

DIRECTORS' PERSPECTIVES

WHERE THE RSF BOARD EXPLORES CURRENT APPLICATIONS AND IMPLICATIONS OF HENRY GEORGE'S TEACHINGS.

WHAT'S SO SPECIAL ABOUT HENRY GEORGE ANYWAY?

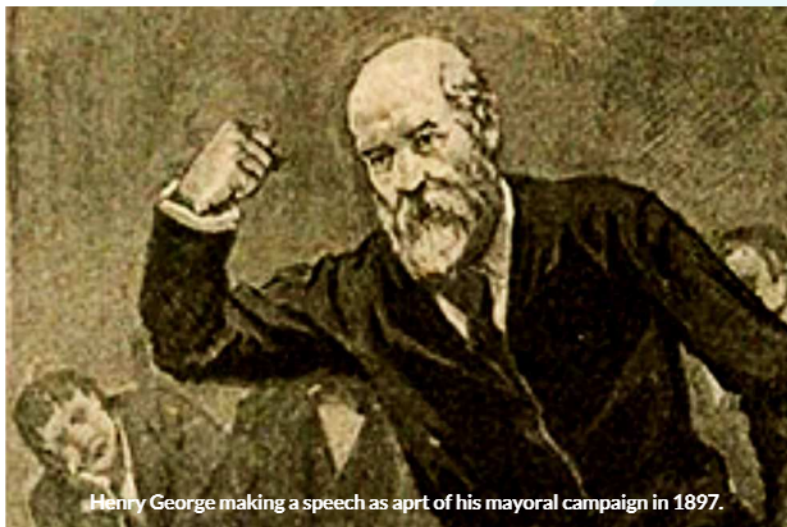
BY FRANK DE JONG

The many organizations around the world that work to popularize the work of nineteenth-century American economist Henry George have three goals: a just society, a green society, and a prosperous society. Collectively, these organizations constitute an interconnected think tank advocating financing governments by collecting "economic rent" in lieu of taxes on jobs, business and goods, and services.

Economic rent refers to revenue without a corresponding cost of production, such as the societal surplus, or superprofits, that flow to monopoly-held assets like land, resources (oil, copper, trees, water, etc.), the privilege to pollute, the electromagnetic spectrum, (includes all radio waves e.g., commercial radio and television, microwaves, radar), agricultural supply management quotas, drug patents, taxi medallions, et cetera.

Though this wealth rightfully belongs to the community, it presently flows mostly untaxed to private asset owners, forcing governments to finance programs by employing economy-damaging taxes on profits, incomes, and sales.

This economic theory, often called land value taxation (LVT), is supported by classical economists Adam Smith, David Ricardo, John Stuart Mill, and Henry George, by prominent people like Winston Churchill, Dr. Sun Yet-Sen, Mark Twain, and George Monbiot, and by modern economists Joseph Stiglitz, Milton Friedman, Michael Hudson, and



Henry George making a speech as part of his mayoral campaign in 1897.

Herman Daly.

In his seminal book, *Progress and Poverty* (1879), Henry George builds on the work of Adam Smith, David Ricardo, and John Stuart Mill, enumerating the multiple benefits to the economy and society when governments are financed by capturing economic rent.

Taxing incomes makes people more expensive to... (cont'd on pg. 5)

SOLVING THE "AFFORDABLE HOUSING" PROBLEM WITH LAND VALUE TAXES

BY MATT LEICHTER

"But then all real estate would go to its highest and best use," the man complained.

"Yes! Yes!" I replied. "That's the point. That's good."

The man was trying very hard to understand my position but seemed

baffled, and I had no good response beyond muttering something about wasteful downtown surface parking lots.

"But then everything will go condo, and where will all the poor people go?" he asked.

When explaining the advantages of land value taxation, proponents encounter a familiar set of counterarguments such as:

- How can the system be affordable for land rich but cash poor citizens?
- What will happen to the farmers who really work the land?
- Aren't accurate assessments impossible? (con't on pg. 6)

HG Trivia

Contemporary accounts state that 100,000 mourners squeezed inside Grand Central Palace for George's memorial, while another 100,000 stood outside for lack of space.

