

Problems with a Land Tax



People often ask, “Why purchase land into a [commons trust](#) when a simple land tax will do the job?”

The act of purchasing land into a commons trust has as direct consequences the creation of the [Elsie](#), the formation of the [cellular democracy](#), and the awarding of the [Earth Dividend](#).

The awarding of the Earth Dividend creates the [hyperdeflation](#) that makes a universal Earth Dividend possible. Purchasing land into a commons trust is done with a [business plan](#).

The land tax is empty of all these qualities. Some might claim this is good, that sharing the [ground rent](#) should be independent of all other political and economic considerations. Can a tax requiring intense politicking that profoundly affects the economy be independent of all other political and economic concerns?

Unfortunately, failure to convert debt-based capitalism into land-based capitalism is the least of the land taxes’ problems.

The Moral Problem of Taxing Land

Land prices would fall to zero if 100% of the location value could be taxed. This is true by the definition of 100% of value. Deviations from zero are even less helpful. At zero, noise is exaggerated by an infinite percentage.

The original purchaser was assured legal title in consideration of a fee at the time of purchase. This assurance was backed by law. Treating land as stolen property – because it was likely stolen many generations ago from the Indigenous population – punishes the child for the sins of the great-great-grandfathers and is a violation of the child’s [objective rights](#). The purchaser forwent other legally protected investments to purchase the land.

A new law, taxing land at any rate, let alone a rate near 100% of location value, and nullifying a legal land contract – after the fact – is tyranny and theft.

As of this writing, the criminal elements that rule Russia have their root in the legitimization of theft by the Bolsheviks. A political system built on stealing property will propagate ugly distortions for generations.

In the United States, a history of slavery and land theft from the indigenous population infects our political system today. It is the root cause of the great divisions that might ultimately destroy us (and reparations would do as much damage as the original theft). Therefore, we must first protect objective rights when creating a new economy.

Assessing the Land Tax

How can the land value be assessed if a hefty land tax reduces land price toward zero?

One method argues that comparing rents on similar apartments in different locations will expose the underlying land value. This method has similarities to Heisenberg's uncertainty principle in quantum mechanics.

Dividing an area into an array of many locations leads to a small sample size. Yet, measuring features of apartments for rent creates huge variances in a small sample without reflecting location value.

In a small sample size, there is no way to account for the age and condition of appliances and fixtures when painted, the state of the carpet, the size and layout of the apartment, the number of tenants living in the apartment (on lease or de facto); special deals for loyal tenants, friends, and relatives; window view and street noise (relative to other apartments in the same building); and maintenance and security.

As the sample size increases, these unmeasurable features tend to average out. However, given a sufficient increase in sample size, land at the beach and land around a gang-infested alley some eight blocks away are assigned the same location value - which is correct for neither.

Like the uncertainty principle, apartment rents have no relationship to location value if the sample size is too small. This is no longer true when the sample size increases; the result is an average location value, which is not likely applicable to much of the sample area.

As intractable as this problem is, the situation is compounded by an insidious feedback variable that makes computation impossible. Apart from initiating a land tax, all measurements of location value are done with a land tax in place.

No matter what flimsy yardstick is used, location values will appear to fall if the land tax is too high (even if they are rising). If the land tax is too low, location values will appear to rise (even if they are falling).

Feedback also does not only result in violent movement around the proper rate. If the land tax is too high, apartment landlords are forced to charge more to pay the tax, to the extent allowed by the inelasticity of area demand for housing and a decrease in supply. But higher apartment rents will push the land tax even higher! If the land tax is too low, competition will push down rents and increase supply. But lower apartment rents will push the land tax even lower!

The horrific variance in rates will resemble the loud screech of a speaker when the microphone is nearby.

Another yardstick is the use of objective scores for different location features. However, this approach is necessarily biased. Any feature can be positive, negative, or neutral depending on the business, culture, or individual preferences.

A nearby community center is neutral for most businesses yet positive for homeowners. Airport noise is a negative for homeowners but a positive for a company with nearby air transportation. In Silicon Valley, location value is a function of the skillset of the residents. This is a positive for tech firms and a negative for many other businesses.

Forcing objective scoring into an assessment model provides a framework for a planned economy. If the planned businesses do not materialize, the land remains idle. The flaws of objective scoring reaffirm that location value is unique to each buyer and cannot be measured outside a market.

Looking only at objective scoring, the best an assessor can do is determine the modal location value – that is, the location value for the homeowner. A mosquito-ridden riverfront near a noisy airport will have little if any, location value for the homeowner. To a business that relies on river and air transportation, it is a gold mine for which they will pay little if any, land tax.

What about determining modal location value from comparable sales of unimproved land? This eliminates any distortions caused by variance in the price of improvements, which will exceed the land price at high-location-value land taxes.

However, it is even more susceptible to the violent feedback loop of assessing unpriced land. Unless the price is zero, the tax is too low. There is a method: keep lowering the tax until somebody buys the land for a nominal \$1.

The method suffers from several severe defects: sales of unimproved land are few and far between in those areas where land is most valuable; neighboring properties can have radically different location values due to the immediate environment; and location value changes with time and each sale.

Over time, land use in the neighborhood can undergo radical changes. Every vacant lot sold and built usually increases the modal location value of neighboring land, but how much? Location value is significantly affected by changes outside the neighborhood, such as the opening or closing of a factory, mall, or general economic conditions.

Since we are looking at sales prices, it is the price set by the less efficient seller, not the location value of the more efficient buyer, let alone the most efficient user. These can be orders of magnitude apart. On the other hand, premiums paid by very efficient land users (should they be in the market) can push a few prices above the modal price.

Corruption

There is great potential for corruption. Owners of vast land tracts can engineer sales of small parcels at critical times to keep the land tax arbitrarily low.

The buyer and the seller are incentivized to keep the land price low. The discount agreed to by the buyer and seller, in collusion, can obliterate the land price. Even if only a small amount of cheating were done per transaction, given sufficient time, the land price, land tax, and revenue would drop to zero.

There is corruption in the assessor's office as well. With such a slippery concept as land tax, the potential for favoritism, bribery, and extortion is high. The assessor's power becomes absolute if the land tax replaces all other government revenue sources. Totalitarianism is inevitable.