



The Many Faces of Site-Value Taxation

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THE MANY FACES OF SITE-VALUE TAXATION

Mason Gaffney

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There is a great interest stirring currently in Canada and elsewhere in tapping for the public revenues more of the economic rent of natural resources and/or the unearned increment of land values. "Economic rent", not long ago a strange alien wording, has become common currency in Canadian discussion. Ontario has enacted a tax on increments of land value when realized by sale. People are dusting off an older literature on the earlier twentieth century experience with exemption of improvements in the western provinces.

Individuals react to these proposals in a variety of ways, depending in part on their individuality; but also, it seems, depending on what they take the proposal to be. My purpose in this paper, therefore, is not to defend or attack site value taxation but rather to define it. The spirited debates of the past on this topic rather resembled those among the four legendary blind men who examined different parts of the elephant.

I will take a position on two introductory points in order to dispense with them. First, is it administrable? The answer here is clearly "Yes". It entails the use of the same property tax assessment and collection machinery that already exists. Techniques for assessing land have been extensively applied and discussed in works of which I will cite The Assessment of Land Value, edited by Daniel Holland, (Madison: University of Wisconsin Press, 1970,) and J.F.N. Murray, Principles and Practice of Valuation, (Sidney Commonwealth Institute of Valuers, Fourth Edition, 1969.) This is not to say we should adopt the policy or would like its results, but merely that we need to decide on some basis other than workability.

Second, the question is often raised, "Would it have any effects anyway?". Here again the answer is clearly "Yes". It would

have substantial effects on the incentives to develop and improve land, the time of decisions and so on. There are a few studies suggesting the policy has little effect but these were studies of cases where there was actually little or no policy to cause any effect. I have seen farm land around Lindsay, California, divided into ten-acre orange groves under a regime of truly heavy land taxes (1920-50) to be reconsolidated later when taxes were lightened and land values rose. One may approve or not, but the presence of such effects is, in my opinion, beyond dispute.

What is site value taxation.

There is no one simple "thing" called site value taxation. It is a bundle including several elements, and each element is variable along a spectrum of degrees. The possible combinations of elements and degrees is unlimited. No wonder the blind men get into disputes about the structure and dimensions of the elephant. One person takes it to be a radical revolutionary proposal to destroy private property. The next one takes it as a minor modification in a tax system we always had. A third takes it as a tool of city planning. A fourth sees it as the only way to make free enterprise work. Let's hold off any such sweeping characterizations and look at the elements, piece by piece.

Element No. 1: A higher share of the total tax burden would come from property, mainly through "the property tax", although there are also special taxes on speculation, unearned increments, mineral industry profits and severance, to say nothing of corporate income and individual income from property. In any case, site value taxation is not just the absence of taxes on buildings; it is the presence of taxes on land.

Element 1 clearly is not present in the case of Hawaii, for instance, where the property tax was recently modified to exempt part of building value. The property tax in Hawaii doesn't amount to a pot of poi. Over the last 15 years a substantial respectable body of economic literature has appeared which emphasizes the social

advantages of exempting buildings from the property tax without necessarily taxing land to compensate. More recently the trend has been to emphasize instead the advantages of imposing heavier taxes on site value, and reducing income and payroll taxes on wages and salaries. This change among the advocates of site value taxation is in harmony with a general shift in the economics profession in favour of property taxation. The property tax ten years ago was anyone's whipping boy, the only tax which you could kick with impunity because it had no defenders. You could criticize it in the same breath, and there were those who did, for being regressive and confiscating wealth. Current revisionist defence of the property tax is well summarized in Henry Aaron's new book, Who Pays the Property Tax?, (Washington: Brookings Institution, 1975.)

Element No. 2: A Higher share of property tax revenues should come from "land" - broadly construed - and a lesser share from buildings, improvements and capital generally. "Land" broadly construed includes, for example, parking space on the public streets. Parking meters are a device for collecting land rent for the public purse. Proposals to auction off rights in the radio spectrum to the highest bidder are certainly a form of site value taxation and so are parallel proposals in respect to mineral rights, water rights, air routes, pollution easements, grazing rights and other rights to land. Collection of public revenues from any exclusive franchise or charter as, for instance, to operate a bank or a bar or a taxicab are forms of site value taxation.

