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President's Advisory Panel on Tax Reform

By Fred E. Foldvary

President Bush on January 7 created an advisory panel on tax reform. Good! We need tax reform.

The panel's press release of Feb. 16, 2005, says that for now the panel seeks comments on the bad aspects of current taxation. If you know of specific bad aspects, do send them in. The panel asks for desirable goals. In my judgment, the goal should be to minimize the excess burden or deadweight loss of taxation, the waste of resources and loss of output, investment, and productivity caused by taxation. Send in your comments by March 18, 2005.

<http://www.taxreformpanel.gov/contact/>

The panel says that for now it is not asking for specific proposals. But when it does ask for them, mine will be the following:

The sources of public revenue that do the least damage to society, and can even do some good, are user fees, pollution fines, and land rent. User fees are like market prices for services, voluntary payments based on benefits.

Any government service for which the beneficiaries can be identified should be paid for by user fees, such as a fee to get a passport. Many user fees are economically land rent paid to be in some location during some time. The fee to enter a park, for example, pays rent for the use of that area. A parking meter is really a rental paid for that street space. Use user fees whenever possible, at the amount that covers the cost. For example, fees to enter national parks should be increased so that they pay for much-needed maintenance.

The U.S. government deals with pollution mainly with regulations. This is inefficient. The government should make all polluters pay the social cost of the damage they cause. Germany does this with good effect. The federal government should tax pollution that affects a wide area, such as the atmosphere. State and local governments should tax more local pollution, such as from car exhaust. Pollution taxes could raise billions of dollars without harming the economy, because the pollution is harmful, and if polluters are not charged, they get subsidized, making others pay for their social costs.

Most economists agree that a tax on land rent is efficient in not causing any economic damage. But it gets better, because taxing land rent can even improve the economy, promoting infilling in cities and reducing development in the urban fringes. Taxes on land value are also equitable, since much of the value of land comes from government's public works and services, and a tax on the land value repays value received from government.

It is Constitutional for the federal government to levy a direct tax on land value, apportioned by the population of the states. The federal government did this in the late 1700s and early 1800s. The land-value tax can replace federal income taxes.

The advocates of consumption or sales taxes talk as if the only tax sources are income and sales. They ignore the option of taxing land value. It would be a big mistake for the federal government to impose a national sales tax. The purpose of production is consumption. If government stifles consumption, it stifles production. Sales taxes are also hard on the poor. Why tax consumption, when the land is sitting there just waiting to be taxed?

Unlike labor, land likes to be taxed, because that puts it to its most productive use. Workers enjoy leisure, but land does not seek to go on holiday. If Mother Earth could talk, she would say, "I want all my children to benefit from my land! I want land to be useful. People need places to live and work in. Please let land do its job! Collect rent for public benefit!"

At the panel's web site you may also subscribe to their email list for updates. Those of us who seek liberty and economic justice should take advantage of this opportunity to promote our insights. The panel meets again on March 3, 8, and 16. Let's make the most of this rare opportunity!

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