demand curve.

Notice, however, that beneficial speculation is also diminished through the land tax. Though this is true the lost efficiency is rediscovered in new markets. Consider a post land-tax state where all have stopped speculating in land. Before, our beneficial speculator foresaw that land would have a better use in the future and held it out of current use to increase economic efficiencies. The same benefit could be had through the sale of insurance against future land value increases (and,

correspondingly, increases in land taxes). Where insurance costs are high, would be buyers will delay purchase and construction until prices are more reasonable. If the speculator is correct and the land does not increase in value over the period of the insurance contract he will profit and a loss of economic efficiency to society will be avoided.⁵

Thus the benefits of speculation remain under a new guise when land is taxed. It is unnecessary to retain speculation to achieve the economic efficiencies of deferred development.

With the winner's curse problem solved cities will tend to contract. Urban sites held out of use for decades will be developed and developmental pressures on the urban fringe will diminish. Urban sprawl will no longer be the norm and land will be used more efficiently. Where it is beneficial to hold land out of use for a time, insurance costs will prohibit construction.

Land Tax and Economic Stability

As noted previously, the winner's curse problem creates a cycle of speculation and land value increases. If this cycle is not held in check through wise lending practices it can easily lead to a real estate bubble. This is likely a primary cause of the present economic downturn. As speculation pushed land values up, buyers sought to borrow money to buy land and reap the rewards of appreciating real estate. Lenders, believing land to be a safe investment, were happy to lend the money. More money fueled more speculation and a bubble was created.

The mortgages were bundled into securities and were considered secure investment before the bust. Other lenders were happy to use them as collateral for other loans, further increasing the outstanding loans and expanding the money supply. Once the bubble popped buyers defaulted on their loans and lenders were left with assets not worth the paper they were printed on. With the assets losing value all the other loans based on the securities fell as well. Deflation and a credit crisis followed.

Increased regulation would certainly have mitigated much of the speculation that led to the bust. A more efficient and less risky solution would have been a transition to a land tax. By solving the winner's curse problem the speculative bubble in real estate would not have happened. A land tax can also help to bring economic stability to an economy.

A Land Tax is a Fair Tax and the Absence of a Land Tax is Regressive

Taxes should be fair but there is more to fairness than just assessing which class of citizen, low, middle, or upper, is paying the tax burden. If one steps back and considers who benefits from tax expenditures it would be reasonable to conclude that a fair tax is one where the greatest beneficiaries of government spending are also the greatest contributors to the treasury.

Consider how the absence of a land tax is regressive in nature. There are many factors that determine the price of land. These include such goods as proximity to transportation, to schools, to city parks, or to desirable neighborhoods and districts. All these amenities are translated into a value and reflected in the price a typical buyer will bid for a given plot of land. Although some of these goods are publicly financed goods and others are privately financed goods, the publicly financed goods are directly benefiting the property owners in proximity to these public goods by adding to their property values. It is reasonable that the beneficiaries of these public goods pay in proportion to their monetary benefit - else the absence of taxation is equivalent to a transfer payment from taxpayers in general to property owners in particular.

As an example consider a lump-sum tax with no land tax. Normally, such a tax is not considered regressive or progressive since all pay the same amount. Yet, the regressive nature of a lump-sum tax is seen at the second step of government involvement. After a government taxes its citizens it takes this money and spends it on services. At minimum these services include parks, roads, and basic public infrastructure goods. Owners of property in proximity to these goods see a net increase in their property values. While these individuals may be paying the exact same lump-sum tax as everyone else, the government is paying them back in part through goods and services which increase their property values. Thus, a lump-sum tax is more burdensome to non-property owners. And since property owners overwhelmingly tend to be of higher economic status, we can conclude that a lump-sum tax is regressive. Likewise for all “fair” taxes such as a VAT or a national sales tax.

The land tax alone is directly proportion to the benefit received by government expenditures. Just as it is reasonable to expect a consumer to pay more for a luxury hotel room over a modest room so it is reasonable to expect a property owner benefiting from a public park or other public infrastructure to pay more for the privilege than a rural property owner. This virtuous relationship cannot be said to exist in other tax schemes.

