Vol. XXXV No. 3

ECONOMIC EDUCATION BULLETIN

March 1995

Published by

AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

Great Barrington, Massachusetts 01230

Toward an Ethical Tax Base: Land, Labor, or Capital?*

I doubt that many serious economists today would attempt to defend all, or even the principal aspects, of our current tax structure in purely economic terms. The tax burden now is distributed across a variety of taxes, most of whose economic effects are well understood to be detrimental over the long run to standards of living everywhere. It goes without saying that much human pain and suffering accompany reduced standards of living — *i.e.*, deterioration in public health, shortened life expectancies, penury, crime and other social pathologies, and the like. Presumably, therefore, *any* tax policy that promotes such misery could, in a broad social sense, be said to lack integrity, to be unfair, and to involve an injustice of a rather high order. Lest we forget, in its most extreme form taxation *is* slavery.[1]

Are Our Current Taxes Ethical?

For purposes of this discussion, it will be my view that policies of any sort that tend to promote deterioration in standards of living and, therefore, in human welfare, are *quoad hoc* profoundly unethical. I should emphasize that this view in no way implies that economic growth for the sake of economic growth is desirable, or that there are not many "off-balance sheet" factors that may contribute toward improved standards of living. Indeed, those command regimes that in recent memory have most single-mindedly pursued "the bottom line" by adopting such goals as full employment, production quotas, 5-year plans, and the like as a matter of national economic policy also have posted the worst records in promoting both the general welfare of their populations and the integrity of their natural environments.[2] At the same time, concerns about the environment, and the willingness to accept the costs of environmental protection, *are* a by-product of relative affluence. Contrary to some notions, fostering environmental integrity is entirely compatible with robust economic activity; in fact, it depends on the continued growth of the wealth of nations.

It would be impossible in the time allotted to recite at length the many "ethical" questions posed by different types of taxation. But even a brief mention of some of the economic consequences of several of the principal taxes that fund Federal and state government operations may suggest the extent of the problems involved. I shall consider first three harmful taxes that are large sources of current revenue, and which in the aggregate account for a major portion of all Government receipts.

Individual Income Taxes

Individual income taxes are among the most deleterious of all taxes. They constitute an enormous burden on labor; they are a major disincentive to productive activity at the margin; and they invite abuse both through the political process as votes are traded for "loopholes" and through tax planning that diverts valuable resources away from productive uses and toward those that receive favored tax treatment. It often is remarked that the largest tax breaks are available to (or used by) only those with substantial resources, and that in this respect the Tax Code favors "the rich."[3] However, the effects of the individual income tax defy easy classification.

Under present arrangements, the behavior of both

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* This bulletin is excerpted from the text of a keynote address by Dr. Robert A. Gilmour, President, American Institute for Economic Research, to Session III of a program on "The Ethics of Land Use," held at the Joan and David Lincoln Center for Applied Ethics of the Seidman Research Institute at the Arizona State University College of Business on March 21, 1995. The program was sponsored by that college and The Lincoln Institute of Land Policy.

[1] The tax policies of the Emperor Diocletian in the 4th century A.D., for example, had reduced the independent small farming class to virtual slavery. A highly recommended overview of the relationship between taxation and civilization is Charles Adams, *For Good and Evil: the Impact of Taxes on the Course of Civilization* (London & New York, 1993).

[2] Presumably, this was the view held by Soviet planners who clung to production quotas no matter what the other costs.

[3] The Tax Code vigorously favors the Federal Government's own debt issues, many of which are inaccessible to most low-income taxpayers. Treasury bills, for example, are exempt from state income taxes. However, the minimum amount for purchasing T-bills is $10,000.

low- and high-income taxpayers may be strongly influenced by tax considerations. Indeed, the disincentive to labor (and therefore pay additional taxes) may be strongest for those whose low incomes qualify them for tax credits that would be lost (and the effective marginal tax rate skyrocket) if they earned additional income.

On the other hand, in the aggregate it is the top 10 percent of income earners that pays the overwhelming proportion of individual income taxes. Those are the very taxpayers who possess resources to invest in the economy, and the individual income tax's disincentives to invest in ways that yield reportable income (which generally means keeping capital from its most productive uses) have profound consequences for the economy as a whole. A point that advocates of capital gains tax reform have been trying to make is that — regardless of the unfairness of taxing long-term gains as current income — over the long run, the withholding from the financial markets of capital in unrealized gains in order to avoid taxes does far more harm to both the economy and the Federal budget than any alleged revenue "losses" that might accrue from a lower gains tax rate (or, more preferably, indexed gains).