What's so special about Henry George anyway? (cont'd from pg. 3)

hire, taxing capital increases the cost of borrowing, taxing profits pushes marginal enterprises closer to bankruptcy, and taxing consumption raises prices. Economists refer to these taxes as dead weight taxes, because they stifle economic vitality and exacerbate unemployment and poverty.

Alternately, funding government programs by capturing the community-generated, "unearned income" (that accrues to desirable finite assets) increases economic efficiency, reduces poverty and unemployment, checks suburban sprawl, conserves resources, and minimizes pollution.



Photo by Michael Tuzson/istockphoto.com

Cul-de-sacs are a familiar feature of suburban sprawl in America.

- Collecting unearned income rather than earned income diffuses opposition to paying taxes, since people keep the hard-earned cash earned from jobs and businesses, paying instead only for their privileged access to community-owned assets.
- Collecting economic rent from the relatively few sources is far less complex than administering and enforcing the taxation of millions of jobs, businesses, and purchases.
- Infrastructure becomes self-financing since capturing the rise in land value from publicly funded construction projects is used to finance the projects. Warranted infrastructure returns more than its cost in the form of local land value rise.
- Economic rent capture eliminates real estate speculation, which is the

principal cause of recessions and depressions, like the devastation 2008 crash.

- Capturing speculative profits for public purposes gives capital no option but to invest in the productive economy, in the form of labor-intensive production, which raises wages and spawns new businesses.
- LVT is a levy on the privilege of owning land (buildings are ignored by the tax man). Fees are applied equally to vacant and productively used land, reducing the amount of vacant and inefficiently used land. LVT eliminates land speculation, since rises in land value are captured by the community and do not flow to the owner.
- Land value taxes cannot be evaded, thus eliminating the problems of offshore tax havens, the underground economy, and tax cheating.

Economic rent capture scenarios

(Under LVT, there are no income, business, or goods-and-services taxes, and no taxes on buildings or improvements.)

- A residential property is valued at \$400,000. The lot and the house are each valued at \$200,000. LVT ignores buildings but charges the rental value of the lot, about 5 percent of market value. The owner must remit \$10,000 per year to the municipality.
- A business is situated on 2 acres of land, the parcel market value at \$500,000. The owner pays the rental value (5 percent) or \$25,000 in LVT, but no other taxes.
- An employee's gross income is lower after LVT, but the net income is the same since no income taxes are deducted.
- A low income senior cannot afford the LVT so a reverse mortgage is negotiated to defer the LVT until time of sale.
- A student finds inexpensive rental accommodation in a multiunit building since the building is sited on a small lot and the landlord pays no tax on the value of the building.

- A farmer pays the rental value on a 100 acres valued at \$1,000,000 or \$50,000 per annum, but pays no income taxes or tax on equipment or buildings (improvements), allowing the farmer to hire employees, and build farm labor accommodation, pre- and post-harvest infrastructure, and farm-gate sales facilities, without additional taxes.

Under LVT, there are no income, business, or goods-and-services taxes, and no taxes on buildings or improvements.

- A landlord is motivated to renovate and upgrade a multiunit building because there are no taxes on materials or labor, nor will taxes increase upon completion, since LVT is levied only against the lot, not the building.
- A carbon fee-and-dividend system is in place to address climate change.
- A buyer negotiates a loan only for the buildings. The land is secured by agreeing to remit the monthly LVT fee.

Economic rent capture has been used effectively in the past and is clearly beneficial in jurisdictions where used today. Alberta and Winnipeg used it in the early twentieth century; Japan, Hong Kong and Taiwan are more recent examples; and it is how Sydney paid for their Olympics. Alaska, Alberta, and many other countries use it when collecting oil royalties.

With communism, socialism, and Marxism now abandoned in favor of market economics, with interventionist Keynesianism discredited as a long term solution, and with trickle-down economics mocked as a cynical justification for unconscionable wealth disparity, governments now have the opportunity to return to what Fred Foldvary calls "foundational economics," to quash the damaging speculative economy and allow a purely entrepreneurial economy to flourish.