

Discussion on the Potential Impact of Land Value Tax on Chongqing Real Estate Market

Qijun Tan

Chongqing BI Academy, Chongqing, 400000, China

Abstract: This paper attempts to analyze the potential impact of land value tax on Chongqing Real Estate Market. The paper will assess the fairness and efficiency of the land value tax, where efficiency refers to the maximization of utility whereas economic fairness means that all stakeholders have the same access to the resources plus a reasonable and equal significance. This study concludes that the land value tax is both fair and efficient on the basis of its equitable distributions among stakeholders and the minimal market distortion in comparison with other types of tax.

Keywords: Land Value Tax, Chongqing Real Estate, Potential Impact.

1. Introduction

A land value tax (LVT) is a levy based solely on the assessed value of unimproved land, which disregards the value of any buildings or improvements on the land (Bird, 2022). Henry George, in his 1879 book *Progress and Poverty*, proposed a single tax scheme where a land value tax replaces all other taxes. The essay will assess the fairness and efficiency of the land value tax, where efficiency refers to the maximization of utility whereas economic fairness means that all stakeholders have the same access to the resources plus a reasonable and equal significance. It will be concluded that the land value tax is both fair and efficient on the basis of its equitable distributions among stakeholders and the minimal market distortion in comparison with other types of tax. However, the difficulty of implementing a land value tax limits its use in reality, and therefore few suggestions are proposed in the essay to enforce the land value tax.

2. Overview of the Value of Land

Land is an essential natural resource that cannot be created or destroyed, and is, therefore, a finite resource. Thus, the land is a common resource so if anyone wants to use the land, it is justifiable that they should pay a “rent” to the government on the assumption that the government would, in turn, invest in the improvement of public welfare, which makes the fundamental basis of the land value tax fair, at least conceptually. Landowners do not create land values, but they reap the benefits of the price increase of the land. In *Progress and Poverty*, Henry George argued that “wealth attributable to land use ought to belong to the public, not individual landowners on the premise that the land separate from any buildings constructed on it generates wealth not through individual effort or ingenuity, but instead as a result of societal change.” For example, communities engineered developments that prompted economic growth—building up commercial districts or constructing railroads—and already well-off landowners reaped the benefits in the form of rising land values (Neklason, 2019). Both Adam Smith and David Ricardo viewed the land value tax as a procedure for society to correct the injustice which arose because land prices absorbed much of the value arising from the increased efficiency of labor and capital. Therefore, the greater the

productivity of a society, the higher the land values (Lindholm, 1979). Henry George's idea recognizes that community workers, rather than landowners, create and increase the value of land and related resources through their economic engagements.

3. Analysis of the Potential Impact of Land Value Tax

The progressive nature of the land value tax speaks to the idea of economic justice. However, while the current tax system is progressive, the burden disproportionately falls on the poorest in society, exacerbating the already extreme levels of inequality. According to a report by the Equality Trust (2016), in the United Kingdom, the poorest 10% of households paid on average 46.8% of their income in tax, while the richest 10% of households paid on average 34.4% of their income in tax under the current tax system. In the process, workers end up worse off because treating landowners and workers as equal entities scorns the very idea of economic equity as most landowners often come from a privileged position, and workers, who are often responsible for the economic welfare of society, get the short end of the economic stick. A single land-value tax would mean that taxes are levied on land improvements, implying workers and landowners are treated fairly, at least as far as tax laws are concerned. In other words, taxing value on land ensures equity in taxation, ultimately resulting in some semblance of economic justice. On the other hand, one of the original rationales of the land value tax is to address the inequality in the distribution of wealth in large estates. A federal land value tax was introduced in Australia in 1910 to break up the ownership of large estates and redistribute wealth to the working class to reduce income inequality (Hughes et al., 2020), exemplifying the fair nature of the land value tax through its redistributing power.

Critics of Henry George's idea of a single land-value tax point out that such a regime would be akin to nationalizing land ownership. I contend that the argument is not necessarily true. In a practical sense, “taxing value on land is all about ensuring tax proceeds benefit the very society responsible for maximizing land value” (Tideman, 2015). Although landowners own an important resource, they are rarely responsible for its optimal use. Henry George recognizes that

the windfalls of owning the land should not all belong to the landowners. Instead, individuals who put up physical structures and those who exploit the soil for agricultural purposes are responsible for adding value to land (Bryson, 2011). Therefore, it is justified that the owners of the land should contribute a portion of their gains to the society through the land value tax for the sake of fair redistribution of social wealth.

A land tax is an efficient tax—it does not distort investment choices because, with trivial exceptions, the amount of land is fixed and thus unaffected by a tax on its value. Also, the burden of the land value tax completely falls on the landowners, who could not shift the burden to other people in this situation. Most taxes are inefficient because, in addition to transferring resources from the private sector to support government activities, they also change the price of the taxed activity and thus distort market choice (Dye & England, 2010). This mechanics is illustrated by the following figures. With a regular tax added, there is a left shift of supply in figure 1, which causes a higher overall price and lower quantity consumed, while the supply curve is inelastic in figure 2, increasing blue shaded consumer surplus as well as yellow shaded tax revenue by eliminating the deadweight loss in figure 1. Since the land value tax does not result in the distortion of economic decisions, nor does it discourage beneficial economic activities. With individuals under such a system securing a sense of ownership, social agents are likely to act in the best interest of society. This feature makes the land value taxation particularly attractive for efficiency reasons, suggesting it could boost government revenue and stimulate economic growth more efficiently than other solutions such as a property tax (Saxena, 2021).