Perhaps most serious, the individual income tax tends to corrupt human relations and beget social pathology. Income taxes invite both avoidance, which is legal, and evasion, which is not. It is well known that, especially where there are many cash transactions, only a fraction of actual income may be reported. No one knows precisely how widespread such outright cheating is, but resentment runs high even against those who invoke all legal means available to reduce their tax liability. And no wonder. With respect to the individual income tax, the Tax Code has become a mirror of what "public choice" economists refer to as the political marketplace. Those with clout get the breaks; those without get the shaft. The income tax tends to foster, in the words of the late Arthur Okun, the division of society into "sharpies" and "suckers" — the privileged and the put upon — a situation whose social effects in the long run are incalculably harmful to the voluntary cooperation upon which transactions in market-based democratic capitalist economies depend.

In short, it is difficult to think of a tax better calculated to "keep the laboring classes down," to arm the political classes with the means of selling favors, to corrupt individual behavior and foster group resentments, and to curb economic activity and wealth creation — and so thwart improvements in standards of living — than the individual income tax. According to the view taken earlier, this is a thoroughly unethical tax.

It should be recalled that for most of the Nation's history, such a tax was considered an unthinkable and unconstitutional infringement on the individual's right to the rewards of his or her own labor. And there is more than a little irony in the fact that the first U.S. income tax was imposed (temporarily) as an expedient to fund a war dedicated to ending slavery. Although I will return to it in a few minutes, it also is worth noting at this point that there was no individual income tax whatsoever when Henry George wrote *Progress and Poverty.*

Corporate Profits Taxes

Corporate profits (or income) taxes, which first were levied in 1909, once were the largest source of Federal revenue. They now account for about 10 percent of Federal receipts. In fact, the combination of lower nominal and effective tax rates as well as a decreasing trend of corporate profit margins has meant that the amount of real resources diverted to Government via the corporate profits tax has changed little during the past 40 years.

Why tax profits? The simple answer is that the politicians want money and corporations have some. However, since corporations could be made to pay taxes on some other basis, at least some justification of using profits would seem to be required. It seldom is forthcoming. For example, when, in 1983, President Reagan said (in an offhand remark to a group of businessmen) "... the corporate income tax is hard to justify," it was widely reported in the media as some sort of *gaffe.* But no discussion of the merits of Mr. Reagan's remark was offered from any quarter. We can only speculate as to why corporate profits taxes appear to be widely supported, or at least immune from scrutiny.

Apparently, some may view profits as somehow sinful or "a cost to society," and therefore a suitable object of taxation. However, in our competitive economy, businesses that enjoy a "high" rate of profit are more "productive." That is, they accomplish more with their inputs of labor, materials, and capital than those making low profits or losses. It usually is highly profitable companies that are held in the highest esteem by their employees, customers, suppliers, and investors alike. On the other hand, businesses with low profits typically pay "sweatshop" wages, sell inferior goods, are "slow payers," and have little access to the money or capital markets. It would seem, therefore, that profitability is, if anything, a measure of the benefit to society of a business enterprise and not its cost — and that a tax based on the latter notion simply gives credence to the cynic's adage that "no good deed goes unpunished."

A possibly more valid reason for a profits tax is that it is said to be "needed" to protect the fairness of the income tax, *i.e.*, that individual stockholders avoid taxes on their shares of corporate profits to the extent that the latter are not paid out in dividends. But this would seem to be valid only to the extent that taxing income is seen as an overriding goal of tax policy — an economically devastating proposition.

Rather, it is not at all clear why the accumulation of wealth in the form of business assets should in any way be considered undesirable or inequitable. Until investors sell out or receive dividends (thereby generating taxable personal income for themselves), any accumulation of business assets would seem mainly to benefit employees and customers.

Moreover, it is often asserted that dividend income is taxed twice, both as corporate profits and as dividend income to its recipient. This is somewhat debatable given the large uncertainty concerning the question of who actually pays the corporate income tax. It is often argued that the profits taxes become a cost of doing business, and are passed on to consumers, like any other cost.

