



## WHAT'S SO GREAT ABOUT LAND VALUE TAX?

At the Progress and Poverty Institute, we spend a lot of time researching **land value tax** and educating people about its benefits. Specifically, we explain how governments can use LVT to efficiently capture land rents and use them to lift people out of poverty or ease the burden of more harmful taxes on workers, homes and businesses. With rising interest in these ideas, you may be wondering: what's the big deal with land value tax? In this article we answer that question by explaining what LVT is, the intuitive ethical principles behind it, how LVT fits with the canons of good taxation, and what research says about the economic benefits of LVT. We will then conclude by highlighting the many malignant social problems which land value tax can help to combat.

### WHAT IS A LAND VALUE TAX ANYWAY?

Humans derive huge economic and social benefits from the ability to control, access, use, and exclude others from any given piece of land. Having the legal right to occupy a given piece of land is the fundamental bedrock beneath Maslow's hierarchy of needs, as we humans necessarily must exist in a physical place at every point in our lives before we can even think about finding shelter, food and clothing. Further, where we live has huge consequences for the opportunities available to us and our quality of life: are there good schools nearby, how many jobs and how well do they pay, how long will our commute be, is our neighborhood safe and attractive, and so-on. These characteristics are what determine land values across locations, both in the up-front price and the monthly rent. Land values can vary wildly even within the same city, for reasons entirely due to "location, location, location," being generated by nature, government services and society at large, rather than being created by the landowner themselves. Access to prime locations is becoming so important in the modern service economy that land rents comprise a large and rising share of output & global assets and are a major component of bank lending and other financial assets.

Put simply, the benefits which accrue to the owners of a piece of land are called land rents. LVT works to redirect these economic rents so that instead of flowing into the pockets of private landowners, they are diverted into the public purse and used for pro-social purposes. This can be achieved with a periodic tax which is charged against either the ongoing rental value or the up-front sale price of land. This latter approach is similar to existing property taxes, but with the crucial difference that homes, businesses and other buildings are completely untaxed. Taxes are only paid based on the value of the land. In a future article we will explore the differences between these ways of capturing land rent, but for the rest of this article we call them both LVT.



## WHAT ARE THE PRINCIPLES WHICH MOTIVATE LVT?

Our work at the Progress and Poverty Institute (PPI) is grounded in some key principles that we believe are both intuitive and universally appealing to people from many walks of life because they are visible across religions, cultural communities, and in core American ideals. The beating heart of these principles is this: the many benefits which humans enjoy from natural resources should be shared by everyone in the community. Our species is lucky to be endowed with a planet rich in resources necessary for thriving human lives, including air, water, fishing stocks, precious minerals, and land. But these resources should be allocated and used in ways which benefit everyone, rather than simply being a vehicle for profit by a select few. These principles can be seen clearly in the mission, vision and values which underpin our work here at PPI:

**Mission:** *To enhance liberty and equality of opportunity for all people through research, outreach, and community-level interventions that integrate concerns for economic, social, and environmental justice; poverty; and government granted privileges.*

**Vision:** *A world of liberty and equality of opportunity arising from economic, social and environmental justice.*

**Values:** *Fairness; Stewardship; Justice; Equity; Inclusion; Transparency.*

We observe echoes of these principles throughout our cultural and political zeitgeist. Countless James Bond films feature a villain obsessed with monopolizing nature, as is made obvious in the titles of "Diamonds Are Forever" and "Goldfinger," "In Quantum Of Solace," the villain Dominic Clear makes it clear why he wants to control Bolivia's water supply: "This is the world's most precious resource. We need to control as much of it as we can." Many wars in history can trace their origins to disputes over the control of territory, from the earliest [Mesopotamian wars](#), through [both World Wars](#), to the ongoing Ukraine conflict.

Many ancient religions heavily emphasize similar principles, with Christianity [teaching](#) that the earth and its resources are a gift from God for which humans must be responsible caretakers, and Islam's concept of [waqf](#) where land is set aside for public purposes. In Judaism, the [jubilee year](#) explicitly sought to redistribute land to prevent it from being monopolized by a wealthy few.

Indigenous cultures around the world often tend to endorse similar ideas: Native Americans [thought](#) that private ownership of water or land was absurd, believing that land could not be sold, only the temporary right to use it. In New Zealand, the Māori concept of [kaitiakitanga](#) embodies the deep connection between people and nature, and calls us to guard and protect our environment. Papakāinga are [modern housing developments](#) on traditional Māori land, where homes are sold for occupancy, but land remains community-owned by a Māori land trust.



Many public policies already embody the principle that the value of nature should be shared, such as oil and gas royalties, auctions of electromagnetic spectrum and fishing rights, and pricing of carbon emissions. When these policies are well designed, they ensure that natural resources are used efficiently (meaning that they maximally serve human wellbeing), sustainably (for both current and future generations), and equitably (with the value of these resources helping fund social services or, in cases such as the Alaska Permanent Fund, shared evenly with the community). Here at PPI, we apply these same principles to a wide range of urban and environmental policy questions, and especially to land.

