Review and comments by Edward J. Dodson, M.L.A., on the paper:

Entrepreneurship with Rent-Based Public Finance, written by

Fred Foldvary / July 2017

The author first supports his position by explaining what he means when referring to factors of production. His approach is consistent with the definitions used by 18th and 19th century political economists, as distinct from “modern” neoclassical theorists. Nature is an inelastic factor (i.e., cannot be produced by human action). One could argue with his assertion that “knowledge” is a “capital good” rather than the basis for labor efficiency and productivity. This distinction is important only in assigning numerical values between labor and capital goods with respect to goods production.

**Entrepreneurship and rent payments**

It is unclear to me what he means by “exploration” in the following passage:

“If a subsequent exploration of the site increases its usefulness, the value added is a capital good attached to the land.”

Certainly, changing the topography of a location or draining of wetlands potentially adds value to the location. The increase in value is a yield to the use of capital goods. But, is mere “exploration” a value-adding activity? Exploration by a geologist of the sub-surface character of a location may discover previously unknown mineral deposits, which (at least until the minerals are extracted) changes the highest, best use and rental value of the location. But, is the increase a return to the use of capital goods? Or, to human action (of the geologist)?

**Critics of LVT**

The author returns to his position that new knowledge is a capital good. I suggest that new knowledge increases the ability of labor to produce more wealth than was previously the case. What is almost always the case is that new forms of capital goods are required in order to take advantage of the new knowledge. What portion of the increased output is attributable to the use of the capital good versus labor efficiency is probably best determined under competitive market conditions.

Caplan and Gochenour are fairly challenged on the basis of the real world experience of communities that adopted the taxation of land rental values. The author could have acknowledged the instances where LVT was reversed, explaining this was cause by factors other than its failure to stimulate entrepreneurship.

**Knight on land**

How Frank Knight came to his obviously incorrect assertions regarding the origin of land is difficult to understand. Fred Foldvary offers a clear distinction between what nature provides for human exploitation (free of charge in terms of labor expended or capital goods needed). I would add that nature is a passive factor of production, although not a static factor. The forces of nature change the form and potential usefulness of resources over time (e.g., dying leaves into soil nutrients).

**Rebutting Caplan and Gochenour**

It is relevant to acknowledge how changes in technology can dramatically increase the rental value of a location. The development of highly-efficient wind turbines and solar panels has caused locations with near-zero rental value to yield significant rental income to owners (whether individual or societal) who produce nothing.

**Confusion of terms**

What adds to this confusion is the use of the term “profit” as an economic term, beyond its meaning in accounting (i.e., revenue that exceeds expenses). Individuals engaged in business activity may or may not control one or more locations. If they hold title to locations, they are the beneficiaries of some amount of imputed rent for those locations (i.e., what the locations could be leased out for) that is not recognized in the financial statements of the business, except that the cost of doing business is lower than for competitors who lease rather than own the locations on which they operate.

The author suggests that it is fair to permit developers whose activity directly causes increases in the rental value of location to “keep their profits that are attached to site, but for a limited time.” It is worth pointing out that this occurs *de facto* because of the long periods between the times when taxing authorities reassess the value of locations. With few exceptions, land is consistently under-assessed even when property is subject to fairly frequent reassessment. Whether this is the result of a conscious decision by assessors or because of technical difficulties is a subject that has had considerable discussion elsewhere.

**Comparative systems**

The author makes an extremely important point that “much of the value of land today come from government subsidy.” The failure to publicly collect the full potential annual rental value of a location creates an imputed income stream to the owner, capitalized by market forces into a price for the location. Moreover, public expenditures (and reductions in rates of interest orchestrated by the Federal Reserve) tend to expand the demand side of the market for locations while having the opposite effect on the supply of locations.

Another example of a public policy that will result in a broad increase in the rental value of locations is the enactment of an increase in the minimum wage. Most individuals in this income category are low-income renters. Unless communities dramatically increase the supply of affordable housing units, owners of investment properties will simply increase the annual cost of leasing apartment units to absorb much of the increase in the minimum wage.

The author presents effective arguments that the replacement of the existing approach to the taxation of real estate with a tax on the potential annual rental value of locations will encourage owners of locations to bring the land they hold to its highest, best use, or sell to someone who will. LVT is a very entrepreneurship friendly public policy.