However, it is clear that this "double taxation" has had the effect of encouraging debt over equity financing. For example, with an effective corporate profits tax rate of 40 percent, a corporation must earn $1.67 to pay $1.00 of dividends, but because interest payments are deducted from profits subject to tax, a corporation need only earn $1.00 to pay $1.00 of interest. To the extent that such debt financing puts pressure on the credit markets and drives up interest rates, it impedes economic activity.

It might also be argued that because corporations reporting current losses are, unlike individuals, allowed to claim refunds of taxes paid during prior years, the corporate profits tax acts as an "automatic stabilizer" of the economy by helping troubled firms through lean times. However, profits provide the signals needed to shift resources toward the uses desired by consumers and away from those that are not. That the profits tax blunts such signals probably is more adverse to economic efficiency and well-being than any "stabilizing" effect might be beneficial.

However, by far the most insidious effect of the corporate profits tax derives from the political process. For many years prior to the enactment of the Tax Reform Act of 1986, the effective profits tax rates (including state and local profits taxes) paid by nonfinancial corporate businesses generally were substantially less than the nominal Federal tax rate alone. The discrepancy reflected the various tax breaks granted by politicians to industries, and even specific companies that they wished to favor. A huge and profitable, but fundamentally unproductive, industry of lobbyists, lawyers, and accountants for years has been based on obtaining and maintaining tax breaks and applying them, often in situations never even contemplated by the authors of the tax law.

Not only has this been a corrosively corrupt process, but also it has enabled the politicians to indulge in "back door" economic planning that has seldom produced useful results. In most instances an investment that is made because of its tax angles is an investment that has been diverted from a more productive purpose. It also should be noted that such "incentives" greatly favor established producers who are paying taxes. They are useless in start-up situations where there are no earnings yet. In short, the corporate profits tax shares all the shortcomings of the individual income tax, only more so.

Payroll Taxes: Social Security and Medicare

It is commonly asserted that Social Security taxes, which for many wage earners now are greater than their income taxes, are regressive. This is because the earnings subject to the Social Security tax are capped, and people with earnings above the limit do not pay tax on the excess. In 1994, for example, earnings above $60,000 are exempt from the Social Security payroll tax. In addition, nonwage income is entirely free from payroll taxes. High-earners escape some taxes, but their untaxed earnings are not counted toward their benefits.

The amount one "contributes" through taxes and the amount one eventually receives in benefits *are* indirectly linked, in that both are based on earnings. But the level of contributions depends on the payroll tax rate — which has travelled a separate legislative path from the benefit calculations. Changes in the rate of payroll taxes have not been motivated by considerations of fairness, in the sense of balancing the taxes paid by an individual, or even by a generation, with the benefits eventually received. Rather, Congressional tinkering with the tax rate has been driven by fiscal considerations, primarily the need to balance the total revenues collected from *current* workers with the total benefits paid to *current* retirees.

Because Social Security is a "pay as you go" system, its architects have long recognized that it is mainly an intergenerational transfer of income. Some have even lauded this transfer as a useful replacement for the increasingly uncertain support of the aged by their own children. However, financing today's inflated and untargeted benefit levels places an astonishing burden on today's workers. From the perspective of social ethics, it would seem impossible to justify such a transfer tax — one that takes from those who have *not* had the opportunity to accumulate resources for their own well-being during later years (*i.e.*, the young) and gives to those who have had their entire careers to do so. In effect, the payroll tax rewards some elderly for their prior profligacy and subsidizes others who may have no current need for benefits. At the same time, it punishes the young with a burden that may well prevent them from accumulating savings of their own. An apparent corollary to the adage cited earlier is that "no extravagance will go unsubsidized."

Consider that a young family today, with earnings of about $40,000 per year (roughly the median family income in 1994), pays over $3,000 in Social Security taxes. A like amount is "contributed" by their employers for a total of over $6,000. An indeterminate amount of such taxes provides for payments in the event of disability, or to survivors in the event of a wage earner's death. For the sake of argument, let us say that $1,000 of the annual Social Security taxes attributable to this young family are used to provide for such contingencies and that the remaining $5,000 is to provide for retirement income. Saving that amount annually over a working lifetime of 45 years or so could provide an amount sufficient to purchase an annuity paying $40,000 per year, their current level of earnings, at age 65, and more than double what current Social Security beneficiaries with comparable earnings histories now get. This very rough calculation assumes no price inflation and an interest rate of 3 percent, but this probably is as realistic as alternatives involving assumptions of increasing earnings, taxes, and interest rates that compensate for price inflation.

