

The Theory of Government

Revenue Potential of the Single Tax

An important reason for the neglect of land value taxation in recent times has been the view that land rent is a small and declining proportion of national income. "Suffice it to point out," says Heilbroner (1986: 190), "that rental income in the United States has shrunk from 6 percent of the national income in 1929 to less than 2 percent today." The conclusion is drawn that LVT would not raise much revenue, and could not significantly affect the overall efficiency of the economy. Textbooks concur. Georgists have disputed this view, arguing that land rent in the United States is potentially far greater than is commonly believed. Measurements usually employed wildly underestimate the amount of privately collected land rent (after taxes) today. "Rent" as tabulated in national income accounts bears little relation to the economic rent of land. Some rent is counted as business profits and capital gains. Imputed rents are not counted at all. Statistics also fail to compensate for various methods of under-reporting taxable net rental income, including systematic underassessment of land relative to buildings by local governments. (Gaffney, 1970: 159) Some forms of rent are simply ignored; these include the rental value of rights to emit pollutants, water rights, rights of way, air and shipping routes, utility monopolies, and others. Taking these and other errors into account, Mason Gaffney concludes "that land value today is at least half of real estate, and probably more." (181)

Moreover, current actual land rent is arguably far less than it would become under the Georgist system. For one thing, building (and other) taxes

are largely shifted backward to land. Exempting improvements from taxation would thus cause rents to rise. Second, since building taxes impose substantial excess burden, their removal would cause rents to rise even more than the amount of the tax “unshifting.” Third, since urban renewal generates spillover benefits, to exempt buildings from taxation would put in motion agglomeration economies that further augment land rent over time.

Recall, too, that as Gaffney has shown, land taxes reallocate land from the credit-strong to the credit-weak, loosening the hold of speculators and putting land into the hands of more productive users, who impute it a higher rent.

User charges on congested public facilities (bridges, highways, parks) constitute rent, but are not counted as such. If user charges are absent, congestion may dissipate potential rent. If optimal user charges were employed and their revenue counted in rent, measured rent would rise markedly. (User charges should also include rent charges for natural resource use; e.g., water and sewer fees.)

In short, switching from the current property tax to a land value tax “lets a community socialize as much of its taxable surplus as is possible under any system of taxation.” (Gaffney, 1970: 206)

Turning to the other side of the budget, Georgists also anticipate that their proposal would significantly reduce the expenses of government. The machinery of tax collection will be simplified, and bureaucratic incentives will be better aligned with the public interest. Locally, present policies generate urban sprawl at the expense of the central city, multiplying the costs of public services and “the need for a tax base.” (Gaffney, 1970: 202-203) A more compact and rational pattern of land use would slash the costs of providing municipal services. Nationally, by raising real incomes and employment, tax reform would reduce social insurance programs and even expenditures for crime control. Internationally, if the Georgist philosophy were ultimately accepted worldwide, it would offer a principle for peaceful resolution of territorial conflicts, reducing military requirements.

Government as Landlord

Public sector economist Randall Holcombe defines “government” as “an organization that has the ability to finance its activities by compulsory

contributions from individuals in a given geographic area.” (Holcombe, 1987: 96) A government is a club whose rules apply within a geographically bounded region. An improvement district in which neighbouring landowners collectively finance a local public good, such as irrigation, is a government under this definition; so is a condominium association. A bridge club is not.

Gaffney characterizes local government as a cartel of landowners who cooperate “to supply their parcels with certain kinds of collective improvements.” (Gaffney, 1962: 132) It is entirely reasonable that the “compulsory contributions from individuals in a given geographic area” be land rent charges. Indeed, the Henry George Theorem and its relatives suggest that to achieve efficient provision of public services, governments must collect land rent, supplemented where appropriate by marginal-cost user charges. (Dwyer, 1981: 55; Hotelling, 1938)

User Charges

Not only are some ordinary user charges really rent taxes, but also, all rent taxation amounts to user charges for land. Georgists advocate a dramatic reorientation of public finance: the substitution of user charges, pre-eminently land and natural resource rents, for compulsory taxes on economic activity. Rent, they say, constitutes a natural and ready fund for the support of government. It is argued that when nonproduced resources are treated as community property, and rent is taxed in preference to earned incomes, it will be easier to respect private property in produced wealth. At present, most governments perversely tax productive enterprise while leaving resource rents in private hands.

Government investment in schools, roads, parks, police, fire protection, and myriad other services intensifies the demand for land, increasing rents. It is not only efficient but also fair that these rents should be used to finance the public services which create them, rather than be forfeited to well-situated private landowners.

Rent Seeking

Gaffney observes that unproductive “rent-seeking” is likely to arise wherever surpluses are available to be shared. The surpluses resulting from urban synergy are typically shared by such inefficient means as rent controls, cross-subsidies in the pricing of government services, and in

special-interest maneuvering for preferences in zoning and public expenditure. (Gaffney, 1989) LVT, by contrast, redistributes surpluses directly, fairly and efficiently. The higher is the tax rate, the smaller are the windfalls for which speculators and developers compete. Moreover, heavy reliance on LVT creates the incentive for budget-maximizing bureaucrats to adopt efficient land-use policies, since optimal policies maximize land values over all parcels. (Dwyer, 1981: 236)

Territorial Claims

Tideman argues that the Georgist principle of common property in land provides the key to solving territorial disputes worldwide. Customary justifications of territorial claims, he observes, “rest on an inconsistent combination of might-makes-right and appeal to history.” (Tideman, nda: 1) He suggests that

....claims ought to be justified instead by a correspondence between the fraction of the world’s population making a claim and the fraction of the world’s territorial resources (in terms of rental value) being claimed. (Tideman, nda: 1)

If a nation’s territorial claim were excessive by this standard, it could reduce the size of its claim, strive to attract immigrants, or pay compensation to those who claim less than their rightful share. (8) On this view, free competition among nations for land and citizens would result in a Tiebout world in which allocations of world resources and populations would tend to be efficient.

Common Property

Georgists view government as the guardian of the natural and social resources which are the common property of all. The single tax decreases individual and social risk, since unanticipated gains and losses utterly outside of individual landlords’ control are transferred to the government and pooled with those of the whole community. Georgists argue that since land is infinitely durable, intergenerational resource misallocation occurs under a system of fee simple land tenure. A tax on rent, with assessments frequently adjusted, allows equitable distribution of resource rents, yet ensures that their services are available to the highest-valued uses.