



Aim for the 'doable': the 2-rate tax

A conversation with C. Lowell Harriss

THE LINCOLN Institute of Land Policy has published a conversation highlighting what it calls the "Hardheaded Idealism" of Dr. C. Lowell Harriss, the Professor of Economics Emeritus at Columbia University.

Dr. Harriss was for many years President of the Robert Schalkenbach Foundation, an organisation founded to promote the economics of American social reformer Henry George.

For over 35 years Dr. Harriss has been an associate of the Lincoln Foundation, whose founder, John C. Lincoln, left a fortune to promote the philosophy of Henry George. The Foundation created an institute which "does not take a particular point of view" on land policy.

Dr. Harriss resigned from Schalkenbach following the decision of the New York-based organisation to participate in a civil action against the Lincoln Foundation.

At the heart of the legal dispute is the claim that the Lincoln fortune was not devoted to promoting the philosophy of Henry George, in the way that was intended by John C. Lincoln, an industrialist who was an ardent champion of the need to base public finance on the rent of land and natural resources.

Dr. Harriss, who was raised in Omaha, Nebraska, graduated from Harvard University and studied at the University of Chicago where he wrote his dissertation on gift taxation. He began teaching at Columbia in 1938 and became actively involved as an advisor and researcher in Washington, rubbing shoulders with distinguished economists like Milton Friedman.

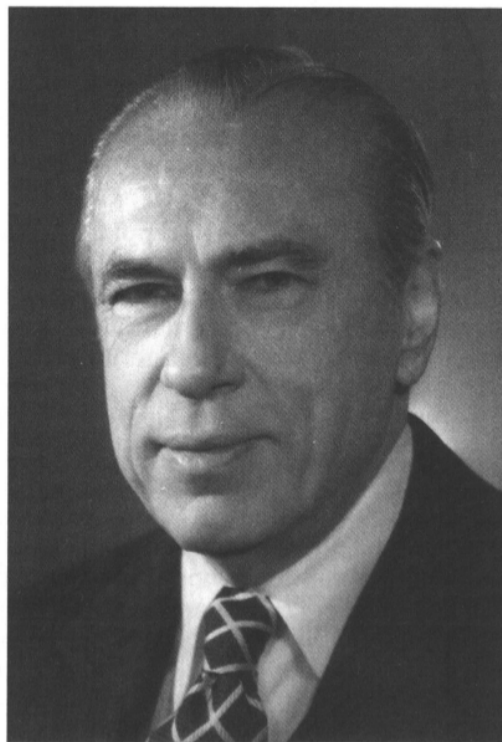
He became an advisor to a number of property-owning companies and began to specialise in tax-related issues. He undertook work for the Union Pacific Railroad, arguing that their property taxes were too high.

Dr. Harriss became sympathetic to the idea of reforming the property tax on the basis of the two-rate principle, which is how he found himself invited on to the board of the Lincoln Foundation in the 1960s.

Dr. Harriss is a sceptic on the question of the degree to which a government can rely on

rent as a primary source of revenue. "I don't believe in utopianism, but in incremental change," he told staff at the Lincoln Institute last year. "The sweeping reconstruction of society is something that has to be approached with a great deal of caution, because inherently one can't know the results of things that are a little bit removed from any experience."

As an economist, Dr. Harriss recognises that economic rents result from "restrictions on supply and ...are not related to the activi-



■ C. Lowell Harriss

ties of the person receiving the income. In the case of real estate there are opportunities for the community to take advantage of the existence of rents but not to clobber people who happen to own the land on some specific date. Gradualism! My emphasis on using rents on a fixed supply – land – is to reduce the tax rates on investment of new capital".

That is why Dr. Harriss favours small changes in the local property tax, shifting the burden off buildings and on to land. But his approach is of great caution, he is suspicious

of bold claims on behalf of what the committed Georgists subsequently called the Single Tax on the rent of all resources provided by nature.

"That's why in proposing property tax changes that I think are reasonable and doable," says Dr. Harriss, "I don't claim that they will cure cancer or end the common cold, or do many other good things, such as stimulate building beyond the limits set by gross saving".

Furthermore, Dr. Harriss views this fiscal reform as a local one. Each locality is unique, he argues, and these differences need to be recognised. "Differences in approach are called for. Every community's taxes must be tailor-made, more or less".

In economic terms, "Pure land rent is a residual...the amount of land will not decline because of tax". Even so, Dr. Harriss denies that the scale of change would be significant as a result of restructuring the tax base. "The potentials for human betterment by using more of the income from land to finance reduction in taxes on man-made capital are not mammoth."

Although he does not like the term "land value tax", because the focus is on an increase in a tax, Dr. Harriss says he cannot suggest a better term. He favours a neutral reform, one that does not alter the total government revenue. "So under the program that I would support, the average tax bill would not change much. Less on structures more on land. But overall, the reduction of tax would offset the increase in the tax on land. The empirical studies seem to imply that the great majority of home owners wouldn't see very much net change."

Dr. Harriss opposes talk of "socking" land owners. "For example, it's not easy, even in principle, to separate the constructive elements of real estate development from the effects of community change on a project. The developer who does something useful may take his reward in appreciation of land prices. Capital gains are among the goals that motivate him and induce him to take risks – very different from the 'getting richer while sleeping' aspects of urban land ownership."