

WHY SHOULD LAND VALUE BE THE SOURCE OF GOVERNMENT REVENUE RATHER THAN TAXES ON LABOR AND CAPITAL?

Imagine a country in Eastern Europe to have no taxes at all on production -- all goods and services produced by human effort would be totally tax-free. And yet the level of government spending would not decline in any way.

Is this possible? Absolutely yes. This paper will show exactly how it can be done. No great structural change is needed.

And what's more, the simple reform herein described would also require all sites to be used efficiently, and the price of all sites would fall to zero or near-zero (which might be bad for land speculators, to be sure, but great for all those who produce economic prosperity, since the price of the land they would have to buy would be much less -- zero or near-zero).

All we need do is gradually transfer all taxes off production and have the government collect the annual rent of land either by taxation (if the land is privately owned) or by lease-rental (if the land is government-owned).

If this were done, prosperity would be more likely. Wouldn't I.M.F. or other international loans be more secure?

Ideally, an entire eastern European country could switch immediately from burdening labor and capital with the costs of government to putting those costs only onto the locational value of land. Or alternatively, the idea can be tried out in a city or two to see how well it would work (those cities would in effect then be Enterprise Zones because of the tax-free status to be enjoyed by producers).

Successful Where Tried

Over a thousand cities throughout the world have tried this idea and where studies have been conducted, a spurt in new construction has invariably followed adoption.

For example, in Victoria, Australia, all 23 cities which have switched to taxing only land values since 1954 have not only experienced such construction spurts, but they have out-constructed their comparable neighbors (based on government statistics -- see "Evidence for Land Value Taxation," a booklet published by the Henry George Foundation of America, 2000 Century Plaza (238), Columbia MD 21044, U.S.A., also the November 1989 issue of "Incentive Taxation," an eight-times yearly research bulletin published by HGFA).

In the Republic of South Africa, a study of the 325 major cities reveals that those cities which have been taxing only land values from 1959 to 1984 have shown the greatest construction growth, and those which tax land more than buildings have out-constructed those few which tax both land and buildings. But the biggest construction gains have been exhibited by those cities which switched to taxing only land values. All this is based on government statistics and constitutes impressive evidence for the efficacy of land value taxation or its equivalent, the leasing of government-owned land (see "Incentive Taxation," 1-2/88).

Kenya and Zimbabwe also have cities which tax land values more than buildings. All cities in Denmark levy a special tax on land values, but there are no comparative construction studies in

these countries.

Most cities in New Zealand tax only land values, and what few construction studies we have all show special construction spurts for the land-taxing cities.

Of the ten cities in Pennsylvania (U.S.A.) which tax land more than buildings, ALL have experienced construction spurts (see "Evidence..." Ch. 1, also "Incentive Taxation," 12/89). City statistics were used for all these studies, and all of the studies made before 1983 were independently corroborated by Fortune Magazine researchers for their laudatory Aug. 8, 1983 article on the subject. Incidentally, in 1990 two more cities in Pennsylvania (Erie and Titusville) voted to shift taxes off buildings onto land.

The Theory

Thus, ample evidence exists (and even more can be cited) that if we reduce or abolish taxes on production and instead support the government via the collection of the rent of land, an unprecedented prosperity ensues.

After all, if we tax jobs less, won't we have more jobs, and if we tax capital investment less, won't we have more capital investment? And if the government collects the rent of land, won't the selling price of land fall (because there'll be less net rent available to the private landowner, and the capitalization of it into selling price will then be much less)? If land sells for less, then it will be more accessible to poor people.

Also, if the holding cost of land is increased because the annual rent is collected by the government, then sites will have to be used efficiently, thereby increasing economic production and prosperity. Efficient producers would easily out-bid inefficient ones for available sites.

Some economists might think that a decrease in the selling price of land will exactly negate the advantage of an increase in the annual holding costs, but this is not so. Under the current system, a tenant must pay both taxes and rent, whereas if the government were to collect the rent of land, then no taxes would be needed (rent would replace the need for taxes).

Containing Urban Sprawl

But some may ask, won't all this development congest our cities? Won't it lead to the premature development of our countryside? The answer to both these questions is a clear no.

If local government collects the rental value of land either by taxation or rental, then it will be requiring sites to be used efficiently; i.e., in accordance with marketplace demand. But that will avoid congestion, which is inefficient land use. In any case, zoning and land-use planning is still possible, although the need for it will probably be reduced.

As for buildings with historical preservation value, the land under them needn't be taxed or rented.

Concerning the premature development of our countryside, not only wouldn't it occur but in fact the countryside would be preserved. Since land-rent collection would bring about the more efficient use of land, there would be less sprawl into the clean-and-green countryside. Now people develop five-acre sites in the countryside instead of quarter-acre sites in cities, or they use rural lands profligately. In either case, the clean-and-green countryside is sprawled upon -- prematurely developed. But not with land-rent collection.

This land-rent collection won't sprout office buildings in land best suited for farmland. Such buildings are simply not the best use of farm land. Farming is.

Inefficient land use is the chief cause of the eating up of our countryside. The remedy is to col-

lect land rent and not to tax labor or capital.

Could a Land Value Tax be a Single Tax?

Some critics of the government collection of land-rent (either by taxation or leasing), especially those concerned about countryside preservation, fear that land value taxation will have too much impact. Then there are those critics who are concerned that it will have too little impact -- i.e., it will provide too little revenue. Both contradictory fears are groundless.