Capital should be exempt from the property tax, in whole or in part. Capital means buildings, but capital also takes as many forms as Brahma¹ and includes roads and street improvements, intangibles like knowledge, machinery, personal property, and so on and on and on.

Some forms of capital serve their owners to preempt common land. Taxation of such capital can be a surrogate for land tax-

1 "They know not well the subtle ways I keep, and pass, and turn again." R.W. Emerson

ation. Motor vehicles, vessels, cattle on public land and weirs to divert water are obvious examples. Large pulp mills with monopolistic control of public timber are possible examples. In all cases the surrogate is less sure and accurate than the real thing, but may be partly rationalized as an effort to collect some land rent for the public. Taxes on gasoline and motor cars, calibrated to their consumption of space on city streets, are an attempt to tax occupancy of public land and I would construe them as public collection of economic rent. Special high taxes on cigarettes serve to compensate non-smokers for the smoker's preemption of air and space in crowded public buildings, (although this may not be the best way to handle the situation). Sometimes the property tax on buildings itself has been defended as a surrogate tax on the load which building occupants place on common public lands, but this relationship is too thin.

Part of the site value tax proposal is the exemption of utility capital from the property tax. The idea is not to increase the profits of utility companies so much as to pass through benefits to consumers in the form of lower rates. An essential part of the rationale is that this would create net benefits to society and the locality because of decreasing costs in the distribution of utility services. Unit distribution costs should decrease as consumption per household rises with the lower price and also as the service area becomes more compact in result of the taxation of land values at higher rates. To be fully consistent with this thinking utilities should do away with their present block rate structures and substitute density discounts for neighborhoods in the way that Pacific Gas and Electric Company already does in the San Francisco Bay area, for example.

Utility right-of-way, being land, might or might not be exempt. The rationale for taxing it would be consistent with the rationale for marginal cost pricing generally. That is, the unit cost of right-of-way does not decline but probably increases as rights-of-way become wider, especially in crowded urban centres. The unit cost of the capital required for line capacity, on the other hand, declines with increase of capacity. Obviously this aspect of site value taxation has not been adequately analysed either by proponents

or critics, and more thought is called for.

Element 3: The assessed value of land for tax purposes would be based more on its capacity to serve, as opposed to actual current use. This is related to but different from the question of using market value as opposed to use value, because market value also includes the speculative premium to be considered separately later.

Mineral royalties do not fully qualify as site value taxes therefore, since they are based on production rather than potential produceability. Income taxes come closer, especially if capital improvements may be written off as current expenses, (virtually exempting them from taxation). But the only tax on minerals that fully satisfies Element 3 is a tax on mineral reserves, such as that currently levied in Alaska on oil and gas reserves at Prudhoe Bay, in Saskatchewan on potash reserves, and theoretically in most North American jurisdictions on the assessed value of mineral deposits.² Unproduced deposits in practice are frequently neglected and only in a few Provinces or States, of which California is probably the best example, are mineral reserves assessed very effectively.

The use of capacity-to-serve, as opposed to actual service, in assessing land values may be carried to various degrees, and is, in different assessment jurisdictions. A great deal depends on assessment practices determined by law, the disposition of courts, local political pressures and professional standards. It has long been the custom in North America to allow assessors a great latitude in defining the property tax base. Many publicized "applications" of site value taxation consist not in any legislation but in turning the assessors' latitude in the direction of site value taxation. In the 1960's this happened in Southfield, Michigan, Sacramento, California and Rosslyn, Virginia. In the 1920's it happened in San Diego and before that in Portland, Houston, San Francisco and elsewhere.

