Claremont Tabb, Landau Tax Bar

LVT, ideas.

1. Means of collecting for non-salable benefits from p.w.
   c.s.
   irrig kens.
   + flood control etc

2. Failure of inc. tax to reduce concen. shown by Eng.
   Net worth more concd than U.S.
   Fm. land " " " or Dk.

3. Continual current assessment of land possible; not of bldgs

4. Corp. tax is either passed on; or it isn't & reduces invmt on sites.

5. Cf. 2 sites. Present tax discrs vs. one that is improved.

6. Giant swings eliminated
   Thus elim. a major cause of swings in bank expansion.

7. Facilitate city planning, now frustrated

8. Break class structure

9. In personam taxes. Some ominous note.
   Joe Louis' plight.
   Falls Church: proposed requirement of permit to leave town
   B.I.R. principle of guilty until proven innocent.

10. Nat. selection among firms now depends on mgmt rather than accident of location

11. Venezuela, no taxes, no prosperity. Shows + role of LVT.

Outline of Sequence

Claremont talk on land taxes, preliminary outline.

Imitation pearls

Incentives — most taxes hurt

Inc. tax

Standard arguments n.g.

"Income effect" -- but all taxes leave you poorer. hence argument is irrelevant.

Ordinal ranking preserved -- but changed, bias toward psychic income

Historical supply response? Not a supply curve, but result of ↓d ability to buy leisure.

Besides, highly complex in practise, has unequal impact

E.g. of impact on land

arguments also apply to wage tax

Bldg. tax

Effect is same as Δi : $V_0 = V_n (1+i+t)^{-n}$. Bias vs. durability

Think of ~~bldg. as~~ 50-yr bldg as 50 bldgs in one.

50th bldg. is taxed 50 times before yields any return.

Its present value is $V_0 = V_{50} (1+i+t)^{-50}$

1st bldg. is taxed only once: $V_0 = V_1 (1+i+t)^{-1}$

Numerical e.g. of diff. impact.

Must lower cost of production of 50th bldg by much larger % than 1st, to get same yield

Effect on timber culture widely recognized. Effect on durable bldgs is roughly parallel.

Thus closes off invmt outlets that wd. absorb great quantities of capital, productively. Drives cap. into shabby, flimsy stuff. Not faster demolition unfortunately, just

Invest in bldg. until

$\frac{MR_n}{P} = i + t + \frac{\Delta P}{P}$

So if bldg. is durable, $\frac{\Delta P}{P}$ is small & Δt has large effect; if $\frac{\Delta P}{P}$ is large, swamps t-effect. t has less % effect on total costs; is smaller % of gross income. Hence demand is less elastic to t.

less substance in later years.

Hi utility rates, used as taxes, excess burden, here a bit more excess bec of decreasing costs.

Land tax unusual in not hurting incentives

Extend durability argument, tax has greatest effect of all on land price: $V_0 = \frac{a}{i+t} = a + \frac{a}{1+i+t} + \dots + \frac{a}{(1+i+t)^{\infty}}$

Max. impact on value, destroys pvt. incentive to produce land — but land is there anyway!

Fact that the tax falls on rent is a necessary but not sufficient condition for this.

Announcement effect of tax may suppress rent.

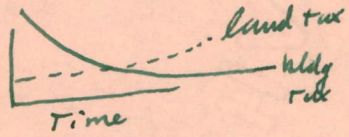
E.g. "land taxes" in Levant, India -- land income taxes.

Like British rates
or increment taxes.

Must be non-contingent. Long run, only base on which can so levy is land. (Is still contingent on joining taxing body, if that is optional, to argues for reduced options. State land taxes.)

Or max. Poll tax.

Contrast time-distr. of bldg tax & land tax:



To individ., land tax is less present value, hence less burden & discussion. (Besides, it lowers l.v. & int. burden, so is no burden.) Bldg. tax a) causes less durable bldg; b) keep it longer!