The point is that the taxes levied on younger workers today would, if set aside and invested, be sufficient to pay them annual retirement incomes that would be roughly equivalent to what they now earn. *This will never happen.* Even if the present benefit formulas are somehow maintained during the years to come, future retirement benefits would be substantially less than half our young family's annual earnings immediately prior to retirement. In short, Social Security is a very bad deal for today's younger workers. Conversely, today's Social Security beneficiaries are receiving the equivalent of a fabulous rate of return on the taxes they paid on their earnings. There is little, if anything, ethical about today's payroll tax; instead, it is a model of unfairness and injustice — if there be such a thing. And all the more so since currently payroll taxes are being levied in excess of the amounts required to pay current benefits. Inasmuch as the so-called Social Security surplus is used to fund other current Government outlays and represents no "store of value" whatsoever, the excess payroll tax is a sham of criminal proportions.

There are many other taxes I might talk about — excise taxes, estate and gift taxes, customs duties (of which Henry George had much to say), and, of course, property taxes. But the three already discussed account for a large proportion of current Government receipts. In my view, each in its own way is profoundly flawed, with respect to both ethics and economic science. And each is largely the creation of a political world that came into being after the death of Henry George. None of the major taxes — individual income taxes, corporate profits taxes, or payroll taxes — existed when Henry George set forth his tax program. And none of these major taxes promises to get us out of the fiscal quandary that threatens to overwhelm both Federal and state budgets during the early decades of the approaching century.

What About a Tax on Land?

However noble their intent, the fiscal policies adopted in the United States over the past 5 decades or so have created an enormous ethical problem. As my remarks may suggest, it is generally acknowledged that the principal elements of the social welfare apparatus in the United States today are unsustainable and that their chief effect over the past several decades has been to transfer wealth in unprecedented magnitudes from one generation (*i.e.*, current workers) to another (*i.e.*, retireds).

But as any actuary knows, we are sitting on a demographic time bomb set to detonate early in the next century. As bad as the Social Security situation is today, it will get worse. The probability that retirement benefits, which in the not-to-distant future will represent the single largest Government outlay (if, optimistically, debt service payments do not take it all), will be reduced at some time in the future is overwhelming. Simply maintaining the current levels of benefits for the large age cohorts of the baby boom generation would require ruinous increases in payroll taxes — to as much as 40 percent of payrolls, by some estimates. The problem, of course, is that there will be far fewer workers per retiree throughout the first half of the next century than there are now. *If things stay as they are now,* the prospect is that both young and old face, through increased taxes and reduced incomes, markedly lower standards of living in the future than they do today.

From a population perspective, the traditional "solution" to such crises is to produce more children, many more. It will be interesting to see if a "postindustrial" society with the means of controlling population growth at will takes that premodern population route.

From an economic perspective, however, there is one, and only one, escape from this dilemma: productivity increases — which are the source of all improvements in the overall standard of living in any economy. If we are to avert the apparent calamity that awaits, the national wealth must be enlarged at a greatly accelerated rate. During the next 3 decades, by some estimates productivity must accelerate fourfold if we are to beat the demographic odds. This means that so far as it is humanly possible, all restraints on productive labor must be removed and all obstacles to capital formation eliminated. Not to do so almost surely will result in future injustices so vast that current inequities pale by comparison — and invite "remedies" that could very well spell the end of the American promise as we have known it.

I know of only one hypothetical tax regime that would seem to fulfill these requirements: very simply, the elimination of all taxes that currently inhibit productive activity in favor of a tax on land values. A land tax would free capital and labor from the disincentives to productive effort that are inherent in today's principal revenue raisers — which both reward privilege and penalize human enterprise — and would instead exact a fee for the use of the one factor of production that nature alone has provided and in which the community might legitimately claim an interest, land.

As you may gather, I am not talking here about minor changes in local taxes — a partial shift in the tax rate from buildings to land here and there, or even the adoption of a local land tax exclusively. As desirable as such changes might be, they would remain "small potatoes" in relation to the total tax burden. Even if every community in the United States adopted a two-tier property tax structure or even a property tax based solely on land, so long as the hugely more burdensome detrimental taxes remained, the fundamental problems would persist.

