

Society generates the value of location. What if it harvests its own production?

CHAPTER 39

FUND COMMUNITY WITH LAND RENTS?

Since death and taxes are certain, is that why land taxes are stillborn?

REAP AS Y'ALL SOW

If you're going to have taxes, consider the advice of every major economic thinker from Adam Smith on down. They noted that a great tax base is land value. Two dozen prominent American economists, after the fall of the Iron Curtain, advised the new Russia to shift taxes off labor and capital, onto land.

Society need not even use a tax. A lease (as in port districts), a fee (such as a deed fee), dues (as in HOAs), or another fiscal tool would work as well. Historically, several places chose the tax. Having to pay it motivates owners of nature's surface to use their land efficiently. From that improvement cascades a bundle of benefits.

Given that track record of success, it makes a curious person wonder about curious governments. Why don't they measure the value of Earth in America? Since nature and privilege could combine into an awesome tax base (Ch 37), why don't officeholders have their bureaucrats figure out how much revenue is available?

Try influence. Look at Prop. 13 and its sequels. Homeowners resist giving up their land value, even when it makes their community healthier. A rational politician [sic] might worry that landowners would vote against "her/him" if they proposed public recovery of socially-generated land value. So, if officeholders are not going to recover it, why measure it?

Because. Measuring the value of sites, resources, and government-granted privileges would put a spotlight, wanted or not, on their total value – and that empowers people. Aware of that statistic, a citizen could anticipate the business cycle, to mention just one good use (Ch 38). Plus, once enough people see how much is at stake, and learn how beneficial tapping it could be, that might tempt a majority to go ahead and tap.

JUST EMOTE “NO”

I shall never use profanity except in discussing house rent and taxes...

– Mark Twain

The typical reaction to the proposal of surrendering the rental value of one’s location to government is not positive. Property is a right in most countries, so paying over rent feels like a violation of that right, a negation of what it means to own a chunk of Earth. Paying the rent to one’s community seems confiscatory.

People worry that it’d be harder to stay in their homes. And their homes, for gosh sakes, sit on land – their land! People live and die for land. If any policy triggers humanity’s territorial imperative, that’s it. All life – even ants and plants – fights for turf. Yet the fight is supposedly futile, “*For the Land is Mine*” – “God,” Yet battles persist.

Other taxes on a source of rent do not trigger this emotional reaction. People are OK with taxing oil; nobody literally lives on oil. And they’re largely indifferent to higher fees for patents – which unbeknownst to many could rake in trillions annually – since tech giants could easily afford to cover their claims on the field of knowledge. But for us land animals, taxing territory is a totally different matter.

The tax collector (government) is the institution with unmatched power. In an autocracy, they could charge as much as they like, evict anyone in their way. Their demanding rent would turn government into a land over-lord. Or so some worry. And not without reason, especially if one has had dealings with the IRS or felt pushed around by government exercising eminent domain.

Some angry opponents label a tax on land as ultra-leftist. However, if akin to any ideology it’d be Christian, with its notion of surrendering to Caesar what is Caesar’s, or, pay over to society the values society has generated. Further, between the world wars in Eastern Europe, when the proposal of taxing land was gaining popularity, it was a coalition of leftists (unionists) and rightists (gentry) who defeated basic forms of land reform.

Returning to the powerful human attachment to territory ... It is not fixed in strength nor in definition; it has changed over time. Now we think of this attachment as individual ownership. However, up until modern times, it was for communal ownership. Land was not “mine,” but “ours.”

As commonplace as our practice of buying land may be today, earlier humans saw the notion as absurd. When Lewis And Clark crossed the

Louisiana Purchase and met the hunters-gatherers already settled there, they had to explain where they'd come from. They'd cite:

- houses that floated (ships), and of course the tribes doubted that;
- cities packed with more people than all the surrounding tribes counted together, and the natives scoffed, "Yeah, right." Then Lewis and Clark claimed that ...
- individuals owned the land. The Indians burst out laughing and said that now they knew the white man was lying all along, because nobody could own the land.

Virtually every culture – if you go back far enough – made the argument that "nobody can own the land" or "the earth belongs to us all," etc.

However, once tribes settled down to farm, then communities did own the land. Next, when community settlements increased and families ruled, the head of the family owned the land. Later, as population and independence grew, yes, an individual could own what was once Mother Earth. Now, with thick density and cold autonomy, individual ownership is the new normal.

In their gut, our pre-agrarian ancestors knew that paying any one person for land was irrational and wrong. We moderns don't know the feeling. We feel the same way when paying for land as we do when paying for anything else. We feel the same being paid for land as being paid for our labor.

I'll bet when slavery was customary, people felt no differently paying for a slave than they did paying for a stave (to whack the slave with). Or being paid for selling a slave or a stave. Yet, hardly an honest soul today could even consider buying another human being.

MORALITY OR NORMALCY BIAS?

Ironically, an objective study of the issue shows these fears to be unfounded. What should be feared is government's *failure* to recover socially generated values. Where governments thus fail, elites gobble up the rent. They erect a steep hierarchy, widen the gap between haves and have-nots, and behave more oppressively. The World Bank showed this true for nations, but it applies to states, too.

