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Mason Gaffney

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THE ETHICS OF LAND-VALUE TAXATION[†]

Equity Premises and the Case for Taxing Rent

By MASON GAFFNEY*

The Harvard Registrar reports that the most popular undergraduate courses now are “Justice,” “Principles of Economics,” “The Concept of the Hero,” and “Literature of Social Reflection.” The “Me Generation” is passing; justice, heroism and social thought are “in.” Economists are hardly ready for this.

Classical political economists, some of them moral philosophers, made distribution of wealth central to their discipline. This led easily into radical demands to redistribute wealth. Neoclassical economists, defending property, downplayed distribution. Beliefs about this, they held, are subjective, self-interested, numerous, and conflicting, sowing discord and confusion.

Neoclassical economists now refocus the discipline dryly on “allocation of scarce resources among competing ends.” Contesting distribution is divisive and counterproductive. “Heroic” means uneconomical. Past wrongs are “bygones” to forget, except to honor the resulting property claims. The only good changes are voluntary “win-win” exchanges, validating extant claims on wealth. Property rights must be specified, perpetuated, and extended. For tax policy, “uniformity” and “neutrality” are the touchstones. The “level playing field” concept says these policies are not only efficient, but just.

Critics dispute the value judgments that unjust origins may be laundered through the sanctity of property and that private claims to rising rents are valid in perpetuity. Ongoing privatization of commons promotes inefficient “rent-seeking.” If bygones are bygones, does not that say one may forget past services, savings, appropriations, and appreciation, and redistribute wealth any time?

A tax system cannot promote efficiency while slighting justice. Justice has deep cultural roots: “justice,” “just,” “righteousness,” and “righteous” appear some 388 times in *The Bible*. If people do not get tax justice, they seek amends through counterproductive devices like looting, graft, price controls, handouts, open access, debt repudiation, nationalization, featherbedding, or cross subsidy. True, some taxation is counterproductive; but it *need* not be. That is why I will discuss taxing rent.

What is tax justice? A common chant says taxes are rationalized either by ability to pay or by benefits received. That is too simple and, thus, misleading. Here follows a list of 16 familiar ideas of tax justice, with lemmas. I label each point as pro, con, mixed, neutral, or “arguable” to the case for taxing rents. One’s position toward this policy will follow from his equity premises, but that does not leave the outcome to subjective feelings. It will be seen that equity concepts based on rewarding useful economic behavior (efficiency, capital formation, full employment and productivity) are most favorable to the case. If these goals are widely shared, the case should prevail.

[†]*Discussants:* William Fischel, Dartmouth College; Paul Downing, Florida State University.

*Professor of Economics, University of California, Riverside, CA 92513.

I. How Familiar Ideas of Distributive Equity Bear on Rent Taxation

A. Functional Equity: Reward Effort, Productivity, and Capital Formation

The product is the incentive to function.

LEMMA A1 (pro): *Labor is the unquestioned property of the laborer (John Locke). Labor and saving are the valid bases of private property.*

LEMMA A2 (pro): *Land tenure derives from neither work nor saving, but from the sovereign state. Private tenure is no more than a means to get land to be used well. Government creates a public value in land, earning the land's rent (Adam Smith; Leon Walras; Alfred Marshall).*

LEMMA A3 (pro): *No one should get something for nothing; no license to do so is validated by purchase or custom.*

LEMMA A4 (pro): *A bigger pie yields bigger slices.*

LEMMA A5 (pro): *Exempt man-made capital from property tax.*

LEMMA A6 (pro): *Tax land rent instead: a) this lowers land prices, stimulating savings; b) the windfall from downtaxing capital is offset by uptaxing land, minimizing wealth transfers; c) justice is thus done to those excluded from land tenure by supporting government, making jobs, and producing consumer goods.*

LEMMA A7 (pro): *Human capacities to add value economically (i.e., to work, save, manage, or trade) are more equally distributed than are claims to unearned wealth.*

LEMMA A8 (pro): *Exempt income of depreciable capital from income tax, using fast write-off, expensing, or investment tax credit.*

LEMMA A9 (pro): *Land has a marginal product that roughly equals its residual rent (Philip Wicksteed [invoking Euler's theorem]). Marginalism does not refute but, rather, confirms residual rent theory.*

B. Free Market Equity: Justice Results from Free Competition and Exchange, Competing Away Monopoly Rents

LEMMA B1 (pro): *Natural monopolies should be regulated or socialized to charge marginal-cost prices below average cost, covering any deficits with land taxes (Harold Hotelling; William Vickrey).*

