

ADDING A GEORGIST MESSAGE TO ARISE'S DECLARATION

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(Editor's note: For the 2002 Declaration of Interdependence prepared by ARISE (A Regional Initiative Supporting Empowerment), the Albany, NY affiliate of the Gamaliel Foundation (www.Gamaliel.org), the following paper was written by Dr. Batt to flesh it out with a Georgist message. The portions are in italics that are quoted from ARISE's Declaration.)

Preamble: We live in an interdependent regional community, and this community has reached a crossroads. High tech industries and other developments are poised to bring more new work and new growth into the area than we have seen for a long time. This situation confronts us with a fateful question: Will this development take place haphazardly and continue to fragment our region, or will we plan, market, and unify our cities, suburbs, and rural areas in a way that will lift all boats on the rising tide? We affirm that our area can prosper in the long run only if all of our citizens have access to educational and economic opportunities and life in an ecologically sustainable environment. We oppose the patterns that have tended to separate us by race and class and have created unmanaged growth and pockets of poverty in many places. The following principles reflect our convictions and our self-interest:

Principle One: Plan for Sustainable Growth

We, the people of our region, depend upon a sustainable and healthy environment. We must curb the sprawling, uncontrolled growth that leads to waste of resources, the over-reliance on automobiles to reach scattered communities, the destruction of our farmland and open spaces, and the abandonment of our inner cities. We support development within already existing infrastructures and the redevelopment of brown-fields.

Understanding the Problem of Promiscuous Sprawl and Resource Consumption. What causes suburban sprawl development and inner-city evisceration?

The problems facing American cities today have arisen largely in the 20th century, with the institution of identifiable government policies that altered economic equilibriums between urban centers and peripheral locations. With an understanding of the genesis of these problems, attention can be given to their correction.

The centrifugal forces of urban sprawl are due to two economic factors - the altered market price of landsites and the distorted pricing of transportation services. As most people easily recognize, the market value of landsites in urban cores is many times what it is in the hinterlands. Urban centers have high land value, and as one travels out to rural areas and beyond, those site values ultimately drop to points that are infinitesimal. In the spring of 1998, one land parcel (the building was to be razed) of less than an acre in New York City's Times Square, and split in two pieces by Broadway, was sold by Prudential Life to Disney

for an estimated \$240 million. To take another instance, a nine-acre tract on the East River in New York City occupied by an obsolete power plant was purchased by Mort Zuckerman to build high-rise condominiums two years ago. The sale price was in the neighborhood of \$680 million, and would have been higher were it not for some enormous costs associated with the demolition of the old structures. These reflect the land values; for comparison, the total assessed land and building values of all real property in the four counties of the Capital District are about \$135 million. Why the land value becomes so expensive I will return to in a moment.

The way in which geographers and some land economists understand transportation is by using the terms accessibility and mobility. As explained in one basic textbook, "Accessibility refers to the number of opportunities, also called activity sites, available within a certain distance or travel time. Mobility refers to the ability to move between different activity sites (e.g., from home to a grocery store)."

American transportation planners have focused excessively upon mobility, with almost total disregard for accessibility. The result is that we are frequently hard put to accomplish our transactions for lack of easy access, even though it is easy to travel great distances with facility. One old joke will serve as a metaphor to better illustrate the dilemma:

A man ordered a cup of coffee at a lunch counter and shortly then ordered a second cup. After quickly drinking that cup, he ordered a third cup, and then a fourth, and then a fifth. The waitress, astonished at this man's requests, finally said to him, "My Sir! You certainly do like coffee." "I certainly do," he replied. Otherwise I wouldn't be drinking all this water just to get a little."

The analogy is apparent: water is to mobility as coffee is to accessibility. We do an awful lot of driving just to do what we need to do. This is because transportation engineers and land use planners have confused two fundamental concepts: access and mobility. If we were more mindful of access we would plan our cities so that we wouldn't need to travel so far to get places. But then we'd have to price transportation services in a way that use reflected marginal costs. Right now, drivers pay only about a tenth the true costs of their transportation; our society picks up the tab for the rest. So, when it comes to selecting where we want to have our homes or where we site our workplaces, we give little or no heed to the costs of travel. When the public screams about a possible gas tax increase of a nickel, it's worth pondering whether we'll ever really face up to the imbalance in transportation designs - and this question will loom much larger next decade when petroleum sources start to dwindle.