But land tax better. Improves incentives.

More important than reducing other taxes? Venezuela.

Increases leverage, e.g. if take 80% of ec. rent.

a. Aggreg. max. reduction of net worth. Ag drive to cap. acc.
Higher returns, but lower net worth

b. Improved ordinal ranking of uses, i.e. allocation.

Credit rationing dominates allocation of land, more than any asset.

Restaurant, cap. turnover = 365/yr. so $100 bucs gross of > $36,500. I.r. no consequence.

Land, never turns over. i.r. paramount

Leasing & lending help, but clumsy & unec. instns

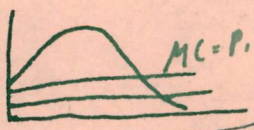
Leasing filled w. perils, costs, & losses

Lend'g based on collateral

So MC of hold'g land not same among individs.

Pass out Table 1A, draw graph: ? of antics. As, $V = \frac{a}{i-g+t}$, t has greater leverage.

Land tax substs tax cost for int. cost. swamps given $\frac{\Delta P}{P}$. can't claim to reduce $\frac{\Delta P}{P}$ however, bec reduces P also.



Bes a hi t. $\frac{MR}{P} = i - \frac{\Delta P}{P} + t$

? s esply potent when expect As.

Finally, cf. hldg. vs. land tax over time.

Taxes that hurt incentives are accepted bes. equalizing

But is gn. if they are. Eng., net worth, 10% have 72% vs 60% in U.S. Eng. fm land concn. not decreasing.

Land tax remarkable in being pro incentives, also hitting concn.

Farm vs. city. Urban l.v. ≅ $5006 vs farm $506

~~Conc. of~~ Net worth more coned than income. 10% hv. 30%
vs
10% hv. 60%

R.E. more coned than pnl prop.

66% own cars

75% .. life ins.

14% .. r.e. other than homes

45% .. homes

Land more coned than r.e.

Larger holdings, more land/hldg.

Trend into future by those of stronger forces.

All told, probly top 10% have 90% — a guess.

So coned is land, keen argument the other side — too narrow a tax base, voters will be extravagant.

Landholders make best watchdogs of Treas. who ever ~~worked~~ worked.

No substance. Only argument of weight is maybe won't let enough tax be taken bec needed public services.

Land tax also helps solve problems of inter-regional & inter-district equity (inside taxing jurisdictions)

Those who get a benefit pay more taxes. Reduce logrolling.

At present they get Δ l.v., which can sell, get gain w/o payg Δd taxes, & Δd taxes can't offset gain.

Thus permit departure from postage-stamp xpta rates & reduce public invmt in xpta overhead

~~Adequacy of tax?~~

Dilemmas of fiscal policy:

1. Inflation - if balance budget, reduce invmt. opps., reduce effective demand, & raise supply prices by adding taxes. LVT Δs inv. opps., reduces supply prices, & thereby probly Δs effective demand.
2. Local. If tax, drive away indy. If lvt, attract it. Esply in conjunction w. decrg cost indies.
3. Concn.
   Now if tax to redistrib. inc., hurt incentives.
   ~~Thus~~ LVT does both.
4. Fair taxn. of cap. gains.
   LVT, are no cap. gains.
5. Harsh treatment of bodies or persons of delinquents. Joe Louis Falls Church Guilty until innocent
   LVT, take land as forfeit
6. Cap. fmtn. Present great concern.
   Is it not fn. of i.r.? No good empirical answer, much intuition or introspection. W. in that limit seems clear to me, is fn. as much of assets than current inc. ~~Not~~ Δ i.r. lowers assets; & Δ t does same, if lvt.
7. Inadequate obsolete unfair appraisals
   a. Simplifies enormously
   b. Makes it worthwhile to do job right, if raises much money.
8. Means to get decr. cost p.w. to pay for schools.

Claremont topics

Land as a tax base.

