

GEONOMICS: CHANGING TAX POLICY TO ENCOURAGE MORE TIME OFF

by Jeffery J. Smith, Portland, OR

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Some critics of taxation claim that each year we work from January 1 to mid May to earn enough to pay all the taxes levied upon us. They conclude we should cut taxes (duh). Besides cutting taxes, we could make whatever taxes we levy more efficient. That is, we could shift taxes. We could repeal the costly ones that force us to spend more time working and rely on the cheap ones that let us shrink the workweek.

Deadweight Losses

Costly taxes are those that raise prices and discourage investment and employment, making economies less efficient, forcing people to spend more time working to produce the goods and services that they need and desire. Cheap taxes are those that facilitate investment and employment, making economies more efficient, which lowers prices and lets people spend less time working. Which taxes are expensive? The ones we typically use. Which are affordable? The ones that cutting-edge jurisdictions are turning to.

More precisely, when we tax sales, salaries, and structures, as do states, nations, and localities routinely, we make it more expensive to produce wealth. So people don't; they produce less than they might otherwise and spend more time at it. On the other hand, when we tax extraction, pollution, and exclusion (exclusive claims on locations), then we make it more expensive to waste sites and resources and the ecosystem. So people don't; they figure out ways to get more from less, then take the rest of the day off. Or so theory would have it.

While no place has shifted taxes completely, some places do tax more smartly than others and some places do tax more stupidly than others. These shifts have been too little to show up as a shrunken workweek; for an employee to negotiate a commitment less than the standard 40 hours, that takes more leverage than a modest tax shift offers. However, even the modest tax shifts have born other fruit, showing the power of the reform. Consider extraction; Alaska charges oil companies (not using taxes but leases) enough to share the royalties with residents; in 2000, each resident received \$2000 or \$8000 for a family of four. Consider pollution; London charges people (not using taxes but fees) driving into the city center enough to reduce congestion and pollution by about one fourth.

Property Tax Shift

Now consider exclusion; the shift of taxes from buildings (products of human effort) to land (product of natural forces), the oldest of these three tax shifts, has worked well wherever tried. It broke up latifundia-sized ranches in California and Australia, spurred impoverished Taiwan into the developed world, erected affordable housing in New York,

granted Danish workers the biggest one-time jump in wages in their history, for 10 years kept New Zealanders employed at 99%, kept Pittsburgh's crime rate at the lowest level by far of any major US city, redeveloped downtown Harrisburg, PA without a penny of public subsidy, and helped Hong Kong keep prices low and investment and income high; hence Fortune magazine routinely ranked Hong Kong the number one city in the world for business and Libertarians ranked it the freest jurisdiction on Earth - keeping mum the city exists on not private land but public land.

This particular tax shift - from buildings to locations - also converts land speculators and procrastinators into real-time developers. As owners of prime sites in-fill their city, they absorb development that otherwise would have become sprawl. The resultant more efficient land use reduces transportation costs which also reduces pollution and health care costs.

This property tax shift - from improvements to sites - also corrects another time-consuming problem: double-charging. Under our present system, we pay for government twice: once when we pay taxes for government services, and a second time when we pay for land, since part of the value of land is generated by those government services. For example, buyers pay more to be near a freeway off ramp, elementary school, verdant park, or a precinct station; sellers and leasers know this and ask more for the location. Were government to collect this land value, that would leave none for owners to collect from buyers and renters, so the citizenry would pay for government just once. Paying once for government would drastically reduce our expenditures and the need to spend time working.

Cost of living

Were a jurisdiction to levy the smart taxes - on location, depletion, and pollution - and abolish the dumb ones - on buildings, business, and income - then for most people that would be tantamount to lowering taxes, the objective of the capitalist critics. Most people do not extract oil nor much pollute, and hence would escape taxes on those activities. But everyone does occupy a location, and would pay a fee for displacing everyone else. Yet that one payment in a geonomy would be for the overwhelming majority a good deal less than all the obvious and hidden taxes one pays now.

After the tax shift, prices would fall and opportunity would rise. Products would be cheaper, being tax-free. And the cost of living would be lower with less illness and shorter trip distances. And no longer having to pay salaries plus a tax on them, firms can employ more workers. Then, enjoying such leverage, it'd be easier for people to negotiate a shorter workweek.