LEMMA B2 (pro): *Equal distribution of land raises the numbers of potential competitors.*

LEMMA B3 (pro): *Consumers are less organized and need protection by government agencies and private crusaders. Seller combinations in restraint of trade are unjust and untrustworthy.*

LEMMA B4 (pro): *A free economy requires free access to information.*

C. Intergenerational Equity

LEMMA C1 (pro): *Social dividends as birthrights are the entitlement of every citizen-child. A nation's land is a birthright of all future children, unalienable.*

LEMMA C2 (pro): *Floor under social security, backstopped by social rent-fund.*

LEMMA C3 (pro): *Organic theory of the state.*

LEMMA C4 (arguable): *Tax inheritances.*

LEMMA C5 (pro): *Foster capital formation to compensate new generations for inevitable losses of exhaustible resources.*

LEMMA C6 (pro): *Foster processing and*

recycling; stop subsidizing exhaustion of primary resources.

D. Ethnic Equity

LEMMA D1 (pro): *Ethnicity is not a factor in tax liability or social-dividend eligibility.*

LEMMA D2 (pro): *Recognize that deprived ethnic outgroups are disadvantaged in terms of property, not labor power.*

E. Environmentalism: Equity as Preservation of and Access to Desired Natural Conditions

LEMMA E1 (arguable): *In travesty, "trees have rights."*

LEMMA E2 (con): *Naturalistic property doctrine (e.g., riparian owners' absolute right to natural flow of streams).*

LEMMA E3 (pro): *Public Trust Doctrine acknowledges every present and future citizen's entitlement to the natural environment.*

LEMMA E4 (pro): *The principle that the "polluter pays the public."*

LEMMA E5 (con): *Willingness-to-pay valuations equal willingness-to-accept valuations; entitlements do not affect allocations.*

F. Egalitarian Equity: Tax Ability To Pay; Level Wealth and Income

LEMMA F1 (pro): *Equal division of land (morcellement) (Code Napoleon; Mosaic land law; Homestead Act; etc.)*

LEMMA F2 (neutral): *Broaden definition of public goods; supply them publicly.*

LEMMA F3 (pro): *Any given social product yields more aggregate satisfaction when shares are more equal, because of: a) diminishing marginal utility; b) less divisiveness, crime, and unreachable emulation; c) greater security; and d) closer community.*

LEMMA F4 (con): *Tax income from all sources at progressive rates, seeking horizontal and vertical equity in those terms.*

LEMMA F5 (arguable): *Tax all property, subject to circuit breakers or homestead exemptions.*

LEMMA F6 (arguable): *In crises, impose equity in kind (rationing, military service, etc.); bypass the market system.*

LEMMA F7 (neutral): *Tolerate inflation to tax and discourage hoarding; raise effective income tax rates.*

G. Median-Voter Theory: "Public Choice" (arguable)

H. Utilitarianism: Greatest Good for Greatest Number (arguable)

I. Merit as Equity; Calvinism Redux

LEMMA I1 (mixed): *Social dividends given in the form of education (or loans), requiring matching response by grantee. Noblesse oblige, but receivers are expected to be cooptable.*

J. Contractual Equity: Enforce Contracts; Collect Debts (neutral)

K. Middle-Class Populism

LEMMA K1 (arguable): *Farmers deserve subsidies to keep alive true American small-town culture and values.*

L. Appropriative Equity: Seizure Creates Property

LEMMA L1 (con): *Priority, discovery, and power are valid bases of property rights.*

LEMMA L2 (pro): *Tenure is justified by occupancy and use.*

LEMMA L3 (con): *Possessory interests should ripen into fee-simple titles.*

M. *Status Quo Equity: Existing Claims
Are Valid*

LEMMA M1 (arguable): *Contract theory of the state; benefits-received theory of taxation; privatize public services, or apply full-cost user charges.*

LEMMA M2 (con): *An "old tax is a good tax." Only voluntary "win-win" changes are tolerable, following Pareto. Higher taxes on labor are acceptable, labor having no property in itself.*

LEMMA M3 (arguable): *Some older uses of land (status quo) deserve public protection against new, higher uses, preferably at the owner's option.*

LEMMA M4 (mixed): *Ownership includes the right to alienate land to the highest bidder. Where this conflicts with Lemma M3, the public (other taxpayers) should buy up development rights, preferably without condemnation.*