1. Land cycle & ec. instability

Durability of cap. is key factor in cycles. Wicksell's wine. Higher turnover, employ more w. given q. of cap. Rent dets rate of turnover. On individ sites. Also, luring cap. into needless land devmt.

Hi l.v. cause liquidation of cap. from old improvements, to pour into new land sites: intensive improvement; & utility-xpt extensions. A pd. of activity as cap. turns over. But it gets sunk. And then lowers l.v., destroy'g incentive to liquidate & improve.

2. Tax capn. Pass out sheets, both numbers & graph. Also apply to situation of antis. As (if neg by assum'g const. annual ~~—~~ % Δ rent)

3. Effects of bldg taxes, discr. vs. durable improvements. ~~Lead~~ Excess burden ~~ costs (+)~~
Discr. most of all vs. land (or timber), but not produced. Instead of excess burden, excess gain.

4. Macro effects: lower invmt. opps. (by contingent taxes)

5. Inc. tax gimmicks

6. Bias toward p.w. Ants. Galbraith. Calif. examples round about us.

✓ 1. In rem vs. in personam.

✓ 8. Non-contingent tax, is essence, not land tax. Land happens to be ideal base. Stock rather than flow. (In l.r. cap. is also a flow). Tax-elasticity of supply is zero — or less!

✓ 9. No excess burden
Mgnl incentive vs. assets remaining. L v t. lowers pvt. assets
w/o lowering nat. assets, quicker in any tax. Fallacious arguments re incentives, cf inc. tax vs. no tax, rather than land tax.

✓ 10. Hard to distinguish land & improvements? Cf. inc. tax
Ref. of land? Based on future salvage value.

✓ 11. Incentives. Inelastic labor supply? Counter received arguments.
" savg supply? Solo argument

Claremont topics, 2

12. Internat. aspects

Introverts us. Cultivate own garden. Reduces expansion pressure.

From individ. to city to country, aggregates

Means for land reform in mgnl countries

✓ 13. Means to MC pricing, collect c.s. This is public finance -- Ralph taught it, Hotelling brought it.

Calif. P.Ds.

✓ 14. Means to distrib. equity, tax winners & compensate losers automatically (1st Ours) / of land. But

✓ 15. Adequacy? Not demanded of other taxes, but conventionally other arguments not affected by outcome of this.

greater than thought, bes other taxes reduce l.v.

But breaks artificial scarcity, may lowers base thus, ~~policy~~ But not

sure, ~~but~~ there is artificial scarcity, bes demands for extensions etc.

create artificial surplus at one stage of cycle. Eo. rent ed. be

very high.

Many public costs ed be much lower w. compact settlement.

Higher tax base per mile of streets & utilities.

Military --- pacifistic ~~and~~ tendencies shd help lower them.

also an improved subst. for subventions to fn. allies, as tool

of fn. policy.

✓ 16. Progressiveness. Conc. of land vs. income.

Upper 10% have 80% or so. LCR

Land ratio ↓s w. ↑assets

So land tax is progressive w/o hurting incentives. Remarkable combo.

Opponents argue both ways: a, Hits too many people

b, Sales tax better bes hits everyone

✓ 17. Criticism: unstable base. Answer: ~~not~~ instability is due to inadequate taxes, problem corrects self. But if don't tax, land cycle makes much trouble anyway. Thus work into cycle.

put qu. in perspective. Is tendency to apply more rigid test to land tax than others bec. of enthusiasm of some proponents. Then if can't meet test, reject altogether.

Let's be fair

Claremont, 3

18. Improves compn.
Removes cap. barrier to landownership, opens it to new firms. Forces those w. good banking connections & mopy pwr to disgorge.
Forces cities to behave competitively

19. Re inflation
Lowers price of thing taxed, not just by capn but by Ag supply.
Releases resources from wasted devmt of unneeded lands.

