

The Case They Can't Answer

PROGRESS & POVERTY is one of those rare books: it just will not die. Far from being a curiosity — for scholars interested in the history of ideas — it still constitutes a practical guide for reforms throughout the world.

Critics have felt uncomfortable about the proselytising flavour of Henry George's book. Which is presumably why Dr. Graham Hallett, a senior economics lecturer at University College, Cardiff, in his recent review of post-war land policy in Britain, stated: "The advantages of site value taxation have been exaggerated by one of the sects descended from Henry George, and by the Liberal Party."* He fails to provide evidence of those "exaggerations".

Progress & Poverty was built on a solid foundation of sound economic principles. Which is why Dr. Hallett was moved to observe of site value taxation:

"It does, however, have the economic advantage that it is not levied solely when development occurs and is thus less of a discouragement to development. It is unfortunate that it has never been seriously considered in any of the post-war arrangements."

But the philosophy built around this economic concept necessarily extends into the realm of morality. A tax on land values is not just any old tax, selected — or rejected — for its mechanical efficiency in raising revenue for the exchequer. Its presence — or absence — determines to a critical extent the psycho-social welfare of a community. This is a fact capable of verification by the social sciences. Adherence to the principles of Progress & Poverty is based on a rational examination of objective facts, not a cranky pursuit of the millennium.

*NatWest Bank Quarterly Review, Nov. 1978.

Why rent should be the primary source of public revenue

THE case for land-value taxation rests essentially upon the economic and ethical distinction between land (the gift of nature) and the products of man (wealth).

As land varies in productivity from site to site, whether for mineral content, fertility or location, so its rents varies. The rent of land is determined by the excess of its productivity over that of marginal land, marginal land being defined as land that would yield only enough to cover costs of production including wages for labour and interest on capital, leaving nothing for rent.

Thus taxation which falls upon economic rent is taxation upon a surplus or residue and, unlike most other forms of taxation, cannot be shifted on to wages or prices. This axiom is accepted by all economists.

While other forms of taxation tend to discourage

production and effort (being largely based upon the principle that the more produced the more the tax), land-value taxation has the *opposite* effect. Land-value taxation ignores actual production and merely taxes the realisable potential of land that is reflected in its rent (or selling price).

The land-value tax being payable whether land is well used, poorly used or not used at all, it creates an incentive to put land to its best permissible use, making more land available (and thus cheaper) on the market. In short, while taxation of production, income, trade and enterprise has depressive effect on production, land-value taxation would have an encouraging effect.

The land-value tax (if sufficiently heavy) would stop speculation in land whereby land-owners who cannot get future productivity capitalised in current rents or prices, wait for land values to rise before selling or granting a lease. In these instances land often remains idle when still in demand, forcing what land is available to an even higher price.

By taxing the economic rent of land, no burden would be put upon labour and capital whose rewards tend to a general level *irrespective of the value of land used*.

But more than this. With revenue derived from the rent of land, the taxation upon labour and capital could be correspondingly *reduced* giving incentive at the production end.

Since taxation upon site values would, like a tithe, be a charge upon ownership, the selling value of land would be diminished by the amount of tax payable. The *rental* value, however, would be unaffected by the tax since its actual use value would not be reduced. For this reason, site taxes should be levied upon rental values, not upon capital or selling values, for in the case of the latter, one would have a diminishing tax base as land-value taxes were imposed.

Land not being a product of man, its rent cannot have the same moral sanction of exclusive ownership as does interest, profit, or wages which originate from mental or physical effort. This makes land peculiarly suitable as a primary source of public revenue.

Further, it is the expenditure of public monies, the aggregate enterprise of labourers and capitalists and the presence and activities of the community generally, that gives value to land. Land values may therefore be regarded as "public" wages as opposed to the individual wages of the community.