LEMMA M5 (con): *Empty land, however valuable, uses no public services and should not be taxed.*

LEMMA M6 (con): *Property is an ultimate moral good, its own voucher, requiring no higher justification.*

LEMMA M7 (con): *If it was efficient to end slavery, the owners (not the slaves) should have been compensated.*

LEMMA M8 (con): *It was acceptable to take land from aborigines because they did not hold it in private. Killing and driving them off was an investment like any other (Frank Knight).*

LEMMA M9 (con): *When it is politic to redistribute land in the third world, the private owners should be compensated by U.S. taxpayers, preferably wage-earners and consumers.*

LEMMA M10 (con): *Political actions that create private property are not reviewable (Dartmouth College case). Ongoing governmental subsidies, once granted, must never be withdrawn (Richard Wahl; Sotirios Angelides and Eugene Bardach; Zach Willey).*

LEMMA M11 (arguable): *Private property as a store of value is a welfare system.*

LEMMA M12 (arguable): *Private property is the basis of bank credit. Government should support real-estate prices (Paul C. Roberts).*

LEMMA M13 (con): *Windfalls belong to landowners; wipeouts are unconstitutional takings.*

LEMMA M14 (con): *All resources are the same; labor is a form of capital (Jack Hirshleifer et al., 1960 p. 131).*

LEMMA M15 (con): *Users of open commons have no property rights worthy of respect.*

LEMMA M17 (con): *Taxes on property should pay only for services, narrowly construed, to property (Howard Jarvis).*

LEMMA M18 (con): *The nation was built and led by northwestern European stock. Others have little claim to share rents.*

LEMMA M19 (con): *HOLDERS of ripening land render social service by reserving it for its best future use (Richard T. Ely).*

LEMMA M20 (con): *Spare propertied widows from taxes.*

LEMMA M21 (con): *Open access to public lands overcrowds commons and dissipates rents.*

LEMMA M22 (con): *Indirect open access to local public goods is confiscatory. It causes maldistribution of population, dissipation of rent, and costly countermeasures by local enclaves.*

LEMMA M23 (con): *Ongoing subsidy to territorial expansion is a tradition in which owners of fringe lands have a valid interest.*

N. *Pressure-Group Equity: "A Fair Shake for the ... (Oil Man, Surfer, Farmer, Banker, Logger, ...)"* (con)

O. *Anti-Commercial Equity (Penalize Fast Turnover, Trafficking, etc.): Tax Sales and Exchanges; Zone Out Commerce (High-Density Land Uses, etc.)* (con)

P. *Low-Density Equity: Zone Out Higher Uses*

LEMMA P1 (con): *Higher uses overload underpriced public goods.*

LEMMA P2 (con): *"Empty nesters" should not pay to educate others' children.*

LEMMA P3 (con): *Immigrants' votes threaten a majoritarian tyranny, jeopardizing real-estate values.*

LEMMA P4 (con): *Immigrants raise everyone's property taxes by raising real-estate prices. Where this conflicts with Lemma P3, lower property tax rates to satisfy all.*

LEMMA P5 (con): *Old settlers have an implicit property right in their ancient way of life.*

LEMMA P6 (con): *Empty land serves by separating people.*

II. Conclusion

By simple addition, pros and cons are roughly balanced. However concepts L-P, whose lemmas argue against taxing rent, have obviously held sway for many years now. The hope for the "pro" case is that champions of status quo equity, deluded by easy success, are now advancing more extreme, outrageous claims at exactly the wrong moment in history. One example is the claim that rights to pollute should be granted in proportion to histories of pollu-

tion. Another is the claim that historical recipients of federally subsidized water at \$2.50/unit should be guaranteed the subsidy in perpetuity so they can sell it for \$400/unit.

Some conclusions follow:

1. No single equity argument or antithesis should be allowed to define the debate; it is multidimensional.
2. Most functional and incentive arguments favor taxing rent; opposing arguments are mostly value judgments based on supporting land prices as a store of value.
3. Taxing rent leans on free-market arguments.
4. Taxing rent leans on birthright arguments.
5. Taxing rent favors ethnic equity.
6. Taxing and distributing rents locally is inconsistent with locational efficiency; it takes a central government to distribute rents efficiently.
7. The benefits-received ethic of taxation, although beloved by rent-taxers, puts a low cap on allowable collections.
8. A precondition for heavy rent-taxation is keeping banks away from land loans.
9. Taxing rent will abort rent-seeking.
10. Taxing rent will allow downtaxing saving, investing, and working.

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