Taxable Rent, More than Enough: after Professor Gaffney
Part I

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Abstract – Taxable Rent

Despite frequent arguments about the merits of taxing economic rent rather than the wages of labor and capital goods, the assertions largely fall on deaf ears. The reason is that neoclassical economic theory doesn't regard rent as a significant element in a modern economy. Conventional treatments view rent either as the yield of agricultural land alone or else as trivialized and swamped by the productivity of the other factors of production. Moreover, in most contemporary analysis, land has been conflated into capital in two-factor theory, in contrast to formulas of classical economics that prevailed until the 20th century. Many estimates suggest, however, that rent as a proportion of social wealth is typically about one third, but ranges from twenty to over forty percent.

This paper collects what evidence is available in contemporary economic literature as well as that in historical and cross-cultural analysis to show that rent continues to be a significant element even in today's economies. Far from being less than in historical periods when agricultural economies dominated societies, rent may well be an even larger component of a society's gross domestic product. The paper looks at the literature where rent was a recognized phenomenon, and distinguishes between that understood by David Ricardo and that of Heinrich von Thünen. It goes on to discuss what today is recognized as the Henry George Theorem – that the rent generated in a typical municipality is sufficient if taxed to support all its necessary services. It further lists resources of nature where the yields of rent are recognized in theory, even though they are not now being measured.

One difficulty in calculating socially-produced resource rents stems part from the fact that ***all taxes*** on other factors of production – labor and capital goods –ultimately ***come out of rents,*** and the ***excess burdens*** that are imposed by these other taxes also ***come out of rents***. This has been explored and identified with the acronyms ATCOR and EBCOR. The upshot of available inquiry is that rent is fully adequate to finance public services were it to supplant other taxes. The question is of significant moment, and calls for further analysis of national income and product accounts in order to provide more definitive answers.

Short Abstract

Several contemporary economists have urged a return to the tradition of classical theory wherein the basis of taxation is the rent from natural resources. From all its sources it is likely about a third of a society's gross product, easily enough to supplant conventional taxes on wages and capital goods.

Key words: rent, economic rent, ground rent, land rent, Ricardian rent, von Thünen rent, resource rent, land, Henry George Theorem, ATCOR, EBCOR, classical economics.

Taxable Rent, More than Enough: After Professor Gaffney. Part I

Does Rent Exist?

In December of 2010 Professor Joseph Stiglitz wrote the following:

> 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.
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> But it is not just land that faces a low elasticity of supply. It is the case for other depletable natural resources. Subsidies might encourage the early discovery of some resource, but it does not increase the supply of the resource; that is largely a matter of nature. That is why it also makes sense, from an efficiency point of view, to tax natural resource rents at as close to 100% as possible.[1]

That this recent Nobel laureate should express his approval of taxing resource rents is noteworthy, for such full-throated endorsements today have been rare. But he is far from being the first. Although in more muted contexts, a good many prominent contemporary economists, even those most closely identified with the neoclassical tradition, have made similar avowals.[2]

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[1] "Principles and Guidelines for Deficit Reduction," Roosevelt Institute Working Paper No.6 (Dec. 2010): 5. Elsewhere he has explained, "The main, underlying idea of Henry George is the taxation of land and other natural resources. At the time, people thought, 'not really that too,' but what was underlying his ideas is rent associated with things that are inelastically supplied, which are land and natural resources. And using natural resource extraction and using land rents as the basis of taxation is an argument that I think makes an awful lot of sense because it is a non-distortionary source of income and wealth." Redefining the Washington Consensus: An Interview (2002) of Joseph Stiglitz, by Christopher Williams, *Geophilos*, No.3:1 (London: Land Research Trust, Spring, 2003): 44-54.

[2] Several Nobel laureates in Economics are also on record, their political philosophies running from Right to Left.
Paul Samuelson: "Pure land rent is in the nature of a 'surplus', which can be taxed heavily *without distorting production incentives or efficiency*." (italics in original) A site value tax can be called "the useful tax on measured land surplus." *Economics,* New York: McGraw-Hill, Eighth Edition, 1970. Edition Seventeen, 2001, pp. 267-269.
Milton Friedman: "In my opinion the least bad tax is the property tax on the unimproved value of land, the Henry George argument of many, many years ago." *Human Events*, November 18, 1979. "I have generally compromised with Georgites [*sic*] by agreeing that a pure land tax is one of the least bad taxes possible." Milton and Rose Friedman, *Two Lucky People: Memoirs.* Chicago: University of Chicago Press, 1998, 431.
Herbert Simon: "It is clearly preferable to impose the additional cost on land by increasing the land tax, rather than to increase the wage tax — the two alternatives open to the City (of Pittsburgh). It is the use and occupancy of property that creates the need for the municipal services that appear as the largest item in the budget — fire and police protection, waste removal, and public works. The average increase in tax bills of city residents will be about twice as great with wage tax increase than with a land tax increase." Letter to the Pittsburgh City Council, December 13, 1979. Archived in the Herbert A. Simon Collected Papers, Carnegie Mellon University Library.
James Buchanan: "The landowner who withdraws land from productive use to a purely private use should be required to pay higher, not lower, taxes." "The Economics and Ethics of Idleness," in Joseph A. Giacalone and Clifford Cobb (ed.). *The Path to Justice: Following in the Footsteps of Henry George*. Malden, MA: Blackwell Publishers, 2001; published with a slightly different title in James M. Buchanan, *Ethics and Economic Progress*. Norman: University of Oklahoma Press, 1994: 112-128.
William Vickrey, His strong support is found in many articles: four in Kenneth C. Wenzer (ed.), *Land-Value Taxation: The Equitable and Efficient Source of Public Finance*. (Armonk. NY: M.E. Sharpe and London: Shepheard-Walwyn, 1999): one in Joseph A. Giacalone and Clifford Cobb (ed.). *The Path to Justice: Following in the Footsteps of Henry George*. (Malden, MA: Blackwell Publishers, 2001); and Part V in the selected papers of Vickrey in *Public Economics*, edited by Richard Arnott, et al. (Cambridge: Cambridge University Press, 1994).
Most recently, **James Mirrlees**, has endorsed taxing rents in *Dimensions of Tax Design:* The *Mirrlees Review* (London: Oxford University Press, 2010). Ch. 6: "The Taxation of Land and Property."

More recently still, in testimony before the US Senate Finance Committee, Professor James K. Galbraith, posed this question:

> Should we tax capital, labor − or rent? Is it a good idea to shift the tax burden from high-income to low-income Americans, in the guise of shifting the tax burden from capital to labor, in order to promote "saving and investment"? In particular, will this create new jobs? History says not: we have been shifting this burden for decades with no appreciable effect on savings, investment or jobs.
>
> And there is also no shortage of capital in our economy. As the economist Mason Gaffney wrote in a paper delivered to the National Tax Association in 1978: "The key to making jobs is changing the use and form of capital we already have. Tax preferences for property income, in their present and proposed forms, bias investors against using capital to make jobs, doing more harm than good."[3]
>
> Economists from Smith to Ricardo to Mill understood that fixed investments, however useful, do not generate many permanent jobs. What creates jobs is the revolving capital that supports payrolls. A tax policy aimed at supporting employment would shift the tax burden away from labor, and off of short-term capital, and place it instead on long-term capital accumulations. If this reduces the investment in fixed capital that is desired for other reasons − in particular, investment with broad public benefits − then that sort of investment should be done by public authority, funded by an infrastructure bank.
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> Thus 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 to not-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.[4]

If these assertions are any surprise, they are due to the fact that for decades neoclassical economists and contemporary experts on tax policy have dismissed the idea of taxing resource rents as not sufficiently worth attention. Why bother, they have argued, when rent constitutes at most only two percent of the gross domestic product. Contemporary textbooks for introductory economics are unanimous in their conclusion that resource rents are inconsequential.[5] Moreover, of seven texts in the field of Public Finance only two of them mention rent at all. And they do so only in the context of rent-seeking or imputed rent (of owner occupied housing).[6]

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[3] "Mason Gaffney, Taxes, Capital and Jobs," A paper delivered to the National Tax Association, Chicago, Aug. 1978 in *Geophilos*, No.3:1 (London: Land Research Trust, Spring, 2003): 62-74; online at www.masongaffney.org.

[4] Statement by James K. Galbraith, Lloyd M. Bentsen, Jr. Chair in Government/Business Relations and Professor of Government, The University of Texas at Austin, and Senior Scholar, Levy Economics Institute, before the Senate Finance Committee, March 8, 2011, hearing on Principles of Efficient Tax Reform. Reprinted on www.huffingtonpost.com under James K. Galbraith, Economist, Author, University of Texas at Austin.

