

A Research Agenda Inspired by Henry George

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The idea that the rent of land and natural resources ought to be the primary, if not the sole source of public revenue has two foundations, a moral one and a practical one. The moral foundation is that people ought to be regarded as the owners of what they produce by their efforts and by their saving, while productive resources that exist independently of our efforts ought to be regarded as owned equally by all persons. The increase in the rental value of land that results from the provision of public services ought to belong to the governments that provide those services. The practical foundation for public reliance on rent is that rent, unlike almost all other sources of public revenue, does not impede and may actually improve economic productivity. Admirers of Henry George tend to be particularly drawn to the moral foundation, and it is important to work on spreading acceptance of it. However, to the extent that there has been movement toward greater reliance on rent as a source of public revenue, it seems to be more the result of practical considerations than moral ones. Thus it is also important to develop evidence based on practical arguments for reliance on rent as a source of public revenue.

Documentable Consequences of Using Public Collection of Rent Instead of Taxes on Labor and Capital

When people hear that there are economic benefits of substituting public collection of rent for taxes on labor and capital, they often ask for evidence of this. Steven Cord has published a great deal of evidence that he has collected, along with much that others have collected, in the booklet, "The Evidence for Land Value Taxation," published by the Center for the Study of Economics. This is a valuable compendium. However, the studies printed in this booklet do not use the methods of statistical analysis that are generally used by scholars. Therefore it is important to supplement these studies with more statistically sophisticated ones. One such study is "The Site Value Tax and Development Patterns: Evidence from Melbourne, Australia," by Kenneth Lusht, a working paper of the Lincoln Institute of Land Policy dated February, 1992. Another paper that addresses the issue is "The Impact of Urban Land Taxation: The Pittsburgh Experience," by Wallace Oates and Robert Schwab, also a working paper of the Lincoln Institute of Land Policy, dated October 1992. I am currently working on a study, financed by the Lincoln Institute, of all of the cities in Pennsylvania that have shifted some taxes from buildings to land. It would be good to have more such studies, perhaps more in Australia, and in South Africa and New Zealand, where there are numerous cities that tax building at a lower rate than land or not at all.

Another type of study would take countries as its units of analysis. It might be possible to use data that is collected by the International Monetary Fund or other international agencies to identify the fractions of rent, wages and interest that a variety of governments collected over a significant span of time, and examine how variations in these affect economic performance.

Impacts of Public Services on the Rental Value of Land

Economists have known for some time that there are conditions under which the rise in rent in the vicinity of a worthwhile public project will be sufficient to pay for the project. (People must be mobile, benefits must decline with distance, and there must be more people who value the project than can live in the vicinity of it.) It would be good to investigate the actual impact of a variety of public services on the rental value of land. In particular, the impacts of airports, highways, rail lines, road improvements and parks might be investigated. If it can be shown that reliance on rent permits worthwhile public activities to be effectively self-financed, this will add to the attractiveness of public collection of rent.

Any such project should also look into the question of whether and to what extent public services reduce the value of structures (which are generally not optimal for the more valuable land) and lower the utility of imperfectly mobile people. A project is truly worthwhile only if its benefits exceed its costs when these consequences are counted as costs.

Consequences for Land Values of Taxes on Labor and Capital

Two hundred years ago, the Physiocrats said that all taxes should be levied on land because all taxes are ultimately paid out of rent. Later economists demonstrated that the Physiocrats' conclusion holds if and only if labor and capital are perfectly mobile. Since labor and capital are in fact partially mobile, they will bear some fraction of the taxes that are levied on them. Since labor and capital may well be almost perfectly mobile in the long run, land might bear almost all taxes in the long run. It would be good to develop a spatial model of tax shifting and seek to estimate the extent to which existing taxes on labor and capital are shifted to land.

The Revenue Potential of Rent

In view of the analysis behind the previous items, the revenue potential of rent depends on the levels of taxes on labor and capital and on the level and nature of government spending. Once the previous studies have been completed, these estimated relationships can be used, along with information about current land values, to arrive at estimates of the level of public spending that could be supported solely by a tax on land, assuming the existing distribution of public spending by category, the levels that could be sustained if various other combinations of taxes were collected, and the levels that could be sustained if the composition of public spending were changed in various ways, such as a substantial reduction in defense spending.