

TAX REGIMES THAT DON'T INVITE CORRUPTION

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Abstract

The cost of compliance, evasion, and corruption in the collection of taxes is estimated at about 15 percent of GDP in the United States, and is far higher in most nations. This does not include the excess burden and time spent in the administrative process for both payment and collection. Much of the waste is due to poor design, which a better understanding of economics and tax theory could go far to remedy.

A solution lies in the taxation of what classical economists called land rent, ground rent, Ricardian rent, and resource rent. Not only would taxing rents reduce and even eliminate much of the corruption associated with tax administration, it would also better conform to all the textbook principles of sound tax theory. Contrary to common belief, it is the perfect revenue system. Moreover, careful analysis shows that the economic rent as a proportion of GDP is sufficient to finance all government services, easily enough to supplant taxes on labor and capital goods that are far less efficient and rest on weak moral ground. Rent is the yield value above any price necessary to bring a resource into economic play. Its value is created not by individual market players but rather by society cooperatively. All natural resources yield rent to the extent that they are part of the market. Land sites, air, water, the spectrum, time slots, and a host of other elements not created by human hands or minds all yield rent.

An ideal tax is neutral and efficient with respect to markets and progressive in so far as those who have fewer resources will pay less. It is also easily administered, simple to understand, and provides a stable and reliable revenue stream. It is certain in the face of any attempts at evasion. Lastly it is environmentally helpful because it reduces the throughput consumption of natural resources, and when applied to land value, it acts to reverse the centrifugal forces of sprawl development.

The central point is it is difficult to cheat or evade a tax on land: it cannot be hidden or moved away. It is easily rated and levied. And all parties can be witness to its payment.

I. CORRUPTION GROWING OUT OF TAX REGIMES

Tax policy offers more opportunities for corruption, arguably, than any aspect on the program side of government. Consider the typical losses from poorly designed and poorly administered taxes:

- losses due to taxpayer falsification of records and other cheating.
- losses due to evasion, typically part of the underground economy.
- losses due to inefficient and bad design – resulting in deadweight loss or excess burden.
- wasted resources involved in the political competition to secure favored tax treatment.

Looking quickly at each of these gives some indication of their magnitude, as measured by the estimated proportion of Gross Domestic Product they comprise. The variation between nations in these figures is very wide, but a few examples are suggestive of the extent of the problem.

It was reported, for example, that in the year 2000 the US Internal Revenue Service put personal income cheating at \$195 billion the year before, about 2% of GDP at that time. In 2001, the difference between what Americans and businesses owed in taxes and what they actually paid voluntarily was \$345 billion.¹ In March 2010, the IRS put the figure at \$250, billion. Former New York Times Reporter, David Cay Johnston, taking the IRS figure, writes that from \$11 to \$30 billion of this comes from people who aren't salaried or else have their own businesses, which allows them to fudge figures more easily.² Most observers put the figures at far higher still.³ In truth, nobody knows. And even these numbers do not include lost taxes from illegal income such as drug trafficking, money laundering, gambling, and prostitution. Total US income tax evasion is probably about 15 percent.⁴ Then there are state sales taxes, which studies claim have a "delinquency" rate of about 13 percent. CNN's Money cable channel reported an IRS poll that found that thirteen percent of those surveyed said cheating was acceptable, a proportion that is growing.⁵ Yet by comparison the US by most analysis has a lower rate of cheating than other OECD nations. Whatever, the problem of tax cheating, everyone acknowledges, is ubiquitous.

Noted American pundit Will Rogers had a pithy way of saying things. On taxes he wrote, "The income tax has made more liars out of the American people than golf has." But he wasn't the only one. Mark Twain wrote, "There isn't a rich man in your vast city who doesn't perjure himself every year before the tax board. They are all caked with perjury, many layers thick. Ironclad, so to speak. If there is one that isn't, I desire to acquire him for my museum, and will pay Dinosaur rates [for him]."

What is usually called the "underground economy" is far larger still. Again, figures range far and wide, but one contemporary textbook⁶ offers sample estimates (of the proportion due but unpaid) for twelve nations of the world.

Nation	% unpaid	Nation	% unpaid
Bolivia	68%	Sweden	18%
Zimbabwe	63%	Australia	13%
Peru	61%	United Kingdom	12%
Thailand	54%	Japan	11%
Mexico	33%	Switzerland	9%
Argentina	29%	United States	8%

I suggest that about a third, and perhaps more, of losses to various national economies are due to the inefficiencies and poor design of their taxes and this is, to a great extent the fault of political leaders and administrators themselves. Harvard economist Martin Feldstein estimated that the excess burden from the income tax alone is more than 30 percent and about 50 percent if social security taxes are added.⁷ The sales tax is just as inefficient.⁸ It is not difficult to find graphics portraying the mechanisms of such inefficiencies on the web and in textbooks. But studies actually estimating the amount as a percent of GDP are far scarcer. What all this forgone revenue means is that tax rates must then be increased in order to secure the requisite necessary to support public services. Distinguishing further between the virtues of specific tax designs in theory and the quality of their practical administration is central to our understanding. Many of the criticisms of tax policy confuse the two, and it is central to successful understanding of taxation.

The conventional response of tax designers and other apologists for the systems we have is that all taxes have downside effects, and that there is no such thing as a perfect tax. Their usual answer is to spread the burden of taxation over a number of different revenue sources, typically including income, sales (or a value-added) and property taxes. Corporation taxes, excise taxes of various sorts, and fines and fees provide a small supplement. This is referred to as the “three-legged stool” system. This rests on faulty understanding of how taxes are shifted, ultimately to land or other natural resources, in what has come to be understood by the acronym ATCOR.⁹

II. THE APPROPRIATENESS OF TAXING RENTS

It can be shown that “all taxes [ultimately] come out of rent,”¹⁰ or ATCOR, even if they incur many inefficiencies and distortions in the process of their shifting incidence. Therefore, the ideal tax is a tax on rent, also called land rent, ground rent, resource rent or economic rent. Taxing rents obviates many of the shortcomings and pitfalls of other taxes and gets rid of those inefficiencies of excess burden and deadweight loss.¹¹ It also eliminates and precludes the ignominious practice of rent seeking, which contributes nothing to economic productivity.