[5] 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's *Economics: Principles and Policy, Fifth Edition*. Harcourt Brace, 1991. "Rental Income was 4.7 billion, or 0.079% of GDP in 1992." Table 22.3, p. 559. Karl Case and Ray Fair, *Economics, Third Edition*. Prentice Hall, 1994. "Rent is 1% of U.S. economy in 2004". 283. Paul Krugman and Robin Wells, *Economics*. New York: Worth Publishers.

[6] The texts reviewed are Richard Musgrave, *Public Finance in Theory and Practice*, Fifth Edition (New York: McGraw-Hill, 1989); Bruce Davie and Bruce Duncombe, *Public Finance* (New York: Holt, Reinhart & Winston, 1972); Harvey Rosen, *Public Finance*, Fifth Edition (Homewood, IL: Dorsey-Irwin, 1999); John Anderson, *Public Finance: Principles and Policy* (New York: Houghton-Mifflin, 2003); Richard Tresch, *Public Finance: A Normative Theory*, Second Edition New York: Academic Press, 2002); and Neil Bruce, *Public Finance and the American Economy* (Boston: Addison Wesley 1998). Bruce alone mentions imputed rent, and only Rosen and Anderson discuss rent seeking. The only text that gives the concept of rent and rent seeking extended treatment is

In a recent book subtitled "A Brief Economic History of the World," University of California Davis Professor Gregory Clark writes,

> In the modern world, land per person which had completely dominated income determination before 1800, no longer matters in economic growth. This is because land rents have fallen to only a few percent of total output in modern high-income economies. … Farmland rents, which were 23 percent of national income in 1760, fell to 0.2 percent by 2000. In part this decrease was offset by arise in the site rental value of urban land. But by 2000 urban land rents represented only 4 percent of national income, even in crowded England with its very high housing costs.[7]

A widely read book by Todd Buchholz comes to a similar conclusion.[8] After giving a nod to 19th century economist Henry George, the most notable proponent of taxing land rent, he continues,

> George fans can proudly point to property taxes as a source of state and local finance. But they cannot point as confidently as they could sixty years ago. George overestimated the future importance of rents and rental income. Governments at every level have grown tremendously in the last century. Even if governments could take all rents without rebellion or severe recession, rents would not come close to covering expenses. In 1929, property rents accounted for about 6 percent of national income. The percentage has steadily dropped to well under one percent today. Where property taxes once provided 65 percent of state and local budgets, they now supply about 17 percent.

Finally, Paul Krugman was asked about the potential of taxing economic rent in 2009 by an American journalist who has written for *The Atlantic Monthly*, *Slate*, and the Los Angeles Times. He recounts the exchange as follows:

> [He] came to Berlin in 2008, right when the subprime crisis had started to rumble, and I asked his opinion of Henry George. He squinted and tried to remember the name of the book. "Uh — Progress and Poverty I think is the [main text]?"
>
> "That's right."
>
> "Well, look. Believe it or not, urban economics models actually do suggest that Georgist taxation would be the right approach at least to finance city growth. But I would just say: I don't think you can raise nearly enough money to run a modern welfare state by taxing land. It's just not a big enough thing."[9]

Arye Hillman, *Public Finance and Public Policy: Responsibilities and Limitations of Government* (Cambridge: Cambridge University Press, 2003).

[7] Gregory Clark, *A Farewell to Alms: A Brief Economic History of the World*. (Princeton: Princeton University Press, 2007): 198.

[8] Todd G. Buchholtz, *New Ideas from Dead Economists: An Introduction to Modern Economic Thought, Completely Revised and Updated*. (New York: Penguin Books, 1989, 1999, 2007): 85-86. Professor Martin Feldstein at Harvard writes the Forward to the book, as strong a mainstream endorsement as one could likely find.

[9] Michael Scott Moore. "This Land is Your Land." European Dispatch Blog. October 21, 2009. http://www.miller-mccune.com/politics/this-land-is-your-land-3392/.

There are those, however, that have argued that economic rent is at least a third of an economy, and perhaps far more. Terry Dwyer claims that economic rent on real estate land alone is about 30 percent of the Australian GDP, ignoring other resource rents that exist. "The 'bottom line' reinforces the overall conclusion …that land-based tax revenues are indeed sufficient to allow total abolition of company and personal income tax. Further, to the extent that some taxes, such as rates, land tax, resource rent taxes and even part of income tax on land rents are already capitalized in lower market values for privately held land, the figures would tend to understate the capacity of land income to replace existing taxes." [10] Mason Gaffney, after showing the numerous ways in which rent is consistently under-represented, argues that rent in a modern economy is an ample basis of public finance, a claim reflected in his title, "The Hidden Taxable Capacity of Land: Enough and to Spare,"[11] The article enumerates in detail some sixteen ways in which economic rent is undercounted in conventional treatments.

The point at issue then is whether rent has really ceased to be a significant element of a nation's economy or whether it is simply not being counted. Michael Hudson argues the latter. In an important paper he wrote about fifteen years ago, titled "How Rent Gets Buried in the National Income Accounts," [12] he explains how land rent is calculated in the US National Income and Product Accounts so as to be grossly misleading. Since the data is compiled from income tax filings, it is derived from commercial real estate transactions, and these favor that industry's purposes. Since the NIPA accounts have no other sources for their data, the inability to recognize rent except by this source leads to its trivialization. The data takes no account of imputed rent of owner-occupied homes, the rent yield from commercial real estate properties, or indeed the yield from other (non-realty) natural resource elements of the economy. For the real estate industry itself, depreciation rates are so generously calculated that land values actually show a net loss! The upshot is that the only numbers are for real property rental income, i.e., that listed for payments by tenants who rent properties – i.e., offices and households.

[10] Terry Dwyer, "The Taxable Capacity of Australian Land Resources," in *Australian Tax Forum*, Vol. 18:1 (Jan. 2003). http://www.prosper.org.au/Documents/TaxableCapacity.pdf; See also Steven Cord, "How Much Revenue Would a Full Land Value Tax Yield? Analysis of Census and Federal Reserve Data," *American Journal of Economics and Sociology*, Vol. 44, No. 3 (Jul, 1985): 279-293.

[11] Mason Gaffney, "The Hidden Taxable Capacity of Land: Enough and to Spare," *International Journal of Social Economics*, Vol. 36:.4 (2009): 328-411.

[12] This paper had several iterations, the first version presented as a working paper at the Conference of the Council of Georgist Organizations in 1995, Evanston, Ill. www.cooperativeindividualism.org/hudson_nationalincome.html The Levy Institute at Bard College, Annandale on Hudson, New York subsequently published it. It has temporarily disappeared from Dr. Hudson's website (Nov. 2011) but may again soon be up at http://michael-hudson.com.

Still another way in which the amount of land rent is hidden from analysis is in the way by which real estate parcels are assessed. One needs first to recognize that structures depreciate in market value even as land values appreciate. The depreciation of buildings has been estimated in one study at about 1.5% annually,[13] which means that infrequent assessments make valuations quickly out of date. The over-assessment of structures and the underassessment of land values means that rent flows, particularly in urban areas are misjudged. The problem is distorted even further by methodology that often treats the land component as the residual rather than the building, which is called for by professional standards.[14]

Ricardian Rent

If land rent is a factor associated only with agricultural production, as contemporary neoclassical economics texts or as Clark and Buchholz both assume, their arguments can be linked largely to the declining importance of farming as a proportion of modern economies. This is the dimension of rent that David Ricardo identified and best explained in the early half of the 19th century.[15] Ricardo's definition of rent is "that portion of the produce of the earth which is paid to the landlord for the use of the original and indestructible powers of the soil." Ricardo's land use model implies that the intensity of production rises with the demand for land, as higher levels of economic rent justify the expenditure of more labor. But with the application of technologies, both of machinery and of fertilizers, much of the pressure on land has been relieved and forestalled. It then stands to reason that, even given the wide expanses of farmland in the US and elsewhere, its significance, as a proportion of total economic productivity might be less. As important as agriculture is to the welfare of a society, the place it holds as a component of GDP (gross domestic product) is far smaller than two centuries ago. This perception reflects the inadequacy of our statistical measures, however, more than the diminution in importance of the agricultural economy. Even if the raw food supply is a small a part of GDP, one cannot dismiss its pivotal position in society. A certain eminent statesman/economist once also trivialized petroleum as inconsequential using the same argument.[16]

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13 Morris A. Davis and Michael G. Palumbo, "The Price of Residential Land in Large U.S. Cities," Finance and Economics Discussion Series, Washington: DC: Federal Reserve Board, 2006.

