LAND RENTAL VALUE TAXATION versus INDIRECT TAXATION

by Dr. Kenneth Grigg

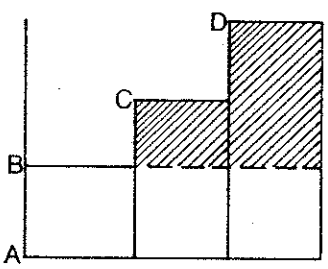
There are *four* factors in the processes of production, distribution, and exchange in the course of all human activities. They are:

Labour
Capital
Raw Materials --------- Wealth in Goods and Services
Locations

The big variable is differences in the advantages of the locations at which labour and capital are applied— such as differences in population, in access to markets, in access to natural resources, and in fertility. Indeed, with the general development of society, the factor of *locational advantage* becomes an increasingly more important operative component relative to labour and capital. This is easily understood by comparing a site in the sands of the Simpson Desert with a site at Surfers' Paradise or at Sterling: it is not the sand that matters; it is the *site*, where people are.

This factor of increasing locational advantage is one of the fundamental facts that just has to be appreciated in relation to the study of 'distributional' economics, ie., the determination of how wealth is to be equitably shared amongst the factors that between them give rise to it. The share that arises from locational advantage is termed *Rent*.

Fig.1.



In Fig. 1 the distance A-B represents the number of bags of wheat grown on the poorest land in economic production. For the same input of labour and capital, better land will yield A-C, and better land still will yield A-D. In all three cases the *marginal* return to labour and capital remains A-B, and this is the margin to which competition continuously forces them. The extra output due to the economies in effort and efficiencies effected by the utilisation of better land, ie., B-C and B-D is *rent*, the return due to locational advantage.

And precisely the same applies to the operation of the small corner store *viz a viz* the large city emporium. The returns are much higher where people congregate, and, again, these higher returns are the *rent* component.

Obviously, the more that the *rent* factor operates, the greater is the return for a given input of labour and capital. Indeed, the increased utility that is imparted to land by increase in population concentration with all its attendant skills, increases both the concentration in the application of labour and capital at a given site, and the efficiency of that application. The outcome is that the *cost per unit price* of items decreases. This is shown in Fig. 2.

Fig.2.

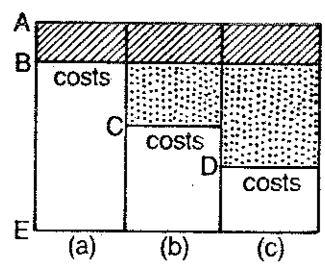
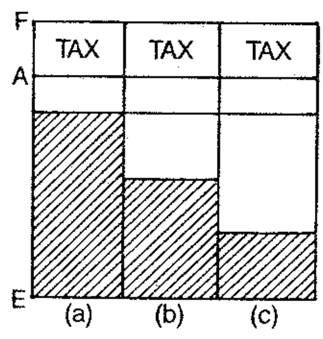


Fig.3.



In Fig.2 there are three retailers, each selling an item at a unit price level E-A. (a) is the marginal operator, whose profit margin A-B over costs B-E per unit of selling price makes his business only just worthwhile; (b) and (c) are retailers whose unit costs are lower because of relative advantages in the

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in the locations at which their businesses are conducted. Thus, relative to (a), (b) has an extra profit margin B-C, whilst (c) has an extra profit margin B-D. These extra margins of profit, which can be ascribed to various economies and efficiencies, are due to superior location, and as such are, in nature, a Rent. And this rent is reflected in the consequent higher rental that those locations will fetch in the property market. This is a fact of everyday commercial experience. To this we shall return.

Now consider Fig.3 where the unit price of the article sold is swollen by a tax of X%. The selling price is raised equally in all locations, but may have the effect of causing a fall-off in consumer demand. Because of their rental advantage, (b) and (c) may weather the storm by discounting, but (a), the marginal operator, may be forced out of business. (b) is then in the firing line as the man at the margin. Ask many a grower in the wine industry!