The concept of rent plays little if any significant part in neoclassical economics, but is vitally important to classical economics.¹² Applying classical economic theory, the economic paradigm that obtained prior to 20th century neoclassical economics, offers answers that are outside the realm of mainstream consideration today. Classical economics recognizes the significance of rent, whereas neoclassical economics trivializes it. Rent, as used by political economists from Adam Smith, Thomas Malthus, David Ricardo, John Stuart Mill, Henry George and Alfred Marshall, meant, "income derived from the free gifts of nature."¹³ One of the three-factors of production recognized in classical "political economy," so-called, was land, taken to mean any and all resources of nature not created by human hands or minds. Just as the price of labor was in wages and the price of capital goods was interest, land captured the economic surplus yield known as rent. In *Wealth of Nations*, Smith wrote, "Both ground-rents and the ordinary rent of land are a species of revenue which the owner, in many cases, enjoys without any care or attention of his own. Though a part of this revenue should be taken from him in order to defray the expenses of the state, no discouragement will thereby be given to any sort of industry.... Ground-rents and the ordinary rent of land are, therefore, perhaps, the species of revenue which can best bear to have a peculiar tax imposed upon them."¹⁴

Mill added the observation that "Landlords grow rich in their sleep without working, risking or economizing. The increase in the value of land, arising as it does from the efforts of an entire community, should belong to the community and not the individual who might hold title."¹⁵ It was left to Henry George, the last great moral integrator and defender of classical economic theory, to synthesize what had come before, and to say that "we may, without jar or shock, assert the common right to land by appropriating rent by taxation."¹⁶ By removing rent from the equations of economic calculus, the moral dimension of the discipline was also lost. Rent, coming from the natural resources that are arguably the common birthright of everyone, amounted to its theft by privatization of what then and now again today is called "the commons."

All natural resources – air, water, land sites, the electromagnetic spectrum, minerals and petroleum, and many other assets have rental value to the extent that they have a relatively fixed supply. If there were no scarcity, they would be a free good and have no price. Rents don't owe their value to anything done by human hands or minds; they therefore constitute windfall gains to whoever is fortunate enough to secure title to them. They are gifts from nature that command a market price to the extent that they become part of the market economy. This is why they are the "land grab" targets of speculation and exploitation. It is why one sometimes even sees people trying to corner the market for some commodity.¹⁷ Will Rogers in his pithy way said it well, "Buy land. They ain't making any more of the stuff." Mark Twain said it too. As long as the rental yield from land remains uncollected by society, its gain in value is a "free lunch" to those who hold title. Professor Milton Friedman, whose writing epitomized the neoclassical economic paradigm, argued that there is no such thing as a free lunch – he even wrote a book with that title.¹⁸ He could say that because he didn't regard rent as significant in the grand design of economics. Rents are the economic surplus that flows to natural resources that all societies since the dawn of civilization have recognized as the most appropriate basis of taxation.¹⁹ Only the modern western neoclassical economic tradition has ignored its reality.²⁰

The moral argument is this: Because the market value of natural resources is due to the creation of their demand by society and not by individuals, it is therefore only morally just for society to recapture that which it has created. Consider this in contrast to the capture of wealth created by human beings themselves. Those things that people create by their own brain or brawn are rightfully their own to keep. Taxes placed on people's labor, or on the products of their labor, are open to challenge when the alternative are taxes on the flow of resource rents – which aren't produced by man at all. Classical economists argued that the world's natural resources are the common birthright of everyone, and that they are owned in usufruct – as a lease for us to use while we are alive – rather than in fee-simple, as we would own our cars, our houses, and our computers.²¹ Supportive quotes similar to this are also easily found for Blackstone, Jefferson, Paine, and many other leading figures of the 18th and 19th centuries.

The concept of usufruct ownership, in contrast to fee-simple title, needs to be restored to contemporary discourse.²² It constitutes the legal right to use and benefit from property, typically natural resource property, that other persons, institutions, or the general public have formal title to, at least so long as the property is not damaged or degraded. The English word usufruct derives from the Latin expression *usus et fructus*, meaning "use and enjoyment," cognate to English "use and fruits." The concept of usufruct goes back to ancient times, and has been far more apparent in societies of the world than the notion that elements of nature can be owned as commodities. Just as the terms usufruct and fee-simple are typically opposites, so are the terms leasehold and freehold. Jefferson wrote, citing John Locke, that "the land belongs in usufruct to the living,"²³ a quote that Henry George often repeated, as in his noted speech, "The Crime of Poverty." George also held that private capture of that which was God-given wealth constituted theft, pure and simple: "Thou Shalt Not Steal!" he told the Anti-Poverty Society of New York in 1887.²⁴ Native American people put the same principle differently: We do not inherit the earth from our ancestors; we borrow it from our children. Even in American society where private property in land and nature is held most firmly, the law doesn't talk about it in such terms. Rather it talks about property ownership as a "bundle of rights."²⁵

Much of the tax cheating and underground economy is a result of a widespread belief that conventional revenue regimes lack legitimacy.²⁶ People who find ways to avoid paying taxes often feel no shame or guilt at all; rather, they feel entirely righteous. The late US Senator from Arizona Barry Goldwater had many misgivings about the wisdom of the US government's taxing income. "The income tax," he said, "created more criminals than any other single act of government." Quoting Will Rogers once more, he said, "Even when you make a tax form out on the level, you do not know when you are through whether you are a crook or a martyr." Since, on the other hand, it can be shown that recapture of the socially created rent from natural resources rests on a sound moral foundation there is every reason to believe that the amount of resistance and evasion can be reduced. Tax compliance, as noted earlier, is very much a function of the legitimacy of the tax system and of government itself. Not only is a tax on rent morally based, it conforms as well to all the textbook principles of sound tax theory. A land value tax is completely neutral, totally efficient, highly progressive, easily administered, highly stable, simple to understand, and impossible to avoid. Each of these items deserves more explication. Tax theorists typically measure revenue structures according to any or all of these criteria.²⁷

Tax neutrality refers to the influence (or absence of such) that any particular design has on economic behavior. Typically taxes are a damp on economic activity: taxing income reduces the incentive to work, taxing sales discourages retail transactions, and taxing savings reduces the propensity to save. But no matter how much land is taxed, its quantity still remains the same — land is totally inelastic.

The more neutral a tax is the less identifiable distortions it imposes on market exchanges. The common assumption of most tax theorists is that all taxes impose distortions; it's simply a matter of which ones are least burdensome to economic health. A tax that imposes no distortions is ideally best. This is why it is said that a good tax “rests lightly” on the economy.

Tax efficiency is much like tax neutrality, and is the welfare cost of behavior shifts it imposes, resulting in what is called "excess burden," or "deadweight loss." Tax economists usually hold that the best taxes are those that are shifted little if at all. Because the elasticities of each are very different, a tax on land values and a tax on improvement values have very contrastive effects on economic choices. Using a tax base that has little or zero elasticity is the best way of assuring that taxes are not shifted. Zero elasticity is another way of saying fixed supply.