14 Michael Hudson, "The Land-Residual vs. Building-Residual: Methods of Real Estate Valuation." A lecture delivered to the New York University Real Estate Institute, October 25, 2001. http://michael-hudson.com/2001/10/the-land-residual-vs-building-residual-methods-of-real-estate-valuation/ and http://wealthandwant.com/docs/Hudson_Lies.html

15 David Ricardo, *Principles of Political Economy and Taxation*. (London: 1817, Dent & Co., 1917), Ch 2: On Rent.

16 In a 2005 address to Japanese businessmen and public officials, Alan Greenspan said, "Today, the average price of crude oil, despite its recent surge, is still in real terms below the price peak of February 1981. Moreover, since oil use, as I noted, is only two-thirds as important an input into world GDP as it was three decades ago, the effect of the current surge in oil prices, though noticeable, is likely to prove significantly less consequential to economic growth and inflation than the surge in the 1970s." Remarks by Federal Reserve Board Chairman Alan Greenspan Before the Japan Business Federation, the Japan Chamber of Commerce and Industry, and the Japan Association of Corporate Executives, Tokyo, Japan. Oct. 17, 2005. www.federalreserve.gov/boarddocs/speeches/2005/20051017/default.htm.

Since the concept of economic rent, also known as Ricardian rent, land rent, and ground rent, has essentially disappeared from our contemporary vocabulary, it is helpful to look to a time when rent was a recognizable reality in people's daily lives. From the Middle Ages of European feudalism, we have many words in contemporary English and French that build on this root word. To *rend* is to remove from a location, to split or tear apart, often violently; *rendition* is the forfeiture, cession, or handing over of something; and to render is to give, interpret or make available. *Rentiers* are people who depend and live on the rent of others. *Rent seeking* is the "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."[17] A still more pointed definition is "the use of resources to get a rent by reducing the welfare of others."[18] The importance of rent, economically speaking, is its presence in market value of any resource of nature regardless whether it flows through nature or is collected and paid by its titleholder. Left fixed in capitalized form in whichever resource base has commodity value, it becomes a loss of liquid capital for other use and a diminution of economic productivity.

The challenge of understanding the economics of the feudal age is far less difficult using the framework of classical economics than for neoclassical economics. Classical economics is based on a tripartite factor division – land, labor and capital. The prices of labor and capital are wages and interest respectively, and any resulting surplus appears as rent yield from the land. This is something understood from the time of John Locke until the beginning of the 20th century. With the institutionalization of economics as a formal discipline, land and the associated rent was conflated into capital, eventuating in the subsequent creation of two-factor theory. This was easy to do given land's increasingly permuted and commodified status. This conceptual transformation has been explored in detail by a number of historians of economics, most cogently by Mason Gaffney, in his 1995 book, *The Corruption of Economics*.[19] Not only was rent as a tool of analysis essentially eliminated from contemporary definitions and formulas, but the moral basis on which the discourse of political economy rested was lost as well.

One would need to be exceedingly familiar with the economies of various medieval societies in order to extrapolate the component of land rent in their GDPs, and with sufficient confidence to estimate the proportion of community income it represented. The historical chronicles are replete with stories, noting in detail the amount paid, whether in agricultural yields, in money, or in labor service. But historians seem less interested in or able to make estimates of rent as a total share of an economy, or even for any given domain (*demesne*). There is a further danger of applying a single term to an array of socio-economic arrangements that only in the collective sense are called feudalism. The term rent is context dependent. This is made clear by Keith Tribe:[20]

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[17] Arye Hillman, *Public Finance and Public Policies. supra.* 448; See also Dennis C. Mueller, *Public Choice III,* especially Ch. 15, Rent Seeking, (New York: Cambridge University Press, 2003); Johann Graf Lambsdorff, *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, 2007).

[18] Karl Gunnar Persson, *An Economic History of Europe: Knowledge, Institutions and Growth, 600 to the Present* (Cambridge: Cambridge University Press, 2010): 248.

[19] Mason Gaffney et al, *The Corruption of Economics* (London: Shepheard-Walwyn. 1994); online at http://homepage.ntlworld.com/janusg/coe/!index.htm. (accessed 9-20-10)

[20] Keith Tribe, *Land, Labour and Economic Discourse* (London: Routledge & Kegan Paul, 1978): 27.

> If we examine manorial accounts of the thirteenth or fourteenth centuries, the existence of 'rent' and its association with a named subject and a piece of land is quite clear; but this rent can undergo some peculiar transformations, and the amount of rent paid has little or nothing to do with the price of saleable agricultural produce, or even with the extent of land occupied. This 'feudal rent' is in fact not a rent of land, but is an expression of the subordination of feudal labour. As a consequence of this, it is really quite accidental that feudal and capitalist rents can appear to be variants of a particular category. In order to understand the nature of this feudal rent, it is necessary to devote some space to an outline of what can be roughly termed a 'feudal economy.'

The greatest difficulties exist in understanding and putting a value on various rental payments when they can take many forms. Rents were paid in the form of labor (corvèe), as a portion of a crop or other yields, as tribute goods, or in coin. Payment of rent to lords was as integral a part of the circular flow of their economic systems as the flow of taxes is today. Quantifying the value of such payments for socio-historical analysis today remains inherently subjective especially when, for example, the labor contributed to repair and maintain fields and hedges or roads and canals served not just a lord's domain but also the general welfare of the community.[21] Even if these obligations were perceived as duties solely to lords, they were essentially communal. There were also payments of a share of crop yield or tribute gifts. How would one price the gift of one's daughter to a lord to serve as a minor wife or concubine?

A second challenge arises out of the fact that the strength of patriarchal rule ebbed and flowed over time. When political rule was casual, rents were often unpaid; when the nobility was strong rents were collected.[22] Practices, as a result, did not always follow formal arrangements and rules, nor were they consistent. In fact the chronicles and other records that have come down to us show that payments were often in arrears, and were often adjusted to reflect the state of economic circumstances.[23] In efforts to cope with such changes, Immanuel Wallerstein, for example, points to the case of another economic historian writing about the 16th century.

> [One] may assume that at the beginning of the Price Revolution wage payments represented three-fifths of production costs… I guess that in 1500 the rent of land may have been one-fifth of national income in England and France and that, with the tendency for rising agricultural prices to raise rents and the infrequent removals of rent contracts to lower them offsetting each other, rents rose as fast as prices during the Price Revolution.[24]

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[21] H.S. Bennett, *Life on the English Manor: A Study of Peasant Conditions, 1150-1400*. Ch. V: "Rents and Services," 97-125, *passim.* (Cambridge: Cambridge University Press, 1937, 1971).

[22] As noted by Georges Duby, "The greater the military superiority, the higher stood the rent." *The Early Growth of the European Economy: Warriors and Peasants from the Seventh to the Twelfth Century.* (French, 1973; English Translation London: Weidenfeld and Nicholson, 1974): 49.

[23] Jonathan Dewald, *Pont-St-Pierre 1398-1789: Lordship, Community and Capitalism in Early Modern France*. (Berkeley: University of California Press, 1987).

[24] Quoted in Wallerstein, Volume I, *Supra,* 78, from Earl J. Hamilton, "The History of Prices Before 1750," in *International Congress of Historical Sciences*. Stockholm, 1960.

There are an ample number of archived chronicles where records of rent payments survive but inferences about its gross level as a proportion of the gross domestic product are difficult. Even if the economic systems of the age are identified as being of a single sort, in a span of roughly seven centuries on a continent of many societies and nations, generalizations are problematic. One can generalize about lands "owned" by lords, usually under sufferance of their kings, but then it gets more complicated. Britnell[25] distinguishes three arrangements between 1000 and 1500: manorial leases, feudal tenures, and peasant tenures.

> Manorial leases were contractual in character and were the usual means by which landlords managed their estates. Whole manors, both the income and services from peasant tenures and the demesne land under direct seigniorial control, were leased, often for one or more lives at a fixed rent. Unlike feudal tenures, receipts from seigniorial leases were geared directly to providing the household services of the king, bishops, abbots, barons and other greater landlords. Feudal tenures were those created originally as contracts to provide for a lord's personal service, usually of a military kind. They were of many different sizes. At the top end, from the Conqueror's reign onwards, whole baronies were held from the crown for the services of a stipulated number of knights, though the lands of the barony had to maintain the baron himself as well as his knights. At the lower end of the scale were individual knights' fiefs (the land given to knights to support them). Such fiefs were often taken out of the demesne land of a baron or a wealthy church burdened with military service. A few of the larger ones became new manors in their own right, though this was unusual in the eleventh century. Peasant tenures were those held by the various categories of villager who owned rents and services at a manor house; they're mostly family holdings of fifty acres or less and the terms of tenure were all customary in some degree. Most manors had some tenants of this kind.

