THE EFFECT OF TAXES ON THE MARGIN

OF PRODUCTION AND ON UNEMPLOYMENT

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The Austrian League for the Taxation of Land Values uses a system of illustration by graphs in its propaganda work, as I explained at the Edinburgh Conference in 1929.

To exemplify this, I present here a chart relating to the price which any commodity (a certain quantity of wheat, or potatoes, or wool, of machinery, etc., etc.) has on the market at a given moment. This price is the same whether the commodity is derived from the well-situated and highly-productive land (such as is represented by the line "1") where the sum of wages and interest represented by the distance P_1 to W_1 is only 20% of the price realised (P_1R_1), or from less advantageous land (line "3"), where the sum of wages and interest (P_3W_3) is about half what is realised in the price (P_3R_3);- or from the—maybe— least productive land in use (line "0"), where the sum of wages and interest equals the whole price realised for the commodity.

According to Henry George, the "excess of the produce over that which the same application can secure from the least productive land in use", is the rent. Thus in line "1", the excess is R_1W_1; in line "2" rent is R_2W_2 and in line "3" rent is R_3W_3; but in line "0" there is no excess at all, this last line representing the "<u>natural</u>" margin of production.

Now the distances P_1W_1, P_2W_2 and all the distances P - W, represent the sum of net wages and interest, <u>not</u> including any taxes, rates or duties there imposed. When we examine the last class of expenses, we find that there are some taxes proportionate to the price and quantity of the products, irrespective of the place of production; then there are others which are higher on the better situated sites; finally, there are others which, depending on the amounts of wages and interests paid, are greatest near the margin of production.

I consider that taxes of this last kind before the war played a very little role, but after the war, as social assurances, and other additions to wages, amount to a sum as great as the other two descriptions, and must be considered as in the highest degree repponsible for the crisis and the unemployment, as we shall see afterwards.

To show the effect of the taxes we can subtract in line "1" the amount of all the taxes W_1T_1 from the excess (the rent) do the same in line "2", "3", etc. We thus have the line T_1T_0.

Most people feel that justice is done, when the taxes are proportionate to the gross price realised. They do not reflect, that taxes are thus in inverse proportion to the net return left to the landowners (T_1R_1, T_2R_2, etc.)

If we now examine our chart, we see that the point where the landowners' net return (after deduction of wages, interest and various taxes) is nil, is moved from "O" to R_3, which becomes the new Artificial Margin of Production. Thus all the opportunities for production between the Natural Margin and the Artificial Margin are put out of use, not through the ill-will of the landowner, but by the operation of present taxation methods.

If we consider the chart to represent the sum of all prices realises and of all wages, interest and taxes paid annually on different productive sites, the distance W_1R_1 can be considered to represent the "Annual Value" of the particular land represented by line "1", the distance W_2R_2 as the "Annual Value" for the line 2 etc. and the capitalisation of these "Annual Values" as the "Capital Values" of the sites.

In the same way the distance T_1R_1 represents the net return to the landowner for site "1", and this net return provides the basis of calculation for the "selling prices" of the land.

The simple capitalisation of the landowner's net return would give a Selling Price theoretically justified, but for many reasons the actual "Market Price" of the land, asked and paid, is higher. One reason is that the often cited element of "Speculation", but there are many other reasons, such as the willingness of tenant user to pay a premium in order to hold his own land free from the capricious interference of the landowner. Here we do not require to do more than stress the fact that actually paid "market prices" are more than the ordinary capitalisation of the landowner's annual net return, where there are such returns, and are even above zero, where the theoretical "annual net return" would be zero or where there is loss instead of net return. Indeed there must in practice be paid a "Market Price" to acquire land, whereas with the land represented by line "4", there would, after paying interest and taxes, not be obtained sufficient produce to yield from its sale enough to pay the normal rate of wages for labour engaged and of interest for improvements invested. Again we see, that the chief cause for "holding land out of use", is not the ill-will of the landowner, but the form of taxation actually used.

This consideration is of great importance in relation to what follows. On the chart we can represent the "Annual Market Price" (computed) from actual "Market Prices" by the line M_0M_1, so that T_1M_1 represents the Market Price, expressed as an annual amount, for site "1", T_2M_2 for the site "2" and so on.

Now even those who are aware that the "Land-value" is quite a different thing from the actual "Market Price" of the land, admit, that at the commencement of the application of our land reform and as long as the invisible Land Value, shown in the chart by the distances "W-R", is not known, the basis of assessment for land value taxation be the "Market Price" of land. But whether we have a tax on "Land Values" or on "Land Market Price" it is nevertheless a fact that land on the Artificial Margin of Production and even land behind it, land having no net return, has some Market Price. If therefore we forsake the remedy precisely indicated by Henry George, to "Abolish all the taxes save those on "Land Values", and instead establish an additional Land Value Tax, as it was done in Vienna 1919 and 1929, in Anhalt 1923 and 1925, we get the result that a new Artificial Margin of Production is created, a Margin which causes new restrictions instead of the relief expected from the Land Value Taxes.