Addressing the proper pricing of transportation services is a challenge that is worthy of more discussion at another time - even though it (continued on page 7)

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certainly falls within the topic of building sustainable economies and communities. Suffice it to conclude here, for the moment, that for transportation planners and many land economists, the price of locational landsites is a function of capitalized transportation costs - the costs of travel converted into the price of attractive site access.

Another way to understand the high value of urban landsites, however, is to view them as the economic surplus of high volume community activity. Where there are no people, land has little or no site value; where people elect to be, sites nearby rise in market price accordingly. This has nothing to do with what site owners may do or not do to their sites; it's a function, rather, of what everyone else does. To this extent, urban land values are socially created, and this is important.

The Concept of Economic Rent, or Land Rent

Consider, for example, a remote and vacant land area on which is imposed a tic-tac-toe template. Now let's suppose that some structures - perhaps a combination of apartments, office buildings, and public service buildings are built on every square except the one in the center. Whereas previously, when totally empty, that vacant land had very little value, now the whole lattice has an impressive market value. And what square has the highest value of all? The center square, of course, even though the owner of that parcel did nothing to improve it! The creation of that land-site value, what economists call land rent, is a function of the community's enterprise only, the original owner was a passive beneficiary of that rise in value; his gain is a windfall.

To understand the dynamics of a modern city, then, one has to realize that the landsites are often either vacant and held off the market for speculative gain, or filled with depreciated structures not sufficiently worthy of the high-priced landsites on which they sit. Meanwhile, because titleholders of available landsites are holding out to sell for all they can get, builders cast their eyes to more remote second-best locations - ones that they can afford. If landsites are too expensive for either households or businesses to use, they remain unoccupied while less expensive locations are chosen as suboptimal alternatives. Land use configurations in urban settings therefore evolve in suboptimal ways. I will return to this point later.

Most Commonly Employed Solutions

The answers most often touted for urban blight and sprawl development are various public subsidy and investment programs downtown, and public purchase of open space and curtailment of its development at the periphery. These are hugely expensive and questionably effective solutions - particularly keeping in mind the causes of the problem outlined above. They try to correct the symptoms rather than dealing with the underlying economic cause and dynamic.

When publics buy up landsites - either to seize the initiative for downtown development or to remove sites in outlying areas from development pressures - they frequently do exactly what land speculators hope they will. They walk away smiling, all the way to

the bank. Even when land is removed from development pressures through grant of easements or for tax write-offs, it is done in haphazard and inequitable ways very expensive to the general public. It is worth investigating how much the preservation of open space has cost the public in the past few years - but attempts to ascertain this information are met with incredible difficulty at every level. It's frequently gifted for tax write-offs as well as bought, so no one really knows.

Projects are often initiated through public-private partnerships that require special incentives for their creation, a tacit admission that the free market by itself is not working. What is it, one should ask, about the economies of cities that prevent initiatives by the private sector alone?

In recent years, several planning advocates have touted the virtues of curtailing development beyond defined lines - in what have come to be known as "urban growth boundaries," UGBs. All serious study of their history (Portland OR and Boulder CO are the only two instances of any sustained experience) shows they are questionably effective, and usually succumb to development pressures over time. The reason should be apparent: as the demands for buildable land rise, pressures increase, ultimately to the point that leaders relent in their attempts to maintain the boundaries. When they can't hold the line any longer against inexorable economic pressures of increased land values induced by artificial girdles, political decisions are made to alter their design. These answers don't induce more intensive use of landsites as much as they raise the value of the interior land itself, treating symptoms rather than root causes, all due to a lack of understanding of the underlying dynamics of land economics.

The reality is governments have only two constitutional mechanisms by which to effectuate policy: every initiative must be grounded in either its tax powers or its police powers. These translate more easily into what are often called "command-and-control" approaches, and "fiscal" approaches. To be sure, many revenues of government are collected under police powers, and there is no one-to-one correspondence here. Suffice it to say, however, that governments are limited largely to censuring people and institutions when they don't abide by the law or to inducing them to modify their initiatives when they don't meet with adequate public favor. When it comes to fostering behavior in others, governments are better at prohibiting than facilitating. The alternative is to undertake projects directly, which is expensive. Command-and-control approaches are limited in their facility to foster better urban designs and practices. And when they are employed, it is only after having had to coopt vested interests - these days, the word is "stakeholders" - to insure that anything will happen at all. Solutions still remain sub-optimal. One example will suffice to show how command-and-control approaches have not worked. In 1996 six Bay Area (continued on page 8)

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communities "locked in" long term protection for a greenbelt by adopting a UGB covering a total of 3.75 million acres. For perspective, this translates to 5,860 square miles, an expanse equal to that of Connecticut and Rhode Island together! But only 731,000 acres, 1,142 square miles, are urbanized at the present time and it could be a century before "buildout" and any significant impact from such measures. It was politically impossible to impose any more compact design, which illustrates the difficulty, and indeed the fallacy, of using command-and-control devices to constrain inexorable economic forces.

