● Adam Smith

Take your pick from the Big Three

BY STEVEN CORD

THE three great theoretical traditions in economics are represented by Adam Smith (1723-1790), Karl Marx (1818-1883) and Henry George (1839-1897).

Smith, whose chief work was *The Wealth of Nations* (1776), advocated the private ownership of land, labor and capital, but he was willing to tax all three of those factors of production in order to fund a minimal government. However, Smith condoned the government socialization of rent, wages and interest to the extent that he permitted the government to tax them.

Karl Marx, whose chief work was *Das Kapital* (1867), advocated government or worker ownership of all land and capital, or more precisely, of all productive enterprise. Thus, competition between enterprises would not exist.

Henry George, whose main book was *Progress and Poverty* (1879), was an adherent of free private competitive enterprise. Both land and capital would be privately owned but the full annual rental income of land would be collected for government purposes. Capital would be as tax-free as possible.

George and Smith both favor private enterprise and a competitive marketplace, but George would leave all income from labor and capital in private hands. Smith would have the government tax labor and capital.

Let's look at the philosophies of these three economists through the examples of these four issues:

● **Land** – Smith would tax land lightly, Marx would like to have it commonly owned, and George would have the government tax it fully according to its potential rental value.

The Marxist approach would create an all-powerful government which would threaten the existence of a democracy. Indeed, no nation in the world's history has had both a democratic government and a socialistic economy.

The Smithian approach to land would leave much valuable land unused or underused. After all, the only out-of-pocket expense for holding land out of use is the payment of a land value (or rent) tax. Many landowners could afford their land out of use in the Smithian arrangement. Meanwhile many other people would own little or no land and therefore have little or no access to the opportunities of nature. This would lead to egregious denial of the principle of equal opportunity.

● Karl Marx

The Georgist approach requires the most efficient use of every land site. This demands an effort on the part of the landowner to put his site to its optimum use in order to earn an income. He must earn enough from the improved land to pay for the land rent and to make a profit.

If the community creates locational land value by creating roads, schools, hospitals, protection, etc., as well as convenient jobs and shopping areas, shouldn't the community tax what it creates rather than (as Smith would have it) what individuals create?

● **Capital** – This is wealth used to produce more wealth, such as factory buildings and machinery. Since such things are products of individual labor, George says they should be totally owned by the individual producers. Marx would socialize such property and so would Smith (to the extent that he would tax it).

If I produce a cup with my own labor, I of course would own it and be able to buy, sell and rent it. Why should it be any different if I produce a cup-making machine? If I could justly own it, then I could justly hire it out to workers so that they could make cups, and the income from that piece of capital would justly be mine. Why take it away and socialize it, a la Marx, or tax it partly away, a la Smith?

I could rent out my land, too, but the income from it could not justly be privately owned because I did not produce either the income or the thing which is the source of the income.

● **Inheritance** – Both George and Smith defend inheritance as a type of gift (a gift which becomes effective after the death of the giver) except that Smith's approach would necessarily tax (socialize) some of it. Marx would take it all away, overlooking the fact that if you own something,

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MORE THAN

George's land value tax has been a success when put into practice

BY STEVEN CORD

● Former Professor of History at Indiana State University, Pennsylvania, and Editor of *Incentive Taxation*.

HENRY George proposed the taxation of the value of land in order to encourage new construction, re-employment, and over-all economic growth. But what hard evidence is there that his theory, when put into practice, really works?

First, this is how the land value tax (LVT) is supposed to work. By down-taxing buildings, we make them cheaper and more profitable to construct and maintain. If we concurrently tax land values more, then landowners would be encouraged to put their sites to a more efficient use in order to gain enough income to pay for the improvements themselves as well as for the higher land tax. Thus, we have a two-pronged approach spurring new construction and re-employment.

Fortunately there is ample evidence which proves that the land value tax can and does work. There are at least 14 countries practising land value taxation to some degree.

Australia – About two-thirds of Australia's municipalities are taxing only land values; they levy no other local taxes.

In the southeastern state of Victoria, all 23 of the localities, which since 1954 have switched to taxing only land values, have experienced spurts in new construction. More importantly, the rate of new construction in these localities has far exceeded construction rates in neighboring and comparable localities. Similar studies in other parts of Australia show the same results.

New Zealand – 81 per cent of the localities tax only land values, nothing else, and most of them have been doing so for decades, some for more than 100 years. The same rise in the rate of construction has occurred.

South Africa – 35 per cent of the

WHERE THE SYSTEM IS IN ACTION

BARBADOS: The annual value system was replaced by a tax on site value by the Valuation Act, 1969.

GREECE: Municipalities with a population over 20,000 are authorized to levy an annual tax on the value of unimproved land within the town plan area. The tax is graduated with a person's total holdings.

IRAQ: The urban land tax is base market value of unimproved land located within cities. In 1970 the rate was 5 per cent. (There is also a real estate tax based on gross annual income derived from all real estate holdings.)

JAMAICA: Jamaica converted to a site value tax by a law enacted January 18, 1957; the transition was interrupted in 1962, leaving a dual capital value and site value system in operation.

REPUBLIC OF CHINA: Tax on the unimproved value of land is based on self-assessment; a separate tax at higher rates is imposed on vacant and underimproved land. A highly graduated Land Value Increment Tax is also imposed on increases in value over a 10-year period, and at time of sale.

KENYA: All municipalities and most towns and county councils tax site values.

TANZANIA: Urban council areas tax only unimproved values although they are authorized to tax improvement as well. Specified townships in district council areas levy house taxes, and Zanzibar employs a tax on net rental value.

TRINIDAD AND TOBAGO: The Valuation of Land Act, 1969, provided for replacement of the annual value system by one based on modified site value; improvements are taxed only when they have a high ratio to land value. The new tax is expected to be implemented in 1974.

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you have the right to sell or give it away at any time. Inheritance isn't wrong. Only the ownership of untaxed commodities not produced by human labor is wrong.

● **Income** – Marx wanted to equalize all incomes. George demurred, saying that labor should be rewarded and not everybody labors equally. Smith agreed with George's view on this, but in practice he and his followers would go along with taxing incomes according to ability to pay, thereby falling somewhere between Marx and George.

In short, these three economists present the three most likely ownership possibilities available to us. You, by your conscious action (or inaction) must choose from among them.