Application

The land tax system is not merely an interesting idea left untried. Many communities around the globe have sought to implement one version of the land tax or another. Nations that have implemented versions of the land tax include Estonia, Taiwan, Singapore, and Hong Kong. Individual cities as well have adopted versions including Sydney, Australia and Fairhope, Alabama. In America, Pennsylvania is best known for its experiments with a land tax where property values are taxed at two different rates, one for improvements and a higher one for land values.

Pennsylvania and Split Rate Taxation

In 1913, Pennsylvania passed legislation permitting Pittsburgh and Scranton to reduce property taxes on buildings while retaining their property taxes on land. Since then more Pennsylvania cities and political jurisdictions have been given the same right.⁶

Although showing correlation between land value taxation and economic growth is difficult through regression analysis, according to Joseph Haslag⁷, given the complexities of a city economies, location in the business cycle, effects of other taxes, etc., T. Nicholaus Tideman did conclude that there is a significant correlation between the ratio of land tax rate to structure tax rate and the level construction spending.⁸

In an earlier study, Tideman uses a dynamic general equilibrium model to evaluate the effects of shifting taxes from buildings to land in Pennsylvania. He finds that eliminating distortionary taxes increases investment expenditures by 130% in the long run. People invest more in the city because they are no longer trying to avoid the tax.⁹

After considering the empirical evidence from Pennsylvania and three different economic models on the effects of land tax shift on a city's economy, Haslag concludes that "the quantitative results obtained from experiments with these model economies suggest that the distortions produced by taxes on structures, income, and capital are particularly onerous. There is ample evidence to support a shift in the tax burden from structures (and income) to land."¹⁰

Implementation

Most communities seeking to implement a land tax follow Pennsylvania's split rate model. An implementation study was recently done by the Center for the Study of Economics for the city of New Haven, Connecticut, home of Yale University¹¹. A revenue neutral tax shift was proposed from a base of 3.18% on both land and buildings to a new rate of 5.28% on land and 2.38% on buildings as shown in Table 1 below. Total revenue before and after the tax change remains the same while percent from land increases from 27.4% originally to 43.6% afterwards. Revenue from buildings drops from 72.6% to 54.5%.

LVT in New Haven						
Land Rate	Bldg Rate	Land Revenue	Bldg Revenue	Total Revenue	% from Land	% from Bldg
3.18%	3.18%	\$49,925,125	\$132,264,249	\$182,189,374	27.4%	72.6%
5.28%	2.38%	\$82,991,783	\$99,198,187	\$182,189,970	43.6%	54.5%

Table 1 – Revenue Projections of Tax Shift in New Haven, Connecticut

The effect of this tax change affects property owners different. Some see a net decrease in total property taxes paid while others see a net increase. Vacant land owners see the largest increase in tax burden, up 66% after the tax. Industrial, condominiums, commercial and apartment properties all see a net decrease in tax burden from as low as -0.2% for industrial properties and as high as -5.7% for apartment properties. Interestingly, residential property owners in New Haven would see an average increase of 2.2% in their total property tax burden.

Use	Tax Now	Tax LVT	\$ Diff	% Diff
Vacant	\$2,302,923	\$3,828,205	\$1,525,282	66.2%
Industrial	\$11,287,542	\$11,269,624	-\$17,918	-0.2%
Condominiums	\$14,290,922	\$13,956,986	-\$333,936	-2.3%
Commercial	\$41,201,190	\$39,843,380	-\$1,357,810	-3.3%
Apartments	\$17,366,717	\$16,383,266	-\$983,451	-5.7%
Residential	\$95,941,892	\$98,090,846	\$2,148,954	2.2%

Table 2 – Total Property Tax Burden Distribution, Before and After Implementation of Land Value Tax (LVT)

The report notes the values shown for residential properties are misleading since many blighted and abandoned residential properties are actually owned by the city of New Haven. Since no property tax revenue can be collected from these properties the total burden on all residential properties is, on average, less than shown in the table.