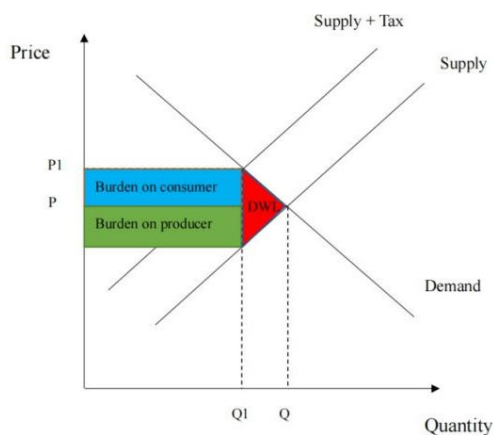


Figure 1. Ordinary tax that causes dead weight loss and a rise in price to the societ

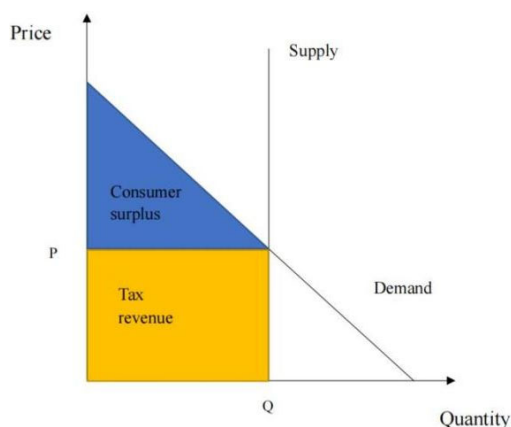


Figure 2. Land value tax with a fixed supply of land

The land value tax can also curb the problem of urban sprawl. In the last decades, it became increasingly clear that the under or non-use, as opposed to the ‘wrong’ use of land, can have negative external effects. The compact city is among the most advocated components of urban sustainability and a key planning paradigm, emphasizing the importance of infill housing and brownfield reuse. Present planning approaches, however, have difficulties addressing under-use, since new construction largely depends on the cooperation of landowners. Only in exceptional cases has urban planning the authority and have local governments the will and resources to directly enforce a certain land use. Planning, especially continental European planning by zoning or Master Planning, is usually an ‘offer’ to landowners, who can choose to either use their land according to plan or to keep the current state, which might mean leaving the land in prime locations under- or unused (Wenner, 2015). This situation could be solved by introducing the land value tax, which creates incentives for landowners in cities to use their land more efficiently instead of leaving it undeveloped by applying an annual fee for taking the land resources. In a hypothetical model developed by a group of researchers led by Seong-Hoon Cho, results show that distances are shorter between areas of preexisting development and parcels predicted to be developed under a hypothetical land value tax policy than distances predicted under the observed tax scheme, which suggests that land value taxation could be used to design compact development strategies in Nashville, TN (Cho et al., 2009). At the same time, a land value tax accelerates the trend that the demand for land in lower- valued parts of the city is increasing, shifting economic activity to where it is needed the most. Cheaper land with no tax penalty for developing it would increase developers’ interest—they could change entire city blocks, adding hundreds of housing units, without a major tax increase, which helps achieve a more effective allocation of resources, thus more efficient (Sayin, 2019). However, this only works in cases where land can be viably developed. If the land is economically not viable to develop, there is no value on which to levy a land value tax (Hughes et al., 2020).

Moreover, the prospect of a rise in land values stimulates speculation in land, causing the holding of land for prices higher than the current market conditions warrant, so fairly good land may be held out of use while the land of inferior location is substituted by those who wish to build. The direct result of such house hoarding behavior is the forcing into the use of poorer and more remote land instead of better and more accessible land, which in turn causes inefficiency. However, a land value tax can add to the cost of speculators and thus increase the chances of their potential loss, decreasing the incentive of such distorting behaviors and making housing a more accessible good (Brown, 1927). Should the cost of speculation outweigh the potential payoff, then the tax remains efficient.

Those opposed to the idea of a single land-value tax question the revenue potential of such a regime, claiming that a single land value tax would not be enough to replace all existing taxes. While that may be true, a two-rate tax, not a pure land value tax, could solve the problem. Due to fiscal realities, a single land value tax is unable to maintain a stable tax revenue as shown by the case of Philadelphia, where more than 80 percent of extra land rents would need to be collected by the city if a single land value tax is executed (Dye & England, 2010). Improvement values can still be subject to

taxation at a lower rate than land values to generate more fiscal revenue under a two-rate land value tax system.

