FRED HARRISON reviews –

A tax issue economists can no longer side-step

THE ANNUAL rent of land and natural resources in the U.S. was 28% of national income in 1981.

This was enough to replace all taxes on labour and capital, apart from user charges, according to Professor Steven Cord.

His calculations were presented at a conference in Cambridge, England, at which he revealed that the States could realistically switch to a fiscal system based on the Single Tax.[1]

This tax would fall on the unimproved value of land. But U.S. government statistics do not declare the revenue that would be raised by such a tax.

So Prof. Cord, who teaches history at Indiana University of Pennsylvania, undertook a detailed analysis of his own.

Starting with U.S. Census Bureau data,[2] he concluded that the annual rental income was $721bn.

Federal Reserve Board data,[3] however, suggested a lower figure of $590bn.

Prof. Cord decided to settle for a working figure of $658bn, which (because of his conservative assumptions) actually understates the true revenue that could be derived from land values.

GOVERNMENT revenue in 1981 totalled $1,075bn, which included $46bn in revenue from land values and from leases and royalties on minerals.

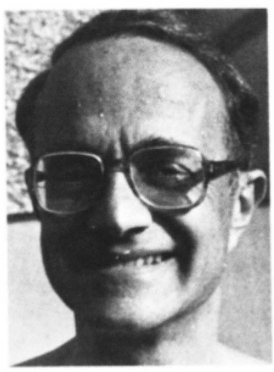
So the tax on employees and the owners of capital was $1,029bn.

The scope for reducing this burden, if the tax system were reformed, is enormous. The macro-economic benefits of such a reform are significant. As Prof. Cord states, referring to the billions that are not tapped by the government for the benefit of the community:

"If an amount of this dimension is misappropriated, both morally and economically, then it cannot be a matter of small moment and the land value tax can have a major impact on such economy-wide problems as inflation, recession, unemployment and poverty."

The professor was forced to make some arbitrary assumptions, to enable him to arrive at a figure for land rent.

- Official figures under-assess the value of land: so Prof. Cord had to face the technical question of the degree to which these assessments mis-stated current market values.
- Deductions had to be made from his calculated rent. For current values are *above* what they would be in a competitive land market (and the full collection of rental income would reduce rents to market-clearing levels).
- There was also the problem of how to apportion existing taxes among the three factors of production – land, labour and capital – which would occur if the land value tax was treated as a substitute for other forms of taxation.



● Prof. Steven Cord

PROFESSOR Cord's calculations may be open to criticism. For example, reservations have been expressed about the rate of interest that he used (14%) to translate capital values (selling prices) into annual values (rents).

Even so, his exercise is an immensely valuable one. It challenges economists to begin econometric studies of their own, both to test Cord's conclusions and evaluate the dynamic impact on an industrial economy of a reformed tax system.

We need answers to some vital questions.

HOW would levels of investment be affected, if entrepreneurs could retain a larger proportion of their profits for reinvestment?

HOW would foreign trade be affected if total consumption of household goods was increased because less was wasted on conspicuous spending by the rentier class?

HOW would the labour market be affected, if it became easier for people to start up their own businesses in properties that were cheaper to rent?

These are some of the tough questions which economists have been able to side-step, because they have lacked the raw data on which to derive answers.

Instead, they spend most of their time decrying the distortions that are generated by existing taxes.

It is about time they focused on the good news: the *benefits* that would be derived from a switch to land value taxation.

REFERENCES

1. Steven Cord, 'How Much Revenue Would A Land Value Tax Raise in the U.S.?', Paper presented to the 16th conference of the International Union for Land Value Taxation and Free Trade, August 1984. Copies may be obtained from 177 Vauxhall Bridge Road, London SW1, price £1.
2. *Taxable Property Values and Assessment-Sales Price Ratios*, Washington DC: U.S. Census Bureau, Vol. 11, 1984.
3. *Balance Sheets for the U.S. Economy, 1945-83*, Washington DC, April 1984.

U.S. land rent, 1981

	$ billions
Census Bureau estimate	379
Census Bureau under-assessment	76
Local property tax	25
Federal offshore revenue	10
Tax-exempt land	91
Federal government land	55
Mineral land	85
	721