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Why We Need LVT at the National Level

by Mason Gaffney (condensed by Lindy Davies)

A Cannan Hits the Mark

Edwin Cannan (1861-1935) was a professor at the London School of Economics, 1907-26, although a large inherited fortune let him live and rub elbows at Oxford, which he seemed to prefer. In 1907 Cannan fired off a round at local rating (taxation) of site values, pointing out that a city taxing only site values to provide free public services would attract too many people and too much capital. A city is an "open economy," free to immigration of everything but land, something like an open range or fishery. Even if all cities tax only site values, cities with more rents per head may support public services at higher levels, and so attract immigrants. This distorts locational decisions, attracting people to jobs of lesser productivity where they may gain from better public services. This is "Cannan's Law."

There are three bad results from Cannan's Law. One is an uneconomical distribution of population. Distributing economic rent freely to all comers attracts people above and beyond the good economic reasons. Thus, people move to New York to earn high wages, well and good; but in addition they may receive a high quality college education from CCNY, the "poor man's Harvard," paid from local property taxes. In Alaska and Alberta, workers receive high wages to overcome the harsh climate, remote locations, and other disamenities, but in addition they get a cash dividend each year from the overflowing oil revenues. All that tends to draw more people, like flies swarming to fresh pie, than the wages warrant.

A second bad result is what economists call "dissipation of economic rent." To make it simple, consider a rich but crowded fishery where another fishing boat added to the crowd will not raise the total catch at all, but simply take fish from other crews who were already there. This has long been standard economic lore. If a locality uses its rents to benefit all its "inhabitants," people will flock to the richest places until there is no further gain to immigrants because they have wiped out all the rent.

A third bad result is to lower the incentive of local governments to provide public services that are open to all comers. Local institutions and attitudes become hostile toward newcomers and outsiders. As Woody Guthrie sang of California, "Believe it or not, you won't find it so hot, if you ain't got that do-re-mi." That was in 1935; it remains true.

Cannan goes on to say that if we are to tax site values, the tax should be national. It is not clear how sincere he is, but he does say it, however grudgingly. It would be easy to dismiss Cannan, a careless writer. Yet it would be wrong to do so without heeding the crash of his siege-gun, for he aimed it well. His point is that if we are to think globally we must also act globally, or at least nationally, not just locally. Those who follow the behest to "Think globally, act locally" trap themselves in an anomaly, dooming them to the fate of Sisyphus. No locality has much incentive to share its land, unilaterally, with the rest of the world's mobile people.

The Balkanized Tax Base

Differences among city tax bases are extreme. The familiar image of von Thuinen's land value gradient illustrates how much more downtowns are worth than even close-in suburbs, much less far-flung farmland. This is why some critics have called the property tax "regressive." Balkanization of the property tax gives some plausibility to the otherwise bizarre claim that switching to a sales tax is less regressive than sticking with a property tax. Within each city the property tax is progressive, but when your data meld poor cities with rich ones, you sometimes find poor people paying more of their income in property taxes than rich people, and getting less for it.

Then there are resource tax enclaves. Hydrocarbons and hardrock minerals are unevenly distributed, geographically. However, rich farm counties are not, generally, resource tax-enclaves (except by comparison with poor farm counties). The "rural" counties today with high values per head are resort counties. In California, you might think that fruitful farming counties have a lot more taxable real estate value per head than urban ones: a durable belief, but wrong.

You might also think that farm country, being rural, has a higher fraction of land value in its mix, but again, not so. For example, in California the Land Share of Real Estate Value (LSREV) in rural Tulare County is 28%, compared to a statewide mean of 40%, and 47% in Orange County. Grazing and mining counties like Inyo have high values of LSREV, but they are a small share of the farm economy. Counties with intensive working farms, like those of the San Joaquin Valley, have low values of LSREV.

Simply switching just the local property tax from buildings to to land will do little to correct such disparities. It will therefore make little progress toward overall distributive justice, and the wide support that would evoke. There is, in fact, a natural cap on local property tax rates imposed by local particularism. The City Council of Beverly Hills will not raise land taxes in Beverly Hills to help voters in less-famous, less-prosperous cities move to Beverly Hills and share the rents.

While academicians bandied words, many applied politicians saw Cannan's Law clearly, and used it to further their ends. The authors of the US Constitution, landowners all, arranged for that document to block direct Federal property and land taxes, unless the taxes be proportioned to state populations: a crippling provision. They allowed property taxes at state and local levels; it even encouraged them by blocking interstate tariffs, then the most common alternative form of revenue. They also guaranteed free interstate migration. Thus they assured that local particularism would cap land tax rates, while local fiscal preemption would obstruct Federal use of property taxes. The Federalist Papers suggest that was a conscious objective.

Austen Chamberlain, an English politician who (with his half-brother Neville) battled against proposed national land taxation from 1920-38, formulated the Tory strategy thus:

It is certain that if we do nothing the Radical Party will sooner or later establish their national tax, and once established in that form any Radical Chancellor… will find it an easy task to give a turn of the screw…. On the other hand if this source of revenue… is once given to municipalities, the Treasury will never be able to put its finger in the pie again.

Parliament followed his lead, and thus set the stage for repealing Snowden's national land tax (it was enacted in 1931, but died aborning). Poor Neville Chamberlain was to be the goat of such penury when he had to let Hitler humiliate him, but meantime English landlords were spared paying taxes for any national purpose.