Public perception of these various episodes has been lacking or inaccurate and many people believe there was legislative change when there was, in fact, none. There was nonetheless substantial

2. In British Columbia most mineral rights other than sand and gravel on fee simple land are reserved to the Crown and therefore not assessable to the fee holder.

change effected by assessment standards' giving greater emphasis to capacity to serve rather than present use of land. By the same token there have been and are explicit legal movements towards site value taxation effectively repealed by assessment practice. This has been so in British Columbia, for instance, where buildings are supposed by law to be partially exempt from property tax assessment but in practice are simply overassessed while land is underassessed. Pittsburgh's "graded tax" featuring 50% exemption of buildings is cited again and again, yet the 50% is off only for the minicipal third of the property tax. County and school district assessments, the other two-thirds, are at 100%. That adds up to 1/6 off rather than 1/2 off - hardly a "case study" of anything but sixth-heartedness masquerading as half-heartedness.

Capacity to serve means to serve in the highest currently economical use. That doesn't mean the highest use that may become economical in the future, but today. Neither does it mean the use yielding the highest gross return, but the highest net return. Subject to those two constraints, it still often is higher than the existing use. The idea of site value taxation is to base tax liability on that capacity to serve.

You can easily imagine several options in playing with these possibilities and different assessors may play these in different ways. Legislatures generally realize that these headaches can bring them more grief than benefit and leave them to professional assessors. Assessors, in turn, frequently pass the buck to the courts and the courts have not been models of consistency.

A third constraint on the assessment is zoning. The highest capacity of land to serve may be forbidden by zoning. This poses no serious assessment problem provided the zoning is credible. The assessor simply rules out what would be the highest use in the absence of zoning.

Difficult assessment and interpretation problems arise where zoning is not credible. We have all heard the plaint of the landowner who is assessed on the basis of a high level of use which is, nominally at least, forbidden by the zoning. The assessor replies

that the market evidently doesn't believe the zoning. There is no generally correct answer in such cases other than that good judgement must determine the proper degree of credibility. Of course the whole problem would be solved were non-credible zoning to be removed.

Site value taxation makes this whole question more critical inasmuch as zoning becomes a more important limitation on assessments. This might be interpreted as a strike against site value taxation because of the problems it creates. On the other hand it might be construed as a point in its favour since it would force a correction of the zoning practices which create the problem, along with many others. Partisans of site taxes have claimed that site taxes can make zoning work better by goading the holders of land with high zoning to satisfy the demand for which they are zoned, thus removing pressure toward excessive and premature zoning elsewhere.

To identify the capacity to serve carries us frequently into aspects of the land market which most people rarely think about. One of these is "plottage" which is the increment of unit land value achieved by assembling small parcels into a larger one where the larger one is the optimal size and shape. It is often very difficult to assess unrealized plottage and it is often considered unfair that it should be assessed. Yet the assessment of unrealized plottage could be a tool to help lubricate the land market, which sorely needs lubricating. When we do assess unrealized plottage we make it that much easier to realize it, since the assessment brings uniform pressure to bear on all owners to come to terms with each other, and it is very much to their mutual advantage to do so. Thus, there is in the situation an element of feedback: doing something that seems unfair when it is not done, by virtue of being done becomes more fair. It is not hard to imagine the different emotional and philosophical buttons which this set of issues pushes in different individuals, and it has, raising questions which we will not try to resolve here. Different assessors play this one in different ways and in different circumstances, varying with judgement and public attitudes in a time and place. Suffice it that any movement in the direction of assessing latent unrealized plottage is a movement in the direction of site value taxation, and vice versa.

The question is presented in clearer form when the plottage increment is negative, which is when the land needs to be subdivided, rather than assembled, in order to maximize the unit value. Here one individual landowner is in control and cannot blame his failure to maximize unit values on the refusal of his neighbors to cooperate. Take a case where 20-acre parcels sell for 50¢ a square foot, while half-acre parcels sell for \$2.00 a square foot, or 4 times as much. Let the cost of subdividing be 25¢ a square foot for street improvements whose cost is borne by the subdivider. The site value assessment on the 20-acre parcel would then be at a rate of \$1.75 per square foot, representing its maximum capacity to serve.

