Enact 'site values' tax on all land to stimulate real economic growth

By EDWARD J. DODSON

Edward J. Dodson, senior mortgage officer and manager of the Mortgage Administration Department of Provident National Bank, prepared a paper on "The Road to 'New Federalism': The Economics of the Eighties" earlier this year.

***The Greater Philadelphia Economist* presents his paper as another view of the guest column written by Dr. Henry Teune, professor of political science at the University of Pennsylvania, and published in *The Economist* on May 31.**

The views of Dodson do not necessarily reflect the position of Provident National Bank.

Depression in America during the 1930s produced tremendous public pressure for real economic and social reforms.

The Depression's severity challenged the faith of Americans in the socio-economic system and brought an end to the Nation's experiment with unbridled capitalism. In response to public outcries, President Franklin D. Roosevelt introduced to the American electorate a package of economic measures he called the "New Deal."

Roosevelt promised an end to the mass unemployment and poverty thought to be caused by the severe swings in the business cycle.

Previous steps had been taken during the late 1800s to curb the power of such monopolistic economic powers as the railroads. Now, the early 1900s were to be the moment American government dealt with the remaining industrialists and financiers. In short order, regulations were passed in an effort to monitor and control the activities of the banking industry and the stock market. From then on, an almost endless stream of Government-mandated changes came into existence.

Government intervention in the economy has continued unabated, supported by an overwhelming majority of the academic community, many of whom have been brought into Government as planners and advisers themselves.

Roosevelt, however, need not be credited with initiating the process of Government interference in the economy. The surge of Government activity which occurred during the Depression was inevitable, the potential for disaster having been incorporated in the Nation's economic structure right from the beginning. The source of our problems rested not with whatever failures Government—and the Federal Reserve System—created, but with the adoption of the English system of property ownership and taxation.

This Nation, which had a vast wilderness and untapped natural resources, was essentially "free" for the taking, except for those sections parceled out by the English crown. Such a large, sparsely populated land mass provided arriving Colonists with virtually unlimited access to the sources of wealth existing and ready for exploitation. What Europe lacked in the way of free access to land and natural resources, America supplied in great abundance—and did so for more than two centuries. Unfortunately, the pressures of progress and population increase changed the balance between those who owned resources and those who desired their use.

By the mid-1800s, when new waves of European immigrants began to arrive—and as newly-freed blacks entered the economic scheme—America had already been subdivided, parceled out, and put up for sale. Continued immigration and subsequent migration into the Nation's largest cities simply increased competition for monopolized resources. As competition for jobs increased—particularly at the unskilled and semi-skilled levels—the Nation's great landowners, who were also our great industrialists, took advantage of the competition among workers for jobs and maximized profits by lowering wages to subsistence levels. The poor no longer benefited from a bountiful unsettled frontier.

Since economic opportunity could no longer be guaranteed by forces in the market, citizen pressure finally forced Government to take an active role. For two centuries, Americans were accustomed to both freedom and prosperity. The conditions of mass unemployment and poverty which arrived during the 1930s were very difficult for Americans to passively accept.

Consequently, Roosevelt recognized the very real dangers the Republic faced—particularly in light of the growing power of the organized labor movement and the interest by certain of its factions in the Russian Communist experiment.

Unfortunately for America, here is where President Roosevelt made crucial errors in judgment. Rather than dealing with basic structural deficiencies leading to the concentration of land and resource ownership and the inherent monopolistic nature of that ownership, Roosevelt attempted to address only immediate, symptomatic problems.

Europe, too, at this time was searching for answers to its own economic

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Guest columns

In an effort to offer readers a balanced view of conditions in Greater Philadelphia and other sections of the nation and world and to stimulate creative thinking about solving the economic problems of the age, *The Greater Philadelphia Economist* will publish on this page guest columns by business and civic leaders who have strong points of view—left, right, middle-of-the-aisle, neutral, and even those that defy classification.

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problems. Britain, in particular, thought it found the correct formula in the recovery program presented by the famed British economist, John Maynard Keynes. Keynes advocated an anti-depression strategy based upon the correct theory that Government spending for public works projects could infuse money into the economy and thus stimulate economic activity.

Keynes' theory of demand management has appropriately been described as "pump priming" by many economists, including Milton Friedman. And, since revenue for such projects could not realistically be raised by increased taxation given the low levels of business and personal income, Keynes also accepted the necessity for *temporary* deficit spending by government.

Roosevelt and the American economy were barely off the drawing board with such Keynesian programs when Europe once again exploded into war. The American economy gradually shifted into high gear as the demand for war materials grew and the Nation entered a period of full employment and maximum production.

Following the Second World War, Keynes participated in the discussions which were to establish a new world economic structure. And, although he died in 1946, his "anti-depression" theories took hold and formed the basis for American economic policy during the next three decades. Only the impact of the Arab oil embargo and the formation of OPEC during the 1970s brought demand management into serious criticism. The economy suffered the consequences of deficit spending and monetary expansion in the form of high inflation and high unemployment—consequences thought not possible under the post-Keynesian scheme.

To some extent, it is interesting that many economists have served upon Keynes significant criticisms. Given the nature of our underlying economic malfunctions and limited by political considerations, Keynes proposed what was the most feasible policy for stimulating the economy during its long Depression. His anti-depression strategies were never intended for continuous application.