Land value tax actualizes these principles. Recognizing land as an essential natural resource, whose value comes from the collective efforts of all members of society, LVT ensures that this value does not flow into the hands of private landowners but is instead captured as government revenues, where it can be deployed for social purposes. It is an efficient tax, meaning that it does not distort economic activity in harmful ways. Rather, by raising the annual cost of holding land, it encourages more productive land use, nudging speculators and land bankers into supplying much-needed housing, helping improve access to desirable locations and enriching society as a whole. LVT payments enable landowners to enjoy the benefits associated with exclusive control of a piece of land while also compensating all other members of society who are simultaneously excluded from that location.

At PPI, we conduct research which informs policymakers about tax shifts which increase the share of taxes collected from land rents, using the revenues to ease the tax burden on activities which are socially desirable like productive work or maintenance of buildings. Often, this takes the form of split-rate property taxes which increase the mill rates applied to land values, with offsetting reductions in the taxes paid by buildings and other improvements. These tax shifts help to reward workers and innovators for their contributions to society, while putting a price on the ownership of land. This is consistent with the American dream of rewarding hard work and discouraging passive extraction: "tax what you take, not what you make."

We also study ways to *increase the overall share of land rents which are captured* by the government, and ways in which they can subsequently be deployed for pro-social purposes. This includes both deploying LVT revenues to fund public investments such as transit, public parks & libraries, as well as widely sharing land rents through payments like universal basic income. Such initiatives must prioritize the *alleviation of poverty*, by ensuring that all households have the necessary resources to pursue their own happiness, and must be equity-minded, targeting support at those members of society who need it most, working to overcome underinvestment in marginalized neighborhoods of color, and always with a view to repairing racial inequalities and the divide between those who rent and those who own.

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[1] Senator Henry Dawes, while trying to end tribal land tenure pejoratively labeled it the "Henry George system." Indeed, tribes like Osage Nation even mailed out checks to share the land rents with members.



## HOW WELL DOES LAND VALUE TAX MEASURE AGAINST THE CANONS OF TAXATION?

Land value taxes are highly consistent with the canonic principles of taxation, which are applied the world-over by policymakers seeking to design optimal tax policies. Each **bolded principle** is *summarized in italics*, followed by an explanation of how this principle applies to LVT:

**Efficiency** (*taxes should not distort economic decision-making*): The supply of land at a given location is perfectly inelastic, meaning that LVT cannot be avoided and landowners cannot adjust the supply of land in response to the tax. This means that there is no deadweight loss associated with LVT; it is an efficient tax. Property taxes do not have this vital characteristic because the tax burden increases when a property owner builds additional dwellings on their land, which discourages renovation and redevelopment.

**Vertical equity** (*the tax burden should increase with ability-to-pay*): Land value is a key component of household wealth and therefore wealth inequality. LVT is therefore a progressive tax which can help to tackle wealth inequality.

**Horizontal equity** (*equal treatment of those in equal circumstances*): LVT treats \$1m of land in the same way, regardless of whether it is a small urban lot or a large rural lot. Neighboring plots of land tend to have similar land values per square foot and are therefore taxed in a similar manner.

**Revenue Integrity** (*minimize avoidance behavior*): Land is immobile, meaning that LVT cannot be avoided: landowners cannot hide their land away in foreign bank accounts.

**Simplicity** (*minimize costs of compliance*): Counties around the U.S. already administer a 'cadastre' of land ownership and property assessments. This means that LVT is administratively simple, and does not require the invasive process of valuing homes for property taxes, or the complex task of valuing niche assets like art for wealth taxes.

**Transparency** (*give taxpayers certainty*): land owners will have clear information about the assessed value of their property, with land rents tending to move predictably over time.

**Broad-base, low-rate**: LVT will broaden the tax base, and enable lower tax rate to be applied to other tax bases (incomes, sales, buildings).

LVT is highly consistent with the canons of optimal taxation.



## **ECONOMIC EVIDENCE REVEALS THE MANY BENEFITS OF LAND VALUE TAX**

Both economic theory and empirical evidence strongly support land value taxation, and it enjoys strong support among economists. Research clearly indicates that LVT produces better outcomes than taxes on incomes, investment or improvements. We summarize the research into the impacts of LVT, with hyperlinks to relevant publications:

- LVT does not raise rents; it cannot be passed on to tenants.
- LVT discourages land speculation and lowers vacancy rates, increases the rate of housing construction, ultimately lowering housing rents.
- LVT encourages infill and discourages urban sprawl.
- LVT increases the rate of business formation.
- LVT increases employment and output.
- LVT increases tax compliance and lowers rates of tax foreclosure.
- LVT incentivizes optimal municipal governance, as it makes good public investments self-funding.
- LVT reduces inequality by challenging the increasing role of land rents in wealth inequality.
- LVT can smooth the business cycle and prevent economic shocks and recessions.
- LVT corrects racial & class inequalities by taxing exactly those individuals who are enjoying disproportionate benefits from owning & accessing premium locations.