It is interesting to note that under a site value system the assessment would not go up to \$2.00 a square foot after the street taxable. Under the present system of property taxation, however, no such distinction is made, and the land assessment goes up to the full value of \$2.00 a square foot, the selling price of the improved lot.

In all these cases we are dealing with what football announcers term "hard calls". One referee may call it one way one time, and another another at another, but the game is still football. We have grown accustomed to living with something called "the income tax" which is full of hard calls on every topic. We should not be surprised or exasperated that the property tax and the site value tax involve hard calls, too. In fact, every hard call that we examine in defining land value is a hard call required for income taxation, inasmuch as buildings are depreciable for income tax while site values are not. While these matters are a tiny fraction of the five shelves of books of exasperations under the income tax, they are a large share of those under a site value tax. So bear with me while we examine this question further.

Capacity to serve might be expressed as an annual figure and occasionally is, or it might be expressed as a capitalized value, as it normally is. In either case the essential point is that the tax should be independent of what the owner does. Most taxes are activity based and require a taxable event. Property taxes fall due with only the passage of time. Property taxes on buildings, of course, require that the building be constructed and that is a sort of taxable event. Taxes on site value require no taxable activity whatever.

Site value taxes are sometimes identified with the idea of socializing land rent or unearned increments, but several other taxes do that, for example taxes on corporate profits, the mining tax and income tax. All of these, however, differ from the site value tax in that they depend on the owners' taking action, and realizing something from a cash sale.

The difference in incentives to the taxpayer is sharp. The site value tax adds nothing to the variable costs of developing or using land. The result is that the landowner will develop the "intensive margin" of his land more fully. In respect to mineral deposits, for example, we often hear that the imposition of a royalty, based on gross production, causes "high grading". The royalty adds to the marginal cost of extracting low quality ore and so raises the cut-off grade. A site value tax applied to mines, on the other hand, would be based on the value of reserves in place, levied at a constant annual amount regardless of the amount of ore extracted in a given year. It would not raise the cut-off grade.

In respect to urban buildings likewise, the exemption of buildings from the property tax lowers the cut-off grade. It results in owners' adding marginal increments of size and quality which would have been submarginal if taxed. In respect to buildings, incidentally, we must modify the statement that taxes other than site value taxes are levied at the time cash is realized from an activity. A building goes up and absorbs cash flow for several months or years before it starts yielding cash to the owner.

Aside from the tax on new buildings (whose timing is such as to accentuate the cash flow crunch during and after construction), most taxes other than the site value tax are synchronized with the taxpayer's liquidity. The site value tax is not so designed, either in philosophy or application. It is in vain to criticize it because it is inconvenient for some landowners to raise the cash to pay it. It is not supposed to convenience such landowners. On the contrary, its philosophy is that the landowner owes society something for the privilege of holding a piece of the limited surface of this small

planet, and an annual required cash payment is calculated to inconvenience him into using his land so as to render service to others and offer employment to others, many of whom may not own land. One may subscribe to that philosophy or not, but that is the issue rather than the issue of convenience to the taxpayer.

Untaxing improvements and untaxing activity on land is permissive of higher uses; taxing land as a positive step adds pressure to utilize land. The combination undoubtedly pushes or pulls, as you will, land into higher uses. That may or may not be universally desirable - it all may boil down to an issue of when and where. In any case site value taxation is oriented towards encouraging and goading landowners to use land more intensively.

Returning to the issue of annual capability vs. capitalized land value as the tax base, the latter is almost always used for a variety of reasons:

- The market evidence for assessment is more available because land normally trades that way. A capitalized value is paid for the transfer of fee simple title. Ground rents are paid here and there, in large cities particularly, but are much scarcer than deed recordings and are likely to be long term contracts which don't give accurate information about current values.