References here deal largely with English history due to the especially rich scholarly examination of its feudal period,[26] but similar practices can be identified in continental Europe as well. In the final analysis, we can only depend upon the best guesses from economic historians of the period as to the amount of rent comprised in feudal societies. Robert Allen, who has written three books on the period, argues that the enclosure movement radically increased the productivity of English society. He concludes, "If rent accounted for one third of revenues, then enclosure boosted rent by 64 percent." He continues to work from the premise that rent accounted for a third of the revenues with the onset of the enclosure movement.[27] The French Physiocrats estimated rent at about a third, as did Adam Smith who was deeply influenced by their work.[28] Vestiges of rent payments in feudal societies also exist in the form of stories and verses that have come down to us. We all know

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[25] Britnell, 2009, *infra*. 31.

[26] The scholarship on this subject in the past two generations has been truly astounding. The best starting point for such information is still the work of noted French historian Fernand Braudel in *The Mediterranean and the Mediterranean World in the Age of Philip II, Volumes I and II*. (1949, 1966, English translation in 1972, and Harper Colophon books, 1976); and in his three-volume history, *Civilization and Capitalism: 15th – 18th Century. (*1979, English translation, 1981, 1982, 1984, Harper Perennial Library). Of equal standing in the history of this period is Immanuel Wallerstein, whose three-volume work carries the subtitle *The Modern World System*. The first volume, *Capitalist Agriculture and the Origins of the European World-Economy in the Sixteenth Century* (New York: Academic Press, 1974) is equally comprehensive. Yet, sweeping as they are, none of them discuss practices of rent much in detail. Marc Bloch's two-volume history, *Feudal Society--The Growth of Ties of Dependence* and *Social Classes and Political Organization* (Chicago: University of Chicago Press, 1961) also mentions various payments of rent in passing. Bloch's *French Rural History: An Essay on Its Basic Characteristics*. (Berkeley: University of California Press, 1966, 1970) is a bit more suggestive, along with D.C. Coleman, *The Economy of England: 1450-1750*. (London: Oxford University Press, 1977). A series of early papers are collected and edited by M. M. Postan, et al., *Cambridge Economic History of Europe Vol. I-VII*. (Cambridge: Cambridge University Press, 1966) ff. Joan Thirsk has edited another collection beginning in the late 1960s, which apparently continues, most published by Oxford and Cambridge University Press. Also R.H. Hilton, *The English Peasantry in the Later Middle Ages*.

> Bah, Bah Black Sheep, Have you any Wool? Yes Sir, Yes Sir, Three Bags full.
> One for my Master, One for my Dame; One for the little boy that lives down the lane.[29]

The part for the "Master" was rent. That "one third" estimate is repeated often. Yet Christopher Dyer, who is just as steeped in the history of the English Middle Ages and who consulted with colleagues upon meeting the question, puts the proportion at only about twelve percent.[30]

(London: Oxford University Press, 1975); Material has burgeoned in the past three decades: John Brewer, *The Sinews of Power: War, Money and the English State: 1688-1783*. (New York: Alfred Knopf, 1989); Bruce M. S. Campbell & Mark Overton (ed.): *Land, Labour and Livestock*. (Manchester and New York: Manchester University Press, 1991); Richard Britnell and Bruce M. S. Campbell (ed.): *A Commercializing Economy: England 1086 to c. 1300*. (Manchester and New York: Manchester University Press, 1995); Robert C. Allen. *Enclosure and the Yeoman*. (London: Oxford U Press, 1992); M.E. Turner, J.V. Beckett, and B. Afton. *Agricultural Rent in England, 1690-1914*. (Cambridge: Cambridge University Press, 1997); Bruce Campbell, *English Seigniorial Agriculture, 1250-1450*. (Cambridge: Cambridge University Press, 2000); Adam J. Kosto, *Making Agreements in Medieval Catalonia: Power, Order and the Written Word, 1000-1200*. (Cambridge: Cambridge University Press. 2001); Christopher Dyer. *Making a Living in the Middle Ages: The People of Britain, 850-1520*. Yale University Press, 2002; Stone, David, *Decision Making in Medieval Agriculture*. London: Oxford University Press, 2005; Christopher Dyer. *An Age of Transition? Economy and Society in England in the Later Middle Ages*. London: Oxford University Press, 2005; R. H. Britnell, *The Commercialization of English Society, 1000-1500*. (Cambridge: Cambridge University Press, 2009); and Robert C. Allen, *The British Industrial Revolution in Global Perspective.* (Cambridge: Cambridge University Press, 2009). Those more broadly dealing with Europe are Michel Beaud, *A History of Capitalism: 1500 -2000*, New Edition (Trans. From the French, New York: Monthly Review Press, 2001); Paul Bairoch. *Cities and Economic Development from the Dawn of History to the Present*. trans. C. Braider. (Chicago: University of Chicago Press, 1988); Jan DeVries, *The Economy of Europe in an Age of Crisis, 1600-1750*. (Cambridge: Cambridge University Press, 1976); and Carlo Cipolla, *Before the Industrial Revolution*. (New York: Norton. 1976;) Marcus Bull, *France in the Central Middle Ages: 900 - 1200*. (London: Oxford University Press, 2003); Steven A. Epstein. *An Economic and Social History of Later Medieval Europe, 1000-1500*. (Cambridge: Cambridge University Press, 2009); Karl Gunnar Persson, *An Economic History of Europe: Knowledge, Institutions and Growth, 600 to the Present*. (Cambridge: Cambridge University Press, 2010).

[27] Allen, *Enclosure and the Yeoman*. *Op.cit; The British Industrial Revolution. supra*: 116.

[28] 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, *Economic Theory in Retrospect, Fifth Edition*. (Cambridge: Cambridge University Press, 1997): 29. Smith offers his estimate in several places but most explicitly in Chapter III, Book II of the *Wealth of Nations*. (New York: Random House Modern Library Edition): 318. (London: Thomas Nelson edition,1843):137.

[29] This rhyme is traceable to France as well, as far back as the 17^{th} century. See Wikipedia and other sites.

[30] Christopher Dyer, Professor of Regional and Local History at University of Leicester, personal communication, Oct. 2011.

It appears that as the feudal system evolved, less of the rent was paid in a proportion of crop yield or in labor, and more in the form of hard money. But the terms were always negotiated according to the leverage that each party could bring to bear, sometimes favoring the peasants and sometimes the landlords. The full amount of Ricardian economic rent was never paid to the lord – indeed that is a sum only discernable by theory or extrapolation. Calculating amounts based on all the inputs and outputs exceed the capacities of accounting both then and even now.[31] In efforts to bridge the various meanings of rent as it was applied, some scholars have elected to include more than Ricardo's meaning of "original and indestructible powers of the soil" alone. They add in the use of any capital that the lord frequently supplied to tenants. Hence, rent was defined as "the share of the produce taken by the landlord for the use of the soil and for the equipment of the farm, which we call rent," a meaning borrowed from earlier scholarship.

Tribe discusses rent and feudal society as described in a number of scholarly treatises.[32] But he is insistent in pointing out that rent is not a category that can be applied *a priori* to other civilizations and other times. Nonetheless, there is good reason to maintain that counterparts of feudal societies elsewhere in the world with many of the same attributes offer equivalents that can be identified as rent.[33] This is made quite clear, for example, by Max Weber. Gerhard Lenski notes that the Chinese gentry was able at times to collect as much as 40-50 percent of the land yield as rent and has no reservations about using the term.[34] This writer's work in Thailand suggests that land rent for the roughly three centuries of the Ayutthaya and Bangkok Chakri dynasties until the 20th century was from 20 to 40 percent.[35] This raises the question whether the three factors of production as employed in classical economic theory tend typically to equilibrate in a way that they always maintain a constant proportion in relationship to one another.[36]

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[31] Turner, et al. *supra*, p 12, argues that "The practical weaknesses of the classical theories of income distribution as applied to land rents, were that they depended on two assumptions, neither of which can be supported: first, that farmers carefully calculated the likely profits of a farm before agreeing to the rent which was asked; second, that were the landlords to set the rent so high that the tenant could not earn his usual return on capital and labour the tenant would move to another farm where better terms were on offer. The calculations needed to support these assumptions could not be made, even had farmers wished to make them."

[32] Frederic William Maitland. (1895) *Domesday Book and Beyond: Three Essays in the Early History of England*; S. F. C. Milsom, *Historical Foundations of the Common Law*, (London: Butterworths 1969); Frederick Pollock and Frederic William, Maitland, *History of English Law* (Cambridge: Cambridge University Press, 1968); and Postan.

