Land tax, fair shares and economic growth

● This article by Prof. Finkelstein (pictured right) is based on a keynote speech delivered at a conference held in Santo Domingo, Dominican Republic, to explore the possibilities of introducing a property tax.

BY PROFESSOR PHILIP FINKELSTEIN

people having little or none and a few having the most. Depending on the political complexion of the informant, from twelve to forty to sixty to three hundred families own anything from twenty to seventy per cent of the land of the country.

Any economic or social reform that fails to address this issue will automatically fail, since access to land is the primary factor in economic well being.

GOOD social policy may have a range of definitions, but whether one takes a political or economic view, a satisfied people will opt for political stability, economic investment and growth. An unhappy and repressed population is always a threat to all. This simplistic criterion allows for a broad range of measures, from welfare payments to public works, to be defined as social policy. For our purpose, we can consider these programmes of expenditure only as examples of what can be done with public revenues.

While social policy writers and analysts have long contented themselves with looking at where all the money is going, it should be evident that we need to be at least equally concerned with where it is all coming from. The source of revenue as well as its destination is our concern.

For reasons that I have never found compelling, a tax on income has been considered by many a "progressive" tax and therefore a good tax in that more money is taken from the wealthy than from the poor. But whatever its incidence, it is basically a tax on production. Those who are more productive pay more, those who produce less pay less.

Aside from the disincentive implications of such a tax, there are other considerations. The very poorest who have no income pay nothing and thus are excluded from contributing to the public economic life of society. It is questionable if any social policy should allow its beneficiaries to remove themselves, or worse, to be removed from the responsibility for its support. This is the basis for dependency, class strife and a degree of what sociologists call *anomie* and what the working and middle classes the world over resent and the wealthy fear.

If there is bad feeling towards those unfortunates at the bottom, imagine the hatred for those at the very top for whom income from labour and capital is no longer relevant; those whose wealth derives from the passive ownership of land and natural resources, from where great wealth increasingly flows, much of which escapes taxation.

The progressive features of the tax on incomes then are restricted only to those who regularly earn a little and those who regularly earn more, a dubious advantage for any society that wants people to work and capital to be productive and would reward rather than penalise them for doing their jobs better.

SOME OF our West European friends have found a new way of penalising production which some Americans have been considering lately. It is called a value-added tax, a levy on goods and services which is proportional directly to the amount of value added at each stage of their production or exchange until they reach the consumer.

The lesson for Santo Domingo

Dominican millionaires escape property tax

THE UNEARNED increment of land belongs to all Dominicans, according to R. Hipolito Mejia, the Secretary of State for Agriculture in this Caribbean island state. And he affirmed:

"We believe that a land value tax would contribute to the most profitable use of each piece of land, thus increasing efficient land use. Moreover, it would increase production and thus accelerate economic growth. Besides, income distribution would improve as a result of a major contribution by the owners of the best pieces of land.

"According to the eminent professor of the University of Wisconsin, John Strasma, who did work on this subject in the Dominican Republic through the Agency for International Development, only three countries in the Western Hemisphere do not provide for some form of annual real estate tax in their tax laws: the Dominican Republic, Cuba and Venezuela.

"In his final report, Dr. Strasma also points out that 'a well-designed real estate tax does not represent an additional burden for an owner whose land yields a good production, but it does weigh heavily on those who hold their land in idleness. On the other hand, exactly the opposite occurs with sales taxes, consumer taxes, or net income taxes: those who possess unproductive land do not contribute, while those who make their land produce must pay high taxes.'

"For 1977 in the Dominican Republic, 2,373 persons declared agricultural properties among their assets. Among these, income tax was paid only by those people whose properties were valued at less than one million pesos, while the two properties valued at more than one million did not pay anything. This indicates that these large estates are being underused and that their owners apparently keep the land for real estate purposes and not as an agricultural or cattle-breeding business.

"By the year 2000 the population of the Dominican Republic will be about nine million, which means a duplication of the current demand for food. For this reason it has become absolutely necessary to use all possible mechanisms to achieve the highest and best use of each square metre we are living on. Real estate speculation should be deterred. The unearned increment of the land belongs to all Dominicans, while the private owner is entitled to those proceeds that are the fruit of his work.

"We want to clarify that we are in favour of the concept according to which the resources obtained from taxes of this kind should return to their source of origin; in other words, they should be used in programmes that will improve the living conditions of the farmers."