

Basic Tenets of the Incentive Taxation Philosophy

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Equal Rights

We believe that the opportunities that governments assign to citizens should be assigned in ways that recognize the equal rights of all. Governments should not enriched some persons at the expense of, or to the exclusion of, others. When governments must assign opportunities that cannot be made available to all, those to whom the opportunities are assigned should be required to pay into the public treasury, on an annual basis, an amount equal to what the opportunities would have been worth to others.

For some opportunities this principle is widely recognized. An example would be the allocation of off-shore oil drilling rights. No one says that governments should decide how much drilling rights each oil company deserves, and pass the rights out without charge. It is recognized that the value of these rights ought to accrue to the public treasury, and any company that extracts the oil should be obliged to pay, through an auction, what the rights it exercises would have been worth to some other oil company. We believe that this principle should be applied to all opportunities that are assigned by governments.

Ending Privilege

When the principle that the value of government-assigned opportunities should be received by the public treasury is violated, the result is "privilege," which from its Latin roots means "private law," that is, law that permits one person to do what others are not permitted to do. Thus what we stand for is an end to privilege.

Numerous examples of privilege are incorporated in our institutions. Farm legislation restricts the growing of tobacco to those who have been assigned acreage allotments. For numerous commodities, trade legislation limits shipments from individual countries to specified quotas. In many cities, only persons who have been given permits are allowed to operate taxis, and new permits are not issued. To operate a radio or television station requires a license, and there are no opportunities for new licenses to be issued. In most cities, construction of commercial or multi-family residential structures requires zoning permission that is granted to some and not to others. But the single most important category of privilege is land titles.

This list of examples of privilege, which is by no means exhaustive, contains some privileges, such as acreage allotments and import quotas, that would be best reformed by eliminating restrictions and permitting all to do what now only some may do. For other privileges, such as broadcast licenses and land titles, great productivity results from the social understanding that a specified individual will have the use of a given resource. For these privileges, the best reform is the introduction of the requirement that any person who is assigned such an opportunity must pay to the public treasury an annual fee equal to what the opportunity would be worth to someone else. For other privileges, such as zoning restrictions, there is no need to allocate exclusive access to a resource, but there may still be good reasons for limiting the amount of the controlled activity, because of the costs it imposes on others. For such a privilege, the reform we recommend is the introduction of a tax corresponding to the costs imposed by the activity, combined with a rule that anyone who pays the tax is permitted to engage in the activity. Thus, by the combination of eliminating unnecessary restrictions, introducing fees for exclusive access to resources, and introducing taxes for engaging in permissible activities that have adverse consequences for others, all private gain from privilege can be eliminated.

Equal Rights to Land

The component of this perspective that is likely to be most controversial is our belief that the value that individuals receive from the exclusive use of land should be collected publicly. As this idea is central to our philosophy, we now discuss it in some detail.

It is because land was not created by human effort that land titles are privileges, for which fees are properly collected. A plot of land is a bit of space on the earth, with access to other plots, access to public utilities and other public services, natural resources, and natural soil fertility. All of these features that give value to a plot of land. None of them resulted from effort on the part of the person who has title to the plot. The size of the plot, its natural resources and natural fertility are gifts of nature. To the extent that value arises from access to public utilities and other public services, it is governments that give value to land. To the extent that value arises from the intensity of economic activity on nearby sites, it is the users of those nearby sites that give value to land. The unimproved value of land is in no way attributable to actions of the person who holds title to the land.

Of course, when land is used, people add improvements, and the value resulting from the addition of improvements to land is value to which a user of land can have a respectable claim. Thus the fee that the public can properly require of the user of improved land is the rent that the land would command if it were unimproved. This fee should not be higher for land that is extensively improved than for similarly situated land that is less highly improved. The art of assessment, discussed in a later section, deals with the estimation of such values.

The Proper Disposition of Returns to Different Factors of Production

The idea that the rent of land is properly collected by governments is an example of the more general idea that it is important to distinguish the different "factors of production" identified by classical political economy. The return to each factor has a proper destination. The contributions of human abilities to productive efforts are called "labor," the return to labor is called "wages," and the appropriate recipients of wages are those whose labor contributes to productive activities. The contributions of past human products to productive efforts are called "capital," the return to capital is called "interest," and the appropriate recipients of interest are those who past saving made the creation of capital possible. The contributions of government-assigned opportunities to the productive process are called "land," the return to land is called "rent," and the appropriate recipient of rent is the public treasury.

Replacing Existing Taxes

When we say that the appropriate recipient of rent is the public treasury, it should be understood that this is not in addition to existing sources of public revenue, but rather instead of existing sources of public revenue. Those who contribute labor to productive processes should be allowed to keep the wages that result from their labor. Those whose saving makes the creation of capital possible should be allowed to keep the interest that accrues from the use of capital. But there is no one who has a corresponding claim to the return to land. This is the reason that fees for the use of land and other opportunities assigned by government ought to be the primary source of government revenue. While one might call such fees "taxes," we consider that designation inappropriate, because the word "tax" connotes an exaction from someone of something to which he or she has a just claim, and we deny that there are such just claims with respect to land. We expect that the collection of fees for the full value of opportunities assigned by governments would provide adequate revenue for all necessary government expenditures.