[33] Looking still more widely afield, Michael Hudson organized a series of seminars of Assyrian and Biblical archaeologists to explore the nature and significance of rent. See the conferences of International Scholars on Ancient Near Eastern Economies. Volume 1: Michael Hudson and Baruch A. Levine (Ed.) *Privatization in the Ancient Near East and the Classical World*. Cambridge, MA: Peabody Museum of Archaeology and Ethnology, Harvard University, 1996; Volume 2: Michael Hudson and Baruch A. Levine (Ed.) *Urbanization and Land Ownership in the Ancient Near East*. Cambridge, MA: Peabody Museum of Archaeology and Ethnology, Harvard University, 1999; Volume 3: Michael Hudson and Mark van De Mieroop (ed.): *Debt and Economic Renewal in the Ancient Near East*. (Bethesda, MD: CDL, 2002); Volume 4: Michael Hudson and Cornelia Wunsch (ed.). *Creating Economic Order: Record-Keeping, Standardization, and the Development of Accounting in the Ancient Near East*. Bethesda, MD: CDL, 2004; and Volume 5: Michael Hudson and Cornelia Wunsch (ed.) *Free Labor in the Ancient Near East* (forthcoming).

[34] Gerhard Lenski. *Power and Privilege: A Theory of Social Stratification.* (New York: McGraw Hill, 1966): 226 and more generally in Ch. 9.

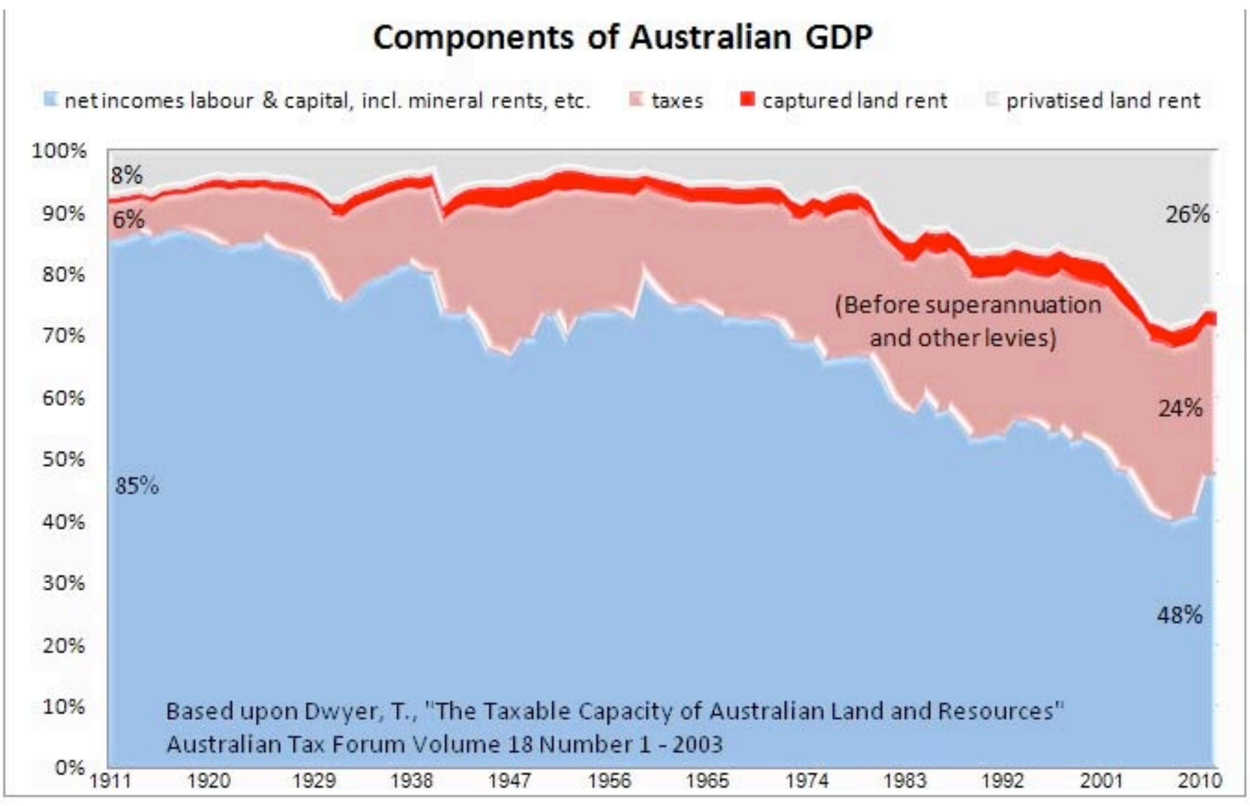
[35] H. William Batt, "Thailand's Challenging Fiscal Situation and its Solution." Thailand: National Institute of Development Administration Journal, forthcoming.

[36] This certainly seems to be an operating premise of classical economics as understood in the Georgist tradition and as taught by the Henry George Institute. See www.henrygeorge.org.

One looks in vain to find empirical studies estimating the total amount of economic rent in contemporary modern societies. As noted earlier Ricardian rent as a dimension of productivity is either ignored or subsumed by other factors to become profit. Ricardian rent was a central element of classical economics and given detailed attention in all the texts until what is today called neoclassical or Keynesian economics. This contrast is too seldom mentioned to students introduced to the discipline today. Many schools do not require their majors to take a course in the history of economic thought at all; in some programs it is not even offered! It is no wonder that the products of such programs have but a rudimentary understanding of the concept of rent.

In view of the assertions of several prominent contemporary economists that rent is indeed the appropriate source of taxes in lieu of those imposed on wages and goods, it would seem to call for concerted investigation of the amount of rent of all sorts flowing through the economy. Rent linked to the resources of nature never understood by Ricardo and other classicists would suggest its amount and proportion has likely grown substantially.

Is there then enough economic rent in our economy to supplant our conventional taxes on goods and labor. Every indication is that there is. This paper, and Part II to follow, marshal the evidence in favor of such revenue streams, as difficult as it is to do more than draw inferences. Terry Dwyer was mentioned earlier for his work on land rent from real estate parcels in his native Australia. His calculations indicate that present rental flow from land sites is close to 30 percent of its GDP, easily enough to finance government. Supplanting and thereby eliminating taxes on labor and capital goods would remove the excess burden that so damps the present economy, suggesting that the flow of rent would be far higher still. The graphic portrayal of land rent's growth in the past century of Australia is taken from his most central paper.



In 2010 proponents of taxing real estate land rent in the State of California proposed an initiative to be placed on a statewide ballot (pending the successful collection of requisite signatures). The tax regime would eliminate all taxes on sales, and all that on annual income up to $150,000, with the expectation that subsequent measures would enable elimination of the income tax above that threshold in due course.[37] The State of California Legislative Analyst's Office, California's Nonpartisan Fiscal and Policy Advisor, which must review and approval all prospective ballot initiatives for their constitutional and fiscal soundness, concluded that the measure's design could indeed raise the requisite amount of revenue and likely much more.

The California effort is just the first of many that one can expect soon to see brought to public attention in the wake of the current economic crisis and the loss of confidence and legitimacy in our current tax structure. The rising tax revolts that have grown in the past few decades require responses with integrity and persuasiveness. Restoring the tax foundations that served almost all the civilizations of the world for thousands of years should not be difficult. It needs only to be explained that the current tax regimes that modern societies rely upon today have a history of hardly more than a century. Their premises rest on a system of economics that is a departure from past enquiry. We need only look to the past, and apply the lessons we have from the present day, to create a tax structure that is consistent with both morality and science.

Part II of this paper points to other sources of rent that are underestimated and even ignored in contemporary economic calculations. It adds further credence to the argument that surplus rents that flowing from the free resources of nature are ample enough to finance public goods and services in lieu of taxes on wage labor and capital goods.

Taxable Rent3a.doc
Word Count sans notes: 4,950
Word Count with notes: 7,575
December 2011

[37] See Prosper California Tax Reform Initiative at http://www.prospercalifornia.com/.

Taxable Rent, More than Enough: after Professor Gaffney
Part II
H. William Batt, Ph.D.
November 2011

Not for Attribution

Abstract – Taxable Rent

Despite frequent arguments about the merits of taxing economic rent rather than the wages of labor and capital goods, the assertions largely fall on deaf ears. The reason is that neoclassical economic theory doesn't regard rent as a significant element in a modern economy. Conventional treatments view rent either as the yield of agricultural land alone or else as trivialized and swamped by the productivity of the other factors of production. Moreover, in most contemporary analysis, land has been conflated into capital in two-factor theory, in contrast to formulas of classical economics that prevailed until the 20th century. Many estimates suggest, however, that rent as a proportion of social wealth is typically about one third, but ranges from twenty to over forty percent.