In such a case we must deduct from the previous net return left to the landowner T_1R_1 a Land Value Tax T_1L_1, from the net return T_2R_2 the Land Value T_2L_2 and even in the site "3", where the landowner's net return was nil, there is nevertheless levied a land value tax T_3L_3. The line L_0L_1 established by its intersection at "5" a new artificial margin of Production, cutting out of use further areas previously in use (between sites "3" and "5"). This clearly illustrates the correctness of the attitude of our Danish friends, who for manyy years could have obtained without difficulty an additional Land Value Tax, but refused it until they were able in 1926 to secure a first instalment of the right policy, as illustrated in chart.

By the law of 31st March, 1928, 53 per cent of the local taxes (equivalent to 23 per cent of the sum of all the taxes) were abolished. This removed the artificial Margin of Production as shown in the chart, from site "3" to the line "6". The revenue thus lost was replaced by the yield from a fresh tax on Land Values. Even though the Land Value tax on the land represented by the site "6" is below zero, and puts the Margin of Production at the site "7", nevertheless the large area between the old and the new Margin, between 3 and 7, is made available for producers to use without loss.

Henry George is absolutely right in urging us to "abolish all taxes save those on Land Values", for the most important thing is to remove all the "burden which oppresses industry and hampers exchange".

It may seem paradoxical, but even by removing only some part of the burden of present taxes the total of public revenue can be increased.

Through such a removal the tax-collector loses the group of taxes "$S_1 T_1 R_3 S_3$", but the rent of the land between site 3 and site 6, land which at present cannot be made to yield any rent nor any wages and interest, and does not yield any tax, would be obtained and divided between the tax-collector, who could receive an extra yield "$W_3 . S_3 . R_6 . W_6$", and the private landowners, who would be able to get the at present unobtainable Land Rent "$S_3 . R_3 . R_6$", while at the same time Labour and Capital could yield the – at present also put out of use – Wages and Interests $P_3 . W_3 . W_6 . P_6$. As it often occurs that by the increase of taxes, the Budget yield falls, so it can happen, that by lowering the taxes the total revenue increases, when new revenue "$W_3 . S_3 . R_6 . W_6$" is greater than the loss $S_1 . T_1 . R_3 . S_3$".

If we examine the situation from the point of view that the best tax is that which bears equally, we see that before 1926 in regard to the best sites the tax collector gets a smaller portion of taxes than remains as net return to the landowner, so that at the artificial Margin all the land rent is taken as taxes by the tax collector, and the net return to the landowner is <u>zero</u>. After the substitution of all the taxes by a land <u>value</u> tax, the shares of the landowner and the tax collector are everywhere proportionate.

What has been proved by the graph for movable commodities, can also be proved analogously by graphs in relation to fixed improvements, such as houses and industrial workshops.

An idea of the extent of the belt between the artificial margin and the natural margin, rendered idle by the taxes, is given by the figures for pre-war Vienna. Of the 100 square miles total area of Vienna, only 12 square miles lay within the artificial Margin of Production, while the Natural Margin would have included not only the other 60 square miles of land fit for building purposes, but also 3,000 to 4,000 square miles of surrounding country. Now, since the war even the remaining squar miles have been made unusable by the various restrictions on house-rents, taxes, duties and rates. House building by State or municipality is only possible by taking from the many and giving to the few.

An enormous number of opportunities for the employment of Labour and Capital, are rendered useless by this displacement of the margin of Production, not only for architects and the affiliated trades of joinery, carpentry, ironwork, tile-making, forestry, etc., but all the industries which should be occupied in delivering food and clothing to all these people.

Mr Sitte, the President of the Austrian League for Land Value Taxation, has calculated that even on the pre-war Artificial Margin of Production, the taxes per square metre of utilisable dwelling area amounted to seven shillings and the expenses of maintenance and interest for building costs incurred for each utilisable square metre of dwelling were six shillings, so that the minimum cost of the flat of 30 square metres was about £390 — and the minimum house rent for such a flat amounted to £19 10s yearly, of which the whole rent of land, i.e. £10 10s went in taxes, rates and so on, the expenses of maintenance and interest on building cost were £9, net return being nil.

The Natural Margin of Production lies where no rent and also no tax need be paid, but only the 6s. for maintenance and building interest. This Natural Margin cannot be reached by adding a Land Value tax to the present taxes, but only by removing the oldtaxes from the sites, between the Artificial and the Natural Margin.

A minute examination of the graphs shows also the truth of the words of Henry George in "Progress & Poverty": "With all the burdens removed which now oppress industry and hamper exchange, the production of wealth would go on with a rapidity now undreamed. This would lead to an increase in the Value of Land. .....But to shift the burden of taxation from production and exchange to the value or rent of Land....it would be to open new opportunities.....the selling price of land would fall". There is no contradiction or inconsistency in the increase of land values and the fall of selling prices.