Tax powers also have their limitations - it was, after all, John Marshall who noted that the power to tax is the power to destroy. And the public has certainly come to understand that taxing wages tends to depress work, taxing sales discourages consumption, taxing capital tends to dampen investment, and taxing savings discourages saving. But to conclude that all taxes are harmful is to reveal an ignorance that needs correction. There are some taxes, in fact, that actually foster economic enterprise, just as we would like them to: this is what needs to be recognized to advantage the public.

Solving Urban Blight and Stemming Sprawl Development

To better understand a fiscal approach that has proven its value in many American municipalities and hundreds worldwide - it is helpful to go back to the tic-tac-toe board example above. Recall that the increased value of the landsites accreted in the form of capitalized land rent that was a socially created product. That accreted land rent resulted in the rise of market value of the parcels regardless whether they were improved upon or not. Rent is created regardless of who owns the sites. This offers an opportunity for the collection of value to serve the community's public needs without in any way diminishing the incentives to build upon them.

In fact it enhances them. By collecting the economic rent in taxes from land parcels - vacant, underused, and even efficiently used - the incentive to use them to the full extent of their worth is increased by exerting a downward pressure on the market price of those sites while raising their carrying costs at the same time. Shifting the burden of holding titles up front liberates their use in open markets. Raising the tax on land higher induces titleholders to improve them, because it then makes no sense for them to wait for their value to increase and to capture any windfall gains. Capturing the economic rent that is otherwise capitalized in the value of sites not only encourages their better use but encourages improvement also for all the sites in the general vicinity. Rather than second-best locational decisions on landsite uses, the collection of land rent actually fosters their most optimal use. This is an instance where higher taxes actually foster greater economic health. It also has the effect of lifting all the boats on a rising tide as the Preamble to the ARISE Declaration calls for.

The collection of land rent partially occurs already in the form of the conventional real property tax that so many people find anathema. But the property tax as it is presently employed is really two separate taxes, each with its own economic dynamic and each working in a way that negates the behavioral and economic effects of the other. The tax on land - actually on the land rent - fosters better use of parcel sites; the tax on improvements imposes a penalty for the maintenance and improvement of sites, whether they be homes, office buildings, shops, or factories. The current property tax is like a train with an engine on each end, each pulling in the opposite direction. Gradually removing the tax on buildings and getting the same aggregate revenue from land sites has the effect of incentivizing investment in land sites and removing the penalty that now obtains for fixing up homes and offices. Every time the tax on improvements is lowered, there is greater incentive to improve; every time the tax on land is raised, there is, in the same way, an increased incentive to improve. In this way, municipalities are quickly induced to revitalize their total physical plant. Harrisburg, Pennsylvania, was adjudged the second-most depressed city in the nation in 1982, with 1,400 boarded up old brownstones. Today there are essentially none, and Mayor Stephen Reed attributes the change to the implementation of a regime that gradually phases out the tax on improvements and increases instead the tax on land value in a revenue neutral manner.

In a shift of taxes off buildings onto landsites, homeowners, typically about two-thirds of them, see a decrease in their tax bills, with underused landsites in high-value areas picking up the difference. Healthy structures on small footprints of land typically see their taxes go down; buildings which occupy small spaces on sprawling lots - parking lots or drive in convenience service sites typically pay more. Cities become more densely developed and walkable, more transit friendly with less need for parking. Moreover, because these taxes are linked closely to the capitalized value of the property they affect operating budgets of businesses in a very minor way. Nor can one evade or avoid a tax on land - and you can't take your land to the Cayman Islands. Someone is going to own that land! It is a win-win situation for everyone.

Even as the land value tax is effective in revitalizing urban cores, it also reverses the centrifugal forces of sprawl development. Current taxes have a profound distorting effect on behavior, especially the property tax, and the tax on land value removes that distortion. It is completely neutral in its influences. So settlement can evolve optimally. Businesses, given the option, prefer to be in easily accessible areas, not out in remote hinterlands. Even homeowners, despite their oft-expressed preferences for pastoral venues, largely opt for walkable, neighborly, communities over automobile-dependent commutes. Most people elect to settle in outer rings because they can't afford the real estate in more accessible locations, or else that they find the despoliation of those neighborhoods risky spots on which to stake their most important investment. (continued on p.11)

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Removing economic distortions allows people to settle where they would logically choose to. As neighborhoods gradually improve once more, people with discretionary income are the first responsible for what has come to be called "gentrification." But poor people in old run-down homes they've owned for years are typically delighted when they see upturns in the value of their property. And paying no taxes on their buildings is also a bonus.