The principle of equity is central to any discussion of tax design. Equity, or fairness, is often viewed as solely in the mind of a beholder. But measures can be brought to bear that make one tax regime more compelling than another. One dimension is whether the tax base is earned or unearned income. Another is whether any particular tax constitutes a redundant burden. Tax design usually requires concern with both what is fair and with compromises to satisfy any other principal criteria. Taxes can be evaluated according to what is termed "horizontal equity"— the extent to which those in similar circumstances will pay similar tax burdens, and "vertical equity"— how well those in different classes bear different burdens in the tax structure. It is this latter perspective that leads to the use of terms like "proportional," "progressive," and "regressive" in referring to tax structures. A tax is progressive with respect to income if the ratio of tax revenue to income rises when moving up the income scale, proportional if the ratio is constant and regressive if the ratio declines.

One should ask whether earned income should be taxed at the same rate as unearned income. In most income tax regimes, income from capital gains is treated differently than income from labor, the logic being that such streams are the wellsprings of capital investment. Yet income is income regardless of its source, and labor earnings can be funneled into ventures as easily as can capital gains. Moreover, so-called capital gains can be divided between those that derive from interest as opposed to those that come from resource rents. Rents come from ownership of natural resources, which are not the product of human hands or minds, and in fact are not due to the enterprise of individual titleholders at all. Since rent is socially created wealth, its return to the community in taxes arguably has greater warrant than capital gains from interest.

The ability to pay taxes can be evaluated according to benefits received. The benefit theory is often applied to government revenues termed user fees, like payments for car parking, public tennis court use, access to swimming pools, and similar services. The enjoyment of public resources can bear rental fees commensurate with benefits, or else on costs imposed, and taxing land value is arguably a benefit fee.²⁸ Whether taxing to reach greater equity should employ measures of income or wealth is a worthy question, particularly central when discussing the property tax. Wealth in landed property is really capitalized rent flow created by the community collectively, which makes its retention by individual titleholders open to moral challenge. Taxing land thereby lays aside income-wealth conundrum by taxing rent flow rather than stock. A tax on the land component alone is arguably ideal since all other taxes are ultimately shifted to land in any case.

Administrability refers to the ease with which a tax can be administered and collected. Taxes that distort the economy are inefficient but so are taxes that cost lots to administer. This is measured not only in the direct costs of tax avoidance and accounting expenses, but in the level of evasion and cheating, as well as by the cost of government auditing and policing. When the taxpaying public perceives that a tax is easily evaded, cumbersome, and unfair, it loses its legitimacy and calls government itself into question.

This is why the principle of simplicity is important: the more complex the tax design, the more lawyers and accountants will find loopholes, encourage the appearance of unfairness, and drive up the cost of its administration. People know that with simple taxes other parties are also paying their fair share, and all this enhances the legitimacy and therefore the compliance of the tax system.

Stability refers to the ability of a tax to produce steady revenue in the face of changing economic circumstances. Income and sales taxes, for example, vary greatly according to phases in the economic cycle; the property tax, in contrast, is highly stable regardless of the state of the economy because rates can be set each cycle to yield a predictable revenue. This is one reason why school officials have typically been supportive of using the property tax base rather than some other tax revenue to support school services. Arguments are often made that taxing land rent would eliminate cycles and thereby stabilize economies.²⁹ This is because the incentive for speculative practices would be eliminated.

The certainty of a tax's collection ensures that the number and types of tax changes be kept to a minimum. Frequent changes in tax rates and bases interfere with business decisions and the ability to make long-term financial plans. This concept reinforces the need for stability because an unstable revenue system is more likely to require continuing adjustments.

In assessing the value of a tax it is also important, of course, to understand its potential to bring in revenue for the purposes of government, usually deemed revenue sufficiency. Income, sales and property taxes, along with corporation taxes to a lesser extent, have come to be regarded as the workhorses of the American revenue structure. But, as anti-tax politicians are quick to note, the higher these taxes are, the more they impose a drag on the economy. This is

why one should ponder whether to consider raising taxes that have demonstrable distorting effects. Yet when all is said and done, a tax on land value, effectively the recapture of community created economic rent, comes out to be the perfect tax.

It is important to note once more that in the administration of taxation that it should not only be enforceable but also be perceived as legitimate. After all, Jean-Baptiste Colbert, a 17th century French Minister of Finance, is often quoted saying, "The art of taxation consists in so plucking the goose as to obtain the largest amount of feathers with the least amount of hissing." By a government's imposing a tax design that is morally without foundation and is also difficult and expensive to collect, it invites behavior that is criminal to some people yet heroic to others. Because a tax on land and other resources yielding a flow of rental income is otherwise a windfall unearned gain to begin with, its collection is likely to meet with far better compliance than a tax on wages and manufactured goods. It is much easier to take away something that a person has questionable right to than something that he believes he has rightfully earned.

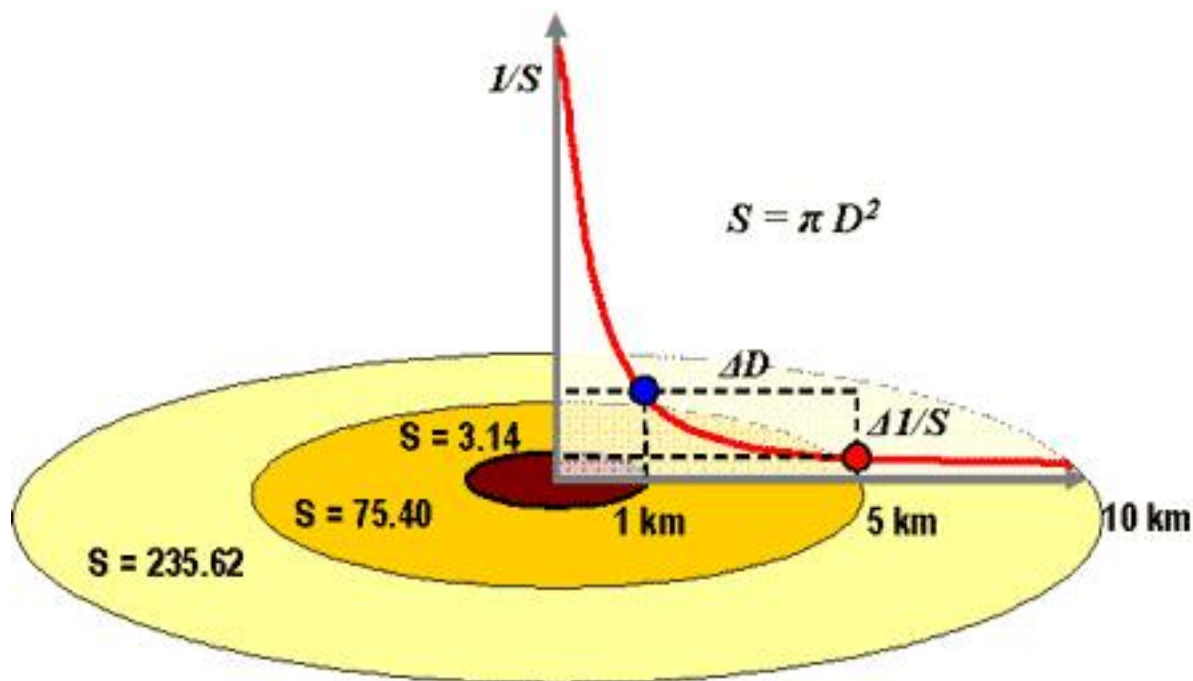
Tax principles as enumerated above have been recognized in various ways since first set forth by Adam Smith. But in recent years there are considerations even beyond those relevant to revenue design itself. Environmental concerns ought to be thought of as equally important, particularly as they address land use configurations in urban areas. Because the market price of land parcels constitutes the capitalized flow of economic rent, and public recapture of that rent restores neutrality to the markets for land, failure to consider the environment invites titleholders to hold sites off the market for speculative gain, thereby forcing those who would develop land to move to second best and suboptimal locations. Taxing the land rent effectively "unfreezes" their market and makes them fully available.³⁰ Taxing land parcels according to their market value thereby fosters the configuration of land use patterns that best suits the demands of the community as a whole. Sprawl development and transportation dependency are effectively addressed by a land value tax in a far more efficient and deft way than by command-and-control approaches (i.e., planning and zoning) are capable of doing.³¹ Those sites that reflect where people want to be command the highest land values; those sites that are of marginal use or concern from a pricing perspective are taxed less and reflect less pressure to improve. Business and commercial parcels tend to cluster in high value areas, residential parcels at the edges, and agricultural and forest properties are relieved of any pressures to develop. Where sprawl has already implanted its configuration, converting the frozen land value into available investment potential fosters infilling on under-used parcels. Over time, as improvements in outlying areas depreciate relative to their sites, greater incentive is offered to invest anew in more proximate and attractive locations.

