

In the first of two articles, GODFREY DUNKLEY argued in the last issue of *Land & Liberty* that Economic Rent was "the highest consistent annual payment for the use of land, excluding improvements, under conditions prevailing at any given time."

He defined Natural Rent as "the highest consistent payment for the use of land, excluding

improvements, provided there were no taxes of any kind."

Economic Rent is thus Natural Rent reduced by taxes.

In this second contribution, Godfrey Dunkley states that the success of a system of taxation may be judged by two criteria:

- Its effect on land which lies near the margin of production. If taxes are greater than the Natural Rent (the excess of production

after paying wages and interest), the system causes unemployment.

- The amount of prime land which is withheld from production by speculators.

If either of these two phenomena is observed in any society, argues Godfrey Dunkley, then a complete re-examination of the system of taxation is required.

LVT: key to revival

THERE IS a solution to the problem of unused or underutilised land and unemployment. The concept to be recommended is not new but it has not been sufficiently understood.

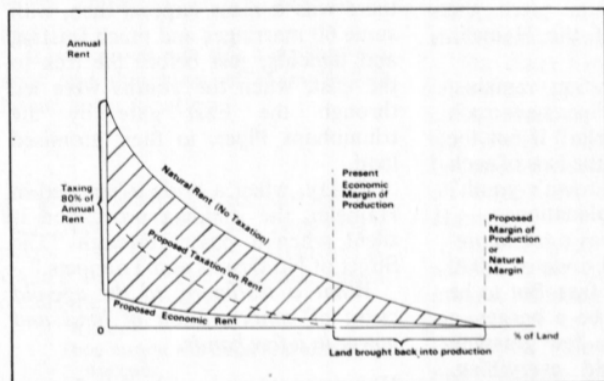
The government should gradually phase out all existing taxes whilst simultaneously starting the direct collection of an ever-increasing portion of Natural Rent, by imposing the tax on the market value of land. While there is a market value, the payment of the tax cannot be avoided. The transition would take a few years but the steps should be set out in advance so that the market can adjust smoothly.

During this change-over period, the Economic Rent Curve will gradually change its shape and position. The

represented by the shaded area. The proposed Economic Rent Curve now intercepts the Rent Base Line at the Natural Margin of Production.

The old Economist Rent Curve is shown as a broken line for comparison.

Comparing these two curves, it will be seen that revenue is cut short at the Economic Margin with the present system of taxation. In the proposed system, revenue is also collected from land that is brought into use. When revenue is collected from this "marginal" land and from prime land presently withheld from production by speculation (Figure 6), the additional revenue allows the level of existing taxation to be significantly reduced. This is a further benefit to the productive sector.



● Fig. 5

Economic Rent on prime land will be reduced but will increase on marginal land. Between the Economic and the Natural Margins it will swing from a negative to a small positive value.

This will bring land back into use and automatically create employment.

For the purpose of this exercise, let us assume 80 per cent of the Natural Rent were taken in taxation. This is represented in Figure 5. The value of the tax collected is

Subsidies: do they work?

BECAUSE TAXATION on labour and its products puts land out of production and men out of work, something which affects a large section of the electorate and thus the political *status quo*, governments try to compensate by giving subsidies in various forms.

While subsidies may provide some relief, they also push up land prices. Figure 7 shows the effect. A new base line is established below the existing one. The shaded area shows the increased rent which goes to the land owner at the expense of the taxpayer.

The portion of subsidy which relieves the plight of those placed beyond the margin is relatively small compared to that which increases rent on prime land.

Socialism: cause of unemployment

SOcialism DOES NOT provide a solution to the original problem. In fact, while it may help the unemployed, it also helps the employed to become unemployed!