Winners and Losers in a Tax Shift to Land

For poor people who don't own homes and rent - about a third - they will pay no tax at all. The land tax cannot be passed on to tenants, because land, being inelastic in supply, is capitalized (see below). This means that the tax is borne about half by residential and about half by non-residential titleholders. Because typically 3/4 of the parcels are homes and not situated on the highest value landsites, their burden is shifted to sites of greater value - those downtown or by traffic nodes, especially in high-value underused sites typically marked "available" for commercial development. Rural tracts - farms, forestland, etc. - have negligible value and pay a trivial proportion of the tax.

Many people wonder whether there are sites in their cities that have any potential for further development, especially if they see few vacant lots. The answer becomes clearer when one sees not only vacant lots but underused landsites relative to their value. Fully depreciated structures on sites that have very high land value usually warrant totally new buildings. Depending upon the method of appraisal, the aggregate percent land value on an assessment roll is typically between 30 and 40 percent. When a ratio is computed for the aggregate improvement value to land value, any single parcel with a fraction far below the aggregate average likely needs new investment. Those parcels with a fraction far above the fraction average are buildings that use their landsites efficiently relative to their value. The way the land tax works is that any site with a fraction below the aggregate district-wide average will end up paying a higher tax, and those sites with a lower fraction will be rewarded with a lower tax. In this way every incentive is offered for titleholders to spruce up their holdings.

How is it that there are typically so many winners and so few losers with the application of a land tax? It is because it releases the latent surplus, it fosters greater efficiency in the use of land, in the economic sphere, and in the life-enhancing aspects of community renewal. Its administration is transparent, almost costless relative to the burden of other taxes because there are few if any challenges to assessments. That many fewer challenges and appeals after assessments are performed means a significantly lightened load on local government. It has a legitimacy that makes its payment comprehensible to citizens. The difference comes from the reduction in the amount of "deadweight loss" that comes from a shift from one kind of tax to another.

Studies show that many conventional tax designs today deaden the productivity performance of the economy - perhaps by as much as 50 percent. This will be dealt with in discussion later, but it is significant to note here.

Principle Two: Develop a United Front Against Poverty. We, the people of our region - no matter what race, gender, political persuasion or religion - can either rise together on one tide of prosperity or sink into division and stagnation. No municipality or township should be so overwhelmed by poverty that it can no longer counter the social consequences of such poverty. Policies that concentrate poverty intensify a host of social problems - struggling schools, violent crime, addiction, eroding tax base - that spread and threaten the social and economic well being of the region as a whole.

Can Changed Tax Policy Relieve Poverty?

If one does a websearch on the words "economic justice," the first site that springs from Google is www.progress.org site and its branches - all of which describe and explain the economic and tax philosophy which this paper urges. To academics, this realm of discourse is also known under the name "distributive justice" (to distinguish it from "retributive justice"). Distributive justice deals with the question, "What is fair?", of how the wealth and productive capacity of societies should be shared. A full discussion of the subject would take us far afield of the immediate question, but the progress.org site is commended to readers here along with earthrights.net and georgist.com, which will link the most adventurous searcher to many other sites that address these matters from the standpoint of ownership, taxation, and principles of fairness.

This is because Henry George, the greatest and most fervent exponent for economic justice a century ago, and to this day perhaps its clearest thinker, remains an inspiration to moralists the world over. Among those who subscribed to his views were Winston Churchill, Leo Tolstoy, John Dewey, Theodore Roosevelt, Robert Hutchins, Upton Sinclair, Mark Twain, and Charles Beard. The ideas he expressed have been kicked around for a century and more, but today we have the data and the computer power to test them empirically. Some eight Nobel-Prizewinning economists have endorsed the view that the best possible tax would be a tax on land value, and contemporary pundits endorsing his ideas range from William Buckley and Stephen Moore on the right to Molly Ivins and Michael Kinsley on the left. To be sure, they do so for different reasons: those on the right appreciate that investment capital would be relieved of taxes, and that it meets the principles of sound tax theory more than any other tax design; those on the left especially appreciate its progressivity - that it best relieves poor people of tax burdens. But for both, it is attractive because the economic pie is expanded substantially, economic drag is reduced, and efficiency and simplicity are increased. Indeed all the principles of sound tax theory that have been worked out for three hundred years are satisfied.