The progressive dimension of a tax on parcels of land according to their market value deserves a bit more attention. This is because land has an inelastic supply and therefore a tax upon it cannot be shifted. No individual, household, or business that doesn't own any land pays a dime in taxes if they are only tenants. And because the most valuable land sites are in urban cores, they dwarf the price of parcels in peripheral locations that are likely to be residential. Farm and forest lands are so lacking in market price that concern about any tax burden they might have is trivial. Those parcels in urban cores are usually for the most part business and commercial,

largely corporate owned and usually a modest component of the total budgets of their financial operations. The land value gradients that typically develop in urban settings divert residential development to the areas beyond the business and commercial ambit, using land sites that are a fraction of the value of those in the downtown cores. If settlements do unfold in haphazard configurations, the explanations are easily placed at the doorstep of economic distortions.

Planning and zoning, as many local governments can attest, is not an adequate means by which to manage urban development; it is at best constraining and at worst rent seeking. Two visual graphics easily explain the typical land value relationships of urban localities. The first (Figure 1) is the work of early 19th century economic geographer Heinrich von Thünen, and the second (Figure 2) is the use of computer technology (GIS) in the map portrayal of land value arrangements.

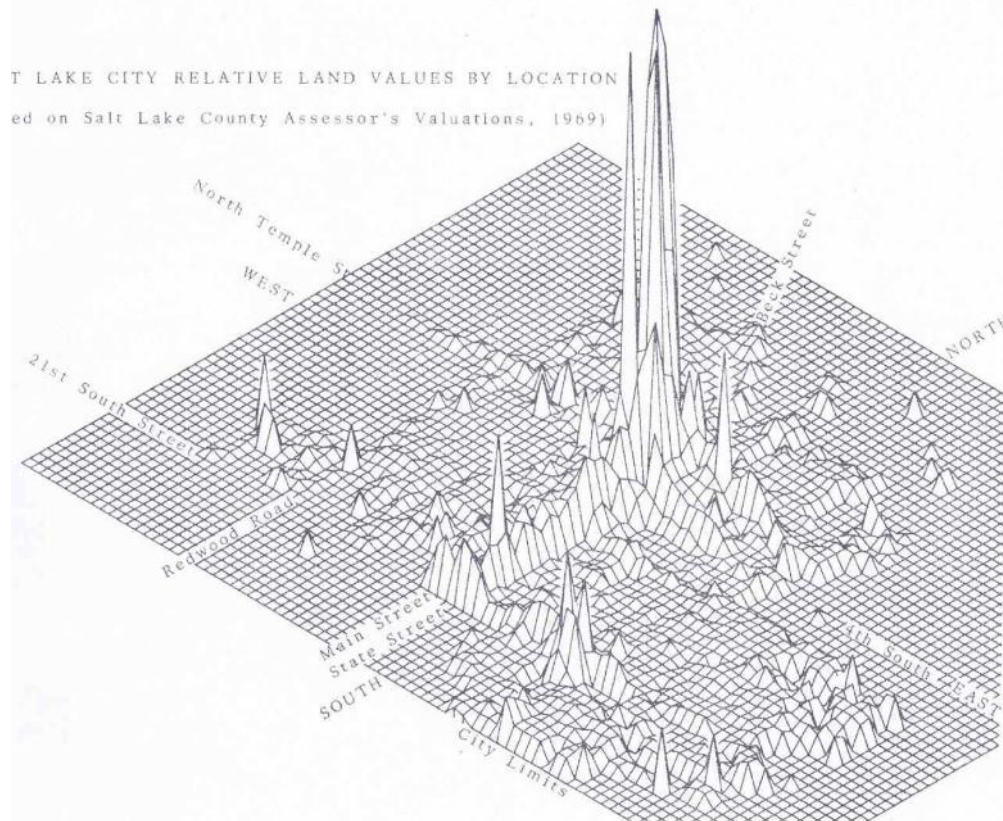
Figure 1. Illustration of von Thünen's Model of Land Use.



Von Thünen worked out the trade-offs between transportation costs and land rent almost two centuries ago. He calculated the costs of bringing farm goods to market and, given those costs, the most suitable distance from the market on which to grow them. The reciprocal of this was the rental value of the market sites themselves. He understood that locations in urban cores had site prices many times those in agricultural areas. He further understood the relationship between site rents and access. When von Thünen lived there was little use of fossil fuels for transportation purposes; he died before the carbon age was fully upon us and before

transportation costs became for the moment almost inconsequential. We live today in a time of temporary luxury when it comes to energy consumption, an age which many believe will soon pass. Given how intractable land use configurations are once set in place, societies are foolish to develop patterns that will make them far less livable once the petroleum age largely passes.

Figure 2. Illustration of Salt Lake City's Land Value Assessments, 1969.



Source: Claron E Nelson, *This is a Community: Salt Lake City*, University of Utah Press, 1971.

