

escapes the regressivity charge. Moreover, for central cities, it is superior to local sales taxes and other local business taxes, since unlike the latter, it is highly unlikely to encourage migration of economic activity away from the central cities.

Local income taxation heretofore has been largely a large city affair, except in Pennsylvania. However, in time, it may become more like the widespread use of local sales taxes, which in States like California and Illinois, are virtually universally used supplements to the State sales tax, collected by the State. As such, local nonproperty taxes have the general character of the State tax, since, if universally applied, they have no impact on the intrastate location of economic activity. They may be thought of as a substitute for outright grants-in-aid from State tax revenue, with the distribution of the funds based on the origin of the tax collections rather than on the traditional kinds of State-aid formulas. The latter can permit much more adequate reflection of differences in needs among communities (although State-aid formulas frequently do not realize this potential). On the other hand, the local tax supplements permit much more local government discretion in the use of the funds.

LAND VALUE TAXATION

An entirely different type of alternative revenue source would be a heavy tax on land values in urban areas as a partial substitute for currently collected property tax revenues.

As the name implies, land value taxation is a tax on the value of land alone, irrespective of the value of buildings or the lack of buildings on a site. A step in this direction is the graded or differential tax—the application of a higher tax rate to the land portion than to the improvement portion of property valuations.

The argument for exclusive taxation of site values, or for substantially heavier taxation of land than of buildings, is an old one, and differential site value taxation is widely practiced—in western Canada, Australia, New Zealand, and South Africa, for example. The merits of the case have been submerged for many years by the extravagant claims of the proponents of site value taxation. Moreover, skepticism has been bolstered by the apparent absence of discernible effects in the places where site valuation is utilized.

However, the case for site value taxation is a good one. The argument, on equity grounds, is that most of the value of land is a consequence, not of actions by individual owners, but of collective investment, community development, and population growth. Individual landowners therefore can realize large “unearned increments” over time. It is entirely appropriate for the community to recapture these unearned increments by taxation, and use them for community purposes. There are complications in this equity argument, related to the fact that most landowners have already paid, in their purchase prices, for at least some of the unearned increment, but by and large the equity argument makes sense.

The economic argument is even more compelling. A tax on site value which is independent of the improvements on the site will not affect entrepreneurial decisions as to the use of the site; the best (most profitable) use before tax remains the best use after the tax is imposed. In