One hears so often that the (continued on page 12)

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conventional property tax is regressive. But now we know it's the opposite. Studies for the last thirty years, in what is called the "New View," have shown that the property tax is progressive. One needs to understand that the conventional property tax is really two separate taxes - one on land values and one on improvement values - that work in very different ways, have different patterns of incidence (i.e., burden shifting), and fall on non-residential as well as residential parcels. Because part of the tax is conflated with capital wealth over time and is deductible from state and federal income taxes, its final incidence is difficult to identify. It has taken some of the best econometricians and most powerful computers to analyze the data, but now the matter is mainly settled. The upshot is that each part of the property tax needs to be analyzed separately, the land part and the improvements part.

So why is a tax on land value progressive? Recognizing the land component, first, leads to the conclusion that the tax is significantly progressive. Consider first of all that roughly 65 percent of all households in the nation "own" their own homes - or at least have title to them regardless whether they are mortgaged or not; the remaining 35 percent are tenants that rent. These latter include mostly poorer elements of the population. Further, the tax on land value part of the current property tax is not shifted to tenants - it cannot be - as land, being inelastic in supply, will see the burden of the tax capitalized instead in the market value of the parcel. People who don't understand economics frequently ask what is to prevent the landlord from raising the rent to include the land tax component. But if the apartment is to find a renter, it must be priced at the general market level, and that is nothing to do with the incidence of the tax burden or other expenses the landlord has to bear.

How does the Land Tax Shift Play Out?

In assessing the aggregate burden of the property tax throughout a municipality, roughly half its weight falls on residential parcels and the other half on non-residential parcels of all sorts. The non-residential parcels, largely business properties, are frequently rented to tenants, and are usually located in high land-value sections of urban areas. Agricultural property, even if it is the overwhelming proportion of acreage, constitutes only a trivial proportion of the taxable value, even less when any of the tax breaks for farmers and others are applied. Residential parcels, even when they number about 3/4 of all property parcels, don't contribute much revenue except in the aggregate. The frequent exemptions, deductions, and offsets of the tax structure make it difficult to estimate the aggregate incidence except by looking at the tax roll as a whole - and simulations would be as complex as the tax roll as it stands.

What likely accounts for the resentment over the property tax is its palpable unfairness in its current form. It relies on assessments of land and improvements that are infrequently performed, difficult to compare, have no apparent logic, and invite challenge. And no one takes pains to explain it. Lastly, the tax

is paid all at once (unless it is paid into an escrow account as part of the typical mortgage). But when the tax is on the land alone, its logic as a user fee is clearer.

Buildings depreciate in value over their useful life, just as cars, refrigerators, and any other manufactured goods. But land, on the other hand, typically appreciates in value, so the land value increase accounts for a home's appreciation. The land rent capitalized in the titleholder's market value explains the increase in its worth. If all the land rent was captured totally in taxes there would be no appreciation of the land site whatsoever. What many people expect, warranted or not, is to treat their home as a profitable investment and to cash out at life's end with a sizeable corpus, even though they did nothing as individual titleholders to create that added value. In municipalities where land taxation is applied, only some portion of the rent is collected, still leaving substantial rent accretion to the titleholder. This allows the combined collection of land rent from neighborhoods along with the absence of any tax on improvements to encourage its economic vitality, in the final analysis increasing each individual parcel's value more than would be the case otherwise. It should be noted, however, that municipalities like Pittsburgh that have long favored the taxation of land value (1914-2000), have some of the lowest home prices anywhere, making homeownership less prohibitive than elsewhere.

With greater reliance upon a land tax, housing for tenants is also likely to be less expensive. The temptation to hold urban landsites for speculative gain is reduced, thereby freeing up property parcels for the development of apartment complexes and other cooperative household units. With no tax on building improvements to discourage efficient use of landsites, there is every reason for developers to invest in those sites to the full extent that their value warrants. High-value sites attract investment in high-value buildings with no penalty for their improvement. Sites with strategic value due to their accessibility to infrastructure investments like schools, transit stations, shopping centers, and office buildings also attract developers interested in serving either household or office tenants. Rental prices will reflect real demand without prospective tenants having to pay additionally in the form of waiting lists, under-the-table fees, and the like.