Clearly, there is a wide body of research indicating the massive potential benefits associated with land value taxes.

## **POTENTIAL PITFALLS OF LVT**

We would be loathe not to identify some of the obstacles which can hinder the implementation of land value taxes. Crucially, LVT requires accurate estimates of either land rents or land values. While most counties in the US maintain an office of assessors who value real estate for property tax purposes, many jurisdictions either fail to split assessments into land and buildings or have land tables which are several years out-of-date. Philadelphia, for example, somewhat arbitrarily assigns 20% of total property values to land, which is highly unlikely to be accurate for all properties in the city. For LVT to yield all of the benefits outlined above, cities need to have up-to-date estimates of land values, using assessment methods which are accurate and do not change when landowners build or redevelop their property. Because revaluations can cause sticker shock for property owners, policymakers implementing a LVT should clearly communicate that the tax implications of the LVT are separate from those due to the revaluation.



Similarly, in places where homeownership is entrenched as the only viable pathway to the middle-class, LVT may face considerable political opposition from who are deeply invested in maintaining the status quo. While this is a symptom of a broken economic system that operates more like a , these political obstacles are real and must be resolved. Savvy policy design can help to soothe these concerns and smooth the transition to LVT. Retired homeowners, who are often cash-poor but land-rich, may be concerned about their ability to pay their LVT obligations. This can be addressed by offering them the ability to defer payment of their LVT, having the tax obligation accrue as a lien against the property title. Redistribution of LVT revenues can help ensure that most voters are left better-off in real terms. The LVT plan for Detroit has been designed to reduce property taxes for 97% of households.

In some rare cases, LVT can appear regressive or at least less progressive than other forms of wealth taxation. For example, due to historic processes of segregation and white flight to the suburbs, some US cities see communities of low-income and minority households mostly living in city centers. With the recent urban revival driving up land values in urban areas, this can cause LVT shifts to appear regressive as they raise tax obligations in low-income neighborhoods. Note however that these households typically rent their homes and, because LVT is paid by landowners, the true tax obligation ultimately falls on their landlords who often live in the suburbs (Fig. 32). Any distributional analysis of LVT should account for these patterns of ownership. Likewise, while the wealthiest 10% of households own 45% of all real estate, poorer households often appear to have a larger share of their wealth invested in real estate, making LVT look regressive in percentage terms. Again, these types of analyses should account for the fact that other wealth categories, like corporate equities, also represent indirect claims on real estate. LVT revenues can also be redistributed in ways which make it unambiguously progressive.

## **LAND VALUE TAX CAN HELP TACKLE MANY URGENT SOCIAL ISSUES**

America can proudly boast of endless natural beauty, broadly inclusive political & economic institutions, lively & dynamic cities, cutting-edge research & innovation, and a relentlessly productive economy, all of which produce incomes and quality of life which are among the best in the world.

Unfortunately, these privileges increasingly hinge on having access to America's many thriving urban centers. Land in these cities therefore commands an exorbitant premium. Underutilization of this land is contributing to the ongoing housing crisis, while LVT can spur the construction of much-needed housing in hotly-demanded locations.



Land is extracting a rising share of GDP, leaving less for workers. Speculation on real estate is driving the boom and bust cycles which periodically ravage the economy and throw millions out of work. LVT can help to smooth these cycles by lowering land values.

Consistent with the predictions of the 19th century proto-economist Henry George, land rents and housing costs have risen along with social progress, driving the landless to the brink of destitution. Ultimately this has pushed many onto the streets and produced the rampant homelessness which is unfortunately characteristic of so many of the wealthiest cities. LVT can produce the revenues necessary to help struggling tenants afford their housing costs, provide supportive housing for those in homelessness, and make much-needed investments in infrastructure and public amenities.

Extractive urban land rents mean that most of the benefits for workers and businesses are ultimately captured by landowners, ultimately contributing to a widening chasm of wealth inequality. The flow of land rents from black tenants to white landowners is also a key mechanism underlying ongoing racial wealth inequality. LVT helps to redirect these natural resource rents into the public purse.

## CONCLUSIONS

LVT refers to recurrent taxes charged against the value of land rents or land prices and payable by landowners. Consistent with the principles of the Progress and Poverty Institute, LVT encourages productive land use while recognizing that the value of this precious natural resource should be captured and used for the benefit of all members of society. Testing LVT against key tax principles indicates that it is an efficient and equitable form of taxation, superior to those taxes which fall on workers, homes and businesses. A review of economic research on LVT reveals that it can help boost employment, business formation & housing supply, encourage better governance, and, because it is paid by land owners and not passed on to tenants, can help to smooth the business cycle and reduce inequalities. With rising interest in LVT throughout the US and abroad, subsequent articles in this 'LVT toolkit' will help to explain exactly how municipalities can undertake a LVT tax-shift, will explain the key components of a LVT study for governments considering such a policy, will explore a wide range of policy tools for capturing land rents, and will explore the past research on LVT. Contact us if you wish to discuss the potential of this policy for your community, and stay tuned to find out more!