Meanwhile, however, some critics of taxes on income claim that the French work fewer hours than we Americans not to enjoy themselves during greater leisure but to avoid paying heavier income taxes. While (continued on pg. 7)

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that may be true for some French people, it does not follow that raising taxes on income would shrink the workweek in general. In many nations, both taxes and workweeks grow more onerous in lockstep. A more logical explanation for French working less, Yanks working more, is they don't have to and we do. Their cost of living is lower, especially mortgages and medical care, while our cost of living is higher, spending as we do outrageous fortunes on housing and hospitals and pills.

Reclaim socially generated values

In a more rational world, cost of living would be a victim of technological progress. As automation performs more work and clever techniques win us more from less - more output from fewer inputs - then we would have the option to work less. However, obviously, painfully, techno-progress instead threatens us with unemployment. At the most fundamental level, the problem is: when work withers away and workers compete for fewer jobs, wages decline, too; when workers cannot save up some capital, they won't receive any income from that factor, either. As both labor and capital grow ever less remunerative, that leaves only the third factor to offer us a return - land. The value of land is not generated by the owner of land. What generates the value of land are location, location, location - both social factors and natural factors. Not just public services but another social factor - density (which no owner of a parcel has created by "hermsself") - also generates land value. Natural factors that generate land value are: fertile soil, lovely views, deep harbors, and rich mineral deposits. Owners do not create land and do not generate land value, but by owning they do exclude everyone else from land, from something needed by everyone. Hence to be fair, each of us would compensate everyone else for the land we claim, and be compensated by everyone else. The amount we'd pay would be the annual rental value of our location, a value generated by nature and our neighbors.

What that means in practice is people would pay land dues in and get rent dividends back. Most people would pay land dues for where they live; only a smaller, richer segment of society would also pay land dues for sites where they own offices or oil fields. Hence, while a wealthy minority would pay in more as dues than they get back as dividends, the majority would get back bigger dividends than they pay in as dues.

All the recovered land dues could be devoted to rent dividends, none need be spent by government on public services. To pay for cops, courts, and a defensive, non-imperial military, government could levy a separate charge: citizenship dues. Funding only law and order, these dues would rise with the crime rate or as the state turns aggressive, prodding citizens pat their purses and rethink the causes of poverty and their state's foreign policy.

To pay for infrastructure, government could use the resultant rise in surrounding land values to pay for construction and charge user fees to pay for operation and maintenance.

To pay for social services like schools, clinics, and food stamps, government would not establish bureaucracies and programs and regulations but merely pay citizens the rent dividend, empowering them to choose their own teachers and doctors, gurus and quacks. And finally, to pay for economic policy - everything from small business loans to corporate welfare such as agri-business subsidies - government wouldn't; like everyone else, entrepreneurs would get the dividend and make do with that or entice investors for any other needed capital.

Dividend potential

How big would a citizen's rent dividend be? If we did it right, huge. First, we would eliminate government waste and curb the military. Second, we would recover rents for claims on land, resources, and the ecosystem. Third, we would charge full-market value to the lucky recipients of government granted privileges such as our letting bankers expand the money supply at a profit. Doing all this, government would recoup enough that a Citizens Dividend would easily be \$1000 per month, or about \$25,000 per year for a couple, or \$37,500 for a successful menage-a-trois, enough to make you rethink your basic household unit. And be enough to let you take off lots of time and thereby realize the gains of technology.

As the time famine starves us of the opportunity to live life more fully, a critical mass may jell to win us the Citizens Dividend sooner than some might think. Meanwhile, you can in your own locality use taxes to cut the biggest part of the cost of living, what we call housing but which is really location. You could shift the property tax or do what Aspen Colorado does and tax real estate sales and use the revenue to bring down the cost of housing. In trendy ski resorts, it's so high that even doctors qualify for public assistance. In Aspen, you can earn \$150,000 per year and have a quarter million in the bank and still receive public housing money. Getting it, you can work a little less and ski a little more.

Bottom Line

Because the bottom line is the bottom line, when we distort prices with taxes (and subsidies), we distort choices and behavior. By taxing, we ratchet up the cost of living, increasing anxiety. We make people feel vulnerable to a largely unresponsive state, also increasing anxiety. And when the going gets tough, the tough go shopping. We let taxes turn otherwise stable people into over-consumers.

So shift taxes. Shift them onto the socially generated values that now only a few get, which now forces government to tax goods and forces citizens to pay twice for public services. Instead, by recovering these values, which largely attach to land, while eliminating other taxes, that would greatly reduce the tax burden on most people. It'd raise enough money to let us pay ourselves a dividend. It'd let us take time off.

(Jeff Smith is President, Forum on Geonomics, and may be emailed at geonomist@mac.com) << □