

VIII: SITE RENT

Land taxes are essential, from a purely pragmatic point of view. They also have a strong philosophical basis - as can be shown by a study of site rents and of the way site rents arise.

Site Rents for the Community

As shown in Chapter VII (page 47) and Table 4 (page 49):

- 1: Land taxes and rates merely draw site rents into the Treasury, without exerting any direct effect on the gross rent of individual sites,
- 2: As the level of land tax (as a percentage of site value) increases, then an increasing proportion of gross rent is collected as government revenue, and:
- 3: With a land tax at 100 cents in the dollar, governments would collect about ninety-five percent of gross site rents as revenue.

A Logical Proposal

Because of this, the proposal put forward in this book may seem strange to some people. However, in actual fact it is completely logical.

Site rents provide a natural source for community revenue. They are created by the work and presence of the community as a whole, and not by individual title holders. Because of this, site rents belong to the public. They do not, in justice, belong to any individual.

This becomes evident if we examine the various elements that enter into the price or rental value of land.

Elements of Land Value

The factors affecting the price or rental value of land are:

- 1: The position of the land in relation to population - with sites in big cities being more valuable than equivalent sites in sparsely populated rural areas,
- 2: Distance from markets, raw materials, transport facilities and a workforce (for industrial sites),
- 3: Proximity to schools, shops, places of employment, sporting or recreational facilities and scenic views (for homesites), and:
- 4: Soil fertility, rainfall or mineral content (where land is used for primary production or mining).

Not Created by Individuals

None of these components of land value is produced by an individual landowner or occupier. Instead, they are created either by nature or by the presence and activity of the community as a whole. In most instances, the latter factor is the more important of the two.

This is another fact that should be obvious. We all know what would happen to the price of land in Melbourne if all Melburnians moved away. Under those circumstances, anyone who wished to re-inhabit Melbourne would pay little or nothing for land. The same applies to all cities or towns losing their population.

We know, also, what would happen to land prices in Warrnambool or Albury (for instance) if large numbers of the departing Melburnians decided to

settle there. Were that to happen, land prices in those cities would escalate and anyone who had land to sell there would be vastly enriched.

Created Diffusely, by the Community as a Whole

Hence, land value is "people" value or "community as a whole" value.

We cannot determine the precise contribution each citizen makes to the price or rental value of any given site. Every person who builds or occupies a home, shop, school, office, hospital or factory adds to the value of many sites (i.e., those surrounding himself or his building - the effect decreasing with distance). In this way, every person in the community contributes to the value of many different sites.

Therefore, wealth which emerges as land price is created diffusely, by virtually everyone in the community. It increases or decreases as the number of persons in the vicinity rises or falls.

This explains why site rents and land prices are low where populations are sparse, and why both the price and the rental value of land increase as more and more people congregate upon it.

A Natural Source For Community Revenue

Therefore, land taxes, and the site rents on which they draw, provide a natural source of revenue for the community.

People congregate in towns or cities for various reasons. In the process, they create a common or community fund.

This fund emerges as the price of sites or as site rents. It rises and falls as populations increase or decline - thereby keeping pace with

the government's needs for revenue. It can be captured - for the community that creates it - by appropriate taxes on land.

An Automatic Process

This common fund arises in a completely automatic and unavoidable way. If it is neglected by the community, or by the government as trustee for the community, then it flows into the pockets of titleholders and is retained by them. It thus becomes a private and unearned income for a few members of society, when it has, in fact, been created by society as a whole.

A Community Duty

Each community should, surely, collect the funds it creates.

A community that neglects this duty brings trouble upon itself. To compensate for its neglect, it must levy numerous burdensome and unpopular taxes on its citizens.

Nowadays, such neglect is the rule rather than the exception. As a result, taxes on income, sales, etc., are regarded - by most citizens - as a necessary evil. However, if a community were to act logically in this matter, and collect the site rent it creates, then it could, eventually, need very little additional revenue.

A Payment for Benefits Received

Taxes that draw against site rents are not really a tax at all. They are a payment for benefits received.

As noted above, city sites are more valuable than equivalent sites in sparsely populated areas. The reason for this is fairly obvious.

When a large number of people live and work together, they can pool their knowledge and skills and divide their labour amongst themselves. This allows them to work more efficiently, and to obtain the same output for a smaller amount of work. In other words, they economize on effort by working as a group.

Economy of effort can increase per capita output and per capita income. Alternatively, it can add to leisure time or reduce stress, while leaving output and income unchanged.

Cities that contain a lot of people provide ample opportunities for economy of effort. They also provide a variety of jobs, shops, schools and hospitals, and of sporting, recreational and cultural facilities. Because of this, numerous people seek to occupy city sites.

Competition amongst site-seekers causes both the rental value and the price of city sites to rise.

Country towns provide fewer opportunities for time and labour saving. They offer only a relatively small selection of jobs and shops, and a limited variety of educational, sporting, recreational and cultural facilities. In addition, country dwellers must pay freight on goods transported from metropolitan areas, make long distance telephone calls, and - at times - journey to a city to obtain specialist services unavailable nearer home.