Reducing the Price of Land

We recognize that the implementation of our ideas will lead to the disappearance of the sale value of titles to unimproved land and other forms of privilege. While some will see this as an unjust confiscation of property, we deny this. We believe that it is possible to implement our ideas while remaining true to principles of justice. We note first that, while we propose to introduce or increase fees for exclusive access to opportunities assigned by governments, we also propose to eliminate existing taxes. For many people the value of eliminating existing taxes will offset the fall in the market value of the privileges they now claim. But it cannot be expected that all persons experience full offsets. There will be some persons whose income prospects fall as a consequence of the implementation of our ideas. But this in itself does not constitute injustice. Every change disappoints someone. It is our view that what makes a disappointing change an injustice is not the fact of disappointment, but rather a self-seeking disregard for adverse consequences to those whose prospects fall. Such selfish disregard for others must be distinguished from the implementation of new moral insights. Of course, one can always try to hide self-seeking proposals behind a facade of alleged principle. Thus the necessary distinctions are difficult to make, but this does not justify abandoning the effort to make them.

Historical Precedents

We are not the first people to assert that governments should not allow anyone to appropriate an excessive share of nature's bounty. Hints of our ideas can be found in the writings of 17th century English philosopher, John Locke. The physiocrats of 18th century France: Quesnay, Turgot, Condorcet and others who sought to reform that country's tax system prior to its bloody revolution understood the importance of collecting a nation's revenue from levies upon land. The 19th century English philosophers Herbert Spencer and John Stuart Mill understood the injustice of claims to the ownership of land, though they could not bring themselves to recommend the fiscal measures that flow naturally from that insight. But the person whose writings gave greatest impetus to our ideas was the 19th century American social philosopher, Henry George. His books and speeches contain powerful elucidations of ideas that we espouse. We particularly recommend *Progress and Poverty* and *Protection or Free Trade*. It should be understood that while we admire George's work, we do not regard him as an infallible authority. Our commitment is to principles of justice that we believe are part of the understanding of all open-minded people. George is the person who, in our view, has provided the best written expression of these principles so far. Among the famous persons who have endorsed George's ideas are Albert Einstein, Leo Tolstoy, Winston Churchill, and Sun Yat Sen.

Creating a More Productive Economy

The ideas we espouse are attractive not only for their embodiment of principles of justice, but also because they can be expected to lead to a more productive economy. Economists agree that the imposition of taxes generally retards an economy. The reason for this is that with almost all taxes, it is possible for a tax payer to reduce total tax collections by doing less of whatever is taxed—work less, spend less, save less, etc. This means that taxes generate an incentive to be less productive. On the other hand, with fees for the use of government-assigned opportunities, the only thing that a person can do to reduce the amount of money that he or she pays is to use fewer of these opportunities. But then the opportunities can be used by someone else, who will pay the fees, and total public revenue will be unchanged. There is no possibility of reducing total government revenue by being less productive. Thus these fees can be collected without dragging down the economy in the way that existing taxes do.

Our ideas provide for the natural financing of any worthwhile public expenditure that makes a particular area more attractive or productive—parks, freeways, subways, sewer systems, etc.

These public expenditures raise the rental value of land in their vicinity, and thereby raise the fees that can be collected for using the land. If the activity is worthwhile, the increase in rental values will be sufficient to pay for the activity.

Another way in which our ideas promote a more efficient economy is by eliminating the opportunity grow rich by having government promote one's own interest at the expense of others. Such distortions of the political process can occur either by persuading a government agency to spend money in a way that raises the value of land that one owns while others foot the bill, or by persuading a government agency to prohibit others from doing what one is permitted to do. In both kinds of cases, the person who promotes his or her own interest has no reason to take account of the costs that are thereby imposed on others, and typically these costs to others are greater than the self-seeking benefits. This makes the economy less productive. Furthermore, the very possibility of growing rich by manipulating government action draws talented people into the effort to manipulate government decisions, when they could be employed doing something useful.

Making Housing Affordable

The implementation of our ideas would have a dramatic effect in making housing more affordable. The principal reason why housing costs have risen so much is that the price of land has risen enormously. Some increase in the price of access to land is a natural accompaniment of an increasing population. But the very great increases of recent years, which have made it nearly impossible for young families to afford houses of their own, have additional causes. The implementation of our ideas would bring down the price of access to land in three ways. First, much land is held off the market by speculators who may wait generations to decide to develop it. The introduction of a fee for holding land, whether used or not, equal to the rental value of the land, will induce speculators to either develop this land themselves or turn it over to someone who will. Second, an important cause of higher prices for access to land by those who wish to build low-cost housing is zoning restrictions. These restrictions are introduced by political factions that already have their houses and do not mind if housing becomes scarcer. It just raises the market value of their homes. But if a rise in land values were accompanied by rises in the fees that existing residents had to pay for the use of the land on which their houses sit, they would have an incentive to do what they could to make land plentiful rather than scarce, and zoning restrictions could be expected to diminish. Third, a person who wishes to own a house must borrow money to cover the price of buying the title to the land on which the house sits as well as the cost of the house itself. If the use of land required the payment of a fee equal to the rental value of land, so that the selling price of land titles became virtually zero, then the amount of money that a family would have to borrow to purchase a house would fall.

Applications Abroad as Well as at Home

As important as our ideas are for the justice and efficiency of the American economy, their application is even more important in less developed countries, where often 80% or more of the land is held by 3% or less of the population. To give all the citizens of these countries chances to make something of their lives, it is extremely important to equalize access to land, not by redividing the land (which inevitably winds up putting land into the hands of people who cannot use it well), but by requiring any one who uses land to pay according to the unimproved value of the land that he or she uses. To bring this message to the world, we must first apply it to ourselves.