

## BENEFITS FROM THE PUBLIC COLLECTION OF RENT

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Although land is the principal generator of rent, there are other sources as well. In order to simplify, this discussion will deal only with land rents. However, the benefits from public collection of land rents do not differ greatly from those from public collection of other forms of rent.

1. To finance the provision of public goods and services governments must collect some form of revenue. This is true regardless of the level, type and scope of the public goods that are provided. With few exceptions, revenue instruments have greater or less distorting effects on national economies: they change the economic decisions that ordinary producers and consumers make. Taxes on income may cause producers to use more capital and less labor, or the opposite, if the effect of the tax is to make either labor or capital more costly than it would be otherwise. High taxes on labor income lead some people to work less than they would if there were no, or low, taxes on labor income. Income taxes can reduce the willingness of any of the people involved in the production process to avoid more risky investments and employment. All of these effects are losses in economic welfare for the country, because in the absence of the distorting taxes, the production process would be organized, in well-functioning markets, so as to produce more and more valuable goods and services with the same inputs of capital and labor.

Taxes on commodities also result in losses of economic welfare. As economists put it, the tax drives a "wedge" between producers and consumers, so that neither achieve the prices and output that would happen in well-functioning markets. Depending on the relative sensitivity of supply and demand to price changes ("price elasticity"), introducing or increasing a commodity tax will result in somewhat higher prices for the taxed commodities and somewhat lower output of the commodities. Both consumers and producers lose by this. The narrower the range of commodities that is subject to the tax, the more severe the distortions will be. But no actual tax in use anywhere is truly universal in its application. Even value added taxes exempt some goods and services from tax, and may use different tax rates for different classes of goods and services. But in theory, even a truly universal value added tax would have some distorting effects, by encouraging saving in preference to consumption and production for export rather than for the home market (value added taxes are always rebated on exported goods and services).

The use of rent as a major source of finance is entirely different. The public collection of rent has no distorting effects on the economy. Users of land will bid for individual sites for productive activity and the best bids, subject to whatever controls on the use of land are imposed by government, will win the rights to use those sites. Whether the rent is collected by government or by a private owner makes no difference to the user. Because the supply of sites with any given set of characteristics is fixed, a private owner of the land cannot charge users a higher price (rent) because of a new system of public collection of rents. To demand higher rents means that the site will not be used at all.

The substitution of rent collection for existing taxes can have major, even spectacular, positive effects on the economy. First, the "deadweight losses" from the other taxes will be eliminated. Second, the public collection of rents will lead to economically superior uses of land and other resources. There will be appropriate ratios of application of capital to land, rather than excessive ratios of land to capital. The worst case of this is the withholding of land and other resources from productive use by private owners, who speculate that waiting will cause the rent of land to rise over time. If the rent is publicly collected, there is no reason to wait. These positive effects will be particularly noticeable in growing urban areas, where it can be reasonably predicted that growth itself will increase rents: land owners need do nothing but wait, in order to have large gains, as long as the rent of land is privately collected.

2. There is another conceivable source of public revenue that also does not distort economic decision-making: a head tax, that is, a fixed amount per capita or per adult. Short of migration, a person can take no economic action that will eliminate his tax liability. However, almost everyone can agree that such a tax would be extremely inequitable, because the amount of the tax is uniform among people with widely differing income and wealth, that is, ability to bear the economic weight of taxation. A head tax is a much higher fraction of the income of a poor person than of the income of a rich person. For that reason, only extremely primitive or cruel regimes have ever used head taxes, with the single recent exception of the use of a head tax for local authorities in the U.K. That tax was ended in a few years after massive protest, as thoroughly unfair. It is widely agreed that Margaret Thatcher fell from office because of the head tax.

In stark contrast, public collection of the rent of land is highly equitable, in two senses. The first is that the rent of land is a product of what the community as a whole does to make sites in that community attractive--the provision of infrastructure, investment in buildings by public and private enterprises and the growth in population itself. The rent of land is not a product of the efforts of the landowner. Second, the private ownership of land (and other natural resources) inevitably is concentrated in the hands of richer people, as individuals or as participants in companies. This is inevitable because it often takes years before land generates significant rent, during which the owner receives no return for the purchase price. That is not feasible for people with modest incomes. They can invest only in assets that provide returns currently. Land purchase is typically financed by loans. But low-income people cannot borrow money readily for long-term investments that pay no current returns. So, in every country for which there are data, land ownership is highly concentrated. Although many houses are owned by their occupants in most advanced countries, the value of the land under ordinary houses tends to be quite small. Thus public collection of the rent of land is a tax on the relatively rich, not the relatively poor.

3. Once a country has established a reliable register of land and its owners and users--something that is needed for numerous purposes other than the collection of public revenues (for example, administering land use and environmental regulations; provision of heating, electricity, sanitation and similar utility services; and settling questions about property rights), administering a system of public collection of land rent is relatively easy and inexpensive, in

contrast to the collection of the major types of taxes. The register identifies the land, its characteristics and its user. There is no further problem of identifying the event that gives rise to the obligation to pay taxes, as is true of income, profits and consumption taxes. The administrative problem is to determine the rent of land, that is, place a value on each separate piece of land. But because the main determinant of rent in urban areas is location, it is possible to construct land rent maps on the basis of various kinds of market transactions, or to use a form of auction system for self-assessing by owners.

Opponents of public collection of the rent of land usually argue the opposite--that it is a fine idea, but impossible to administer in practice. This is utterly untrue, as experiments in various types of places have shown.

4. There is a "political economy" or "public choice" benefit from public collection of the rent of land. It would reduce or eliminate the high level of influence that land owners tend to have in market-oriented economies. This occurs because, with private appropriation of the rent of land, the wealth of individual land owners is determined by government decisions on everyday matters, from the regulation of land use and buildings to investment in and maintenance of infrastructure. That makes land owners willing to spend large amounts of money to influence public policy, which is in a social sense a waste of resources, an activity known as "rent seeking," that is, seeking income not from productive activity, but by influencing government.