There where to-day the production of wealth is frustrated by burdens, the land values will be indreased for both tax collector and landowner, but where to-day land is in use and has a selling price, the net return remaining to the land owner in the sites of highest value will fall by the relative increase of the portion of the tax collector, and in the sites near the present day artificial margin, prices will, because of the surplus for speculation, become superfluous.

This method of illustration justifies the feeling of every ordinary man, that the imposition of a fresh tax as an addition to the multitude of existing taxes which bear with crushing force on all the processes of economic life, would not constitute an improvement in the system of taxation, but of the contrary would merely add to the prime cause of social disease by increasing the burden. Henry George is thus once again proved right in including the removal of present taxes as an essential part of the remedy in his advice to us to work to "abolish all taxes save those on Land Values".

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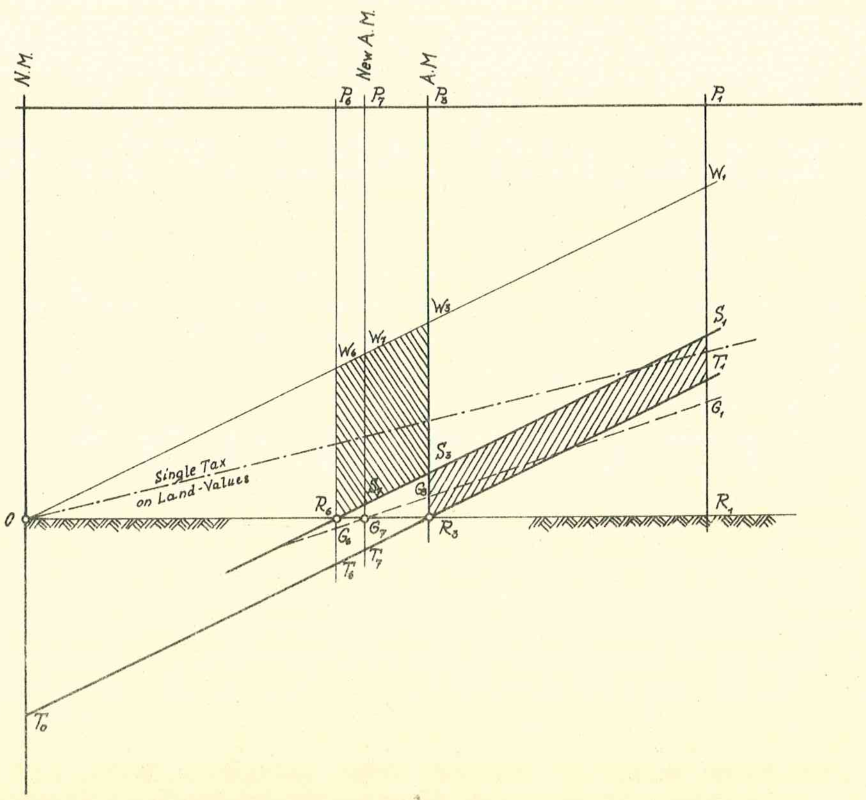
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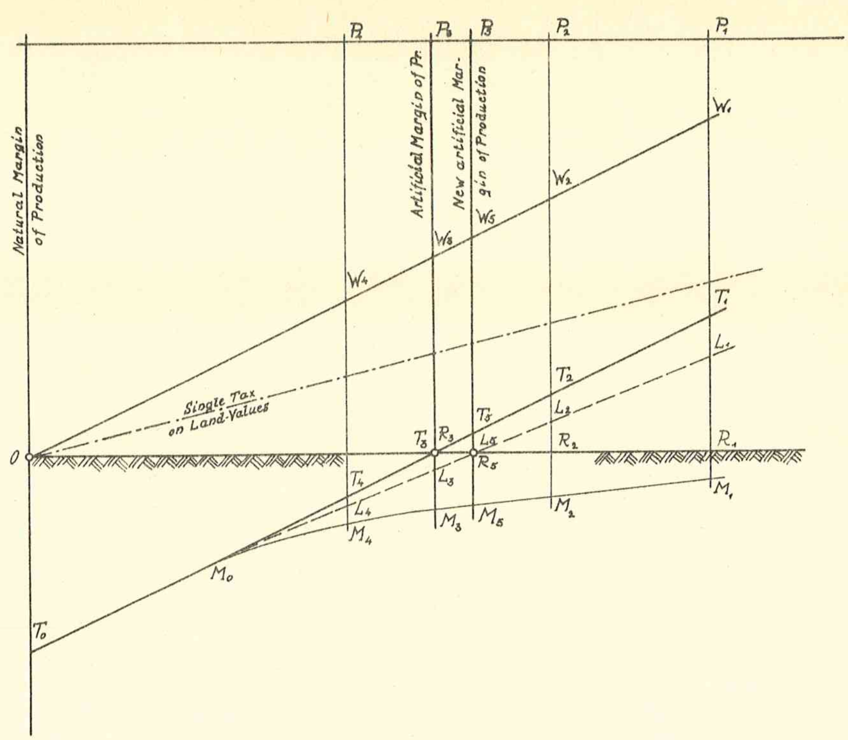
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