While some voice outrage about paying land value to government and having government confiscate their land – things that remain largely figments of overheated imagination – their outrage is muted about paying mortgages inflated by speculation and banks foreclosing on homeown-

ers; actual tragedies afflicting sizable numbers. It's banks, the property of elites, who do the most confiscating of land; governments not so much.

Governments do confiscate a portion of income directly and indirectly, by taxing sales. Most people consider such taxation as moral or amoral but not immoral, despite those values being individually generated as opposed to socially generated, as are site values. For most of us, socially generated value is a foreign concept.

What people do complain about is the amount. A land tax would be yet another tax. While true, how much people would pay equals how much mortgage people would not pay. That's so because as the tax on land goes up, the price of land goes down. When society chooses to "socialize" land rent, none is leftover for speculators and other owners to *capitalize* into price. Thereby the land tax does not change how much one pays but to whom one pays it, to neighbors rather than to a banker. That keeps it in the family, so to speak.

Despite paying over more land value than they'd like, people do receive a bigger bang for the buck. While it's a small sample, the State of New Hampshire only levies a property tax – falling on both land and buildings. The Granite State ranks much higher than most other states by almost every measure.

More irony: the only way to solve foreclosures is to levy land. When owners must pay out site rent rather than keep it, speculators lose their reason to withhold sites from use. They reverse course and develop their sites. The resultant greater supply of sites in use also lowers what buyers and tenants pay for underlying land. So, mortgages shrivel and with it a buyer's inability to pay. Thus foreclosures, too, decrease.

Turn from emotion to cool self-interest. Most people own some land themselves (whether outright or not). Many view this payment as a tax on the middle class, and as a tax that would spare the rich. Which is ironic; it's an urban myth the rich are happy to hear. They know where their fortunes come from – downtown locations. Their parts of cities, New York, London, Tokyo, et al, have the spendiest real estate on earth. They also corral the rents paid for oil and privileges like monopolies on fields of knowledge (patents and copyrights). A tax on land would mean far heftier payments by them than by anyone in the middle class.

Furthermore, sad to say, many Americans have no more savings than the equity in their – not homes, as we're want to say – but in their location. Stack all these objections together. Of course, the property tax – close cousin of a land tax – is the tax most people most love to hate.

MOTIVATED OWNERS UP THE OUTPUT

If a policy is beneficial, does that mean it's also ethical? Opponents to the idea of taxing land claim it'd discourage development. Yet the reverse is true. Where government fails to recover ground rent, a few owners can own more than they can possibly use and keep many prime sites out of productive use. Hence the economy is sluggish, both investment and wages are low, the income and wealth gaps are wide, and poverty appears intractable.

To correct that, advocates of geonomic logic as laid out by Henry George, the follower of Ricardo who in the 1880s was the third most popular figure in America after Thomas Edison and Mark Twain (one of George's admirers), found legislators willing to listen. Hence, some jurisdictions have levied land. Most shifted their property tax off of buildings, onto locations.

The reform delivered the desired results. The notion that the worth of Earth could benefit everybody is not pure theory. It is also sound practice.

Having to pay land dues spurs owners to put sites to good use or sell to someone who will. Places that tax land, not buildings, attract investors. Honolulu developed its Waikiki Beach, and Pittsburgh renewed itself totally from private investment without one penny of public subsidy. The Steel City was named America's Most Livable City two years running.

Like the old carrot and stick, the levy on land spurs owners to develop vacant lots and parking lots, while the zero tax on buildings entices owners to improve or replace antiquated or abandoned buildings. Those owners erecting buildings infill cities. In compact cities, residents do not rely on cars so much and walk more, ride bikes and take buses.

Happily for life forms, tax-spurred development is tempered, benefiting the environment. Where the community does require owners to pay "land dues" (or the equivalent), owners tend to take no more than they can use and to use that wisely. Those kinds of decisions reduce both depletion and pollution. Without even thinking about it, people leave behind fewer byproducts that pollute (Ch 29).

Owners engaged in development add to the housing stock; as supply goes up, the price of housing goes down. Plus, paying the rental value of locations as land dues removes that value from the price of housing; locations of reduced price mean housing of reduced price, too. During the two decades that Pittsburgh shifted its tax from buildings to land, their housing was prize-winning affordable.

With our current relationship to land as property – versus land as “trusterty” in the language of Ralph Borsodi – we guarantee ourselves periodic recessions. When bankruptcies mount and the newly unemployed line up at (un)employment offices, our recurring recessions slash the ranks of property owners. Our self-imposed recessions keep ownership a dream for many and a memory for others.

While property is wonderful, it’s even more wonderful when more people can hang on to it. Which they can, when their economy is not in recession. Any place can avoid a downturn. Certain Australian towns that taxed land opened new factories ... during a recession! In neighboring towns, factories were closing. If other jurisdictions were to duplicate what smart towns do, drastic recessions would become a thing of the past.

