

## Lesson 8 — The Application of the Remedy (a synopsis)

Based on Book VIII Progress and Poverty

### Ownership of Land

Absolute private ownership of land is not necessary to encourage cultivation, excavation, or the erection of buildings. The only security a person needs is secure possession in the product of their labor.

When land is treated as absolute property the unconditional ownership often stands in the way of its being used to its greatest economic potential (highest and best use). If land were treated as common property it would be used as soon as it was needed. There would be no incentive to prevent others from using land that was not currently in use.

In working out a method for treating land as common property the community could purchase land from those who legally own it, but it would be unjust for the community to purchase what it already owns in morality. The community could confiscate land from those who legally own it. However, in confiscating land it would be extremely difficult not to violate the individual right of people to the improvements upon the land, which must be safeguarded. Treating land as common property requires only that we collect for the community the land's potential rent.

The practical method proposed by Henry George for treating land as common property is to appropriate rent by taxation. Land titles would be retained and undisturbed. We already collect some of the rent by way of the real estate tax. We need only exempt buildings and tax the full rental value of land. The real estate tax is presently levied on the selling value. Assessments would have to be made and taxes levied on the rental value of land.

All other taxes would be abolished, because wages and interest belong rightfully to labor and capital. The current system of taxing income and wealth is largely paid out of what would otherwise go to the owners of land as an unearned income. However, those taxes do not discourage people from holding unused or under used land.

In 1776 Adam Smith, writing in The Wealth of Nations, formulated four canons of taxation: 1. That it bear as lightly as possible upon production—so as least to check the increase of the general fund from which taxes must be paid and the community maintained. 2. That it be easily and cheaply collected, and fall as directly as may be upon the ultimate payers—so as to take from the people as little as possible in addition to what it yields the government. 3. That it be certain—so as to give the least opportunity for tyranny or corruption on the part of officials, and the least temptation to lawbreaking and evasion on the part of the taxpayers. 4. That it bear equally—so as to give no citizen an advantage or put any at a disadvantage, as compared with others.

Only a tax on the rental value of land (potential rent) satisfies all four of these canons.

Under the present circumstances, taxes on sales, buildings, wages, or interest prohibit production on the least desirable land adding to unemployment and reducing total production. For example, some of the worst urban slums and the poorer mineral land are idle because production does not total enough to pay wages, interest, and taxes. In some cases taxes prohibit higher buildings that would provide housing or jobs

Taxes on imports often alter the incentives and divert labor and capital from their most efficient endeavor to one that is artificially more profitable. This also reduces the total production.

The public collection of rent would increase production. By eliminating speculation many workers and much capital would migrate to more productive land that was previously held idle or under used for speculation. That would increase their output. By eliminating speculation there would be greater economy in transportation — less vacant land to carry things past and a larger number of producers with mutual support in the same area. It would mean smaller divisions of labor and larger economies of scale. The same amount of roads, pipes, and wires and the same amount of fire and police protection would link a larger number of producers and economize the cost of government. Because everyone that was willing and able would be working (full employment) total production would further increase.

A tax on the value of land does not add to the value of things that are made and sold upon it. This is very different from a sales tax that adds to the cost of production and therefore, the value of the products being taxed.

In a situation where the user and the owner of land are different people like a tenant farmer or someone who leases an apartment or office, a tax on the value of land does not increase the value of land. The rental value of land measures the total of all the advantages that attach to it.

Because society collects a value equal to those advantages does not increase the value of those advantages. A tax on products increases their cost of production; therefore, it increases their price. Land, unlike products, has no cost of production. Land has a monopoly value, which the user pays or goes without. Therefore, a tax on the rental value of land cannot be passed on to the user of land.

A tax on the value of land can be collected cheaply with the greatest certainty. Land cannot be moved or concealed. If the tax is not paid the land can be reassigned. There is no need to monitor business or locate a taxpayer.

While taxing wages violates the right of the producer to the product of her labor taxing the potential rent conforms to justice. It is simply a charge for the monopoly or exclusive use of a common asset.

The rental value of land can be separated from the value of improvements. It requires an understanding of the type and size of buildings and other improvements that will maximize the economic potential of a site. It may require professional training, but developers do it every day. Next, it must be determined what a building owner would charge for the use, maintenance and management of the building and other improvements. This is a total of management and maintenance fees, depreciation, interest rates and risk factors. By subtracting this total from the amount that could be charged for the use of the building on a given location, the rental value of urban land is determined. Farmland is almost as simple as leasing it to the highest bidder for one year.

The only thing required for public acceptance of the common ownership of land by way of a tax on the rental value of land is that it be widely understood. Legislators and political executives from mayors to the president would have to follow their constituents.