- Residential and recreational properties which yield no cash income to the owners do have fee simple values which are the capitalization of imputed serve flow. This fact serves to head off the fallacy that residential and recreational land yield no "income", or just yield values too ethereal to be weighed in the balance with something as prosaic as money. The cash value of deeds to residential property is one of the more accurate economic measures we have. Every man may not have his price (let us hope not) but every land parcel does, especially if it is liable for annual taxes that increase with the price demanded. Parenthetically, the poets have not all condemned such thinking. "Money, which represents the prose of life, and which is hardly spoken of in parlours without apology, is, in its effects and laws, as beautiful as roses." (Emerson, Politics)

- Capitalized value adds to the tax base the premium value caused by anticipation of future use, a premium that goes by a confusing variety of names like floating value, speculative value, urban shadow value,³ development value and so on. I am going to call it "succession premium", as neutral an expression as you will find. Whether and how to include succession premium in the tax base is, as you are aware, the most controversial area in land taxation, whether under a site value system or the present general property tax system. I have reserved this for separate treatment as the next point.

Element No. 4: Site value taxation implies the inclusion of a "succession premium" in the tax base. The succession premium differs from capacity to serve in that the former is unripe while the latter is ready to go. I will refer to the capacity-to-serve premium as the "red premium" and the succession premium as the "green premium" to underscore this distinction. The succession of land from a lower to a higher use could and should take place in an orderly, peaceful fashion but rarely does. Zones of transition become "combat zones". Land value in these zones develops a green premium in anticipation of conversion. It is sometimes referred to as "speculative", but that is misleading, for "speculative" suggests that conversion to higher use is uncertain when in fact it may be more certain than a repeat of the present use. It is rather, simply, a green premium because the time is not yet ripe to change the use.

Including the succession premium in the tax base is often criticized on the grounds that it is inequitable; inconvenient; and finally inefficient because it forces premature conversion to the higher succeeding use. Let us consider these points in order.

The equitable argument for including succession premia runs as follows. The premium is the discounted present value of future income and as such tends to increase yearly along a compound interest curve, growing like money in the bank. This annual increment in value is income. According to the Carter Commission, which was in the tradition of Professors Haig and Simons, unrealized accruals

3. "Coming events cast their shadows before them." - Thomas Campbell

of value are and should be treated as current income. The annual accrual of value tends to be proportional to the value. So is the property tax. Therefore the property tax is proportional to the income. Thus it is a way, probably the only practical way, of taxing that income at the appropriate time, which is when it accrues.

It is indeed the only sure way of taxing it at all. If we look at an alternative, like the Ontario speculation tax, it is levied only at the time of sale. That means that a person wanting land in the future could buy it today, hang on for 30 years, and finally realize its unearned increment by use, never becoming liable for the tax.

Residential land is not taxed in any other way. A person whose residence succeeds to higher use is uniquely favoured by income tax law. His capital gain is entirely tax free, now and forever. One might conclude that consistency in public policy calls for equally generous treatment under the property tax; or one might conclude just the reverse, that this unpreempted tax base should be tapped. Each reader will make that choice for himself.

Turning to inconvenience, it is undoubtedly inconvenient for landowners to pay taxes on succession premia. The argument for inconvenience cited in respect to red premia holds no water in respect to green premia, but rather the contrary. We do not want a policy, surely, which inconveniences landowners into converting land to succeeding uses prematurely.

It is not certain, however, that assessing and taxing succession premia would indeed have this effect. In the first place the anticipation of future taxes during the ripening period and thereafter will be capitalized into lower present values. This capitalization effect takes away a substantial part of the premium which is the tax base. In addition to being the tax base this premium is the market value on which interest is computed, (either cash or imputed interest). Reducing this premium value therefore reduces the temptation of individuals to sell prematurely to developers, and the part of carrying cost which is interest.

Note, too, that if land is prematurely converted to a higher use one of two things will happen, both bad. One, it may

lose money for the first several years since the market is not yet there for the premature improvement, or two, it may be inadequately developed to meet the future demand in order to avoid problem No.1, in which case it will soon move into a future where land taxes are based on a higher use than it is improved to meet. This is assuming that the assessor continues to increase the assessed value as the capability of the land increases with time. The only circumstance I can imagine in which assessment and taxation of a succession premium would cause premature conversion would be if the taxpayer anticipated, correctly or not, that the assessor was going to freeze the land assessment at the low level corresponding to the premature underimprovement.