20. Easy to find, vs. income, intangibles, etc.
Easier to assess. (remember. can't est. inc. w/o assessing land too)

21. Crime, less incentive to
Bootlegging e.g.
Inc. tax, creates clear bias toward occupations hard to check on.
Hardest of these is crime.

22. Def. of land (& rent). A few words.

23. Effect of land tax rates vary w. i.r., inversely. So when capn rates go hi, need to raise t to compensate,

24. ~~Objections~~ Modify land tax to make it more acceptable? meet objections.
Withholding? Easy monthly payments?

25. Re dilemmas of present fiscal policy. Now we fear to raise taxes to block inflation for fear of depressing production, get inflation. States & cities fear to raise taxes & drive away indy. LVT doesn't.

26. Re cap. fmtn. New opps. in long term investm.

27. Re size of individ fortunes. They must be administered actively if turn over fast.

28. Minerals ?

29. Work out tables showing effect of tax & i.r. on diff. asset. Haven't ? already ? Yes. Get them worked up.

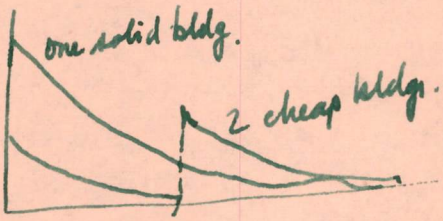
Play with some valuation formulae.

Equate interest-elasticity of demand & tax-elasticity of demand, show they diverge w. futurity. affect not just aggreg., but distort structure.

Durable bldgs, regarded as ex. of scale.

Over life, improvement tax falls, land tax steady or rising. Land tax shortens life, but encourages bigger initial bldg.

Buildings travel thru time. Can travel light or heavy.



Yes

Intensity quotient: tax reduces it, biases vs. it. Cf 2 uses of diff. i.q., tax biases vs. higher.

Is thus like a turnover tax in part. Bldg tax is.

Hits intensive uses.

But hits durable bldgs of long life hardest of all, thus discourages that kind of low turnover.

Bldg tax doesn't encourage short life, bec tax is lower in later yrs. Just encourages flimsier improvements.

Think of a 40 yrs house as a 2-stage rocket. 2 houses, one carried inside the other, piggyback.

Suppose can build the 2d 20 yrs on for 20% more: i.e. 100% Δ of time, or double useful life by 20% Δ cost. Worth it? Depends on costs of carrying 2d stage over 20 yrs. Int. & taxes. Taxes discourage. Not just a few unusual cases, but unusual extensions of all cases. Continuum.

Contradiction? I say improvements tax acts like i.r. & discourages long term invmts. I also say i.r. diffs. don't affect long invmts. much! Watch this, balance is important.

Is tax exactly like i? ~~Think not. Work out inf. series.~~ Yes.

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30. Effects of Δ Rs on N.I., or psychic feeling of having income. Not reflected in N.I. data (which are ∴ unreliable guides to fiscal policy)

31. i & t are parallel. Why does Δ of either have more effect on durables than non? Be ready w. several viewpoints:

a. % decline of present value of V_n increases with n.

You pay i & t on P n times.
So interest-elasticity of demand, & tax-elasticity, are high for durables, low for non.

b. On annual basis, depreciation is a cost, additive with interest, reduces leverage of i & t.

c. If we ~~define~~ define product net of depreciation & turnover, we are deducting them from rev. instead of adding to costs, & it shouldn't make any diff. Now MR has very little relation to MC, bcs we have netted out 99% of MR & MC, by def. (next page)

d. Analogy. Low price-elasticity of demand for small components of large projects. "Importance of being unimportant."

c. (resumed). If gross is $36,500 +, and we net out all but $5, int. on $100 capital, a change of i won't affect Q of capital at all.

Claremont address 2

6-29-61 O.

Afternoon

Goffney notes

1 Thank College for hosp.

Return of the native ~~Eyes filled w.~~ Done beautiful things w. campus. Great improvements. As I groped about my eyes filled w. tears.