Reflected in Site Values

These locational advantages and disadvantages are reflected in land values. In this way, land values and site rents mirror the benefits each citizen receives from the community as a whole.

Taxes that draw against site rents allow each

citizen to contribute to the community according to the benefits he or she receives from it. They ensure that those who enjoy the privilege of occupying the best sites in the country pay more than those who must occupy poorer sites. They draw more from the occupiers of prime city sites than from occupiers of similar sites in provincial cities, while these, in turn, pay more than their counterparts in smaller country towns. Such "taxes" therefore allow each citizen to pay the community for whatever benefits he or she receives from it.

Tax According to Benefits Received, or in Proportion to Benefits Provided?

Other tax payments are not proportionate to benefits received.

Sales tax, income tax, motor vehicle taxes, excise duties and so on bear no relation to the benefits each taxpayer receives from the community. Instead, they increase in proportion to the prosperity each person gives to the nation as a whole. So the harder a person works to provide his country with goods or services, the more income tax, sales tax, payroll tax or company tax he pays!

Egalitarianism and Decentralization

Land tax possesses an egalitarian and decentralizing quality.

We cannot all occupy the best sites in town, or live in metropolitan areas. But we can all share in the benefits of the better sites - if site rents are drawn into the Treasury.

If all site rents were drawn into a common fund, then each individual's financial status or standard of living would no longer depend upon his

or her location, or - as we put it colloquially - upon "the luck of the draw". Instead, the country dweller, who has access to fewer amenities than his city cousin, would also pay less tax. In the same way, suburban and country shopkeepers would pay less tax than their central city counterparts - who have access to more potential customers.

Drawn Selectively, but Spent for Everyone's Benefit

Revenue drawn in this selective fashion may be spent for the benefit of all citizens. In this way it tends to equalize incomes and to promote both egalitarianism and decentralization.

Government Revenue and the Common Good

This happens when revenue is spent on roads, footpaths and street lighting, on drains, sewerage systems and water mains, or on the maintenance of law and order. These government expenditures promote the common good of society, and lift the standard of living for everyone.

Land Tax vs. Income Tax

Admittedly, a progressive income tax can also be used to redistribute and equalize incomes. However, income tax cannot readily differentiate between income earned with relative ease on a favourable location, and income earned quite arduously in the back of beyond. Therefore, income tax is a clumsy "egalitarian" instrument.

Furthermore, a society cannot increase its overall wealth by collecting income tax and redistributing it. It may, in fact, reduce its wealth in this way; because income tax penalizes effort, and discourages people from working hard.

On the other hand, land tax can add to our overall wealth. Land tax brings idle land and idle labourers together, and provides opportunities for production that did not exist previously. Land tax tends, also, to bring the most energetic, intelligent and industrious people to the most valuable sites. (In contrast to the present situation, wherein wealth and not ability tends to determine ownership of valuable sites.)

Production is lifted when industrious or gifted workers occupy valuable land. This, in turn, would occur readily if land were heavily taxed - as energetic individuals could easily afford the higher tax payable on the more valuable sites.

In these ways, land tax would equalize incomes in an upward direction. It would not detract from higher incomes, but would add to lower incomes by increasing the output of goods and services, and by allowing people who are now idle to become producers instead. Land tax therefore differs markedly from income tax, which can only add to lower incomes by bringing higher ones down.

No Encroachment on Private Wealth

A final advantage of land tax is that it does not draw against private wealth.

A nation's true wealth consists of the goods and services produced to feed, clothe, house and transport the nation's inhabitants, and to satisfy various other wants and needs.

Goods and services may be created by self-employed persons working more or less alone. Alternatively, they may be produced by small, medium or large groups of workers who cooperate to provide sewerage systems, power supplies, transport systems or police forces; to produce motor vehicles,

computers and other complicated goods; or to produce the thousands of other goods and services available in modern society.

The Distribution of Wealth

Once wealth is created it then distributes, through the pricing system of the market place:

- (a) as land costs,
- (b) as wages, and:
- (c) on machinery and other capital goods.

In other words, all wealth eventually distributes to the three factors of production, i.e., to land, labour and capital.

The distribution may not always meet with all round approval. Nevertheless, with this qualification in mind we note:

- (a) wealth that passes to labour is the private property of the labourers,
- (b) wealth distributed to capital is also private property - whether it is spent directly on machinery or other aids to production, or expended as interest or dividends in order to secure such "capital" goods, and:
- (c) wealth distributed as land costs is public property - for reasons given above.

Taxing Private Wealth

Taxes encroach upon private wealth when they are levied against earnings, sales, payrolls, companies, imports, spirits or motor vehicles. All such taxes reduce the net income of private citizens.

By contrast, taxes that channel land costs into the Treasury do not encroach upon anyone's private property. Instead, these "taxes" merely collect a public fund, and place it where it rightfully belongs.