It is clear that a land tax shift falls heaviest on vacant properties. The social cost to typical business and residents seems to be minimal or negative. Of course, every city will be different and a thorough study should be done before implementation to assess the distributive impacts of the tax shift.

Conclusion

A land tax makes a great deal of sense from an economic perspective. Not only are deadweight losses diminished but many economic benefits are realized that would not otherwise be realized.

The supply of land perfectly inelastic and any tax on land cannot diminish the supply of land. Owners may choose to sell, not use their land, or any number of other things but in doing so they cannot avoid the tax. They cannot take the land with them to a land tax haven overseas. Land is immobile and as such has unique tax benefits over capital and labor.

As discussed, the primary benefit is the lack of deadweight losses. If taxes are shifted from labor and capital to land, the deadweight losses present in these other forms of taxation will disappear – resulting in increased efficiencies in these other markets.

Also, a land tax can be used to solve the problem of traffic congestion. Traffic congestion can be attributed to the lack of price signals inherent in free ways. Land taxes in the form of congestion taxes or tolls can work to resolve this negative externality.

Speculation has a negative impact, via the “winner’s curse, on land use in America. Land taxes can also be used to resolve the winners curse and bring land use patterns back to efficient levels.

Lastly, land taxes have been implemented around the world and most intensely in Pennsylvania where many studies have been done on the effects. Careful consideration has shown positive correlation between land tax and economic growth in Pennsylvania cities.

APPENDIX A

Common Objections

Why stick it to the land owner? The problem of transition.

Some argue that land owners are no different than other people and do not deserve to be singled out for taxation over and above others. Though this is true, the problem is only temporary. There are many things that can be done to mitigate the cost to landowner during the transition. The burden of taxation will be, after a period of time, no more burdensome than today for landowners.

Future landowners, as you may recall, take the tax into account when they bid for land by offering a relatively lower price for the property than they would absent the tax. Having adjusted the purchase price to account for the tax burden, future landowners will see no excess burden from the land tax unless land taxes rise.

As an example, let's consider a present landowner with land valued at \$100,000. A land tax of \$1000 per year is levied on his property. If we assume an average discount rate of 10% the \$1000/year equates to a \$10,000 decrease in his land value. (Assuming the present value of the tax is best modeled by a perpetuity, the present value is equal to the tax divided by the discount rate, or $\$1000/0.1 = \$10,000$.) The net market value for his property is now \$90,000 post tax. After the sale the present landowner is shorted \$10,000. The new landowner owns a \$90,000 property and is responsible for a \$1000 tax per year until he sells. Assuming no change in taxes or land values the next buyer will pay \$90,000 and take over the tax payments at no loss to the previous owner. Hence, all else being equal, there are no value losses in future transactions after a land value tax is implemented, only in the first transaction.

Yet, it is clear that making the transition will be difficult if not impossible due to the immediate cost increase on present landowners. Joseph H. Haslag deals with this question directly in his policy study "How to Replace the Earnings Tax in Kansas City". In this paper Haslag argues that a land tax should be implemented in a step-wise fashion. To replace a 1% earnings tax in Kansas City he proposes a 10 year step up of the land tax from ~1% presently to a 7% at the end of 10 years. The earnings tax, likewise, would be phased out completely over this period. A similar scheme might be followed for the replacement of any other tax with a land tax.

The benefit of such a scheme is to take advantage of the long term property value increasing pressures of a land tax. Though in the short term land values will fall they also cause speculators to sell to others that will use it. More land in cities enters production, putting upward pressure on land values.

A land tax falls disproportionately on the Elderly

Some argue that high land taxes fall most heavily on the elderly since most live on fixed income and anticipate a certain level of fixed expenses. Most elderly will own their homes outright when they retire and thus have no mortgage payment. An increase in land taxes will directly increase their monthly living costs.

Though this might be true in some cases, experience with land taxation and shown that total property taxes actually tend to go down after implementation of a land tax. There are two reasons for this.