Most pools yr. eyes sting if open them under wtr.; here, if above wtr.

2. Thank Lincoln Editor, 1st chance to talk on land trust.

Skirt topic

Fertilizer talk. My audience tell me - -

Like man who finally got his girl - - -

Land as a Tax Base

1. Effect on Incentives.
2. Effect on distribution of assets
3. Resolution of some dilemmas of fiscal policy

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1. Effect on incentives

As tax take Δs, concern Δs.

Land tax remarkable in not damping. Most need no persuasion this sets it apart from other taxes. Some ecists argue other taxes don't damp incentives, however. To begin by considering some other taxes & arguments.

A. Income tax, progressive personal

"Income effect", offsets mgnl.

Comments: 1. Shd be called asset effect or "net worth" effect.

2. All taxes leave you poorer.

3. Cfg taxes, incentives & $\frac{\text{mgnl returns}}{\text{net worth retained}}$

4. Inc. tax one of more effective stiflers of incentive devised by fiendish mind of man.

Preserve ordinal ranking of uses

Work less in aggregate.

Move to higher psychic content, labor.

Land, move to cap. gains eligible uses, & owner's direct pleasure.

Historical supply response of labor

Not a supply curve. Other changes: Δ assets; Δ inc. tax.

Should have mentioned effect of inc. tax on land use.

B. Building tax

Begin w. timber tax. Tax 75 times before yield, stops timber culture. Widely recognized.

Same as Δi. ~~Numerical~~ e.g.

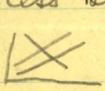
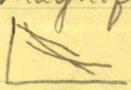
$V_0 = V_n (1+i+t)^{-n}$

Think of 50 yr bldg. as 50 bldgs. 1st bldg. taxed once, last bldg. 50 times. Must lower cost of production of 50th bldg. much higher %, after tax, to get same yield.

So build in less durability, or less value for later years. But keep bldg. just as long or longer! [Bes. antic. tax. lowers net return from new bldg. & avoid tax by drawing income from old over longer time]

C. High utility rates used as tax

Excess burden magnified by decreasing costs

D. Land tax

1) No suppression or stifling of constructive individual incentives. Has max. effect on value of tax base, bcs most durable. $V_0 = \frac{a}{i+t}$. But the thing is not man-made.

Sometimes part of value in. E.g. subdivider pays for streets, recoups on lots. So long as we rely on this, must be careful in admg not to stifle this incentive.

Omit

Omit

But even here, is as much good as bad. Encourages public devmt of streets & utilities. Facilitates city planning by minimizing income (& net worth) xfrs from p.w., zoning, etc.

"Falling on rent" is not essence. Depends how it falls on rent: announcement effect. Rent income tax ng, & increment tax. Ad valorem tax, non-contingent; unavoidable.

Only base not contingent on productive effort of individuals is something not produced by individuals. People - poll tax; or land.

Only contingency is joining jurisdictional unit that levies the tax. But not peculiar to land tax. Argues for use at State level. Throw out to audience as unsolved problem.

2) Better than neutral. Improves incentives. Maybe more imptnt — consider Venezuela; or "tax less towns"

a. Max. reduction of net worth, per $ of tax collected, thru capitalization. Parallel to Solo argument re effect of i on saving.

b. Tax constraint substitutes for implicit interest constraint on occupancy of land.

Δs leverage of incentives. E.g. if take 80% of rent.

Reduces advantage of good credit rating, & even moreso of accumulated assets, in land mkt. Short-circuits credit mkts in xfrg land. Major factor.

w/o tax, syst-ematic bias toward strng hands

$V = \frac{a}{i+t}$, & as t rises it swamps i

If expect Δa, t leverage grows: $V = \frac{a}{i-g+t}$

to effect of t is most dramatic when g hi & i low.