Numerous challenges still present to the implementation of the land value tax. The biggest challenge is how to assess the unimproved value of land, which is a major reason why more cities have not implemented a land value tax. While it is possible to easily determine the value of the property based on the value at the last sale, this approach does not apply to separate the value of land from that of improvements, especially the future potential value. However, there are several methods that could potentially provide an accurate estimate of the unimproved value of land including using nearby vacant lots as a comparison, allowing government agencies to produce appraisals of land value, a similar method to the current process of producing property tax appraisals (Saxena, 2021).

4. Conclusion

In conclusion, Henry George's idea of a land-value tax has the potential to fund the optimal supply of local public goods, and it manifests fairness due to the nature of land resources and its redistributing effect on wealth. It also brings efficiency for its impact in reducing urban sprawl and land speculation with its non-distorting nature. And to quote Milton Friedman, the Chicago School of Economics leader, *"In my opinion, the least bad tax is the property tax on the unimproved value of land, the Henry George argument of many, many years ago"* (Pearl, 2021). Although a pure single land value tax is unreal, and difficulties exist with the implementation of the land value tax, it is still considered a very prospective and potential manner to better allocate resources in society.

References

- [1] Bird, B. (2022, January 24). What is a land value tax? The Balance. Retrieved June 28, 2022, from <https://www.thebalance.com/what-is-a-land-value-tax-5205929>
- [2] Brown, H. G. (1927). Land speculation and land-value taxation. *Journal of Political Economy*, 35(3), 390–402. <https://doi.org/10.1086/253857>
- [3] Bess, P. (2018). Henry George's Land Value Tax: An Idea Whose Time Has Come? *American Affairs*. *American Affairs Journal*.
- [4] Cho, S.-H., Gyu Kim, S., & Roberts, R. K. (2009). Measuring the effects of a land value tax on land development. *Applied Spatial Analysis and Policy*, 4(1), 45–64. <https://doi.org/10.1007/s12061-009-9039-3>
- [5] Dye, R. F., & England, R. W. (2010, February 1). Assessing the theory and practice of Land Value Taxation. Lincoln Institute of Land Policy. Retrieved June 30, 2022, from <https://www.lincolninst.edu/publications/policy-focus-reports/assessing-theory-practice-land-value-taxation>
- [6] Hughes, C., Sayce, S., Shepherd, E., & Wyatt, P. (2020, February 8). Implementing a land value tax: Considerations on moving from theory to practice. *Land Use Policy*. Retrieved June 30, 2022, from <https://www.sciencedirect.com/science/article/abs/pii/S0264837719315704>
- [7] Lindholm, R. W. (1979). Public choice and land tax fairness. *American Journal of Economics and Sociology*, 38(4), 349–356. <https://doi.org/10.1111/j.1536-7150.1979.tb02839.x>
- [8] Neklson, A. (2019). The 140-Year-Old Dream of 'Government without Taxation'. *The Atlantic*. <https://www.theatlantic.com/national/archive/2019/04/henry-georges-single-tax-could-combat-inequality/587197/>
- [9] Pearl, J. (2021, August 25). Why we need land tax, explained by Monopoly – The Ethics Centre. *The Atlantic*.
- [10] Rybeck, R. (2019). If the Land Tax Is Such A Good Idea, Why Isn't It Being Implemented? *Strong Towns*. <https://www.strongtowns.org/journal/2019/3/8/if-the-land-tax-is-such-a-good-idea-why-isnt-it-being-implemented>
- [11] Saxena, A. (2021, December 7). "The perfect tax": Land value taxation and the housing crisis. *Brown Political Review*. Retrieved June 30, 2022, from <https://brownpoliticalreview.org/2021/12/the-perfect-tax-land-value-taxation-and-the-housing-crisis/>
- [12] Sayin, Y. (2019, October 21). Land value tax: Can it work in the district? D.C. Policy Center. Retrieved June 28, 2022, from <https://www.dcpolicycenter.org/publications/land-value-tax/>
- [13] Tideman, N. (2015). Basic Principles of Geonomics. http://www.wealthandwant.com/docs/Tideman_Geonomics.html
- [14] The Equality Trust. The Equality Trust | Working to improve the quality of life in the UK by reducing economic inequality. (2016, May). Retrieved July 1, 2022, from <https://equalitytrust.org.uk/>
- [15] Wenner, F. (2015, March 17). Land value taxation: A tool for planners against urban sprawl? *AESOP Young Academics*. Retrieved June 30, 2022, from <https://aesopyoungacademics.wordpress.com/2014/10/06/land-value-taxation-a-tool-for-planners-against-urban-sprawl/>
- [16] Winters, J. (2020). Would the implementation of a land value tax be reasonable in a small country with a tourism-based economy? *ISU*. <https://www.econ.iastate.edu/ask-an-economist/would-implementation-land-value-tax-be-reasonable-small-country-tourism-based>
- [17] Wortel-London, D. (2020). Taxing The Land: Henry George, NYC, And The Land Value Tax. *The Metropole*. <https://themetropole.blog/2018/01/07/trashed/>