Relying more upon a land tax avails a city of a tax base adequate to support the services of good public services. It is there, after all, where the most valuable land is located. Collecting the economic rent to support public services instead of leaving it to titleholders means better schools, better transit services, better public safety provision, all the while as it fosters further economic vitality. The prospect of a growing financial base alters the economic, as well as the political and social, equations so that the urban context acquires renewed health and livability. Why should the economic rent accruing to landsites be allowed (continued on pg. 13)

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to stay in the hands of titleholders when in fact it is socially-created value in the first place? Economic justice calls for its recovery by the public for public purposes. John Stuart Mill, a subscriber to 19th century classical economic thinking, put it well. More than a century ago he noted that Landlords grow richer in their sleep without working, risking or economizing. The increase in the value of land, arising as it does from the efforts of an entire community, should belong to the community and not to the individual who might hold title.

Land speculators appreciate very well that the public has neglected to recover economic rent, and they learn the practice of keeping their holdings until they can get their price, but at a public cost.

Principle Three: Promote Access to Housing and Education for All. We, the people of our region, affirm the right of low- and moderate-income families to be free of discrimination in their choice of housing and to have access to a full range of educational and economic opportunities. It is not in the best interest of any municipality or township, or of the region as a whole, to use zoning, or any other restrictions - official or informal, public or private - to entirely exclude low- and moderate income housing. Mixed income neighborhoods create equity and social stability.

Fostering Greater Public Good by Efficient Taxation

The greatest benefit to be had through proper tax design is an appreciation of what is really public and what is private. Classical moral philosophers and political economists from Adam Smith through John Stuart Mill divided all factors of production into labor, land, and capital. Their meanings were simple: those efforts performed with our own hands and minds, with the sweat of our brow or by the genius of our minds and hearts, were ours to possess, or else to sell as we saw fit. To the extent that these products were ever given over to others, they were in tacit or explicit exchanges with liege lords, churches, kings and others for services which they in turn provided. Labor is easy to understand, and so is capital which is the product of labor. But land? Land was all that part of value which came from God and Nature, over which we are but the stewards, and which we are free and licensed only to use so long as we treat it with reverence and care. Land could not be owned in the same sense as could clothing, armor, jewelry or pottery. Land, rather, included all that which was natural, whether it be the earth, air and water. There was a religious dimension to this ownership, and many, indeed most, cultures had rich theologies that incorporated these meanings into its use. Many religious leaders argue for a return to this.

Land Titles as "Bundles of Rights" - Usufruct and Fee Simple Ownership

It is particularly important to note that land in 19th century

classical economics does not refer only to what we today refer to in the vernacular as land. As those economists used the term, it refers to all commodities in nature. Those parts of nature which by right are the common heritage of all humanity - our birthright if you will, include not just locational points on the planet but air, water, minerals, fish in the sea, the electromagnetic spectrum of radio and television frequencies, time slots for airport landings and take-offs, the geosynchronous satellite orbits, and others as well. As Jefferson noted, "the earth is given as a common stock for men to labor and live on ... [and] belongs in usufruct to the living." Usufruct ownership - that is, the right of use - was distinguished from fee-simple ownership. Property held in usufruct required the payment of rent for its use, essentially as a tax. It did not include title for purposes of buying and selling as a commodity. Other terms used in contrast were leasehold, as distinguished from freehold. Were all these titles to nature auctioned for collection of rent, rather than conveyed to private ownership, there would easily be enough revenue for the support of public services. Somehow, in the time since Jefferson and his era, land titles have come to be regarded as a commodity to be bought and sold for profit, and the rightful source of public tax revenue has been supplanted by claims on people's labor and the fruits of that labor, capital, rather than from the natural and logical, readily available source of revenue, land rent.

Even though it is often observed that the public really owns the airwaves of radio and tv stations, the fact that they are often bought and sold for millions reveals that it is not the electronics in the stations that are being conveyed. Rather it is the license to the frequencies they have secured that is really the item of value - the claim of public ownership has fallen by the wayside. The potential annual rent collection from those public airwaves is unfathomably large. Quick estimates are that the economic rent available to be taxed by American governments is in the neighborhood of between 20 and 30 percent of GDP, enough to finance all government services and abolish taxes on labor and capital. Indeed there are many who argue that there would be sufficient surplus that every citizen could be provided a "citizen's dividend" sufficient to give him or her a "leg up" on the economy, similar to what now is provided to Alaskans in their Permanent Fund. Considerable thought has been given to how the revenue from economic rent should be taxed were such regimes to be put in place. It is not difficult to envision a distribution among local, national and international governments: locational sites being the basis of local taxation, regional authorities supported by oil and mineral resources, and global governing agencies reliant upon deep-sea fishing resources, the electromagnetic spectrum, geosynchronous satellite orbits, and other transnational resources like air.