Pass out Table 1A, w/o discussing much

(I am skipping 3 demonstrations.

a. Tax capitalization

b. $\frac{MR}{P} = i - \frac{\Delta P}{P} + t$

c. Low importance of credit barriers for short term assets.)

Summary effect of Bldg. tax & Land Tax over life of bldg:

To the builder, tax deferred, less burden. But land no more expensive, maybe less.

Not just bldg tax but all sales, income, inventory taxes etc. hit harder in early yrs.

Fisc income not deferred bes so many lots now in later stages

2 Effect on distribution. (Pass out sheets.)

We accept stifling taxes bes fancy they help achieve distrib. equity. (Just as French accept unec. farms.)

But do they? Eng., ownership of fm land not deconcentrating. Eng. net worth, 10% have 72%, vs. 60% in U.S.

Land tax remarkable, simul. works for incentives & vs. conc.

Fm. vs. city, more l.v. per cap. in cities. $500 vs. 50.

Net worth more concd than inc.; US.: 30% vs. 60%

R.E. more concd. than personal prop. & liquid assets

75% own life ins.

66% " cars

45% " homes

14% " other r.e.

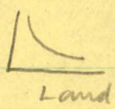
Land more concd than r.e.

Fm. census shows larger holdings, more land/r.e.

Even when msre by gross sales, which not only escapes regression fallacy but reverses it bec gross sales are biased toward hi turnover rather than value added on site.

Other evidence: Δ home size, cost Δs less than in prop.

But larger site, classier area, cost Δs more than prop.



Small firms, all squeezed for land to spread overhead.

Reasons: suppose Rockefellers put $1b into food inventory of restaurant. Gross $365b. a year, + all value added. More than GNP.

Beyond mgmt capac. So buy land, never turn over. Gross $50m a yr. at 5%.

Or appreciating land, best of all, defers income, no mgmt.

So is selective process, land gravitates to strong hands.

% liquidity declines as net worth Δs. JFK.

Land is so concd., hear opposite argument, base too narrow, majority will be extravagant.

Some opponents even argue both ways at once: hits too many, poor people own most of land, is regressive; and hits small minority, who need protecting.

Can't have it both ways. ~~It is a minority~~ It is concd. in hands of a few, more than other tax bases. (& they bitter, too)

Best watchdogs of treas. who ever barked, ~~best~~ orgd. One of least likely eventualities I know is that they shd. be completely overborne.

Further, to extent they are they grow stronger, by adding new members.

Danger is rather the opposite, they will not let enough money be raised for needed services — from land, i.e. Now there is no curb on their demands for extending p.w.

~~But~~ no one can say present system doesn't lead to extravagance. Res. landholders bogwell. LVT reduces needs for public spending. Consolidates popn. Reduces pressure for unec. extensions & projects by making beneficiaries pay.

Danger of public extravagance is high when landholders not taxed. Logrolling, w/o effective opposition. Simul. decay of old centers drives popn. out

By way of summary

3 Contribution of lvt to ~~solving~~ helping resolve several current dilemmas of fiscal policy.

a. Combatting inflation, [Fed. level, but also local bes can reduce ? if balance budget, ↓ supply prices, reduce [subventions] invmt opps. Lvt opposite -- [thereby also maintains effective demand.]

b. Getting p.w. to pay for selves w/o excess double burden. Flat charges on benefited lands. Also consolidates, lowers costs more, triple benefit.

c. Cap. fmtn. We are falling behind. Some countries do it by taxes.
LV deflates mkt. value of natural assets, thereby ↓s incentive to store up new cap. Sols argument.
Also ↓s invmt opps.

d Log rolling, excessive demands for unec. p.w.
Tempers demands bes beneficiaries pay, & popn. agglomerates or clusters, compactly.

e. Competitive undertaxation among localities
LVT attracts capital.

f. High appraisal costs, lagging reassessments
LVT cheapens much
High ± justifies more spending on frequent reappraisal.