There is a tendency for people to attribute their actions to taxes in order to divert responsibility (without authority) to the broad shoulders of city hall. This may be why we hear so often that land is being developed prematurely "because of taxes". On the other hand, where there's smoke there's fire and these allegations may have some substance. Each reader will make this judgement, too, for himself.

As to efficiency, we have discussed this in part in connection with inconvenience, but there is more to it. Site value taxation, we have seen, has a developmental tendency. It strengthens the higher use vis a vis the lower use at every margin of decision, be it the extensive or the intensive margin; be it at the fringe of cities or on underdeveloped land that permeates the cores of every city. Thus it is conceivable that site value taxation could encourage infilling as many of its proponents believe; or that it could cause additional sprawl as some others believe, including some of its earlier advocates. Harry Gunnison Brown, for one, has stated that cities may be surrounded by a belt of monopoly speculative landholdings which need to be broken through by taxation.

Some people believe that infilling is undesirable anyway while others see it as the only cure for urban sprawl which they regard as undesirable. So you can arrive at various judgements on this one, depending on your druthers, which I will not try to influence.

From my observation, however, it is my judgement that under present circumstances the major effect of site value taxation would be to encourage infilling and redevelopment of our older central cities. There is so much land there on the verge of renewal which would be pushed over the margin by the exemption of new buildings from the property tax and the application of fiscal inconvenience to land-owners. In addition there would be an enormous synergistic effect from the replacement of older buildings by new. This is more true in the United States than it is in Canada, but nonetheless very true in both countries.

Element No. 5: Universality and uniformity. The more comprehensive the tax base, both as to extent of jurisdiction and inclusion of different industries and land uses, the more it has the quality of site value taxation. This is a point of considerable uncertainty and evolution of position among advocates. To understand why, let's go back to 1879. Henry George, writing in that year, did more than anyone before or since to advance the proposal, which is often identified by his name. He was not afraid to say, "Let us make land common property." And he clearly had in mind "making common" at the national level.

The proposal was much less radical and shocking in the context of his time and place than it might seem today because most of the land in the western United States was public domain or had only recently been so. Private land, as it existed then, had been alienated under conditions of considerable fraud so that its owners were in a weak moral position, and those were moralistic times. Sometime later Henry George ended his career running for Mayor of New York, it is true, but then as Thoreau remarked, "The young man prepares to build a stairway to the moon but may end up merely repairing the woodshed". The woodsheds contemplated by George's successors grew ever smaller until the proposal became a limited Milquetoast gadget to improve the efficiency of municipal finance.

There was widespread application of George's ideas at the municipal level around the turn of the century, but universal

ideals are not applied at the local level without considerable modification. City fathers have never regarded heavy property taxes, either on land or buildings, as a means of sharing property among the people of the nation or the world. They have regarded bonds as a kind of mortgage on municipal property to be burned as quickly as possible. They have regarded welfare and schooling as burdens to be kicked up to higher levels of government. Only growth oriented municipalities have found site value taxation very attractive and nowadays growth has become a dirty word. In a less mobile society there was room for some redistribution of wealth at the local level but in today's circumstances that is increasingly without support. Site value taxation of the degree contemplated by George and his early followers could only occur at the national level where it would have to be recognized as a redistributive measure, tending (as all taxes do) to make the taxable object common property.

Sometimes site value taxes are applied to certain uses or in certain special service districts. Agricultural capital is largely exempt from the property tax, for example, in British Columbia and North Dakota. Sometimes it is standing timber that is exempt, sometimes personal property, sometimes machinery and equipment, and so on. Each of these experiences makes an interesting case study in the effects of taxation on the allocation of capital among competing uses but none represents a movement of consequence towards site value taxation. The idea of site value taxation is, among other things, that taxes should not vary with the use to which land is put. This does not apply if some classes of use are taxed and others are exempt. Site value taxation is supposed to goad all landowners to put their land to the highest use, as determined by the marketplace, but the marketplace will give false signals if some uses are taxed heavier than others.

