PROSPECTS FOR LAND RENT TAXES IN STATE AND LOCAL TAX REFORM

Comments by Richard Biddle, Philadelphia, PA

Prof. of Economics Thomas Nechyba (Duke Univ.) presented at the Lincoln Institute for Land Policy Two Rate Land Tax Seminar in Washington, DC on January 31, 2003. Nechyba seemed almost quietly intent on undermining Neoclassical Economics. [I'm used to hearing economists making arguments like "Land speculation does not exist" so I'm easy to impress.] In this presentation Nechyba actually put land back into his numerous equations as a primary factor of production and, most interestingly to me, showed that land prices in fact may actually increase under certain favorable scenarios (where the land tax is substituted for corporate taxes). Other Georgist economists have differing opinions about Nechyba's work. Nic Tideman's colleague, Florenz Plassman, wrote an extensive critique on this paper and its lack of dynamics and definitional short-comings.)

"Prospects for Land Rent Taxes in State and Local Tax Reforms",

by Nechyba, Thomas J. (published 2001, 78 pages, English, Inventory ID WP01TN1 "http://www.lincolninst.edu/pubs/pub-detail.asp?id=104")

Abstract

This paper develops a general equilibrium model of an economy that produces output using capital, labor and land as inputs. It further develops an approach that allows specific parameters in the model to be matched to data in such a way as to ensure that the model can replicate important economic realities in different settings and under different initial tax systems. This model is then applied to the U.S. states. Each state's, as well as an "average" state's, economic conditions and tax system are thus formed into a separate model, and policy simulations are performed for each of these models in order to identify different conditions under which reforms of different types are likely to succeed economically and politically. Each reform that is simulated involves an increase in taxes on unimproved land rents sufficient to cover the shortfall in tax revenues from a decrease in some distortionary tax on capital and/or labor.

Under plausible yet conservative assumptions, large tax reforms that eliminate entire classes of distortionary taxes are found to be economically feasible in virtually all states, although prospects for such reforms are clearly better in some states than in others. Generally, reforms are most likely to succeed in states with high per capita taxes, low per capita incomes and in which reforms emphasize decreasing state and local taxes on capital rather than on labor -- taxes such as corporate income or property taxes.

In addition, the paper considers the political feasibility of such reforms by focusing on the likely impact on land values and thus land owners. Under plausible assumptions, reforms that lower taxation of capital result in either increases in land values or only modest declines, while reforms that lower taxes on labor lead to more substantial drops in land values. Finally, reforms of this kind are shown to hold more modest promise when states are assumed to conduct them simultaneously rather than in isolation.

[Richard Biddle may be emailed at biddle19118@yahoo.com. Biddle is actively involved in promoting a two-rate tax (or better), assessment reform, supporting the educational efforts of the Henry George School Birthplace Museum, supporting the activities of the Center for the Study of Economics (CSE/HGFA), and encouraging the Philadelphia City Controller's continuing support for meaningful tax reform in Philadelphia.]

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