Nor do I think that environmental or land use issues in their conventional sense, which I will address in a few moments, necessarily occupy center stage in the Georgist paradigm. From a broad economic perspective, the land-use related environmental benefits that one might logically expect to accompany a thoroughgoing Georgist tax reform are a sideshow (albeit a significant sideshow) to the main event, which is the larger social benefit that would accrue from untaxing labor and capital.

Could A Land Tax Generate Adequate Revenue?

Of course, the logical sequitur to this question is: How much is "adequate?" Taken in the context of the society within which Henry George's ideas were developed, which presupposed limited Government, the primacy of the individual, sound money and credit, and balanced public budgets — all those things that contemporary politicians say they yearn for — land would provide more than an adequate tax base for funding Government functions.

I should note that George himself would have been appalled at the huge expansion of Government *via* intergenerational debt shifting. He had long been troubled by the public debt accumulated to finance the Civil War, which was piddling in relation to today's public indebtedness, and in *Social Problems* stated his views explicitly, and perhaps presciently:[4]

> The institution of public debts ... rests upon the preposterous assumption that one generation may bind another generation. If a man were to come to me and say, 'Here is a promissory note which your great-grandfather gave to my greatgrandfather, and which you will oblige me by paying,' I would laugh at him, and tell him that if he wanted to collect his note he had better hunt up the man who made it; that I had nothing to do with my greatgrandfather's promises. And if he were to insist upon payment, and to call my attention to the terms of the bond in which my greatgrandfather expressly stipulated with his greatgrandfather that I should pay him, I would only laugh the more, and be the more certain that he was a lunatic. To such a demand any one of us would reply in effect, 'My great-grandfather was evidently a knave or a joker, and your greatgrandfather was certainly a fool, which quality you surely have inherited if you expect me to pay you money because my greatgrandfather promised that I should do so.'

In case you missed the point, that could just as well be the voice of the next generation speaking to us from the future.

But suppose we do not return to the days of Henry George, and Government remains vastly larger than it was then. Could land serve as a tax base for governments of today's magnitude? In terms of "static theory," it could — just as almost any tax base could if rates were set high enough. Forget, for the moment, the delicate ethical considerations of economic land rent and to whom such rent rightfully belongs that propel much land tax theory. Consider instead what would seem to be an inescapably practical feature of the land tax: namely, from the perspective of the tax collector, it is the "gotcha" tax to end all "gotcha" taxes. You cannot move land; you cannot hide land; you cannot hire a smart accountant to create a book entry that makes your site an acre, or five acres, or five thousand acres smaller than it actually is. And you have to live and work somewhere.

With this in mind, it might even be possible to fashion a "balanced budget amendment" based on a land tax alone — since the roughly $5 trillion of estimated total land values in the United States today (which, because of underassessments on land may be markedly lower than actual market values) vastly exceeds all government spending (the Federal Government spends about $1.5 trillion; state and local governments together spend well under $1 trillion). One possible version of such a balanced budget amendment might read as follows:

A Bill

1. The Secretary of the Treasury shall prepare an estimate of the full fair market value of all land (exclusive of improvements thereon, if any) owned by individuals, partnerships, trusts, and corporations in the United States and its territories as of next December 31 and as of each December 31 thereafter.
2. As of next January 1, all income, payroll, excise, and estate taxes shall be abolished. Also as of next January 1, and on each January 1 thereafter, the Secretary of the Treasury shall levy a tax on the total market value of land as determined in section 1, in an amount equal to the total outlays of the Treasury during the fiscal year ended on the preceding September 30, with each owner to pay a *pro rata* portion of the total.

If Government spending were reduced to levels that did not exceed the total of economic land rents, such a

[4] Henry George, *Social Problems* (New York: Doubleday Page & Company, 1904), p. 162.

reform would accomplish two highly desirable goals simultaneously. It would balance the budget. But, more importantly, it would slash the marginal rate of tax on all forms of economic activity to zero. Now that would be a tax cut to end all tax cuts!

Inasmuch as they could walk away from sites that were overassessed, landowners under such a tax regime in effect would bid on market rents through the tax mechanism. Over time, presumably assessments and land taxes would accurately mirror market values. Whether such a mechanism would yield revenue adequate to fund current government budgets, or whether it might impose some natural limit on the amount of revenue available, are questions that cannot now be answered. But one could reasonably argue that such a mechanism would yield the maximum of ethically derived funds for public use — and that governments' ambitions ought to be adjusted accordingly.

But Would It Be Fair?