Site rent can also be construed as capitalized transportation costs. Sites with high market value are easily accessible; by whatever mobility means are at hand. Land sites reflect all such costs – those borne by individual members of society and those borne collectively. Site rents and transportation costs in a metropolitan area are essentially reciprocal: parcels in urban cores have high access and rental value whereas parcels in remote areas have high transportation costs and low rental value. One way or another people have to pay for access to market exchanges, whatever sort or style they have: one pays either for the privilege of occupying a location or for the cost of getting there. But since transportation costs reflect the use of materials and energy, it makes sense that they be efficiently consumed, important for a well-designed locality. In so far as transportation costs are subsidized by society, any policies effectuated to stem and reverse sprawl development are neutralized. American land use configurations, especially in the post-war period of the latter 20th century, can be explained in good part by policies that fostered speculation in parcel sites with high expectations of rent increase, along with the subsidies given to motor vehicle transportation. Graphic presentation of land values, such as that above and by

others of more recent creation, reveal the lateral spread of spatial investments along traffic corridors and in what have come to be known as “edge cities.”³²

III. REVENUE LOSS DUE TO POOR DESIGN

It was noted earlier that all taxes ultimately come from the social wealth surplus that is economic rent. Put another way, what rents ultimately flow through natural resources – and give them their capitalized market price – are what remains after taxes have been imposed and collected. Still another way of explaining this is to note that if no taxes were collected at all, all socially created wealth would be reflected in the flows of rent, or in its capitalized form as a “lump-sum” market value. The natural question to ask, then, is what difference it makes whether taxes are imposed on other factors of production like labor, or the products of labor, goods. The answer comes from an understanding of the efficiency losses and distortions that taxes on other factors incur. Taxes on goods and labor are elastic in their supply; land and other natural resources are for the most part fixed in their supply. Taxes on goods and labor impose an excess burden (also called deadweight loss) on productivity, effectively cheating society of its full productivity potential. Land incurs no efficiency loss whatsoever, nor are there any distortions.

The failure of the public to capture the full flow of rent through natural resources invites its diversion to private parties situated in places where they can skim some of this surplus by a practice known as “rent seeking.” Rent seeking occurs when an individual or an organization seeks to capture income through political manipulation of economic transactions without itself producing any added wealth. Rent seeking also results from poorly designed systems of public finance. The concept of rent seeking is an economic insight of relatively recent origin, in fact less than fifty years old, and owes its elaboration primarily to the development of public choice theory. Only one other school of economics has made significant use of the concept: the economic philosophy of Henry George: because it recognizes rent.

Contemporary economic systems tend to grant monopoly titles to natural resources, a practice which opens the door to inefficiencies, market distortions, and opportunistic behavior and rent seeking. One recent textbook describes it this way: “Rent seeking is competition for privilege. The form of government affects the extent of rent seeking that takes place.... In general, whenever personal benefits depend on decisions made by other people, life can become a quest for personal favors, and people spend time and effort in rent-seeking activity.”³³ A still more pointed definition is “the use of resources to get a rent by reducing the welfare of others.”³⁴

It is doubtful that rent seeking can ever be completely eliminated, especially given the many forms that it can take. A government would have to have such singular values and goals that all programs were directed to those ends. So long as democratic processes reflect multiple and competing purposes, the instruments established to carry them out will be bent to serve one goal or another. On the revenue side, however, tax arrangements can be instituted to minimize the inefficiencies and waste the result from the diversion of rents. Rent seeking need not be a

major factor explaining economic and revenue losses as it now is in most tax regimes. More research is needed on rent seeking, especially from the perspective of Georgist economics.

IV. ADMINISTRABILITY OF TAXING RESOURCE RENTS, ESPECIALLY LAND VALUES

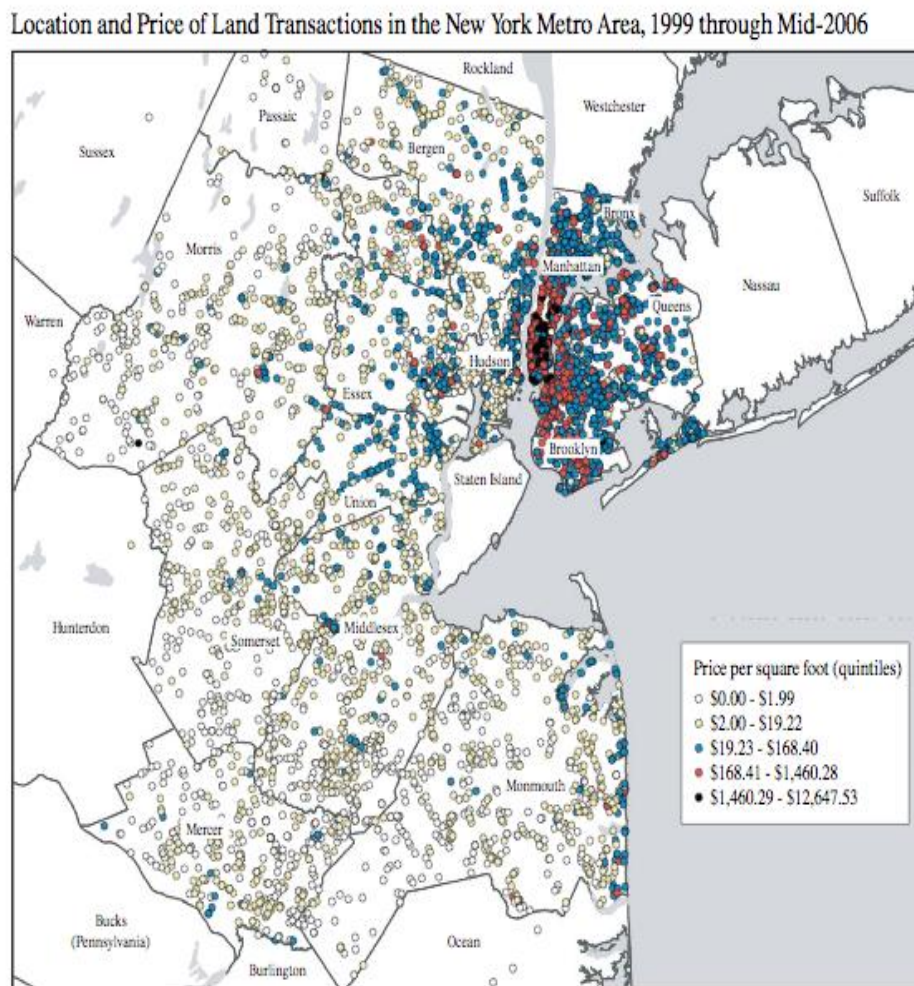
Even if taxpayers are more likely to consent and comply with being taxed on resource rents that otherwise flow as windfalls to their properties, there is still a concern that some people may not do so. Then the challenge of enforcement arises. The virtue of taxing land parcels and any other resources yielding rents is that they are easily identifiable and visible unlike forms of income from wages and interest on capital use. One cannot take one's land to a tax haven like the Isle of Man or the Cayman Islands. Nor is it likely possible to hide ownership titles to frequencies of the electromagnetic spectrum, timeslots at major airports, or monopoly access to petroleum or mineral mines. Even commerce in precious gems is becoming difficult. The numerous sources of rental flow are becoming ever clearer.³⁵ Therefore the certitude that rent can be collected is very high, and that assures stability and adequacy of revenue streams.