This paper collects what evidence is available in contemporary economic literature as well as that in historical and cross-cultural analysis to show that rent continues to be a significant element even in today's economies. Far from being less than in historical periods when agricultural economies dominated societies, rent may well be an even larger component of a society's gross domestic product. The paper looks at the literature where rent was a recognized phenomenon, and distinguishes between that understood by David Ricardo and that of Heinrich von Thünen. It goes on to discuss what today is recognized as the Henry George Theorem – that the rent generated in a typical municipality is sufficient if taxed to support all its necessary services. It further lists resources of nature where the yields of rent are recognized in theory, even though they are not now being measured.

One difficulty in calculating socially-produced resource rents stems part from the fact that ***all taxes*** on other factors of production – labor and capital goods –ultimately ***come out of rents,*** and the ***excess burdens*** that are imposed by these other taxes also ***come out of rents***. This has been explored and identified with the acronyms ATCOR and EBCOR. The upshot of available inquiry is that rent is fully adequate to finance public services were it to supplant other taxes. The question is of significant moment, and calls for further analysis of national income and product accounts in order to provide more definitive answers.

Short Abstract

Several contemporary economists have urged a return to the tradition of classical theory wherein the basis of taxation is the rent from natural resources. From all its sources it is likely about a third of a society's gross product, easily enough to supplant conventional taxes on wages and capital goods.

Key words: rent, economic rent, ground rent, land rent, Ricardian rent, von Thünen rent, resource rent, land, Henry George Theorem, ATCOR, EBCOR, classical economics.

Rent after Ricardo

Classical economic theory's recognition of rent was limited to its relation to land sites, surface locations of the earth that were recognized as having market value. There is little evidence that flows of rent in any other place or of any kind were recognized until the time of Henry George. He redefined land to mean "not merely the surface of the earth as distinguished from the water and the air, but the whole material universe outside of man himself. . . . [It] embraces, in short, all natural materials, forces, and opportunities, and, therefore, nothing that is freely supplied by nature can be properly classed as capital."[1] After finding definitions of Ricardo and others inadequate, Marx constructed more elaborate definitions of rent in his third volume of *Das Kapital*, but they never became an essential part of his main historical theses.

As noted in Part I earlier, contemporary economics textbooks pay little if any attention to rent, in contrast, for example to the basic text of Alfred Marshall, which went through eight editions, the first in 1890 and the last in 1920. Rent warranted a whole chapter, and was explored in detail in several other places of the book.[2] Since all the definitions related essentially to agricultural productivity surplus until George, the eclipse of his ideas meant the decline of attention to rent. It has remained for the Georgists, even if driven to the wings of mainstream economic discourse, to keep attention to the concept of rent, also now referred to as land rent, economic rent, ground rent, and, yes, Ricardian rent.

Von Thünen Rent

By far the largest single element of land rent today, however, is an outgrowth of spatial location. For this understanding we owe most to a German economic geographer named Johann Heinrich von Thünen.[3] Von Thünen was also a gentleman farmer, and was interested foremost in the theory of marginal productivity of land as regarded its relative location for growing crops. He understood that the cost of a crop yield had to take into account the price of getting it to market. The most expensive and perishable commodities it made sense to grow nearest the city centers. The less expensive and less perishable crops could be allocated to agricultural land in more remote areas. With this in mind he developed formulas including several variable factors that would decide the optimal location to grow various crops. The complete formula is

$L = Y(P - C) - YDF$, where

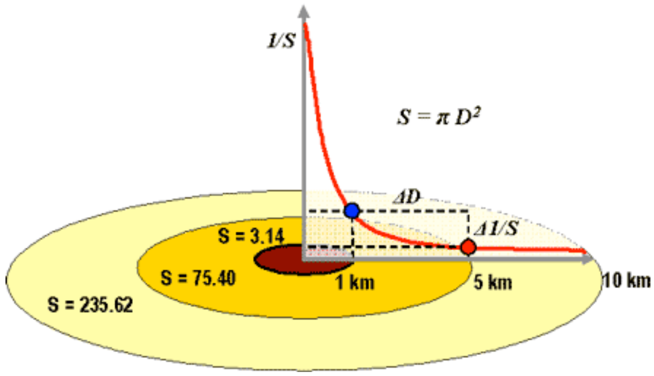
L = Locational rent
Y = Yield
P = Market Price of the Crop
C = Production Cost of the Crop
D = Distance from the Market

[1] Henry George, *Progress and Poverty: An Inquiry into the Cause of Industrial Depressions and of Increase of Want with Increase of Wealth . . . The Remedy*. 1879, New York: Robert Schalkenbach Foundation, 1962). p. 38.

[2] Alfred Marshall, *Principles of Economics, Eighth Edition*, 1920, (London: MacMillan, 1962), Book VI, Ch. IX.

[3] *The Isolated State*. 1826. English edition of *Der Isolierte Staat*. Translated by Carla M. Wartenberg, Edited with an introduction by Peter Hall. (New York: Oxford Pergamon Press, 1966). Except for the attention of economist Alfred Marshall in the late 19th and early 20th century, von Thünen received practically no attention until the English translation of his single work in the 1960s. Fernand Braudel (in *Volume III* of his triad *Civilization and Capitalism*, p. 38) ranks von Thünen on a level with Marx.

F = Transport Cost



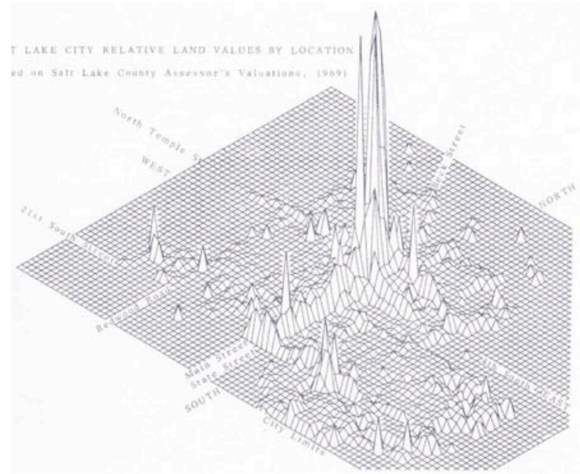


Figure 1

Figure 2

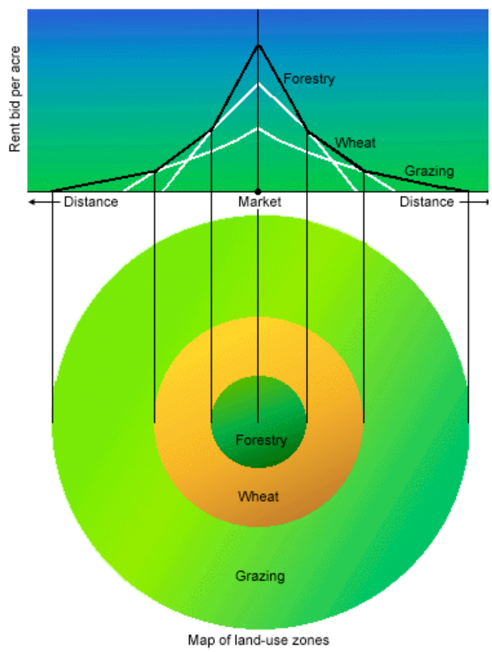


Figure 3

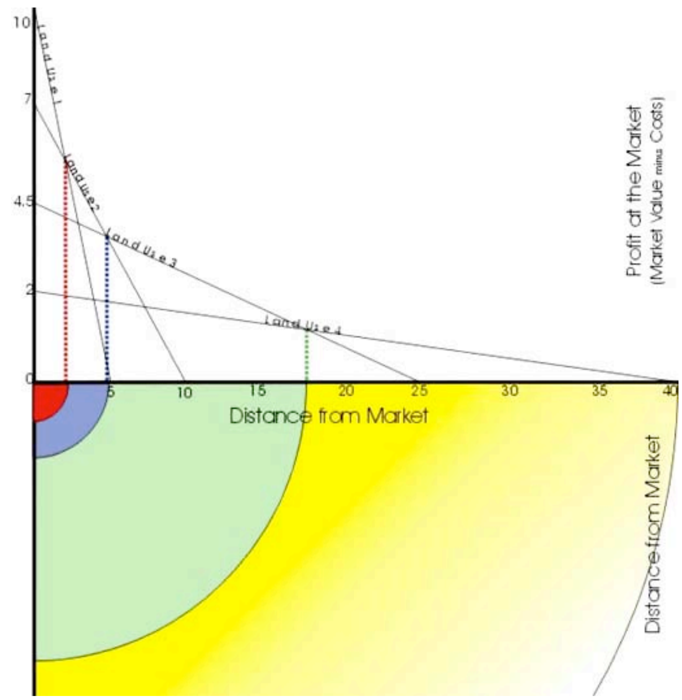


Figure 4

Assuming that there was a single market location for crops – a city with one central market – the rental value of the land in the vicinity of the city could easily be calculated, as in Figure 1. The formula can also be expressed as a given surface area proximate to a market in a mono-centric community. Salt Lake City, Utah, a contemporary mono-centric city with accurately assessed land values done in 1969 shows a strikingly similar configuration in Figure 2,[4] demonstrating that the formula still works today for the strategic value of all kinds of land use – commercial, community service, residential, industrial, and agricultural. Figures 3 and 4 show where the use of agricultural land is best used for each type of crop, taking transportation costs into account.