First, if land rent should be collected by the government for all the reasons given above, then let's do it. If we need to tax other things to supplement the revenue it raises, we can always do that. If it's good, do it; if not, don't.

Second, careful research indicates that if government charges user fees for the services it renders to individual recipients, then those fees plus the government collection of the land rent could indeed pay for all governmental costs, with no taxes on producers needed at all. My own research, based on U.S. Census Bureau and Federal Reserve Board data, clearly indicates that a land value tax in the U.S. for 1981 (latest year for which statistics are available) could raise 24% of the national income, which would be enough to meet all the expenses of government after the payment of user fees (see "Incentive Taxation," August 1986). And this 24% estimate is based on very conservative assumptions; the actual figure would be much higher (see "IT," Aug. & Dec. 1986, Oct. & Dec. 1987, June 1988).

So in fact the U.S. could replace taxes on production with land-rent collection instead. So could Eastern European countries. Wouldn't this spur prosperity to unprecedented heights, and ensure international loans?

One last point: the government collection of land rent is more in accord with ability-to-pay than any other type of government revenue. This is supported by extensive empirical research (see the addendum to my paper presented at the Sixth Annual Henry George Lecture, Macquarie University, Sydney, Australia in May 1989 -- which is available, as are all the other source documents mentioned herein, from C.S.E., 2000 Century Plaza (238), Columbia MD 21044).

The Moral Test

So far, considerable evidence indicates that if the government un-taxes labor and capital and collects land-rent instead, then economic prosperity will follow. But let us now apply the test of morality.

Isn't the locational value of land a product of society (as when it provides jobs and shopping nearby) and a product of government (as when it provides roads, schools, protection, etc.)? Thus, shouldn't government collect what it and society create (namely, land rent) before it taxes what individuals create with their labor and savings?

Or look at it this way: if we should all have equal opportunity, then we should all have equal access to the opportunities afforded by nature. Since land is necessary for such access, then we should all have equal landownership, or more practically we should all have equal ownership of the annual land-rent, and the government, our agent, should collect it for us. This will allow our labor and capital to be tax-free.

Whether we test the taxation of land values empirically or morally, we come to the same conclusion: all taxes on labor or capital should be reduced or eliminated, to be replaced by the government collection of the annual rent of land.

Inflation and Recession

Here are two macro-economic problems which bedevil Eastern European countries and imperil I.M.F. and other international loans. As we might expect, they would be alleviated by the government collection of the land rent.

If the land rent is collected by the government, then land prices would fall to zero, and this would prevent one of the chief causes of inflation (runaway land prices).

Taxes are now added to the price of goods and services. But with the government collection of the land rent, that won't occur and inflation will be contained.

Escalating land prices, due to land speculation, periodically place goods and services beyond the reach of consumers. This causes recessions until land prices fall. But when the government is the sole beneficiary of increases in land values, then land speculation disappears as a cause of depressions.

Taxes on goods and services also place them beyond the reach of consumers, but once again the government collection of land rent would remove this cause of social distress.

Why Not Tax Labor & Capital?

By this time, it should be obvious to the reader why the government collection of the annual rent of land is better by far than any tax on labor and capital which the ingenuity of government officials can devise. But since age-long habit has accustomed us to the imposition of certain taxes in widespread current use, we would be wise to compare in some detail the government collection of land rent to the most common taxes on labor and capital:

- o A tax on income reduces take-home pay
- o A tax on wages reduces the number of jobs
- o A tax on businesses raises the cost of goods and services
- o A tax on buildings creates a shortage of housing
- o A tax on imports raises costs to consumers and creates monopolies
- o A VAT or sales tax raises prices of goods and services.

But a tax on land values -- or the equivalent leasing of government-owned land -- cannot decrease the supply of land (which was fixed at Creation), nor can it increase the cost of land. In fact, just the opposite will occur -- the selling price of land will fall to zero or near-zero, and the annual land tax or rent will cause land-hoarding to become too costly; more land (not less) will become available on the marketplace.

If free enterprise is good, then don't tax it. Let the government collect the rental value of land instead.

Eastern European countries should not copy the bad ideas of the West (such as its injurious tax systems), but only the good ideas.

Eastern European countries need to maximize production in every way available to them and they need to minimize land-hoarding if they hope to increase their standard of living and compete in international markets. The conversion of their economies from state to market control will require certain interim welfare expenses (i.e., displaced workers, bureaucrats, etc.) which can best be paid for by a collection of the rental value of land.

One other consideration: the I.M.F. and other international lending agencies would find their loans would be safer if production were not taxed in their target countries and if land speculation would not attract scarce funds.

Conclusion

In the light of the foregoing, it is suggested here that the I.M.F. and other international lending agencies condition their Eastern European loans on the requirement that those countries pay for at least 30% of their governmental expenses by a collection of the rent of land in taxation within four years of the finalization of the loan. Or more tentatively, they could require loan recipients to collect the full rent of land in three cities, again within four years of the finalization of the loan, in order to try out this system on a small-scale basis at first.

Here is a revenue-producing system which can protect the interests of both the loan granters and the loan recipients.

The theory is sound. It has succeeded where tried (and has been widely endorsed by leading authorities worldwide).

If it's a good idea, then international loan makers should see that it gets done.

The next paper explores exactly how the government can assess and collect the rental value of land.