One of the strongest arguments in favour of site value taxation as opposed to general property taxation is that the latter cannot ever be uniform because some forms of capital are much easier to conceal than others. There is no property tax jurisdiction with a comprehensive tax base. Personal property, aircraft, cattle, vehicles of all kinds and marine vessels are examples of property hardly ever assessed for property taxation, and the total list of exemptions is distressingly long and varied.

It is, on the other hand, relatively simple to draw a map or cadaster comprehensively including every square foot of land in the jurisdiction. If one accepts the principle of exempting capital from the property tax, uniform treatment of all land becomes an attainable objective.

Element No. 6: Frequent re-assessment of property. In the normal course of events buildings and other capital depreciate with time in contrast with land which often appreciates. Any movement in the direction of more frequent reassessment, therefore, is a move towards site value taxation and vice versa.

There is a tendency in many jurisdictions for the issuance of a building permit to be if not a taxable event an assessable event. New buildings, in any inflationary period, thus come on the rolls at inflationary price levels. If land is not reassessed annually it becomes seriously underassessed relative to new buildings. As to old buildings, practice varies. In some jurisdictions they are "factored" upwards from time to time to keep pace with inflation of replacement cost. Since land has no replacement cost this kind of factoring may omit land.

If land is not reassessed frequently then the assessable event in the life of land is likely to be subdivision or other improvement and what is called a land tax becomes a sort of increment to the tax on new buildings. Under site value taxation the assessed value of raw land would increase annually with its market value so that actual subdivision would occasion no great jump, if any, in assessed values.

Element No. 7 is philosophical rationale. I list this as an element because there are endless specifics in the application of an idea, more specifics than we can cover here, and the appropriate action in specific circumstances depends on the idea being applied. Let us look, then, at the philosophy that underlies site value taxation.

Site value taxation is part and parcel of an organic theory of the State as opposed to to a contractual theory. In the contractual theory government is a kind of business extending services to land-owners and they only need pay for benefits received construed in the

narrowest possible terms. In the organic theory landowners hold title to land as a privilege from the State and in return they owe certain obligations.

The entire value of land is regarded as a benefit received from government. This is in keeping with the definition of Alfred Marshall, renowned Victorian economist, of the "Public Value of Land". The value of land is the joint product of at least three things, that is, nature which created it; government which acquired it from other sovereigns and protects it from other powers and extends public works for its benefit; and finally synergism. The last is the increment to value that spills over from social and economic activity in the neighborhood of that parcel of land.

All these elements of value are regarded as unearned by the individual landowner, being the product of outside forces and therefore a fit object of taxation.

Along with this goes a Puritan ethic or productivity theory of distribution. Private receipt of ^{land} income is regarded as non-functional, since no incentive is required to create land. Incentive is only required to turn land to its highest use. A tax on land that is based only on capacity to serve and does not vary with use has the property of socializing land rent while actually sharpening the incentive to turn land to the highest use.

Critics of site value taxation sometimes argue that socialization of rent would impair the allocative incentive, but this is seldom heard today. Now the criticism is more likely to be the opposite. Land taxes are disliked precisely because they do force land into its highest use as defined by the market. One may not agree with the values of these critics, but their analysis of cause-and-effect is accurate.

The philosophy of site value taxation would distinguish sharply the land from the land owner, and say that taxes on land value are paid by income which the land earns. They are not paid by the owner as a person unless we regard him as having a prior right to own the land free of any liability for taxes. But if no such right

was part of the original land grant, then it is the land that pays the tax rather than the person who holds title at a particular time. No sovereign that I know of has in fact ever alienated land without reserving the right to tax it, as well as to condemn it, police it, and so on. A legal counterpart of this philosophical position is that land taxes are in rem, that is, they are levied on a thing, the land, rather than the person who owns it. In case of nonpayment, it is the thing, the rem that is forfeited and not the corpus personae as with the income tax. Again, tax liability is based on characteristics of the thing regardless of the personal circumstances of the owner. In the eyes of many people, this is a shortcoming of site value taxation (and all property taxation). In the philosophy of site value taxation, this is not a drawback but an advantage.