Many cities approximate such configurations, or at least did in earlier times. Consider the historical growth of Paris, where it remained essentially self-contained within successive walled areas over the course of centuries.

The Growth of Paris

Paris in 1705

Paris had been the most protected capital in the World.It had 6 known surrounding walls:
- a Gallo Roman wall
-the Philippe-August Rampart (13° Century)
-the Charles V Wall (15° Century)
-the Louis XIII Wall (17° Century)
-the "Mur des Fermiers Généraux" (1787)
-- the "Enceinte de Thiers" (1844)

[4] From Claron E. Nelson, *This is a Community: Salt Lake City*. University of Utah Press, 1971.

The earliest growth of cities saw a commensurate shift from Ricardian rent to von Thünen rent. Of course the distinction is necessarily synthetic, because clearly no city can sustain itself without a rural counterpart. In the same way demands of the urban economies also pressed farmers to levels of greater efficiency and productivity. Total rent as a portion of society's productive return arguably increased due to the growth of commerce and increased division of labor. Allen, as noted earlier, notes the substantial increase in economic productivity in the wake of enclosure, a result of its more intensive use.[5] Greater appreciation of this interdependency has come about in recent years with the introduction of the concept of an "ecological footprint" of major urban configurations.[6]

Linking the two dimensions of rent in the field of scholarship has been done most successfully by economic historians of the feudal ages. In the work of British scholar Bruce Campbell the dramatic transitions are noted most clearly.[7]

> Demand is translated into landuse and farming systems via the medium of economic rent. Economic rent is the return due for the use of the land alone as a factor of production. It represents that part of a farmer's revenue above production costs, but excluding remuneration derived from the three other main factors of production, namely labour, capital, and enterprise. So long as self-sufficiency was the predominant objective of most cultivators, economic rent—as Ricardo recognized—was largely a function of land quality and the demand for land (that is population density mediated via institutional controls upon rent levels and access to land). Where competition for land for subsistence was strongest and that land was inherently most productive, rents would be highest. But once markets developed and agriculture became more commercialized so, as J.H. von Thünen demonstrated, economic rent was increasingly determined by the cost of transporting goods to market, rents rising with proximity to the market. In both cases, the higher the economic rent the greater the incentive and justification for raising inputs of labour, capital, and enterprise. Where, close to major cities, von Thünen rents generally exceeded Ricardian rents it was the market which determined the character and intensity of production, whether for consumption or exchange. At a greater distance, however, the rent for subsistence production (with no effective transport costs to bear) may have exceeded that for commercial production, resulting in different types and intensities of production between the subsistent and commercial sectors. In a medieval context this meant that in areas of low von Thünen economic rent peasants producing for consumption may have been more intensive in their methods than demesnes producing for exchange. Areas of high economic rent—be it because of good soils, strong demand for land, and/or favourable access to markets—should therefore have been characterized by more intensive and productive husbandry systems than areas of low economic rent.[8]

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[5] Allen, *Enclosure*. *supra*.
[6] Mathis Wackernagel and William Rees. *Our Ecological Footprint: Reducing Human Impact on the Earth*. (Vancouver, BC: New Society Publishers, 1996).
[7] Bruce M.S. Campbell, "Economic Rent and the Intensification of English Agriculture, 1086-1350," in Grenville Astill and John Langdon (ed.), *Medieval Farming and Technology: the Impact of Agricultural Change in Northwest Europe*. (Leiden: Brill. 1997): 225-249.
[8] Campbell, 2000: *supra*. 237-38.

Campbell goes on to show how this played itself out in medieval England with both statistics and graphical analysis. "The more that von Thünen economic rent receded, the more that Ricardian economic rent – reflecting differences in land quality and population density – came to the fore."[9] Of course many complicating factors might enter in to the equation so that the land would not eventuate in concentric rings. It might have more than one center. There might be poor roads in one section, or other obstacles or rough terrain. Other factors being equal, however, the von Thünen pattern of concentric rings of land use is evident in the histories of many cities.[10]

The von Thünen formula applied to urban land configurations changes our understanding of land rent so much that the Ricardian approach pales by significance. One study of arm's length sales of vacant parcels in metropolitan New York City showed that the price per square foot in downtown Manhattan was as high as $12,648, while the value of other parcels only thirty miles away fell to less than $2.[11] In Greenwich CT, a city with several Fortune 500 corporation headquarters and the residences of many wealthy CEOs and hedge fund entrepreneurs, the land parcel price per square foot was as much as $1,305, and fell to a price of less than $5 only five miles away.[12] The von Thünen thesis is easily validated especially in cities mono-centric design.

Assessments of urban property parcels are frequently of poor quality, especially for the land component: they are quickly out of date, valuations are subject to influence and corruption, assessors lack skill, and differentiating between the value of land sites and that of improvements is often a matter at issue. Because improvements depreciate in market value (usually at about 1.5 percent annually[13]), and land appreciates, land values tend to be understated. Fortunately new techniques and better training of assessors allows for computer applications to resolve many earlier problems. Statistical regressions, GIS triangulation algorithms, and simple portrayal of valuations on land value maps make very clear how great the differential values per unit can be. As more and more visualizations of land value in metropolitan regions become available, it will be apparent how steep the center-periphery gradient typically is.[14]

Von Thünen explored the economics of agricultural productivity of areas at various points away from the central market, identifying the locations best suited for truck farming, forests, grain farming, and grazing for example. A well-designed modern city has counterpart rings of office services and retail sales in its urban core, residential parcels extending outward, and farms and forest at its periphery. Rental prices of these varied locations has often today been distorted by mistaken notions of taxation, the result of which has been the artificial continuation

[9] Campbell, 2000, *supra*: 302.

[10] See especially the work of Peter Hall, *Cities of Tomorrow: An Intellectual History of Urban Planning and Design in the Twentieth Century*. (Oxford: Blackwell Publishers, 1988). This is the same Peter Hall responsible for writing the introduction to the English language translation of von Thünen's *The Isolated State* cited above.

[11] Haughwout, A., Orr, J. and Bedoll, D. (2008). "The Price of Land in the New York Metropolitan Area," *Current Issues in Economics and Finance*, Federal Reserve Bank of New York, 14:3 (Apr.-May, 2008).

[12] Personal Communication with John (Ted) Gwartney, Director of Assessment, Greenwich CT.

[13] Morris A. Davis and Michael G. Palumbo, "The Price of Residential Land in Large U.S. Cities," Finance and Economics Discussion Series, Washington: DC: Federal Reserve Board, 2006.

[14] H. William Batt, (2009b). "Land Value Maps are Not New, But Their Utility Needs to be Re- Discovered," *International Journal of Transdisciplinary Research*, Vol. 4:1, (2009): 96-144, at www.ijtr.org. See the work of Assessor Ted Gwartney, especially at http://www.henrygeorge.org/ted.htm, at www.progress.org, and other places searchable using his name at www.askhenry.com.

of development in hinterlands while inner regions remain vacant or underused. The differential rent flows through parcels at separate distances from urban centers then become the object of opportunistic speculation, which unfolds at the expense of a city's rational and optimal development. The result of such behavior, the unwitting consequence of poorly conceived public policy, is suburban sprawl and the over-investment in infrastructure services, the lamented and anguished concern of planners and urban economists alike.[15]

Some cities, especially in Europe, have remained efficiently contained units well into the 20th century. Here is an aerial photo of Nordlingen, Germany in the early 1930s.

Abb. 18. Nördlingen.

Modeling economic rent for land-use configurations like pre-automobile Nordlingen, would likely not be difficult. For it to obtain, one would need to accept six assumptions:[16]

> There is only one market available, self-sufficient with no outside influence.
> All farmers are market-oriented, producing goods for sale (not subsistence).
> The physical environment is uniform; there are no rivers or mountains.
> All points at equal distances from the market have equal access to the market.
> All farmers act to maximize profits.
> The dietary preferences of the population are those of Germanic Europeans.