As a nation and as a world we are in the process of commodifying and privatizing many of these dimensions of nature. Just as happened with land in the western world for three centuries, the rest of the world is now experiencing the same transformation. The notion of a "commons" is becoming a thing of the (continued on pg. 14)

past, and all is being subordinated to inexorable profit motives and bottom line reasoning of institutional decision-makers, frustrating and negating anything resembling community. Those very locally based institutions that foster community - schools, churches, fraternal organizations, parks, museums, libraries and others - are all being starved for lack of revenue, all because we have become confused about what should be taxed, what can be taxed, what rightfully is ours and what we hold and use at the behest of society, nature, and God.

The open access of all people to those elements of the earth that are natural seems a reasonable enough principle when one reflects upon it. Limiting the private sequestration of what is more properly public is in accord with tenets of economic justice to which most of us would subscribe when put to the test. If we recognize the logic and the limits of the concept of ownership - when lawyers refer to property law, they're talking about a "bundle of rights" - we can sort out what we should pay taxes on and what we should not pay taxes on. Economic opportunities of other sorts are likely to follow such institution of tax regimes.

Principle Four: Create Regional Business and Job Opportunities

We, the people of our region, need to work together to create more jobs that attract and retain creative people and provide a living wage for all workers. When cities and towns engage in bitter infighting for jobs, economic development and tax base, concessions are often made that greatly reduce the benefits to the community as a whole. This diminishes the competitiveness of our region in relation to other regions. We must promote policies that encourage cooperation, provide a sound workforce education, and create adequate transportation to jobs that provide a living wage.

Creating More Regional Economic Vitality and More Job Opportunities

Eminent economist Herman Daly writes in one of his books that we need to foster quality more than quantity in our pursuit of greater opportunities. It is a book very worth reading by our ARISE leaders, the reason being that the primary boosters of "growth" in our area have no notion of the distinction that he is talking about. As he employs the terms, development is intensive; growth is extensive. Development depends on high value-added investments and returns; growth consumes resources commensurate with their return. Development is good; growth is bad. If we look to foster sustainable economic development, the return on inputs must be far higher than they now are, and this is the strategy we need to pursue. Constraining the consumption of land, energy, time, and other natural resources through various public policies will enhance our productivity and foster efficiencies that give higher returns of all sorts.

Frequently the advocates of economic growth are the very elements of the community that most endanger the quality of life we seek to engender. The land speculators, for example, want more suburban sprawl - after all, they've staked their bankrolls on it. So has the automobile industry, and the oil industry, and indeed much of the

construction industry. And yet, if they just really understood, there would be more return on investment through the process of intensive development than extensive growth. This is the distinction that needs to be borne in mind most of all as the Capital District pursues what may otherwise be will-o-the-wisp short-term strategies. Do our political leaders really understand the difference? There is little evidence so far that they do. As they voice the catchphrases of business opportunity and more jobs, they need to be made to appreciate that public well being, quality of life, and rates of development need to be built into the planning for these returns. The first three principles enumerated in the ARISE Declaration evoke an appreciation of these factors; the fourth, reflecting the boosterism more common among Chamber of Commerce members, needs more careful discussion.

There are many steps that can be taken to enhance the rate of development and the growth of job opportunities that lie within the local governments capacity to implement. This section addresses just those steps. As noted earlier, governments can constitutionally influence social and economic behavior by only two means: by its police powers and by its taxing powers. And each of these, applied, have far greater facility to delimit and prohibit than they have to facilitate. Of course governments can carry out tasks themselves, but then that usually means relying upon higher taxes to finance the projects, which then tend to discourage private sector effort. That is, at least, the prevailing assumption among not only the general public but in prevailing economic theory as well - that all taxes reduce activity of the private sector, and that the more government spends, the less is available to the private sector of the economy. But this is the point that needs to be challenged, and is so here.

Deadweight Loss and Economic Productivity

The current tax system used in American cities does indeed have a deadening effect on their vitality. Anti-taxers use this as an argument for reducing taxes as much as possible, believing that by starving the public sector they are thereby encouraging economic activity. They see the economy as a limited good, as a "zero-sum game," where the more government takes the less is available to the private sector which they see is the real generator of economic activity. But there are taxes that actually engender economic health and growth, taxes that are able to provide the resources for adequate schools, for stable communities, for reliable and sufficient public safety, and for economic opportunity. There are taxes, in a word, that actually grow the total economic pie. Moreover, they do this without incurring any dampening effect on economic health.