When owners develop vacant lots and rehab abandoned buildings to earn more money in order to pay their land dues, they develop the entire region, spur the economy, and spread prosperity. Constructing all the new high-rises, etc, and running businesses out of them, employs people. New Zealand knew 99% employment for an entire decade.

Meanwhile, Denmark got inflation down to 1%. What the Federal Reserve could not do – fulfill its mandate of solving unemployment and inflation – geonomists in various places did do. Of course they had to follow reason and confront political reality, yet in doing so they produced a more impressive resume than most other reform attempts.¹

Singapore, along with Hong Kong, is often rated as the best city in the world for doing business; plus, the freest city. The people doing the ratings are capitalists with their own ideas of freedom and justice. Those raters note both cities levy fewer and smaller taxes yet those judges leave out the fact that both places recover lots of socially-generated land value.

In Singapore, all the land is private, owned by private citizens, but taxed at a high rate. In Hong Kong, all the land is owned by the public and leased to the owners of buildings. Semantically, there’s a difference, but functionally the two policies are pretty much the same. And the benefits are laid out for all to see: prosperity, big middle classes (now shrinking in places like America and Germany), and enough public revenue to afford quality public services, and even a dividend, in Singapore.²

For many people, it’s hard to believe that public recovery of site value really works that well. And if it’s such a good idea, why is not better known and more widely used? All these examples are from the past, not the pres-

1 “Successfull examples of land value tax reforms” at P2P Foundation, 5 Feb 2011

2 “Singapore to pay bonus to all adult citizens after budget surplus” by Yvonne Rarieya at CGTN, 20 February 2018

ent. Even when society took these first steps toward economic perfection, they immediately got derailed. Repeatedly. Why? How?

Public recovery of social surplus sows the seeds of its own destruction. It gets repealed because it works. It greatly improves an economy's performance. Its participants, getting more income, spend more money on land, pushing up location value. Speculators see that climb in price and want it for themselves. Given the political power of the real estate lobby, they get the landward tax-shift repealed much more quickly than it ever took proponents to get it adopted.

THE POT STIRS

Where Americans fear to tread, others move forward. More confident Chinese, unlike rulers elsewhere, are better able to face reality, more willing to try what works. They buy prime land worldwide and move to tax property at home which contains a land tax.

On the investment side, the Chinese now own princely properties in America, as did the Japanese before them back in the 80s, and the Germans before them, and the English nobility forever. Investors from abroad are not under the thumb of the American rentiers. Rather than take "unknown" or "irrelevant" as an answer for the worth of the Earth in America, I'll bet they find out the true value of what they purchase. To get their money's worth, they may also calculate the phase of the land-price cycle.

What's different about the Chinese compared to other foreign investors, though, is they're bigger, faster growing, more rational (centralized), and have trillions of dollars to spend. If they buy up great parts of America and that worries you, don't let it. Just recover land value and enjoy the benefits. Plus, your public treasury will be flush.

If the worth-of-earth figure were available and were huge and if you're not getting any or much of it, then you should know it's concentrated. Not that you'd do anything about that. But the few who now get the lion's share, they don't know how obedient and lethargic you are. They might worry that a fat rent figure could light a fire under you, and make bounty a boon for everybody, not for just those lucky few. Social movements need such fires.

Without even knowing the grand total of the value of all land and privileges, some bold Americans do promote the public recovery of location value. Economic nerds like the policy because it spurs efficient use of land.

- Many commentators abroad; here: Slate, Sightline, *et al.*

- At *Fortune* magazine, a blogger, Tim Worstall, shines a positive light on the land value tax for his readers.
- At Bloomberg – a billionaire’s website for businesses – a columnist, Noah Smith (no relation, surprisingly), calls for a real solution, no matter how cutting edge and ahead of the pack – tax the value of locations” (9 September 2015). He adds, for affordable housing ... “*there’s one very powerful policy that cities and the activists who love them haven’t yet employed -- the land value tax.*” A land-value tax is an efficient and fair way to take a city that now works only for lucky prosperous landowners, and turn it into a place where the working class can afford to make a decent life (24 October 2017).

Those voices, plus knowing the size of land value as a potential tax base, could give timid politicians the confidence to take a page from the Pittsburgh playbook and shift taxes off of people’s efforts (wages, sales, and buildings) and onto the low-hanging fruit produced by nobody – the ground beneath your feet.

To deal with possible losers, if any landowner could show a net loss after paying land dues, then the government could pay such deprived owners a bond. A few unlucky souls should not have to pay the cost of a reform that benefits the many. Governments would not have to pay a lump sum but an annuity out of the recovered rents.

Beyond just net losers, government could pay everybody; combine the taking with a sharing. Paying a literal dividend or a subsidy to all residents is how Aspen won its sort of land tax, how Alaska passed its oil tax, and how British Columbia passed its carbon tax. For most residents owning land of average or less value, the dividend would exceed their land dues, since commercial sites pull the average up so high. Money in the pocket – a rent share greater than the land dues one pays – makes the paying in more than palatable. It’s almost a no-brainer (next chapter).