

**III. IMPACT OF THE USE OF
LAND AS A TAX BASE**

Introduction

George F. Break looks at Henry George's strong belief in the economic desirability of a tax on land and the problems that must be overcome if the economic benefits of land taxation are to be realized in a modern urban setting. Doubt, based on a recent article, is expressed as to the incidence of a pure land tax. In addition, Break questions the desirability of the community rather than the participants in the market place benefiting from increases in land value.

Alan R. Prest describes the current situation in the taxation of land in Great Britain. British practice is based on the seventeenth century local property tax and the 1976 Development Land Tax. In addition, town planning and speculative land ownership developed into the 1947 Town and Country Planning Act. As a result, much of land development gains became community income. There is much confusion in Great Britain relative to tax treatment of gains from land ownership. Both site value tax and land value increment taxation are supported without any clear understanding of the difference in the two approaches.

The theme of Professor Gaffney's discussion is that many economists, in writing for over two centuries about taxing land rents, have in the process indirectly shaped or warped major elements of economic doctrine.

According to Professor Gaffney the strong opponents of taxing land rent are John B. Clark, Philip Wicksteed, Vilfredo Pareto, Frank

Knight, Henry Carey, Wilford King, Karl Marx, Charles Spahr, Ragner Frisch, Richard Ely, Alvin Johnson, Francis Edgeworth, and Edwin Cannan. He sees as some strong supporters of taxing land rent Leon Walras, John R. Commons, François Quesnay, Knut Wicksell, Ralph Turvey, Richard Lindholm, Lowell Harriss, Harold Hotelling, Colin Clark, Dick Netzer, William Vickrey, and Adam Smith. Many more economists take their stands at various intermediate stations.

The debates have ranged well beyond the explicit issue of taxing land rents. They shape the very core of economic theory and policy: marginal productivity and distribution; the meaning of capital and its supply elasticity; the nature of property; earned and unearned income and wealth; the forms of collective ownership; the social function of land-ownership; the meaning of rent and economic surplus; the incidence of taxes and benefits from public spending; the nature of land value; optimal timing of development; optimal settlement patterns and densities; tax cuts, investment incentives, and macro-economic policy; marginal-cost pricing; concentration of wealth and economic power; fixed versus variable costs; optimal scale and proportions; location theory; capital theory; replacement theory; economic development; institutional economics; public choice; and so on. Economists addressing the issue of taxing land not only contributed to these topics, they originated or revolutionized some of them in the very process of supporting their respective positions.

It is fascinating to see stereotypes fall away and surprising to see new light fall on the goals and juxtapositions of well-known economists. Georgians and Keynesians, so often at odds, share a common interest in cutting taxes on capital. Chicago school economists, generally defenders of property, support the taxation of capital. Frank Knight joins Karl Marx in treating capital as "eternal," like land. The most explicit anti-George polemicists, Francis Walker, E. R. A. Seligman, and Alfred Marshall, are actually rather close to George in substance, if not in style.

Professor Gaffney points out that George's more effective opponents, J. B. Clark, Vilfredo Pareto, and Frank Knight, attack indirectly by rewriting economic theory. John R. Commons, the "institutionalist," favors land taxation because it lets the market make unbiased decisions; Commons, the "liberal," is a pioneer advocate of accelerated depreciation. Leon Walras, the detached theoretical technician, is an impassioned land taxer. Knut Wicksell, Keynes' godfather, comes out for radical land taxation in an early essay on, of all things, "Public Choice." Colin Clark, the tax limitation pioneer, favors a progressive Federal land tax calculated to redistribute local land rents nationally. The business of destereotyping often results in new insights, as Professor Gaffney demonstrates.

Arlo Woolery examines the manner in which the citizens of the Fairhope, Alabama, land tax colony have managed their affairs. The enclave of 350 acres, called the Fairhope Single Tax Corporation, was established in 1894 and currently has 110 members. The rapid increase in land values and rents, due mostly to oil development prospects, have caused lessees to bring court action to prevent the Corporation from absorbing the economic rent in higher rent payments. The placing of an appropriate value on Colony (corporation) lands has always been a problem.

Mathew Edel looks at the differences and similarities in the economic and social reform movements stimulated by George and Marx. *Progress and Poverty* was published only a few years after Marx's *Capital*. For a short period of time, ending in an 1886 blowup, a political coalition existed in the United States of the single taxers and the socialists.

George's concept of the setting of wage levels used the frontier and its no-rent land labor productivity. Marx, on the other hand, set the basic wage level at the subsistence minima. Both, however, were believers in a labor theory of value. To George, however, capital increased in value on its own and was not taken from the production of labor. This approach permitted George to avoid the basic conflict between labor and capital that was fundamental to Marx.

The similarities in the concepts of George and Marx explain why the two groups have cooperated on occasion, for example, in early urban land policy. The differences have resulted in sharp disputes and the disruption of understandings.

14 FEB 96