Continued Government spending on new social welfare programs and military adventures have continued and have contributed to the contraction in real economic growth. As a result, Government's competition for private investment funds aggravated the problems faced by American enterprise competing in the international marketplace. Productive activity has diminished in favor of investment of available capital into speculative ventures and tax shelters.

The new, or should I say, newly-awakened economic orthodoxy outlined by the Reagan Administration has its origins in the "laissez faire" philosophy of the classical economists, most often pointing to Adam Smith. A reversal of Government intervention through deregulation is one mechanism designed to stimulate economic growth. Reduced marginal tax rates on business and personal income have had some success in stimulating savings—although investment in new plant and equipment continues to lag because of high unemployment and reduced consumer demand. For example, although Individual Retirement Accounts (IRAs) are attracting substantial deposits, many working Americans are so highly leveraged with debt that saving is a practical impossibility.

Those economists supporting a purer version of classical theory have become known as "supply-siders" and advocate adoption of additional changes in our system of taxation. Included are the elimination in the distinction between "earned" and "unearned" income, a maximum income tax rate of around 25 percent, removal of barriers to international trade (such as tariffs and import quotas), and the elimination of corporate income taxes altogether.

As with many other essentially-sound economic strategies, the environment in which they are implemented will determine their effectiveness. At the moment, there are simply too many powerful, special interests at work which ensure economic policy is dictated by political considerations. It should come to no surprise, therefore, that President Reagan has attempted to blame the current recession on the policies followed during the Carter Presidency and that his program simply has not been given sufficient opportunity to work. As I have attempted to show, the same can be said for each administration from Franklin Roosevelt on—and with less visible results as far back as the era of Colonial development.

In summary, minority pressures for greater political and economic equality—and the perception of Communist Russia as a military threat—have virtually dictated American economic policy during the last half of this century. And, while political considerations may have warranted the strategies adopted, an economic system which permits continuous concentration of land and natural resource ownership must eventually experience serious economic problems. The process becomes acute when foreign sources of raw materials are subject to similar ownership concentrations—which they now are—and when Government attempts to stimulate the production of both "guns" and "butter" from limited available resources.

What then, should become the economic program for the 1980s? How can we, as a Nation, best approach the problems created as a result of the deficiencies in our economic structure? A fundamental opportunity for real economic reform lies in the Administration's program of "New Federalism." At long last, local government is being encouraged to assume primary responsibility for its own economic well-being. Fortunately, local governments have been given a major economic weapon, one which—unfortunately—has for too long been misused — its power to tax.

Both Keynesian and supply-side economists are aware that when productive activity is heavily taxed, the result is an inevitable reduction in such activity. When taxes are levied against those things of value created by human effort—factories, homes, machinery, tools—an economic consequence is that fewer such things are produced. The Nation's wealth either grows more slowly or may even suffer real negative growth.

Heavy taxation of wages—what is termed "earned income"—also discourages labor from producing wealth, since Government tends to receive a greater and greater proportion of each additional dollar earned. The process of migration which occurred during much of the Nation's early growth period was a similar response to a form of non-government taxation by those who controlled the supply and price of land and natural resources.

During the last 25 years, the combination of monopoly prices on building and construction sites and heavy levels of government taxation on productive activity have turned many of our cities into centers of decay and

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blight. Owners of capital and the most skilled of our laborers have reacted by moving beyond the reach of those who attempt to price them out of business, either to a suburban location, a different state or even overseas. As this process developed, those left behind were required to provide through taxation the funding of more and more government support programs designed to replace private sector employment opportunities. The predictable outcome was still more abandonment of the cities by business and an irreplacable deterioration of the government's tax base.

Since taxation is the major means of raising revenue for government programs at the local level—most cities are prohibited from extensive borrowing by requirements for balanced budgets—how, then, can such funds be raised given the relationship between taxation upon productive activity and subsequent economic decline?

The only factor in the productive cycle to which high levels of taxation responds differently is that of land—or, more appropriately, "site values."

When site values are properly assessed and significantly taxed, economic activity and growth is stimulated. This is possible because the owner of vacant of underutilized sites must put the site to some profitable use or suffer the consequences of the tax's being capitalized into a negative return on investment.

For example, a 10 percent rate of taxation on a site valued at $100,000 results, where market appreciation occurs at 10 percent a year, in absolutely no gain for the owner. The owner has only two realistic choices: Either develop the site for productive use or sell the site to someone who will.

Revitalization of our Nation's major cities must be accomplished if we are to avoid further social unrest and the possibility of violence similar to that experienced during the early 1960s. Adoption by local government of a new approach to taxation based upon land values and away from productive activity has the potential to make President Reagan's "New Federalism" program a successful return to local autonomy. Worn out factories and other buildings would soon be torn down or rehabilitated and vacant sites brought into productive, job-producing use. At the same time, an increase in private sector activity would reduce unemployment levels and, therefore, the demands upon government for income support measures.

Finally, as University of California economist Mason Gaffney predicted more than 11 years ago, a shift in the burden of taxation off wages and capital improvements and onto properly assessed site values would "so change the arithmetic of property ownership that virtually no government assistance would be required for urban renewal." Thus, private investment could achieve in short order what countless Government programs have failed to do: Provide decent housing and substantially greater employment opportunities to those who remain disenfranchised from the economic mainstream of our society.