There have been many temporary and partial political successes, applying Georgist ideas locally, in spite of Cannan's Law. These are something like correcting bad vision using eye exercises instead of glasses. There are enough minor successes, after heroic efforts, to lead us on, but only to frustration. Local growth-orientation has become too weak, partial, and spasmodic to overcome the restrictive force of local particularism, which today dominates policy almost everywhere. The resulting exclusionary policies, when practiced by all or most localities, drive landless proles from pillar to post until they become so desperate they will serve landowner-employers for very little. It is not enough to "think globally" — we must act globally. "Some for the Glories of This World, and some/ sigh for the Prophet's

Paradise to come…." Now, it seems, to win some glories of this world we must do more than just sigh for the Prophet's Paradise; we must work for it.

Acting Globally

One way to act globally (or at least nationally) is through a national land tax, or some reasonable facsimile thereof, coupled with a national citizens' dividend. The income tax act of 1894 did include land income in the tax base, thanks to the persistence of a handful of single-tax Congressmen — yes, really, there once were such men, six of them at that time. The US Supreme Court struck it down because property income was in the base, but President Taft (of all people), Congress, and the voters came back with the 16th Amendment, adopted in 1913, that did include land income in the tax base — and virtually exempted wages and salaries by exempting incomes below a high cutoff point. The brunt of federal taxation fell on property income, much of it land income, and it was enough to finance World War I.

Since then the income tax has evolved, step by step, into its present anti-labor form, with most property income exempt de facto, and high rates on earned income. It is obviously constitutional to reverse that trend, because we have been there before. It would also be desirable, but here we will focus on the cognate matter of "fiscal federalism."

How are central governments to distribute funds from their so-called "surplus": to people (as a social dividend), or to local governments representing landowners? When we wake up to smell this coffee, we will find that a lot of economists have gotten up first.

The reason it is so hard to sell growth policies — like land-value taxation — at the local level today is that fiscal federalism, as practiced today, is perverse. Central governments, imbued with the anti-personnel spirit of Austen Chamberlain, tax people as people, while handing out subventions to landowners as such, and to local governments as such. The landowners can get the subventions without having people, so who needs people? That's our problem in a nutshell. Persons as such become fiscal pollutants, from the local view. After the T-Men have plucked their feathers, working persons are less able to pay local taxes; while Federal grants relieve local landowners from needing population to share public costs.

This amounts to a DE-socialization of rent: creating new private rents using public monies wrung from workers. Equalization programs, such as Canada's national system, for example, lead the wrong way. Equalization grants from Ottawa to the provinces are lower to provinces whose taxable capacity per head is higher, and of course vice versa — so far, so good, but the devil is in the definition of "taxable capacity," from which Canada specifically excludes land value. Buildings are included as part of the potential tax base; a hardworking productive population is included; a thriving commerce is included; but land value is quietly excluded. Thus a province wherein vast and valuable lands are underused is considered a charity case, eligible for alms from Ottawa; while another province that makes productive use of meager lands has to pay more taxes, but gets less relief. The same basic model is used in every US state.

Reversing Perverse Policies

Public spending should feature "Citizens' Dividends." These can take many forms other than outright per head cash grants. The G.I. Bill was a splendid example. Social Security payments are another. School equalization payments based on average daily attendance (a.d.a.) are another. A state or province cannot easily restrict benefits to its old time citizens, but a nation can.

At the same time, there should be no more capital grants to localities for public works. When cities pay for their own public works they must attract population to justify the capital outlays and service the debt.

Federal taxation should bear heavier on land income, and lighter on wage and salary income, as in 1916. It was constitutional then; it still is. The combination of a citizens' dividend and income-tax reform would drastically rebalance local incentives. Cities would compete to attract median people rather than, as now, to repel them. This would not cause swamping of cities with people because it is a zero-sum game in a closed system. Competition would simply raise wage rates and lower living costs.

There is a federal interest in better tax assessment of land, to keep buyers of used buildings from overallocating their tax "basis" to depreciable buildings, thus arranging falsely to depreciate land, and erode federal revenues. Something like a national board of equalization is called for. The US Census of Governments, with the pioneering work of Allen Manvel and political support from Illinois Senator and Economics Professor Paul Douglas, established the precedent. While we're at it, let us outlaw the sequential depreciation of the same building by successive owners, an obvious outrage.

The result of such measures would be to restore the concepts of dignity of labor, and the of key role of income-creating investing (as opposed to acquiring existing wealth and rent-seeking).

For nations where a national land tax is politically thinkable, Colin Clark has proposed a simple technique to spike Cannan's big guns. Says Clark, "Land values per head of population should first be ascertained; then the state would impose a land tax which exempted altogether those local authority areas where per-head land values were low, and which rose in a progressive scale for those with higher land values per head. Each local authority would then also impose its own tax…."

Alfred Marshall proposed an even stronger supplement to the land tax. He would tax the capital value of land, rather than the annual cash value, saying that taxing capital value will "bring under taxation some real income, which has escaped taxation merely because it does not appear above the surface in a money form." That is, Marshall wants the national tax to fall on imputed land income, an enormous annual flow of value that now totally escapes income taxation.

And what is the value of land under old buildings? Marshall writes no nonsense about seeking the depreciated value of the old building first. Land value is the opportunity cost of the site itself: what land would bring "if cleared of buildings and sold in a free market." Imagine how that set of policies would radicalize national taxation in any modern state! Beneath his cautious façade, Marshall reinforced Georgist ideas.

Yet there is more. Marshall applauded Lloyd-George's "Social Welfare" Budget of 1909 because the proposed land tax would "check the appropriation of what is really public property by private persons." Did Henry George ever say it plainer, or more "in-your-face"? Can we, in our Federal system, come up with something comparable to the ideas of Clark and Marshall?

Our worst enemies can be our best friends, when we learn from their criticisms. Cannan's shot breached a weak spot in the Georgist line, and bade Georgists fall back and regroup. So long as modern Georgists ignore and dismiss the Cannanade, they will continue to suffer for it. When they analyze their setback and learn its lessons, they will advance to their goals.