By now, you should all have your calculators out to determine whether you would win or lose under such a regime. Some current landowners would win big. But some others would be losers, big losers, and I can see the protest signs now:

TAX UNFAIR TO LAND SPECULATORS!

As with free lunches, there is no such thing as a perfect tax. While the land tax, once in place, would meet the main requirements of a "neutral" tax that neither advantages nor disadvantages any type of capital or productive activity, getting "from here to there" (especially in a relatively short time) could itself create new inequities and undesirable consequences. There simply is not time to discuss all of these now, although I should mention that there is a continuing debate among economists, especially of the "Austrian" school, about the positive contributions of land speculation, which a Georgist land tax would suppress.

A less controversial, if more fundamental problem, is that past and current land prices have incorporated no land tax considerations. It generally is agreed that as the proportion of economic rent of land captured by taxes increases toward 100 percent, the land price approaches zero. Those who bought land shortly before a shift to the land tax at "pretax" peak prices and then had to pay a tax that captured all land rent would see their investment (*i.e.*, the price they had just paid) completely wiped out through no fault of their own. Would this not constitute an unethical taking of unprecedented proportions? Unless adjustments were made, in my view the disruption caused by a shift to a land tax under such circumstances would defeat the entire reform.

This situation seems ethically related to a question that apparently went unanswered during Professor Andelson's session earlier this year: namely, for future mortgages, what percent of liability for environmental damages to lands should be assessed to past and current landholders? In both of these situations, a landholder acquires a liability unknowingly and through no fault of his own (presuming that a former or current landholder violated no law in activities that created the environmental harm now deemed a liability).

The situation is somewhat analogous to the dilemma that faced constitutionally minded antislavery advocates during the mid-19th century. In their view, the ownership of a human as chattel property was fundamentally unethical (just as destroying the environment is so viewed today); however, property in slaves was legal (just as former activities that hurt the environment may also have been legal). To declare slaveownership illegal without compensating the owner for his loss created an ethical dilemma: an act of great morality (abolition) was at one with, and the same as, an act of great immorality (the unjust taking of legally held property). We know how the former situation turned out. But what we might recall is the alternative route not taken, namely, "compensated emancipation."

Without going into great detail, I believe it is possible to design a system of compensation for landowners who would suffer such losses through no fault of their own in the shift to a land tax, to be funded out of current receipts and amortized on capital account. It would, in effect, represent the "compensated capture" of land rents by the community.

It also is possible, in my view, to employ other relatively benign taxes during the transition to a land tax regime as a means of blunting the impact of an abrupt shift. Although it is not as "perfect" as the land tax, a value added tax, which has the broadest base of any tax, could be used as a replacement for the current payroll tax and corporate income tax.[5]

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[5] The value added by an enterprise is the difference between its revenues or sales, and the goods and services it purchases from other firms. A value added tax is basically a sales or turnover tax, with the important difference that a specific enterprise gets, in effect, a credit for the taxes paid by its suppliers. This means that the tax base of a value added tax includes the same base as payroll taxes (compensation of employees) *and* whatever is left over after the suppliers and vendors have been paid, which is the return to capital (interest and profits).

A long-standing objection to a value added or national sales tax is that it is regressive. The suggestion here is to replace one regressive tax (the payroll tax) with another. However, a value added tax is a proportional (neither regressive nor progressive) tax on consumption: it is regressive only to the extent that lower-income people consume a higher proportion of their incomes. Savings are not taxed. If a family with an income of $20,000 somehow managed to save $1,000 in a year, the value added tax on their consumption of $18,000 would be a lower proportion of their income than it would for a family with an income of $200,000 that spent it all. The current payroll tax claims a higher proportion of the income of the $20,000 per year family than it does from the $200,000 family, no matter what either family does with its money.

Because valued added taxes fall on income from capital as well as labor, they could be used a replacement for the corporate income tax as well.

Would It Simplify Land Policy?

On this question, I may part company with some advocates of the land tax who presume that such a tax would automatically provide direction to any number of land-related issues. In an economic sense, a tax on land values does imply a land use policy of sorts: that is, it is an unambiguous incentive to the more intensive use of land. Presumably, more activity would be carried out on less land, which *could* imply a number of salutary effects for both urban and rural environments.

