

Is Henry George's Land Value Tax Fair, Efficient, Both, or Neither?

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Abstract

In this essay, we believe that land value tax is efficient in the short term while being unfair in the general term. In 1935, the United States was in the midst of the Great Depression, and to make a living, Charles Darrow sold the “Monopoly game” to the toy manufacturer Parker Brothers (Pilon, 2015). The game became an overnight hit, but the real inventor behind this century-old game was Elizabeth Magie, one of the followers of George. Henry George's book *Progress and Poverty* deeply influenced Magie, “the right to use the land is like people breathing equally”. Magie spent the rest of her life proving that George's philosophy was right. In the second mode of the game, Prosperity, which Monopoly never came out with, the lands are not being owned privately. As long as someone makes money from the trade of land, all other players can gain from it. This design reflects Magie's advocacy of land value tax, which rejects private ownership of land and promotes land as the common property of mankind.

Keywords

Land Value Tax, Efficiency, Equity

1. Introduction

Land value tax is a tax on the value of land only and does not consider other factors such as building value, personal property. George agrees that most productivity comes from land. No one is born owning land, indicating that people only have temporary rights to use it. Thus if a person wants to use the land, he has to pay taxes to the whole community. Other taxes prevent some beneficial transactions and interfere with actual production, not maximizing social productivity, and the additional tax exceeds the customer's psychological price point so they won't buy. As **Figure 1** shows, since the supply of land is fixed, the burden

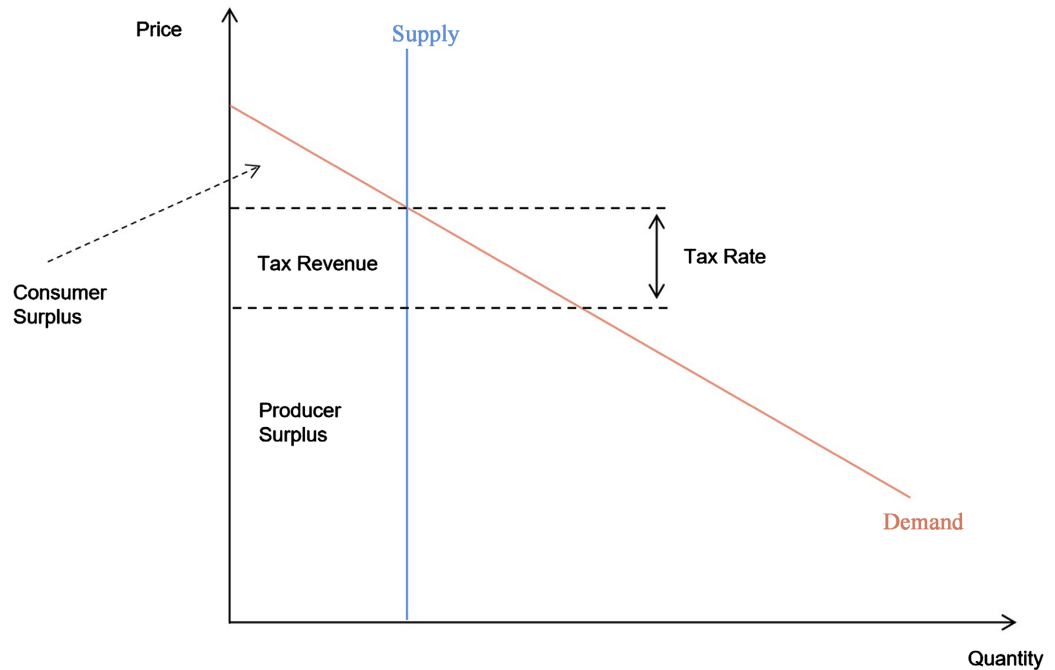


Figure 1. Supply and demand curves after the implementation of LVT.

of taxation falls on the landowners completely (Wikipedia, 2022a). So the land value tax shifts the tenant's demand curve to the right, the triangle which below the demand line, to the right of the price line and above the tax revenue is the consumer surplus, Producer surplus is the difference between the value of the land and the current market price. There's no increase or decrease in the rent price or the number of transactions. Also, both consumers and producers can attain the surplus from the trades while the government can accrue a significant amount of revenue from the taxation of lands.

2. Ease of Use

Review about Equality and Efficiency of the Tax

The inequality impact of the loan market on land market can be reduced effectively through land value tax. The rich have the power to take risks. In this way, mortgage lenders will generate greater interest and stress on the poor people as the credit market favors the wealthy. The amount of wealth has an impact on the credit market; thus, the rich can speculate with more land through the lending market. Land value tax reduces the return to landowners, and it reduces the price of the land. As a result, people do not need as much credit to borrow bank loan. Land value tax makes the poor received more land at a discounted rate, in addition, the distorting effects of the lending market being improved.

Former Continental Congressman William Duer raised large sums of money and government bonds, an act which led him to quickly default on his debts and also destroyed the savings of some middle and working-class people (Wikipedia, 2022b). Duer then tried to restore his wealth by speculating on land, which set

the scene for the bubble to burst. But the immediate cause of the fear was a scam by Boston businessman James Greenleaf, Philadelphia financier Robert Morris and also John Nicholson. Lacking funds, they issued their own private tickets. Creditors bought the notes because of Morris's financial status. The notes were then rapidly devalued. Their notes reached \$10,000,000 at the end of 1796, only an eighth of the price at which they began trading. But with James Wilson sent to prison, their business plan failed. In 1797, the British Parliament passed the Bank Restriction Act, which canceled coin payments and interrupted the supply of silver in Britain, exacerbating the damage caused by the land speculation bubble and accelerating the collapse of the speculators' schemes by 1800, the crisis had spread to New York and Boston with the collapse of many companies and the imprisonment of many bondholders, and the economy of the port cities on the eastern seaboard suffered seriously. The panic led to a decline in commerce in the American port cities, and in addition to the land speculators, some artisans and laborers were also affected.