An objection is often raised concerning the ability of assessors to assign a value to the base of any resource that might be targeted for its taxable rent. This is easily answered. In the case of those resources that are fungible, their value can be auctioned off on a regular and periodic basis signaling market price. This applies to mining sites, fishing grounds, petroleum fields, spectrum frequencies, and air pollution sinks. As to land parcel values, especially in cities where most of the land value lies, concern was often expressed that one could not know with any confidence how much of an improved parcel was land value and how much value lay in the improvement. This was because land parcels are much less comparable and because sales are far less frequent.

Fortunately, computer technology is quickly overcoming this obstacle, even though many assessors acknowledge that valuation of land sites is far easier than valuing buildings.³⁶ Much of the earlier difficulty was explained by the disregard neoclassical economists have for land value taxation approaches and because sales records often listed only the aggregate price of land and improvements. Since improved parcels are sold far more frequently than unimproved land parcels, they became the sole benchmark of valuation concern. Residential parcels in the US change ownership frequently, an average of every five years, whereas industrial, commercial, and agricultural parcels tend to have very stable ownership. Therefore the standard of valuation for non-residential parcels is far more relaxed because there is little record of sales data. The official *Handbook of The International Association of Assessing Officers* (IAAO) states, "the chief measure of uniformity [in aggregate analysis] is the coefficient of dispersion (COD), which, depending on the nature of the properties involved, should not exceed 10.0-15.0 for residential properties, 15.0-20.0 for commercial properties, and 20.0 for vacant [i.e., rural] land."³⁷ The limitations of this "eyeball method" left property owners believing that property taxation was based on nothing more than subjective judgment and was therefore questionably equitable. This despite the fact that laws typically requires separate valuation of land and

improvements. Today triangulation algorithms being developed for computer applications, especially when coupled with available aggregate sales data and regression calculations, now allow far more accurate and better assignment of values to land than the conventional methods.³⁸ Records of arm’s length sales of vacant land parcels provide benchmarks that can then be used to create land value maps with as much accuracy as by traditional methods. The map of New York City’s greater metropolitan area provides an example of this. The importance of land value and the reliability with which it can be assessed gives renewed interest in the land value tax. Other tax regimes are far less able to claim that their tax bills are as well-grounded or as commensurate.

Figure 3. Land Value Map of Greater New York Based on Arm’s Length Sales Data.



Source: Federal Reserve Bank of New York, based on an analysis of CoStar Group data, April 2008.

Note: The New York metro area considered is four boroughs of New York City—the Bronx, Brooklyn, Manhattan, and Queens—and ten counties in northern and central New Jersey. Staten Island, the fifth New York City borough, is excluded because transaction data are unavailable.

V. CONCLUSION

The capture of land rent to finance the services provided to the public has a history going back thousands of years, from archaic civilizations, to feudal societies and even sometimes in early modern political systems. Such rents were rendered in the form of tribute goods, in labor, in a portion of harvest yields, and in coin. Recognition of the efficiency in what is the equivalent of taxation today has long been understood. The rent paid to lords and kings was returned, at least in principle, by protection of lands, by the mediation of disputes and by such other obligations were reciprocally evolved. Classical economics built upon the wisdom of the ages.

Only in the past century and a half has this arrangement been altered. The taxation instead of people's labor, as well as the products of their labor, has supplanted the socially created rent that otherwise flows through natural resources. This has allowed the development of a renter class in society that gets money without working and without risk. The history of economic and tax theory in the past century has been to divert attention from what earlier was called "Natural Taxation." Taxing the land rent that flows through all elements of nature, what classical economists called "land," can restore to the revenue regimes of all political regimes a system of efficiency, administrability, simplicity and moral integrity that has eluded public discourse in recent decades.

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<http://www.lifeslittlemysteries.com/how-many-people-cheat-on-taxes-0469/>. See also Stuart P Green. (2011). "Why Do People Cheat on Their Taxes,? *Christian Science Monitor*, April 13, 2011 in print and online, and on Yahoo.com/news, and www.cnbc.com Guestblog; Allen J. Rubinfeld and Ganesh M. Pandit. (2007). "Tax 'Cheating' by Ordinary Taxpayers," in *CPA Journal*, March; and Stephen J. Dubner and Steven D. Levitt. (2006). "Filling in the Tax Gap," FREAKONOMICS Column in the *New York Times*, April 2, 2006.

³ Donald L. Barlett, James B. Steele. (2000). *The Great American Tax Dodge: How Spiraling Fraud and Avoidance Are Killing Fairness*, Boston: Little-Brown. Co., p. 12.

⁴ Tax Policy Center Briefing Book, www.taxpolicycenter.org/briefing-book, accessed online on September 19, 2010.

⁵ http://money.cnn.com/2010/02/19/news/economy/tax_cheating/, February 19, 2010.

⁶ Greg Mankiw. (2008). *Principles of Economics*, Southwestern College Publishing, 5th Edition, p. 520.

⁷ Martin Feldstein. (1999). "Tax Avoidance and the Deadweight Loss of Income Taxes," *Review of Economics and Statistics*. Abridged:

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⁸ This is suggested by another study of Australia, where the data is much more accessible and

accurate. See W. Erwin Diewert and Denis A. Lawrence, (1997). "The Deadweight Costs of Capital Taxation in Australia," Paper presented to Treasury Seminar Series, Canberra, available online www.dp9801.pdf. See also Mason Gaffney, (2011), "Why Sales Taxes?" unfootnoted version in *Groundswell*, forthcoming November, 2011).

⁹ H. William Batt, (2005). "The Fallacy of the 'Three-Legged Stool' Metaphor" *State Tax Notes*,

Volume 35, No. 6, pp. 377-381.

http://www.cooperativeindividualism.org/batt_on-tax-policy.html (accessed 9-20-10)

¹⁰ This has been explicated most thoroughly by Professor Mason Gaffney (2009), using the acronym ATCOR. See "The Hidden Taxable Capacity of Land: Enough and to Spare," *International Journal of Social Economics*. 36:4, pp.328-411, and "The Philosophy of Public Finance," especially, pp. 188-192, in Fred Harrison (ed.). (1998). *The Losses of Nations: Deadweight Politics versus Public Rent Dividends*. London: Othila Press. and Henry Law, "Who Actually Picks Up the Tax Bill?" (2002). at <http://www.landvaluetax.org/theory/who-actually-picks-up-the-tax-bill.html> (accessed September, 2011). For several further discussions of ATCOR, see <http://www.wealthandwant.com/themes/ATCOR.html> . (accessed 9-20-11) As early as 1691 John Locke was able to explain this in Part 3 of his paper, "Some Considerations of the Consequences of the Lowering of Interest and the raising the Value of Money," online at <http://www.efm.bris.ac.uk/het/locke/consid.txt>, and other places.

