

About Me:

I am a retired engineer with a long-term hobby of macroeconomics. As an author I have written a book and 2 working papers that show properly and logically how it REALLY works, instead of the complexities commonly taught. As a student of the proposals of Henry George, some of my study is along his lines of making this kind of proposal. This article includes the associated effects on certain aspects of production and qualifies for a submission even though it contains other material.

Submission: Proposal to Improve the Productivity

The Most Socially Just Tax

Our present complicated system for taxation is unfair and has many faults. The biggest problem is to arrange it on a socially just basis. Many companies employ their workers in a variety of ways and pay them differently. Since these companies are registered in various countries within a number of categories, the determination the general criterion for a just tax system based on earnings becomes impossible, particularly when it depends on a fair measure of the quality and amount of human work-activity.

Similarly, a tax based on what we purchase is unethical because everyone has different needs and will pay different sums for these utilities. Some of us will spend less and prefer to invest instead (the profits of which are also being taxed). So why try to tax our efforts and hopeful futures when there is a much better means available for taxation, which is really a true and socially just method?

Adam Smith's ("Wealth of Nations", REF. 1) says that our natural resource of the land is one of the 3 factors of production (the other 2 being human labour and durable capital goods). The usefulness of a particular site is expressed by its purchase price and in the amounts that tenants willingly pay as rent, for its access rights. Land is often considered as being a form of capital wealth, since it is traded similarly to other durable capital goods items. However, it is not actually man-made, so rightly it does not fall within this category. Indeed, the land was originally a gift of nature (if not of God), for which all the people in the region should have equal rights for sharing in its opportunities for accessibility for residence, use and enjoyment.

Over many years, as communities became established and grew, the land has been traded as if it was an item of durable goods and today it is often treated as a form of capital investment. It is apparent that for a particular site, its current site-value greatly depends on location, size and to the population density in its region, as well as the quantity of natural resources that it can steadily provide. Such bounty is manifest in the exploitation of its rivers, minerals, plants and animals of specific use or beauty. These are available only after local developments have made possible easy access to the particular locality. Consequently, much of the land value is created by man within his society, by his need and ability to reach it and take from it materials, growing plants and live creatures, as well as the opportunities its space provides for working near to population centres. These advantages should ethically and logically be justly returned to the community, as if for its general use within the government, as explained by Martin Adams (in "LAND" REF 2.).

However, due to our existing laws, the land is owned and formally registered and its value is traded, even though it can't be moved to another place, like other kinds of capital goods. This right of ownership gives the landlord two big advantages over the rest of the community. He/she can determine how it may be used, or if it is to be held out of use for speculative reasons, until the city grows and the site becomes more valuable. Secondly the land owner enjoys the rent from a tenant or its equivalent (if he uses the land him/herself). Speculation in land values and its rental earnings

are encouraged by the law, in treating a site of land as personal or private property as if it were an item of capital goods, even though this is not true, see Prof. Mason Gaffney and Fred Harrison: "The Corruption of Economics", REF. 3.

Regarding taxation and local community spending, the municipal taxes we pay are partly used for improving the infrastructure. This means that the land becomes more useful and valuable without the landlord doing anything—he/she will always benefit from our present tax regime from which the land value grows when the status of unused municipal land is upgraded and it becomes more fitting for community development. When the news of an upgrade is leaked, after landlords and banks corruptly pay for this valuable information, speculation in land values is rife.

There are many advantages if the land values were taxed instead of the many different kinds of production-based activities such as earnings, purchases, capital gains, home and foreign company investments, etc, (with all their regulations, complications and loop-holes). The only people due to lose from this different regime of taxation are those who exploit the growing values of the land over the past years, when "mere" land ownership confers a financial benefit without the owner doing a scrap of work. Consequently, for a truly socially just kind of tax to apply there can only be one method—Land-Value Taxation.

Consider how land becomes valuable. Pioneers and new settlers in a region begin to specialize and this slowly improves their efficiency in producing specific kinds of goods. The land central to the new colony is the most valuable, due to its easy availability and the least necessary transport of its produce. After an initial start, a graduated distribution in land values is created by the community. It is not due only to the natural land resources. As the city expands, speculators in land values will deliberately hold potentially useful sites out of use, until planning and development have permitted their more intensive use and for their values to grow. Meanwhile there is fierce competition for access to the most suitable sites for housing, agriculture, manufacturing industries, transport byways, etc. The limited availability of the most useful land means that the high rents paid by tenants make their residence more costly and the provision of goods and services more expensive.

Entrepreneurs find it difficult or impossible to compete with the big organizations who have already taken full advantage of their more central sites. The greater cost of access, or the greater expense in transportation from less costly outlying regions, discourages these later arrivals. It also creates unemployment, causing wages to be lowered by the land monopolists, who control the big producing organizations, and whose land was previously obtained when it was relatively cheap. Consequently, this basic structure of our current macroeconomics system, works to limit opportunity and to create poverty, see above reference.

The most basic cause of our continuing poverty is the lack of properly paid work and the reason for this is the lack of opportunity of access to the land on which the work must be done. The useful land is monopolized by a landlord who either holds it out of use (for speculation in its rising value), or charges the tenant heavily for its right of access. In the case when the landlord is also the producer, he/she has a monopolistic control of the land and of the produce too, and can charge more for this access right than what an entrepreneur, who seeks greater opportunity, normally would be able to afford.

