Edward J. Dodson

Edward J. Dodson retired in 2005 after three decades of management and analyst responsibilities in the housing finance sector of the US economy. He taught political economy and lectured on history at the Henry George School of Social Science and is the author of a three-volume work, *The Discovery of First Principles*. He is a contributing writer to several periodicals devoted to promoting systems of political economy developed in the late 19th century by Henry George. In 1997, he established the online education and research project, the School of Cooperative Individualism.

Rents as revenue

As an unearned source of income for individuals and private entities, it makes sense for rents to comprise the core source of public revenue.

— There is a moral decision regarding which assets and income flows are legitimately private property and which are legitimately societal property.

— The potential annual rental value of locations and natural assets with an inelastic supply is an ideal source of public revenue.

— When it comes to income tax, efficiency, equity and simplification of compliance can all be achieved by exempting individual incomes up to a certain amount (e.g. the national median income), eliminating all other exemptions or deductions, and then applying various tax bands.

— To support small business and entrepreneurship, some level of business revenue should be exempt from taxation.

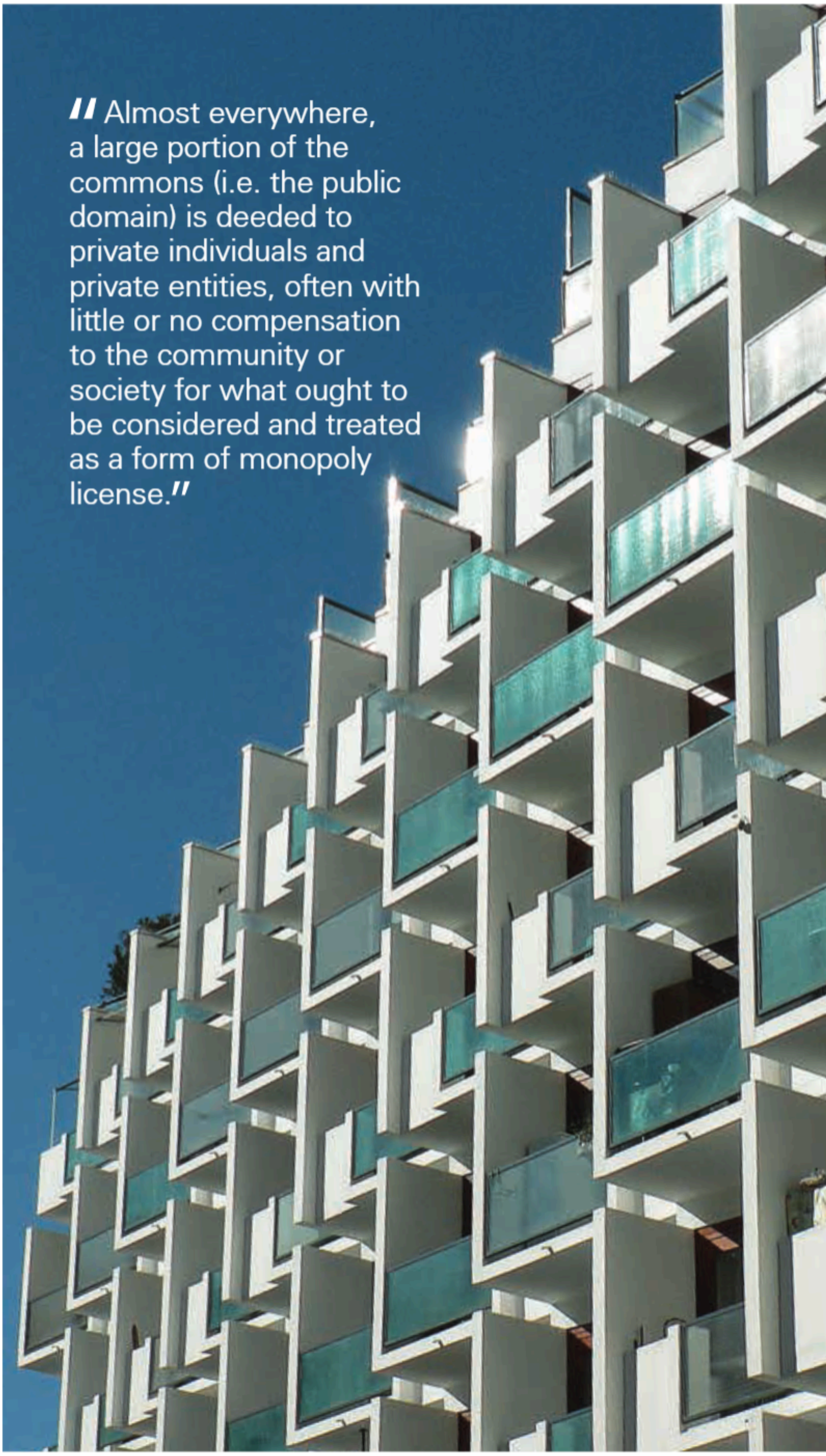
Part of the problem — our inherited system of public finance