‘Failure to implement this reform will result in an increasing number of people unemployed’

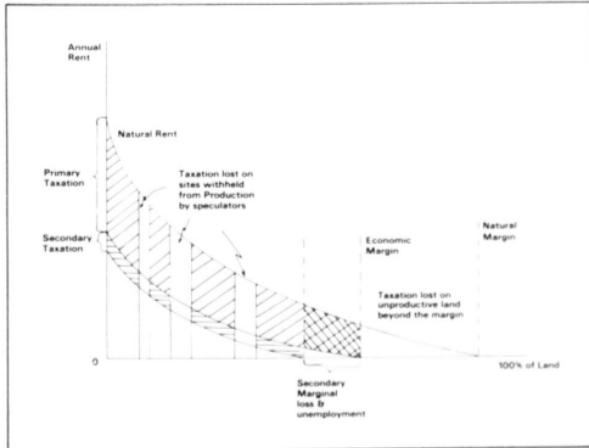
Social security in many Western countries imposes an extra tax burden that puts marginal land and marginal occupations out of production. The additional unemployment starts a further round of tax increases and unemployment.

In many cases, the unemployed receive a large percentage of their previous basic wage. Those left in employment thus work for the difference between that and full wages. The figures of 90 per cent and 10 per cent respectively have been quoted for Europe. Men thus lose the incentive to work.

Unemployment has a psychological effect. Receiving social aid relieves the economic burden but not the loss of dignity. Once men have accepted this condition as a norm, they do not find it easy to become fully productive once again.

These two factors tend to reduce the effective production per worker, reducing the national product and the total value of taxes collected.

This again requires an increase in taxation which causes a new round of unemployment.

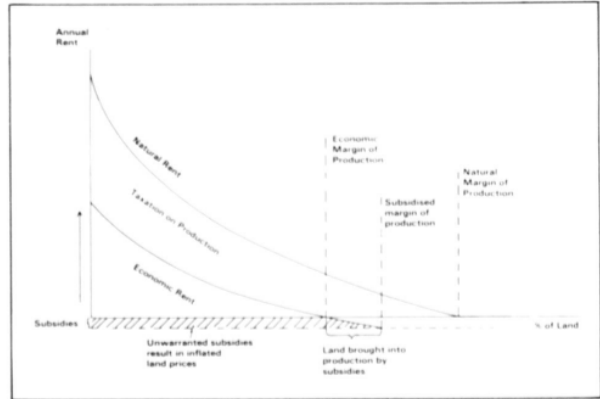


● Fig. 6

The system appears to be self destructive, rescued only by technological developments which help to offset the general effects of socialism. The improved quality of life which socialism sets out to achieve for the working man can more easily be achieved under a revised system of taxation, without destroying the advantages of free enterprise.

Capitalism is vulnerable

PPRIVATE ENTERPRISE and free trade challenge men to exert and develop their talents and productive abilities. However, progress and poverty live side by side, affluence with unemployment.



● Fig. 7

Can capitalism and freedom of enterprise exist where speculation in land is encouraged by the tax system?

Many people are denied access to the land that is necessary for economic activity, and funds are absorbed into speculation instead of production.

But land can be made available to those who would put it to best use, and capital released to flow into production, by changing the tax system.

There should be no direct tax on the returns to capital and to labour. Under these conditions, there would be complete freedom of enterprise on land which now lies idle beyond the economic margin of production.

The tide of unemployment and migration to the cities would be reversed without government intervention or incentives.

Because people would enjoy the security of home ownership and would be free from the threat of unemployment, their nation would have a high degree of political and economic stability.

Conclusion

ONE OF THE MANY aspects which it has not been possible to develop relates to change in Natural Rent.

An expanding economy, population growth and technological development raise the level of the Natural Rent Curve. Consequently, the annual revenue collected under a system of land value taxation would increase automatically without any changes in the tax structure. This would happen provided the valuation rolls were regularly updated.

A reduction of taxes on labour and its products is essential if unemployment is to be significantly reduced. The failure to implement this reform will result in an increasing number of people being unemployed – as a direct result of the structure of taxation – in the Western world.

Note: The author wishes to thank David Allen for his assistance in the preparation of this article.