Another philosophical rationale for a site value tax is stewardship. "Stewardship" in the lexicon of open space advocates today often means non-use, or unchanged traditional extensive use. The site value tax concept of stewardship is the reverse. The idea is that land titles stem from the Crown which represents all citizens. The titles were transferred to private hands in order to get land used for the benefit of everyone. Those not holding land were excluded from a sort of charmed circle. New generations and young people coming along are always excluded unless they inherit land from others, and modern medicine makes that a long wait. Taxes on land value are viewed as a counterpoise to this exclusion, in three ways. First, money is raised for public purposes. Second, the owner is pressed to use his land in such a way as to render service to others. And Third, he has to hire labour to accomplish this.

It is consistent with this philosophy that lands which are open to public access are exempt from property taxes. Open access is accurately perceived as negating the need for compensation because there is no exclusion. It would be compatible with site value tax philosophy to exempt "open space" from the property tax provided the open space was not fenced and was truly open for use. The philosophy is, however, incompatible with passive fencing, that is, exclusion without letting people in at all.

Consistent with this concept I rather imagine that site value tax philosophy would let us exempt public right of way and even utility rights of way provided they carried the obligation to serve everyone on a common carrier basis, and the rights of way were not excessive. Lands used for commerce and to some extent industry are "Open to the public" in significant ways that private residential lands are not. The philosophy of assessing residential use at lower rates than business and commercial use is a movement away from site value taxation, at least as I interpret it. The idea that "commercial" is a dirty word is alien to the site value tax philosophy.

The idea that "ability to pay" should be the sole criterion of taxation is alien to the site tax philosophy. An individual owning land is obviously better able to pay taxes than the same individual without the land, true. But people may be able to pay because of earned as well as unearned income, and site value tax philosophy would clearly consider unearned income to be the more eminently taxable. The fact that unearned income is more highly concentrated than earned would be important to some site taxers, but to other irrelevant.

"Ability-to-pay" in practise often stresses short run liquidity more than long-run wealth or permanent income. Many people find this attractive in payroll taxation and sales taxation for example. Site value tax philosophy, on the other hand, as indicated above, is more inclined to make a virtue out of taxation to put a cash-flow bind on owners of under-utilized land. It would deplore the emphasis on liquidity, noting that the percentage of peoples' assets held in cash and near-cash declines with their total wealth. But the core idea is to preserve incentives. The philosophy, as I understand it, is a logical extension of the productivity theory of distribution where people are to be rewarded according to their contribution to the joint products of the economy and work should not be discouraged by taxes which dilute the rewards of effort.

A last element of the philosophy I would describe as "social auditing". The land holder is regarded as a trustee, presiding over resources in which the community has a paramount sovereign

interest. Each year a payment is assessed against him based on the capacity of the land to serve society. The demand for this payment is a kind of social audit, a way of asking the Biblical question, "What have you done with the talents with which we have entrusted you?"

It should be evident that these philosophical elements are put together in a different fashion than the polarized concepts of radical and conservative that we are more familiar with. The site value tax is more socialistic towards land and less socialistic towards labour and capital than is the norm today. It is more thoroughly market oriented by a good deal than almost any other economic philosophy, and yet it might require a higher degree of social control over city planning than today. There is no simple way to place it on the left - right spectrum. It contains several elements and simply has to be studied and understood in its own terms.

Site value taxation has many faces. Few will like or dislike them all. It has its partisans on the extreme right, on the extreme left and in the extreme centre. It is a policy like many others that may be embraced or repulsed by degrees and in parts. We have never been without some elements of site value taxation, since at least 1066 when William the Conqueror adopted it and set up in his Domesday Books an assessment roll and land registry. We have never gone as far towards it as its partisans would like. But one way or another, we are all as citizens and/or as public servants going to have to think and make decisions about most of the elements in the site value tax package over the near future and probably for the rest of our lives. It is a big elephant with many parts, and we will certainly handle it much better when we stand back and look at all its subsystems together rather than tickling the ear or twisting the tail.