The fundamental impediment to creating a world where full employment is the norm, and all people have equal opportunities to achieve their potential, is that our systems of law and taxation have at their roots the protection of monopoly privileges. Implicit legislative privileges entrench many of the negative outcomes we experience in the world. Unfortunately, all but a few economists and analysts influential in the global economy are willing to call for fundamental reforms. In our world, economic outcomes are dictated by politics. And the politics of the world are directed toward protecting the status quo. The result is an accelerating concentration of income and wealth.

If you read the great political economists carefully — from Adam Smith and Anne Robert Jacques Turgot to Henry George — the depth of privilege enshrined in law is clearly described. Henry George interpreted what Turgot meant by 'laissez-faire' to be 'a fair field with no favors'. George took Smith's and Turgot's analysis to its broader, ethical and logical application to laws relating to property. The moral element involves deciding which assets and income flows are regarded by law as private property and which belong to society. These issues remain unresolved, and there is deep resistance to public education and debate that might lead to changes in this area of public policy.

Defending the status quo against radical anti-propertyism

Beginning in the 16th century, modern history is the story of nation-state building and wars of territorial acquisition. Access to competitive weaponry enabled victims of colonialism and imperialism



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to retaliate and regain independence. Yet systems of property law and taxation within 'old world' powers have become almost universal, as is the control over nature as a legitimate form of private property. Almost everywhere, a large portion of the commons (i.e. the public domain) is deeded to private individuals and private entities, often with little or no compensation to the community or society for what ought to be considered and treated as a form of monopoly license.

Charging all who control nature to pay for the value of benefits received

The potential annual rental value of locations and of natural assets with an inelastic supply is an ideal source of revenue to fund the public realm.

Locations are the parcels in towns and cities, the rental value of which is determined not by what any owner does or does not do with land held, but by locational advantage. Such advantage is in some instances created by nature, in almost all instances by the quality of public amenities available. This means locations in a city's financial district are valued by the square metre; locations in outlying residential/commercial regions by hectare, while rural land is valued by the yield potential per hectare (based on agricultural use, forestry or mining). More recently, locational advantage is strongly influenced by the opportunity to install wind or solar farms in otherwise marginal locations.

Exemption of all property improvements from the tax base not only encourages the maintenance and periodic upgrading of the buildings, but also removes a major source of 'dead weight' loss in terms of economic output.

Natural assets with an inelastic supply (supply where percentage change is less than a percentage change in price) include frequencies on the broadcast spectrum and take-off and landing slots at airports,

based respectively on differences in demand dependent on time of day and the fact that no two airplanes can safely occupy the same space at the same time.

If we are to tax individual income, the key is to distinguish between income earned as wages received from producing goods or providing services, and income derived from passive and speculative investment. Tax efficiency, tax equity and simplification of compliance and administration can be achieved via implementing structures that exempt all individual incomes up to a certain amount (e.g. the national median income), eliminating all other exemptions or deductions. Above the exempt amount, ranges of income would be taxed at an increasing rate of taxation, the ranges and rates determined as part of the legislative process to achieve a balanced budget. The assertion here is that incomes at the highest ranges can be taxed at a very high rate of taxation without materially impacting individual consumption or investment in real capital goods (i.e. buildings, technologies and machinery), and that this level of income is largely rent-derived from speculative activity in financial instruments and land. All income would be included, regardless of source.

To encourage an increase in the number of small businesses and local ownership thereof, some level of business revenue should be exempt from taxation. A graduated system of gross revenue taxation is recommended, exempting some level of revenue (e.g. the median level of revenue for businesses in an MSA [Metropolitan Statistical Area] or its equivalent outside the US). Above this level, a low but graduated tax rate would be applied to higher ranges of revenue. This form of tax simplification removes the tax benefits of incurring and reporting high levels of expenses, rewarding those companies operating with a high attention to efficiency.

Finally, although not considered a matter of taxation, private leasehold access to public lands should be awarded by competitive bidding, with what I will generally call 'ground rent' charges periodically adjusted — upward or downward — based on the results of current leasehold interests. ■