A wise and sensible government would recognize that this problem of poverty derives from lack of the opportunities to work and earn. It can be solved by the use of a tax system which encourages the proper use of land and which stops penalizing everything and everybody else. Such a tax system was proposed about 140 years ago by Henry George, a (North) American economist, but somehow most macro-economists seem never to have heard of him, in common with a whole lot of other

experts. (I would guess that they even don't want to know, which is even worse!) In "Progress and Poverty", REF. 4, Henry George proposed a single tax on land values without other kinds of tax on earnings, sales of produce, services, capital-gains etc. This regime of land value tax (LVT) has 17 features which benefit almost everyone in the economy, except for landlords, tax collectors and banks, who/which do nothing productive and find that land dominance and its capitalistic exploitation have their own (unjust) rewards.

17 Aspects of LVT Affecting Government, Landowners, Communities and Ethics

Four Advantages for Government:

1. LVT, adds to the national income as do other taxation systems, but it should replace them. The author has shown in REF.5, that taxation of any kind is beneficial to the whole country, due to its national income providing for more work too, but that when the tax applies to land the topology and spread of its effects are about 3 times as beneficial as when the same amounts of income are taken directly from labour.
2. The cost of collecting the LVT is less than for all the production-related taxes—tax avoidance becomes impossible, because the sites are visible to all and who owns each site is public knowledge. The army of tax collectors who are opposing a similar set of lawyers, are no longer busy with tax loopholes in the law, so the number of people more productively employed will grow and the penalty on the country of having complicated taxation is less.
3. Consumers pay less for their purchases due to lower production costs (see below). They can buy more goods and enjoy a raised standard of living. This creates greater satisfaction with the management of national affairs and more prosperity.
4. The national economy stabilizes—it no longer experiences the 18-year business boom/bust cycle, due to periodic speculation in land values (see below). The withholding of unused land is eliminated see item 7, so there is less need for the complications of frequent land sales, with developers searching and buyers hunting for unused sites.

Six Aspects Affecting Landowners:

5. LVT is progressive—this tax depends on the site area as well as its position. The owners of the most potentially productive sites pay the most tax per unit of area. Urban sites provide the most usefulness and their owners will pay at greater rates, whilst big rural sites have less value and can be farmed appropriately, to meet their ability to provide useful produce. Smallholder farming closer to population centres becomes more practical, due to local markets and reduced distribution costs.
6. The landowner pays his LVT regardless of how his site is used. A large proportion of the present ground-rent from the tenants (who do use the land properly), becomes transformed into the LVT, with the result that the land has less sales-value but retains a significant "rental" value.
7. LVT stops speculation in land prices, because the withholding of land from its proper use is not worthwhile.
8. The introduction of LVT initially reduces the sales price of sites, even though their rental value can grow over a longer term. As more sites become available, the competition for them is less fierce and entrepreneurs have more of a chance to get started.
9. With LVT, landowners are unable to pass the tax on to their tenants as rent hikes, due to the reduced competition for access to the additional sites that come into use.
10. Speculators in land values will want to foreclose on their mortgages and withdraw their money for reinvestment. Therefore, LVT should be introduced gradually, to allow these speculators sufficient time to transfer their money to company-based shares etc., and simultaneously to meet the increased demand for produce (see below, items 12 and 13).

Three Aspects Regarding Communities:

11. With LVT, there is an incentive to use land for production, transport, or residence, rather than it being vacant and held unused.

12. With LVT, greater working opportunities exist due to cheaper land and a greater number of available sites. Consumer goods become cheaper too, because entrepreneurs have less difficulty in starting-up their businesses, and because they pay less ground-rent—consequently demand grows, whilst unemployment and poverty decrease.

13. Investment money is withdrawn from land and placed in durable capital goods. This means more advances in technology and cheaper goods too because the effectiveness of labor has been raised.

Four Aspects About Ethics:

14. The collection of taxes from productive effort and commerce is socially unjust. LVT replaces this national extortion by gathering the surplus rental income, which comes without any exertion from the landowner or by the banks—LVT is a natural system of national income-gathering.

15. Previous bribery and corruption for gaining privileged information about land, cease. Before, this was due to the leaking of news of municipal plans for housing and industrial development, causing shockwaves in local land prices (and municipal workers' and lawyers' bank accounts!)

16. The improved use of the more central land of cities reduces the environmental damage due to unused sites being dumping-grounds, and the smaller amount of fossil-fuel use (with its air-pollution), when traveling between home and workplace.

17. Because the LVT eliminates the advantage that landlords currently hold over our society, LVT provides a greater equality of opportunity to earn a living. Entrepreneurs can operate in a natural way— to provide more jobs because their production costs are reduced. Then untaxed earnings will correspond more closely to the value that the labor puts into the product or service. Consequently, after LVT has been properly and fully introduced as a single tax, it will eliminate poverty and improve business ethics.

References:

1. Adam Smith, 1776: "The Wealth of Nations", UK

2. Martin Adams, 2015: "LAND— A New Paradigm for a Thriving World", North Atlantic Books, California, USA

3. Mason Gaffney and Fred Harrison, 2005: "The Corruption of Economics", Shephard-Walwyn, London, UK

4. Henry George: "Progress and Poverty" 1897, reprinted 1978 by the Schalkenbach Foundation, New York, USA

5. David Harold Chester, 2015: "Consequential Macroeconomics—Rationalizing About How Our Social System Works", Lambert Academic Publishing, Saarbüchen, Germany