First, a land tax taxes land alone, not improvements. The first step in implementing a land tax, as discussed in the Application section of this report, is to split property taxes into two taxes – one on land and one on improvements. The tax on land is raised while the tax on improvements is lowered. Since the highest land values are not residential but, instead, commercial properties, a shift to a split rate property tax scheme will tend to shift a greater portion of the total property tax burden onto commercial properties. Thus, most residential property owners will see a tax decrease. Second, as deadweight losses diminish, economic efficiencies will rise and fewer taxes as a percentage of production will need to be taken. More efficient taxes mean lower taxes.

Lastly, it would reasonably to provide a land tax rebate for all citizens over 65 on their primary dwelling. Thomas Pain, author of “Common Sense” proposed the same.¹² In this way, those most adversely affected by the tax could see relief.

Land Tax, What’s That? I Like the Fair Tax

Given the recent popularity of Value Added Tax schemes (VAT’s), such as Neil Boortz’s “Fair Tax”, the benefits of a Land Tax over a VAT must be emphasized. A VAT is a consumption tax levied on the sale of goods and services. It differs from a sales tax in that only the value added to a good (the gross margin) in each stage of production is taxed, not the entire purchase price. By collecting the tax at each stage of production instead of at the final sale alone governments are able to levy large VAT’s in total through many small taxes at each stage of production. This curtails the widespread tax evasion risk inherent in high sales tax schemes.

A VAT, like all taxes, (except a Land Tax and a head tax) is distortionary. The supply and demand schedules for goods and services taxed will likely be elastic and thus a deadweight loss will be present. Some argue that a VAT is less bad than other taxes in that a VAT discourages consumption rather than production.

This last claim begs the question, if consumption is discouraged through a VAT, how can production NOT be discouraged? Consumption is, of course, the other side of production. People produce goods and services for the purpose of consumption. If consumption drops it follows that production must also drop unless exports can make up for the loss. As one may recall, a land tax is non-distortionary and thus does not suffer this same critique.

Also, a VAT is inherently regressive. The poor pay a larger share of their income on goods and services than the rich (in other words, the rich invest a larger share of their income than the poor) and are thus more likely to pay more as a percentage of their income in taxes than the rich will.

A land tax, on the other hand, falls heaviest on those most able to pay since 1) the tax is known in advance before the land is purchased. The cost is accounted for in the bid price and 2) insurance can (and most likely will) be purchased to protect the buyer from future tax increases. Also, though the land tax would most likely be a flat tax, the rich own disproportionately more land than the middle class or poor, making a land tax highly progressive.

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² McConnell and Brue 15th edition is one such example.

³ Haslag; *ibid.*, pg 7

⁴ Tideman, Nicolaus, “The Case for Taxing Land”, presented at the University of Scranton, May 2004 http://www.wealthandwant.com/docs/Tideman_CTL.html

⁵ Tideman, *ibid.*

⁶ Haslag; *ibid.*, pg 9

⁷ Haslag; *ibid.*, pg 10

⁸ Plassmann, Florenz and T. Nicholaus Tideman, 2000, “A Markov Chain Monte Carlo Analysis of the Effect of Two-Rate Property Taxes on Construction,” *Journal of Urban Economics*, 47(2), 216-47.

⁹ Tideman, T. Nicholaus, 1998, “Applications of Land Value Taxation to Problems of Environmental Protection, Congestion, Efficient Land Use, Population and Economic Growth,” *I Land value Taxation: Can It and Will It Work Today?*, Dick Netzer, ed., Cambridge, MA, Lincoln Institute of Land Policy.

¹⁰ Haslag; *ibid.*, pg 14. The economic models he refers to our Tideman’s 1998 study (footnote 6), Andrew Haughwout’s 2004 study “Land Taxation in New York: A General Equilibrium Analysis”, *Urban Issues and Public Finance*, and Thomas Nechyba’s 2001 study “Prospects for Land Rent Taxes in State and Local Tax Reforms”, Lincoln Institute of Land Policy. Haslag’s own economic model is a modification of Haughwout’s. 2004 model.

¹¹ Center for the Study of Economics; Implementation Study for New Haven, Connecticut, March 2008. <http://www.urbantools.net/research-and-studies/recent-implementation-studies-2007-2008/New%20Haven%202008.pdf> .

¹² Paine, Thomas; “Rights of Man”, 1791