

Types of Applications

By JOHN T. TETLEY

[Formulas for other "Mechanics of Georgism" were invited upon publication of an article by Howard L. Freeman in September. The following proposal comes from the director of the New Jersey Henry George School.]

FIRST of all I suggest changes in the terminology. Instead of "Mechanics of Georgism" let us put this on a more scientific basis, using some such term as "Types of Application—Economic Rent and Site-Value."

Mr. Freeman's suggested division under two heads, should, I think, be "Method of Assessment" and "Method of Collection." Justice and equality of opportunity under an economic system based upon natural law with payment for privilege is the objective—(not a tax reform or a method of providing funds to meet a government budget). Collection of full economic rent and site-value for the support of government is the means. Before it can be collected, it must be determined. This payment to society for privilege might be an annual one, payable in advance or periodically, on a pre-determined basis, subject to adjustment. Here is my thought, entered under Type No. II.

I. Method of Assessment

1) Local government—selected assessor or board of assessors as may be desirable depending upon size of territory.

2) This board charged with responsibility of determining rental or site-value of all land (surface of earth) in community. Rental value of productive land—site-value of non-productive land.

3) National board of experts selected according to qualifications for determining "rental value" of extractable natural resources.

II. Method of Collection

1) Rental and site-value to be collected by local community and used to cover cost of government. (Theoretically land values should reflect community services and therefore equal cost of government. Any excess collected belongs per-capita to residents. If additional services are desired per capita tax may be voted.)

2) Rental value of extractable natural resources belong to all citizens of the nation and might be used to defray expenses of the federal government. If in excess of such governmental expenses funds belong pro rata to all citizens or if inadequate, per capita tax may be voted.

Note: No provision is made above for state or local governments. It may be that a change in political set-up could eliminate county government and thus lessen cost of government. Functions of state government might be greatly curtailed, as certainly should federal government functions, and such funds as were required could be allocated from the fund collected by the national government to the state government.

Under Mr. Freeman's proposed "Methods of Collection" (1) he states, "Federal government takes in all revenue of land . . . and redistributes it to . . . agencies." This it seems to me permits of too much bureaucracy and becomes too complicated in assessing, collecting and distributing. (2) "Local government takes in all revenue . . . redistributes it . . ." Since the extractable natural-resources income properly belongs to all people of the nation and is more difficult to determine, it should be handled by a national board of experts. No need for it going

through the channel of local government accounting.

"Federal government receives the full income derived from the severance tax on natural resources" says the author (3-a). This should net more than needed for federal government, and belongs pro rata to all citizens. (3-b) "State, county and local governments receive the full income from land area." Perhaps this would not be sufficient for three separate governments—the surface land rent and site-value should cover local expenses, and natural resources rental should provide funds for other necessary political divisions.

Referring to the "Methods of Assessment of Surface Land Values" proposed by Mr. Freeman, here again terminology should be questioned, since this implies selling value and, as generally admitted, taking of full rental value would eliminate "selling value." In such case we cannot apply *any* rate of "tax" for what rate can we tax zero to bring it an income? I assume in using 9 and 10 per cent rates as Mr. Freeman does, he has capitalized rent at 10 per cent to arrive at selling value. His proposal No. 1 to "tax 9 per cent thus retaining a small selling value" would work out this way:

Rate of Tax	Amount	Rental	Net	Selling
Based	Year's Value	Value	Income	Value
-0-	\$ -0-	\$1,000.	\$1,000.	\$10,000.
9 per cent	900.00	1,000.	100.	1,000.
9 " "	90.00	1,000.	910.	9,100.
9 " "	819.00	1,000.	181.	1,810.
9 " "	162.90	1,000.	837.10	8,371.

It is apparent that revenue thus derived would fluctuate violently as would the selling value, and speculation in land might continue even if not on too vast a scale. Why not eliminate any concern with selling value and merely assess the full rental and site-value?

Under proposal No. 2, the author suggests, "tax the full 10 per cent" and future tax may be determined by highest bidder for use of site. Does he mean that the site will be open to bid to determine its selling value and that a rate will then be applied to this selling value? Or does he mean the bidder will bid the amount of the assessment and tax he will pay to use the site? In the first instance it is unnecessary and in the second distinctly unjust. We propose, not a tax reform, but the establishment of justice and equality of opportunity for all. For a person ready and able to pay the true site value of a piece of land to be denied the use of it because someone is able to outbid him, is a denial of justice.

Mr. Freeman's third suggestion is, no definite rate but "rates to be determined by 'trial and error' findings." This is not necessary as the rental value can be determined definitely and collected 100 per cent without resort to any percentage of a fictitious selling value.

"Start with present costs of government" and increase taxes as cost of government increases, is another suggestion (5), but this is at the opposite end of our proposal. The cost of government is reflected in land value—as costs rise value decreases and as cost of government decreases land value increases. The present cost of government cannot be a base for determining land value.

Proposal No. 6 "Land value determined . . .

and adjusted . . . and full 10 per cent rate applied," comes closest to the taking of economic rent and site-value for the support of government. While it is not by virtue of population alone that rent arises, population is reflected in rental value, and again assuming Mr. Freeman is capitalizing at 10 per cent what he is actually advocating is collection of the full rental value when he speaks of applying a 10 per cent rate. In setting up Type I and discussing the limits or two keys which "set the pattern and circumscribe the powers of government," I gather the author is saying in effect that payment for privilege should provide the fund for government and there should be no tax on production, to which I think we all agree.

He then refers back to his third concept under "Method of Collection" and sixth concept under "Method of Assessment"—which do not differ greatly from those I suggest. However, when he says "the tax is on the *use* of the resource, not on the resource itself" it seems he is going wide of the mark. He says there is no need for appraisal of, or assessment on the quantity of the resource which remains in its original state. Let us reflect—here are vast untapped mineral deposits held under title by the XYZ corporation or "land held out of use." I do not think it necessary to elaborate on this point. But when Mr. Freeman then proposes that natural resources be open to competitive bid, I must flatly disagree. Natural-resources value can be just as surely determined, subject to periodical adjustment, as the rental or site-value of surface land, and should be so determined. The matter of destructive practices or exploitation would be taken care of by a free market and such penalty or bonus as may be prescribed.

To summarize—Type I, as proposed by Mr. Freeman, if stated as follows, would not differ greatly from my proposal:

Methods of Assessment

A) Rental or site-value of land determined by its desirability over the least desirable land in community. (Penalty for damage or destructive practices, or rebate if such avoided.)

B) Severance value of natural resources determined by board of experts with "rental value" collected whether used or not.

Methods of Collection

A) Full rental and site-value of land (surface) by community for its support.

B) Full severance or rental value collected by federal government for support of national and state governments.

[We hope additional techniques will be outlined by readers, as briefly as possible, without undue critical reference to previous articles. Ed.]