For example, it has long been the view of the organization that I represent that it is mainly land value taxation that is needed to remove the blight of urban slums.[6] So long as slumlord land speculators are permitted to hold their unimproved or deteriorating properties off the market with impunity we are apt to have continued shortages of affordable decent housing. And so long as landholders continue to be punished with higher property taxes for the improvements that they make they will be reluctant to make those improvements even if they are so inclined.

In rural lands as well the effects of a land tax could be highly beneficial. Marginal agricultural lands that have nevertheless been placed in (often environmentally wasteful) cultivation presumably would be withdrawn from production and allowed to "return to nature." Productive farm lands could be encouraged to be made even more so through sustainable agricultural practices. So much for the good news.

The bad news is that a land tax might imply quite otherwise. Who is to know whether the incentive to intensify the use of land might not instead invite overcrowding in the cities? Or exhaustive overproduction and abandonment of spent farm lands? Or clear-cutting of timberlands? Or stripmining of mineral lands? Etc.?

The point is that while a land tax might encourage certain economic tendencies,[7] and while it might simplify the implementation of an established policy by empowering collectors with the tax to end all taxes, it would not provide a land use policy *per se*, if by that is meant a master plan for the allocation or prohibition of specific lands to or from specific uses.

In my view, this is not necessarily a bad thing. I do not know what might constitute a "national land policy." But if it entails resource allocation to foster certain outcomes according to some preconceived strategy that either ignores or seeks to counter market signals, it very likely will produce the same dismal results that generally have emanated from, say, "industrial policy," "monetary policy," or "incomes policy" wherever those have been tried.

In any event, and especially in the United States, it is my view that, in the information age of the microprocessor where multimillion dollar businesses are run via computer modem out of rustic retreats under the Big Skies of Montana and Wyoming or some other unlikely locale, land *per se* may be viewed less as a factor of production than as an article of consumption. In this circumstance, a tax on land, whose principal economic impact is in untaxing capital and labor, would be a fundamentally neutral element.

However, inasmuch as virtually all tax questions thus would revolve around land, it could be expected to raise land use issues to preeminence. Almost surely, political considerations would drive many land use questions, just as they do in today's tax debates. It is a matter of conjecture that the range of new issues that might be raised under such a regime would be limited only by the ingenuity and imagination of the lawyers, accountants, and lobbyists who could be expected to be drawn to such a novel tax industry. Presumably, however, two benefits of the land tax are that such questions would involve matters that are less opaque (*i.e.*, how certain lands might be used) than many of today's tax issues — and that all tax decisions would be on public record. What all this implies, of course, is that the Lincoln Institute and similar organizations are in little danger of running out of things to do, which presumably this audience will view as a good thing. Thank you for your patient attention.

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[6] See, for example, "How To Make Slums and Create Barbarians," *Economic Education Bulletin*, May 1981.

[7] It would not end the business cycle, and it would not end inequalities in the distribution of incomes or wealth.

For further reading:

Those interested in learning more about the economic philosophy of Henry George may wish to contact the Robert Schalkenbach Foundation, 41 East 72nd Street, New York, NY 10021, telephone 212-988-1680, to request a copy of *Land, Liberty & Prosperity in the 90's*, a catalogue of currently available titles from that organization relating to Henry George and the application of his ideas to contemporary issues.

George's principal works available from the Schalkenbach Foundation include:

- *Progress and Poverty:*
  An Inquiry into the Cause of Industrial Depressions and of Increase of Want with Increase of Wealth; The Remedy
- *The Land Question:*
  Viewpoint and Counterviewpoint on the Need for Land Reform
- *A Perplexed Philosopher:*
  Being an Examination of Mr. Herbert Spencer's Various Utterances on the Land Question, with Some Incidental Reference to his Synthetic Philosophy
- *Protection or Free Trade: An Examination of the Tariff Question, with Especial Regard to the Interests of Labor*
- *The Science of Political Economy:*
  A Reconstruction of Its Principles in Clear and Systematic Form
- *Social Problems*
- *The Economics and Philosophy of Henry George:*
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Economic Education Bulletin (ISSN 0424-2769) (USPS 167-360) is published once a month at Great Barrington, Massachusetts, by American Institute for Economic Research, a scientific and educational organization with no stockholders, chartered under Chapter 180 of the General Laws of Massachusetts. Second class postage paid at Great Barrington, Massachusetts. Printed in the United States of America. Subscription: $25 per year. POSTMASTER: Send address changes to *Economic Education Bulletin*, American Institute for Economic Research, Great Barrington, Massachusetts 01230.

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