How Colonies Can Liberate Themselves by Taxing Real Estate

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Greece, Haiti, and Puerto Rico have something important in common: they are colonies. Puerto Rico started out as a Spanish colony and was then acquired by the United States as a “gift with purchase” of the Philippines in 1898. Greece and Haiti (itself a former colony of France) have become debt colonies of the multinational banks and their supporting governments. In all three, wealth is highly unequal. Most of the land, and all the best land, is owned or controlled by absentee natives or by outside organizations—foreign corporations, banks or governments. Local government is corrupt, incompetent, and obligated to outsiders if not actually controlled by them. There’s a two-fold net effect. On the one hand, there’s a continuing drain of working capital and labor to the outside, as rents, interest, profits flow out and young adults emigrate. On the other hand, the extraction process cripples the economy, by cutting off working capital and killing labor incentives. The local government, cannot or will not provide adequate services, due to corruption and lack of tax money. Metaphorically, these colonies are being bled dry.

Suppose a reform government were to come to power in these places and suppose it could stave off foreign threats. How could it stop the bleeding?

New settlers in the 19th-century United States faced a similar problem. Large chunks of good land were held vacant by absentees, often railroad companies. The resulting scatter made it hard to build public works like dams and canals for irrigation. Meanwhile, the railroads charged exorbitant monopoly rates to ship the settlers’ grain to market. The solution: tax the value of property in the district. Because the absentees were not using their land, the tax helped force them to sell to incoming settlers. Until the middle of the 20th century, property taxes were the dominant means of state and local finance, so using them to bring in revenues for local development while nudging out absentees made perfect sense.

The same strategy can work for modern colonies. A reform government can heavily tax the value of real estate, possibly with exemptions for small resident property owners. Better yet, and much easier to implement, tax only the land component of real estate. Such a tax would force absentee owners to send euros or dollars back to the colonies. The government could then begin to provide services and repair infrastructure. But why tax real estate? Why not tax income or imports? Because absentees and foreign based corporations can easily avoid income taxes by funny accounting. Taxes on most imports are regressive and a drain on the economy. The real money is in real estate.

All but the most primitive governments keep some sort of registry of property, crude and out of date in Greece, Haiti, and Puerto Rico. A reform government can easily create new cadastral maps—that's what George Washington did as he surveyed Native American land. In the age of GPS it's even easier. The government can then place the existing claims on the map. The recorded "owner" may be a shell corporation based in the Bahamas, but no matter. Just tax it. Where claims overlap, they can be taxed twice—forcing owners to resolve the boundaries. The government can claim any blank spots—forcing hidden informal owners to declare themselves or lose the property.

How should a reform government estimate the value of property in order to tax it? This may appear a daunting problem when the property market is not very active—large absentees mostly do nothing—and many transactions are informal. But an experienced appraiser can in fact put a reasonable assessed valuation on property by walking around and observing activity. A great advantage to taxing land only is that value depends entirely on location and tends to vary smoothly from one spot to another. Property owners then can, and will, challenge their valuations—but they will have to show that the valuation is out of line with that of neighboring properties.

Another strategy for getting initial property values is to ask owners to declare the values themselves, with the government having the right to purchase the properties at the declared value. The government right to purchase, if enforced, takes away owners' incentive to understate the value.

Once the government imposes taxes, some owners—absentees especially—will decide to sell in order to pay the tax. These sales will provide government assessors with more information, enabling them to

make more accurate assessments. Meanwhile the purchasers of the property will put it to use, generating production and jobs.

When Fidel Castro’s revolutionary government took power in the American colony of Cuba, they nationalized most foreign-owned property. In accordance with international law, they offered compensation, which all but the Americans accepted. I have to wonder, if they had tried taxation instead of nationalization, could they have pulled off a smoother transition, while giving the U.S. less excuse for military intervention?