

the Henry George News

PUBLISHED BY HENRY GEORGE SCHOOL OF SOCIAL SCIENCE • AUGUST 1966

The Power of Incentive Taxation

by HARRY GUNNISON BROWN

A COMMON criticism of communism is that it suffers greatly from lack of incentive. Most of those who criticize it thus adversely, probably feel that capitalism—the system of so-called free private enterprise — is effectively sparked by incentive and that herein lies its great advantage over communism. But unfortunately capitalism is itself cursed by the very decidedly anti-incentive tax policy it usually follows.

Our local tax policy works in two ways to make and keep house rents and the cost of homes high. It keeps taxes on the community-produced location value of land so low that owners of vacant lots are encouraged to hold them unused year after year. This makes the price of building lots higher, and the cost of housing must inevitably be greater. Our anti-incentive tax policy leaves vacant-lot owners plenty of "incentive" to hold land out of use awaiting higher prices, and greatly weakens the incentive to build houses, factories, office buildings and stores. The tax on buildings and other man-made capital certainly reduces the profit or gain and, therefore, the incentive for constructing or improving buildings.

Thus in these two ways our property tax violates the principles of incentive essential to the effective working of capitalism. And this, in a world

Dr. Harry Gunnison Brown was especially honored at the conclusion of the HGS conference last month, for his illustrious contribution as a professor of economics for many years at the University of Missouri. Thousands of students who sat in his classes were introduced to the principles of Henry George. This is the text of his address at a conference luncheon.

already a third communist, we can ill afford to do.

Similar considerations apply to blighted areas and to the burdening of federal taxpayers, poor as well as rich, with the cost of slum clearance and "redevelopment." For our city governments say, in effect, to the owners of run-down property, don't do anything to make your buildings fit to live or work in, for if you do we will punish you by increasing your taxes. But if you allow them to become "revolting" we will reward you by reducing your taxes.

What possible excuse can there be for Congress to put this additional burden on all federal taxpayers when the reason the slums need redevelopment is inherent in the local anti-incentive tax policy? The ideals implied in plans for a "War Against Poverty" and in dreams of "The Great Society" cannot be realized if most of our legislators think chiefly of the

(Continued on page three)

(Continued from page one)

largesse paid out for things that look like charity, yet are blind to the various burdens and costs which make the net result a loss instead of a gain.

When Congress appropriates billions of dollars for subsidized housing, slum clearance and redevelopment—it is hurting, not helping, the poor. The billions for subsidy necessitate higher federal taxes which are a severe burden to wage earners. Furthermore, some of the extra funds raised by taxation will be used to purchase land for subsidized housing. This will tend to raise the price of building lots to a yet higher level. Hence private enterprise housing will cost even more than land speculation without this tax financed government demand for land would have made it cost. Our increased subsidized housing—really socialized housing—will have become more expensive than private enterprise housing had been, although partly paid for in the form of extra taxes instead of rentals. Also our state and local governments will feel all the more encouraged to go on with their anti-incentive tax policies.

To all of this subsidization there are only two answers that can be justified. One is that the federal government must free itself from further responsibility for the mess by abandoning all such subsidization completely, and fast. The other is a condition established by Congress that the city, town, county or state requesting such funds must first begin in good faith to replace its anti-incentive tax policy with one based on incentive to build, improve and restore. (Our fiftieth state, Hawaii, has begun to move in this direction.)

When presenting the case for land value taxation in his famous book, *Progress and Poverty*, Henry George had to rely almost entirely on theoretical arguments. Today he would, I think, be citing again and again, the statistical data gathered in Australasia.

South Melbourne, Victoria (Aus-

tralia) began early in 1965 to exempt buildings and other real estate improvements and collect its revenue by increasing the tax rate on land values. What was the result? The value of building permits in the first six months was 2.4 times what it had averaged in the four previous six-month periods; the expenditures for alterations and additions to houses were two and a half times their previous average; and the value of construction permits for industrial buildings more than tripled. South Melbourne is reflecting the stimulus generally found when municipalities adopt the land value tax policy. The extent varies but the direction is always the same.

Australian studies show clearly that in the cities, districts and states where land values are taxed more and improvements are exempt, (1) much less land is held speculatively and wastefully out of use, (2) there is much more construction of dwellings and other buildings, (3) a much larger proportion of stores are modern and a smaller proportion are obsolete, and (4) there is a greater proportionate increase of investment in factories and machinery.

The factual evidence is, I think, overwhelming, and I have found no correspondingly convincing data pointing to the efficacy of any other tax or tax policy. Fortunately there seem to be an increasing number of economists, journalists and political leaders interested in improving our private enterprise system, who realize that its effective operation depends on our having an incentive rather than an anti-incentive tax policy.

When Henry George was writing, communism was not dominant anywhere. Today there is an ideological conflict between the so-called capitalist and communist countries. Perhaps some persons of influence will be moved to consider that if capitalism is not improved, communism or something very much like it, will soon prevail.