¹¹ A detailed explication of the case for taxing land rent is Fred E. Foldvary. (2006). "The Ultimate Tax Reform: Public Revenue from Land Rent," Santa Clara University, Civil Society Institute. online at <http://www.foldvary.net/works/policystudy.pdf> and http://www.wealthandwant.com/docs/Foldvary_UTR.htm (accessed 9-20-10). Nobel Laureate Joseph Stiglitz has more recently amplified the point: "One of the general principles of taxation is that one should tax factors that are inelastic in supply, since there are no adverse supply side effects. Land does not disappear when it is taxed. Henry George, a great progressive of the late nineteenth century, argued, partly on this basis, for a land tax. It is ironic that rather than following this dictum, the United States has been doing just the opposite through its preferential treatment of capital gains." "Principles and Guidelines for Deficit Reduction." Working Paper No.6, The Roosevelt Institute, December, 2, 2010. Professor James K. Galbraith, son of John K. mentioned earlier, testified before the US Senate in March, 2011, that "as a general rule fixed assets—notably land—should be taxed more heavily than income. The tax on property is a good tax, provided it is designed to fall as heavily as possible on economic rents. This basic argument, going back to Ricardo, remains sensible, for it aims not to interfere where there is, in fact, no public purpose to interfere with private decision-taking. Payroll taxes and profits taxes do interfere directly with current business decisions. Taxes effectively aimed at economic rent, including land rent and mineral rents, and at 'absentee landlords' as Veblen called them, do not." Statement before the Senate Finance Committee, March 8, 2011, hearing on Principles of Efficient Tax Reform. Also Huffington Post, 3-8-11.

¹² For a summary understanding of the difference between classical and neoclassical economics,

and its central importance to this discussion, see Mason Gaffney et al, *The Corruption of*

Economics. London: Shephard-Walwyn. 1994. online (accessed 9-20-10) at

<http://homepage.ntlworld.com/janusg/coe/l/index.htm>. See also

www.wealthandwant.com/docs/Batt_HTRGUOTWET.html.

¹³ Alfred Marshall. (1920, reprinted 1962). *Principles of Economics*. London: MacMillan. Eighth Edition. Book II, p. 62.

¹⁴ *Wealth of Nations*. (1776, 1936). Book V, Ch II, Part II, Modern Library Edition, pp. 795-796.

¹⁵ John Stuart Mill. (1871, reprinted 1994). *Principles of Political Economy*, bk. 5, chap. 2, sec. 5.

¹⁶ *Progress and Poverty*. (1879, reprinted 1952). New York: New York: Robert Schalkenbach Foundation. Ch. 16.

¹⁷ In the 1950s, an attempt was made to corner the onion market. In the 1960s, the billionaire Hunt brothers attempted to do the same with the silver market. More recently still (1970s), the Sumitomo corporation sought to corner the copper market. And, as this is written, one may be seeing the same effort being made by the Chinese government in its attempt to exert monopoly control over the “rare earth elements” market, critical for building computer chips and other technology. See “Cornering the Market” on Wikipedia; and Keith Bradsher, “Amid Tensions, China Blocks Crucial Exports to Japan,” *New York Times*, September 23, 2010, p. 1.

¹⁸ Milton Friedman. (1977). *There is No Such Thing as a Free Lunch*. New York: Open Court Publishing.

¹⁹ The systems of rents can be traced to ancient times. On manners of payment, see the series of conferences of International Scholars on Ancient Near Eastern Economies. Volume 1: Michael Hudson and Baruch A. Levine (Ed.) (1996). *Privatization in the Ancient Near East and the Classical World*. Peabody Museum of Archaeology and Ethnology, Harvard University; Volume 2: Michael Hudson and Baruch A. Levine (Ed.) (1999). *Urbanization and Land Ownership in the Ancient Near East*. Peabody Museum of Archaeology and Ethnology, Harvard University; Volume 3: Michael Hudson and Mark van De Mierop (ed.), (2002): *Debt and Economic Renewal in the Ancient Near East*. Bethesda, MD: CDL; Volume 4: Michael Hudson and Cornelia Wunsch (ed.). (2004). *Creating Economic Order: Record-Keeping, Standardization, and the Development of Accounting in the Ancient Near East*. Bethesda, MD: CDL; and Volume 5: Michael Hudson and Cornelia Wunsch (ed.) *Free Labor in the Ancient Near East* (forthcoming) See, for example, Marc Bloch, (1966, 1970). *French Rural History: An Essay on Its Basic Characteristics*. Berkeley: University of California Press, p. 72; H.S. Bennett. (1937, 1971). *Life on the English Manor: A Study of Peasant Conditions, 1150-1400*. Ch. V: “Rents and Services,” pp. 97-125, passim. Cambridge: Cambridge University Press; Paul Bairoch. (1991). *Cities and Economic Development: From the Dawn of History to the Present*. Chicago: University of Chicago Press, p. 283. Gerhard Lenski (1996) notes, however, that the Chinese Gentry was able at times to collect as much as 40-50 percent of the land yield as rent (*Power and Privilege: A Theory of Social Stratification*, New York: McGraw Hill p. 226 and more generally in Ch. 9. Francois Quesnay, one of the most notable of the French Physiocrats, estimated economic rent “to be about one third of the ‘net product according to Marc Blaug (1997) *Economic Theory in Retrospect, Fifth Edition*. Cambridge University Press, p.29. See also Frank A. Fetter, “Rent,” *Encyclopedia of Social Sciences*. New York: MacMillan (First Edition – 1934), Volume XIII, pp. 289-292.

²⁰ Just about any basic economics text will cite a number. “Rental income is \$7.9 billion of a total GNP of \$5,234 billion, or 1.5 percent.” Table 7-5, p. 137. Baumol and Blinder. (1991). *Economics: Principles and Policy, Fifth Edition*. Harcourt Brace. “Rental Income was 4.7 billion, or 0.079% of GDP in 1992.” Table 22.3, p. 559. Karl Case and Ray Fair. (1994). *Economics, Third Edition*. Prentice Hall. “Rent is 1% of U.S. economy in 2004”. p. 283. Paul Krugman and Robin Wells, *Economics*. New York: Worth Publishers. See also: Todd G. Buchholz. (2007). *New Ideas from Dead Economists: An Introduction to Modern Economic Thought. Revised and Updated*, New York: Penguin Plume Books, p. 86; and Gregory Clark. (2007). *A Farewell to Alms: A Brief Economic History of the World*. Princeton U. Press, p 198-199.