Similarly excessive land speculation would definitely have a bad effect. Speculation is selling or buying an item based on a favorable change in supply or demand (Foldvary, 2006). Since the amount of land on the planet is immutable, the reason for land rents rising may be due to population movements, where areas with low productivity will have their rents decreased and areas with high efficiency will increase in terms of rent. The act of speculation accelerates the rise in land rents. So speculators will make land price expensive higher than expected price. Land value tax reduces the price of the land to decrease the potential benefits of land speculation (Foldvary & Minola, 2017). It promotes the landholders becoming the users of land so that it can reduce the scarcity of land caused by speculation. $P = r/i$ is the formula for land price and rent. If land value tax is implemented, then the rent included the charge. The equation becomes $P = r/(i + t)$ when land value tax is used, the higher land price taxation rate t , the lower land price, and people can access cheap land more easily.

In addition, once a piece of land has been assessed, the tax of the land can be collected. And all of the land tax can be collected online, which is very convenient. The collection of the land value tax is also very easy to manage as land is an identifiable commodity, so landholders are not be required to keep records of transactions (Foldvary & Minola, 2017).

Based on the fundamentals of land value taxation, the owners of the lands have no power to interfere with the actual value being taxed on the lands, as the lands' prices are a collective consequence of the community, regardless of the amount of products the owner actually produced using the land. The land value tax is uncontrollable, which means that it won't decrease the enthusiasm for production. When taxes are no longer based on the amount of production, owners of the land will produce the largest amount of goods and exploit more owned-while-unused land to increase productivity as much as possible. According to Che Shulu, the younger generations are the actual beneficiaries of the

revenue collected from land value taxation through redistribution. However, this might not be the best land subsidy (Che et al., 2021). Land should be subsidized to those who need to be product good using the land. The land used for production will be used to build houses, so total production, wage rates and interest rates will fall, but the rent of buildings will increase. In short, the land value tax makes people develop undeveloped land. Capital intensity is the ratio between the labor and the capital, the higher capital intensity, the higher cost and labor productivity. If a land value tax is distributed wisely, people will be more productive and there will have more land developed. Therefore, a land value tax can provide an incentive for people to develop more land for production (Foldvary & Minola, 2017).

The Republic of China had also implemented a land value tax in 1926. As that time, the tax levied by the government on land was called field tax. For the Republic of China, field tax was one of most important economic sources of the country, and the state levied taxes according to the amount of land. Sun Yatsen's idea of land value taxation is completely different from that of field taxation, "the original idea of public ownership of land is indeed a precise and unsharpened theory (Wang & Xiong, 2012). Land existed naturally before mankind began. After mankind has been destroyed, the land will remain there for a long time. It is clear that land is owned by society". It is clear from Sun's words that he was influenced by Henry George, who also believed that land was owned by the community and not by the individuals. Sun wanted to discourage speculation in land by using a land value tax, while at the same time promoting the use of land. Chinese Nationalist Party passed legislation to implement Premier Sun Yatsen's idea of equal land rights. Initially, the land value tax was successfully implemented in the Gaozhou Concession, and later, the land value tax was successfully implemented in the Shanghai area, where it remained at 70 percent of the revenue for the Ministry of Works from 1921 to 1936 (Wang & Xiong, 2012).

On the other hand, fairness of the land value tax is in question. The levy of the land value tax needs assessments of the lands, and in Justice William Paterson's opinion, it would be bureaucratically complicated to assess the land value tax (Wikipedia, 2022c). Furthermore, no tool or government can accurately and fairly calculate land value tax. There is currently no database in the world to record the value of land, and even if someone could calculate the value of a piece of land, who could guarantee that his calculations would be accurate and fair? In Pennsylvania, in many municipalities, the building itself is taxed at a lower rate than the land on which it sits (Webb, 2013). With example, if a five-star hotel is built on two pieces of land of the same value and an ordinary bungalow is built on the other, but both buildings taxed at the same rate, then it's unfair for the owner of the bungalow.

Differences in tax rates are common in most countries (Hughes et al., 2020). Estonia does not have a sound legal framework or sufficient knowledge of market information to support their assessment of the land and the price of the land,

while they can only assess the value of land by natural factors such as location. So because of national legal systems or other factors, the value of land can be difficult to estimate fairly and accurately. Also, the frequency of land valuation varies from country to country. Whether or not the land is assessed or when it is assessed is decided by the government in Estonia and there is no specific law to determine this.

In addition, there are many loopholes in the land assessment. Suppose there is a purely natural and undeveloped piece of land assessed together with a piece of land on the same basis but developed. Land value tax is a tax based on unimproved land, so it would be unfair for the owner of the undeveloped land if it were assessed on the basis of its condition before it was developed. Secondly, the value of a piece of land is assessed and the taxpayer may not agree with the value of the land. The implementation of land value tax also requires the government or the skilled department to count the amount of land, and there may have errors in the process of counting or registration (Hughes et al., 2020). The series of questions clarifies that land value tax is not fair, or too subjective to be fair.

There are two disadvantages in property tax when it was compared with land value tax (Mills, 1981). The first one that property tax can make people invest in wrong projects and the second one that it would produce preference on the projects that return early. Converting a property tax to the land value tax can eliminate the first disadvantage but magnifies the second advantage. So land value tax is not equal compared with property tax.

3. Conclusion

In general, land value tax is highly efficient, while its fairness is too doubted. Personal speaking, judging from all the statements provided, we should be able to demonstrate that Henry George's land value taxation is to be used with caution, with special attention to the trade off between its fairness and its efficiency.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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