It equally follows that if a consumption tax were to be removed, rather than added or increased, then the trend would be in the opposite direction.

Now let us see the effect if, instead of imposing a consumption tax, the government were to impose a tax pro rata on rental advantage, ie., were to apply an annual locational land (rental) value tax. It would not affect (a); it would take from B-C in relation to (b) and from B-D in relation to (c). And it would not increase A-E by the amount A-F as happens in the case of the consumption tax. In other words, a land value tax cannot be added to retail prices because, unlike consumption taxes, it does *not* add to the cost structure of the marginal operator who is the determinant of what price level makes his particular continuance in business still worth while.

Thus, what an annual tax based on the rental value of land does, is to socially appropriate what is, in the final event, a socially generated advantage, the economic advantage of location in relation to provided community services. It applies the great social equaliser!

The further effect is that to the extent of its incidence, it destroys the value of land as a mere private investment; and, in the form of a flow of rental income into public revenue, it vests the value of land in the community which generates and sustains it.

Should not the protagonists for a 'broad based consumption tax' then go back to the drawing board?

Surely the answer is to reintroduce the Commonwealth Land (Value) Tax which applied in Australia from 1910-1952, but to apply it across the board as a major revenue source for the enrichment of us all.

It is fitting to finish with a quotation from Professor Oscar Geiger's volume on The Philosophy of Henry George:

MORE THAN A FISCAL REFORM

". . . In a real sense George's 'single tax' is not a tax at all. A tax definitely connotes some levy, characteristically of an arbitrary and opportunistic nature, that government is forced to make upon the productive powers of industry in order to support itself. Taxation implies a process of self-mutilation . . . a necessary evil. The idea of George, however, was clearly to remove from society the onus that taxation of any kind imposes; it was an attempt to make automatic and self-operative the process of defraying social expenditures. Economic rent was to be directed into public instead of private repositories, and was to be employed in meeting public needs instead of swelling private gains. There was essentially no taxation involved here, that is, no taxation in terms of governmental interference. Instead, there was to be simply a direct flow of revenue from the social source of land value to that agency which was responsible for the financing of social needs."

"It is true that such an agency would be, largely, our present form of government, and also that the flow of revenue would be through the existing channels of taxation; the technical functioning of George's proposal would obviously be by means of a taxation system. But it seems definite that there is a clear distinction between a 'single tax' in the light of George's interpretation, and a 'single tax' which might be tested solely as a variety of our present tax species. The former is a tax simply in structure: its essence and function, however, are something quite different from simply an improvised system of taxation, and it must not be judged solely by criteria which are limited to those of a fiscal nature. George's vision was rather, 'not a society single-taxed, but a society free from all taxes of any sort.' The point that is being made here is that the proposal to socialize rent definitely transcends the taxation dimension. . . ."

"What is the law of human progress? That law George locates in the phenomenon of association, of social gregariousness. . . . That phenomenon of association creates a communal value which is in no way dependent upon individual efforts. Such communal value is directly and accurately expressed in the economic concept of rent. Land value is association value. It is a value that swells as association becomes more organized, and collapses as that social organization disappears or loses its efficiency. In a literal sense, then, land value is the economic measure of human progress. For George, it is the attendant of association, and association is the foundation of progress, and rent is not merely one of the channels in the distribution of wealth: it is not a rationalization of an economic state, and it is more than the formula of an economic process. Rent, finally, for George, is the exchange rate of man's development. . . ."

"This, then, is an approach to the socialization of land rent by which George soars beyond the categories of economics into the very dimension of the rise and fall of civilization."

"Land, however, has been privately owned in all our civilizations. Thus, the value that has been created by the press of men coming together has been gathered by the fortunate few into whose hands, in the course of history, the earth has passed. A social product has become an individual gain. Here, then, is the source of that inequality which, for George, has been the brake upon all cultures. The reason why the natural progress of civilization reaches a climax, decays, and finally collapses, can be traced to the inequality that results from the passing of community value into the sphere of private property. . . ."

–From "The Philosophy of Henry George," by Prof. G. R. Geiger.