²¹ This is well stated by a member of the Danish cabinet for years, Viggo Starke, and quoted in Robert Andelson’s essay, “Henry George and the Reconstruction of Capitalism,” published in 1994 by the Robert Schalkenbach Foundation. “What I produce is mine. All mine! What you produce is yours. All yours! But that which none of us

produced, but which we all lend value to together, belongs by right to all of us in common." reprinted at cooperativeindividualism.org under Andelson.

²² A collection of quotations and uses are found at

<http://www.wealthandwant.com/themes/Usufruct.html> (accessed September, 2011)

²³ Thomas Jefferson. Letter to James Madison, Paris, Sep. 6, 1789.

²⁴ Henry George, "Thou Shalt Not Steal," an Address delivered on 8 May 1887 to the Anti-Poverty Society, New York City. Henry George argued that seizing private titles to land, and by extension any elements of nature, was essentially theft, and was the moral equivalent to owning

slaves. See http://www.wealthandwant.com/HG/George_TSNS.html. (accessed 9-20-10)

²⁵ See, for example, Barron's Educational Series (2004): Dictionary of Real Estate Terms, Sixth Edition, Jack P. Friedman, et al. (editors). also at www.answers.com. (accessed 9-20-10)

²⁶ There is ample evidence that tax cheating increases where government legitimacy is questioned. See Michael S. Rozeff. (2009). "There Is No Such Thing As a Just Tax," contribution to a blog hosted by LewRockwell.com. A retired IRS Agent wrote an Opinion in the *New York Times*, arguing, "I was frequently reminded of a conversation reported to have occurred between Justices Oliver Wendell Holmes and Louis D. Brandeis. "Go and do justice," Brandeis said. "No, Louie," Holmes replied, "that is not our job. We are here to enforce the laws, not to do justice." When such laws as the Internal Revenue Code are not rooted in justice but encourage injustice and deception, they gradually corrode all of society and engender cynicism." *New York Times*, "Unjust Tax Laws Corrupt Our Society." September 25, 1988. Studies show that tax cheating in United States is far less endemic than in most societies. But it is also the case, as the foregoing articles show, that the rate of cheating has increased in recent years. One can make a good argument that citizens sometimes have an obligation not to pay their taxes, as in the case of illegitimate or immoral governments. See Robert W. McGee. "Is Tax Evasion Unethical?" Policy Analysis Paper 11. Available SSRN <http://ssrn.com/abstract=74420> or doi:10.2139/ssrn/74420. McGee has written other articles on the subject as well.

²⁷ For further discussion of the textbook principles of sound tax theory as they have evolved over the years, See <http://www.progress.org/cg/battprincip02.htm>. See also George Break. (1993). "Taxation," Encarta Encyclopedia by Microsoft; "Principles of Taxation, in Light of Modern Developments," Washington: *Federal Tax Policy Memo*, The Tax Foundation; "Principles of a High Quality Revenue System," *Tax Notes*, March 21, 1988; David G. Davies, (1986). *United States Taxes and Tax Policy*. New York: Cambridge University Press, pp. 17-19; and David Brunori (2001). *State Tax Policy: A Political Perspective*. Washington: Urban Institute Press, Ch. 2. State studies cited above also typically list any or all of these criteria. I have seen accountability, balance, certainty, competitiveness, and complementary included as well.

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²⁹ Among recently published books that provide detailed study and argument on this thesis are the following: Fred Foldvary. (2007). *The Depression of 2008*, Santa Clara University; Fred Harrison. (2005). *Boom Bust: House Prices, Banking and the Depression of 2010*, London: Shephard Walwyn; Fred Harrison. (2006). *Ricardo's Law: House Prices and the Great Tax Clawback Scam*. London: Shephard Walwyn; Phillip J. Anderson. (2008). *The Secret Life of Real Estate: How it Moves and Why*. London: Shephard Walwyn; Mason Gaffney. (2009). *After the Crash: Designing a Depression-Free Economy*. Boston and London: Wiley-Blackwell. A far older book, with equally interesting statistical data is Homer Hoyt. 1933, Beard Books, 2000). *One Hundred Years of Land Values in*

Chicago. University of Chicago Press., The work of Michael Hudson should also be noted, see <http://michael-hudson.com/> (Accessed September, 2010).

³⁰ See Mason Gaffney. (2009). *After the Crash: Designing a Depression-Free Economy*. Wiley-Blackwell. This book argues that it is the turnover of liquid capital in the economy that explains and fosters its vitality, and storing in land investment effectively removes it from use. A summary of the book is offered at www.afterthecrash-masongaffney.com.

³¹ See H. William Batt. (2003). "Stemming Sprawl: The Fiscal Approach," Chapter 10 from *Suburban Sprawl: Culture, Theory, and Politics*, edited by Matthew J. Lindstrom and Hugh Bartling. Rowman & Littlefield Publishers, Inc. Accessible online (September, 2011) at http://www.wealthandwant.com/docs/Batt_SSFA.htm

³² Joel Garreau. (1991). *Edge City: Life on the New Frontier*. New York: Doubleday.

³³ Arye L. Hillman. (2003). *Public Finance and Public Policies: Responsibilities and Limitations of Government*. New York: Cambridge University Press. p. 448; See also Dennis C. Mueller. (2003). *Public Choice III* (especially Ch 15, Rent Seeking), New York: Cambridge University Press; Johann Graf Lambsdorff. (2007). *The Institutional Economics of Corruption and Reform: Theory, Evidence, and Policy* (especially Ch. 5, "Corruption and Transaction Cost: The Rent-Seeking Perspective"). New York: Cambridge University Press.

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³⁵ Mason Gaffney. (2009). "The Hidden Taxable Capacity of Land: Enough and to Spare," *International Journal of Social Economics*, Vol. 36, No.4, pp. 328-411; and 25 Mason Gaffney. (2004). "Sounding the Revenue Potential of Land: Fifteen Submerged Elements," *Groundswell*, September-October, 2004, and <http://www.progress.org/cg/gaff1004.htm>

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³⁸ See, Ted Gwartney, "Estimating Land Values," at <http://www.henrygeorge.org/ted.htm>; also at http://www.wealthandwant.com/docs/Gwartney_Estimating_LV.html. Ted Gwartney, MAI, Director of Assessment, Greenwich, CT: "Methods Used to Value Land." At <http://www.scribd.com/doc/58325297/Gwartney-Ted-Methods-to-Value-Land>.