The key to understanding how taxes facilitate or depress economic activity is in the economic concept of "deadweight loss." Deadweight loss, also often called excess burden, is the measure of (continued on page 15)

ADDING A GEORGIST MESSAGE

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productivity that is foregone due to the design of the tax system itself. According to most models, a completely efficient economy functions at 100 percent productivity only before taxes are levied; humming along without any drag, friction, or deadweight loss. Anti-taxers argue that each additional tax burden imposed on the economy reduces its efficiency commensurately, thereby actually costing communities more than is gained. Using the obligatory supply and demand curves of the discipline, it is easy to see where the inefficiencies in the economy obtain.

The concept of deadweight loss is not trivial when evaluating the choice of tax design to institute. One recent study by Harvard economist Martin Feldstein shows that the deadweight loss due to the federal income tax alone is 30 percent, closer to 50 percent if one includes the social security tax. This loss of productivity is significant enough that it means that we all must work substantially harder in order for there to be the same reward for our efforts. No wonder it is that people resent their tax duties so much! One other study calculated that the deadweight taxes in the US economy in the early 1990s collectively cost us \$1 trillion in lost output annually. In Britain, the equivalent figure was 400 billion Lbs.S. every year.

Deadweight loss in an economy only occurs, however, if the supply curve - the one going from southwest to northeast - has a slope showing changed responsiveness to market price. This slope reflects its "elasticity," the measure of that responsiveness. With elastic supply, the higher the market price, the greater the volume of the good or service will be provided; inelastic supply curves, on the other hand, show no change in the volume available regardless of the price. So the more vertical the supply curve is, the less it is responsive to price changes and the smaller the deadweight loss when a tax is imposed. It follows that if we're going to slow the economy least, we should impose our levies on those items or tax bases that have the least amount of elasticity, that have no change in supply in response to demand price. And what tax base has the least or no change in supply regardless of price: LAND! Its limited and fixed supply means it is totally inelastic - completely vertical. As Will Rogers once said, "the good lord ain't makin' any more of it." The result is that it is the perfect tax base - there is no deadweight loss due to a land value tax whatsoever. Whatever tax is imposed on landsites is incorporated into the capitalized market value of the site, is not passed on to any tenant, and in no way reduces the efficiency of the economy. What it means, in different terms, is that we can all be as much as half again as productive as we are - or that much wealthier - if taxes with no deadweight loss are instituted. Another way to see it is that we could all work 1/3 less and be just as well off financially!

Alternate Economic Paradigms are the Key

Land taxes indeed encourage, rather than dampen, economic development. This has been amply demonstrated even

though it is not well recognized in neoclassical economic theory. Other economic frameworks recognize it very well, and these heterodox perspectives are quickly supplanting mainstream economics as it now collapses from its own internal contradictions. In Economics 101, one learns early on that there are three factors of production - land, labor, and capital. But then neoclassical economics gives short shrift to land - essentially folding it into the capital category after Chapter One - and most of the tax burden is borne by labor and capital.

Consider the possibility of improving productivity, however, if all labor and capital were relieved of taxation altogether, and that all the tax burden was imposed on land value - "land" as described earlier. The deadweight loss lifted from labor by having no tax whatsoever on wages and salaries would dramatically improve productivity. The deadweight loss lifted from investment capital would encourage opportunities for revitalized enterprises of all sorts, without in any way discouraging the availability and amount of land. Land, as noted, won't be reduced in volume by its taxation, and taxing it actually increases its availability. Studies that compare localities that have varying distributions of taxes on the three factors of production show that those with the greatest proportional burden on land and the lowest proportion on labor and capital show the greatest economic vitality.

With neither employers and employees any longer having to bear the burden of taxing, both have more disposable income, both are thereby wealthier. The only losers are those who hitherto captured rental surpluses that played no part in the productivity of the economy, and was simply "locked up." It is no wonder that societies and nations that tax land most, and tax labor and capital least, show the greatest economic vitality. This region can profit from adopting similar policies, to the extent that it adopts the following measures:

Recommendations

1. Gradually phasing out the tax on Improvements and increasing instead the tax on land values within the framework of the present real property tax structure.
2. Gradually replacing the tax on sales with a heavier burden instead on land sites.
3. Employing benefit fees and other land-based levies to support services at the local level, whether they be business district services, libraries, schools, etc.
4. Connect the investment in capital infrastructure supporting transportation services to the localities where greatest impact is evident. This is done through "value capture," an approach widely understood by transportation planners.
5. Employ taxes on landsite value, wherever possible, when new public levies are being designed.

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