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[15] The person most closely identified with these land use configurations and their attendant problems is University of Minnesota law professor Myron Orfield, the author of several books on the evolving suburbs. Professor Orfield subscribes to the Georgist paradigm on the taxation of land rent and was a featured guest at the conference of the Council of Georgist Organizations in August of 2011.

[16] Credit to a PowerPoint presentation online www.wsfcs.k12.nc.us, anon.

The Henry George Theorem

Von Thünen was able to show that the economic rent in urban areas was many times that per unit area than that in agricultural hinterlands. But it was Henry George that introduced the thesis that the rent generated collectively by the community constituted a commensurate surplus sufficient to provide payment for all the necessary public services that a community might require. In his seminal 1879 book, *Progress and Poverty*, George offered the following idea:[17]

> In every civilized country, even the newest, the value of the land taken as a whole is sufficient to bear the entire expenses of government. In the better-developed countries it is much more than sufficient. Hence it will not be enough merely to place all taxes upon the value of land. It will be necessary, where rent exceeds the present government revenues, commensurately to increase the amount demanded in taxation, and to continue this increase as society progresses and rent advances.

With all the other insights that this important work offered, this particular idea was overlooked until the time of a disciple writing in the 1940s, Gilbert Tucker. As a non-academic and self-taught Georgist himself, Tucker received little recognition for his observation at that time. But he was very clear. He began his book *The Self-Supporting City*[18] with the following statement:

> Municipal taxation as now levied can and should be a thing of the past: the American city can be a self-supporting corporation, meeting its expenses from its rightful income. Taxation is unnecessary, because the city has, in its physical properties, acquired through the years, by the expenditure of its people's moneys, a huge capital investment from which it collects only a very small part of the return earned.

It took until the 1970s and after for leading figures of the economics profession, notably William Vickrey and Joseph Stiglitz, to find the idea and give it the appellation, the "Henry George Theorem."[19] But with no credit to Tucker. In one early article, Richard Arnott describes it thus:

> The basic Henry George Theorem states that, in an arbitrarily large, spatially homogeneous economy [that is, the residential land parcels are equal in size and identical in other ways except for location to the CBD] composed of identical individuals, in which the single source of decreasing returns to scale is the production of lots via commuting costs, labour is the only factor of production, and the distribution of economic activity over space is nontrivial, optimal city size is well defined and is characterized by aggregate land rents equaling expenditure on the pure local public good.

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[17] Henry George, *Progress and Poverty*.1879, (Robert Schalkenbach Foundation, 1952). Bk 8, Ch. 2.
[18] Gilbert M. Tucker, Jr., *The Self-Supporting City*. Robert Schalkenbach Foundation, 1946, 1958, 2010.
[19] William Vickrey. (1977). "The City as a Firm," in Martin Feldstein and Robert Inman (ed). *The Economics of Public Services*. New York: MacMillan; Vickrey (1992). "Henry George, Economies of Scale, and Land Value Taxation," a paper presented at a COPE meeting in Rio de Janeiro, Jan. 9, 1992, reprinted in Kenneth C. Wenzer (1999). (ed.). *Land-Value Taxation: The Equitable and Efficient Source of Public Finance*. Armonk, (New York: M.E. Sharpe; Richard J. Arnott and Joseph E Stiglitz, Aggregate Land Rents, Expenditure on Public Goods, and Optimal City Size. *The Quarterly Journal of Economics* Vol. 93: 4 (Nov. 1979): 469-500.

Yet today there is good reason to believe that contemporary municipalities would fail in efforts to finance their public services solely from the collection of rents. The reason is that cities, especially those that have developed in the past century, have been too uncaring in their use of resources. Many of their investments, especially those for land and infrastructure, have been poorly conceived. Hence their configurations are inefficient and wasteful in profound ways. Columnist Jeffrey Smith of the Geonomy Society has written several articles on what he terms "Suburbanomics."[20] Not without reason have environmentalists and planners become concerned about sprawl. Development unfolds where land sites are priced cheaply, and infrastructure is provided to service that investment. Little heed is paid to cost. Roads, power lines, water and sewerage lines, telephone and cable lines, and other public investments are paid for in good part not by the tax revenue from those areas but rather by those regions developed earlier. The new outlays are typically responses to political demand, regardless whether they are economically sound. In current language they are often the proverbial "bridges to nowhere." Instead of financing the development from ground rent generated by the projects themselves in the vicinity thereby serviced, [21] it is paid for by capital drawn from sources that have little relation to the area. It is therefore very questionable whether contemporary metropolitan localities have the financial tax bases adequate to pay for the services they assume responsibility for providing.

Far from being self-supporting units, we are hard put to even identify, geographically speaking, what a "city" really is. We have their political jurisdictions and their clearly defined boundaries, but they have almost no relationship to the geographical dimensions of their local economies. Nicolaus Tideman has suggested five provisos necessary for a "relaxed" interpretation of the Henry George Theorem.[22] The assumptions that must obtain in order for an investment − say a library − to be warranted in a neighborhood are these:

1. Advantages of being closer to the library are valued equally by all persons,
2. There are no land use adjustment costs,
3. There are no moving costs,
4. The area affected by the library is insignificant relative to the total economy, and
5. Any taxes and subsidies that vary with locational decisions reflect marginal social costs and benefits.

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[20] Jeffrey J. Smith, "Suburbonomics: Harnessing Land Values to Transform Sprawl," http://www.terrain.org/articles/4/smith.htm; and "Downsizing Sprawlopolis: Flabby City, Fit City," published on Truthout (http://wwwtruth-out.org) on Sunday, Aug. 14, 2011.

[21] This financing method is known, especially among transportation planners, as "value capture." The literature demonstrating the merits of this tool is prodigious. This author has done one such value capture study. "Value Capture as a Policy Tool in Transportation Economics: An Exploration in Public Finance in the Tradition of Henry George," *The American Journal of Economics and Sociology*, Vol. 60: 1 (Jan., 2001): 195-228; reprinted in Laurence S. Moss (ed.), *City and Country*. Malden MA: Blackwell Publishers, 2001. See also H. William Batt, "Stemming Sprawl: The Fiscal Approach," Ch 10 from the book, *Suburban Sprawl: Culture, Theory, and Politics*, edited by Matthew J. Lindstrom and Hugh Bartling; (Lanham, MD: Rowman & Littlefield Publishers, Inc., 2003); reprinted with permission (accessed Nov, 2011) at http://www.wealthandwant.com/docs/Batt_SSFA.htm and http://www.cooperativeindividualism.org/batt-h-william_stemming_sprawl.html,. Fred Harrison, *Wheels of Fortune: Self-Funding Infrastructure and the Free Market Case for a Land Tax* (London: The Institute of Economic Affairs, 2006); and Don Riley, *Taken For a Ride*. (London: Centre for Land Policy Studies, 2001). See also Jeffrey J. Smith and Thomas A. Gihring, "Financing Transit Systems Through Value Capture: An Annotated Bibliography," *The American Journal of Economics and Sociology*, Vol. 65:3 (Jul. 2006): 751-786.

[22] Tideman, Nicolaus (1993). "Integrating Rent and Demand Revelation in the Evaluation and Financing of Services," in Hiroshi Ohta and Jacques-Francois Thisse (ed.), *Does Economic Space Matter: Essays in Honour of Melvin L. Greenhut*. (New York: St. Martins Press): 133-150.

Tideman goes on to say that

> Among the conditions that are necessary for the Henry George Theorem are that land outside cities is homogeneous and has no opportunity cost, that activities in cities do not affect rent in other cities, and that it is possible to fit the population into a whole number of optimal-sized cities without having people left over. (If each city is an inconsequential fraction of the whole economy, then departures from the last condition are inconsequential.) If land is homogeneous and has a positive opportunity cost outside cities (as in agriculture), then the cost of an efficient amount of a public good is equal to the increase in rent above its opportunity cost.

Whether or not the amount of economic rent flowing through the dimensions of urban jurisdictions is sufficient to fund public goods and services, the recapture of this rent in taxes is warranted on several grounds. First of all, taxing rent conforms to all the textbook principles of sound tax theory. A land value tax is completely neutral, totally efficient, highly progressive, easily administered, reliably stable, simple to understand, and impossible to avoid. Secondly, the rent that flows through site parcels is socially created value, and as such, there is sound moral ground for society to collect that which it has created. This then leaves to members of the community the full retention and ownership of their labor wages, as well as any products of their labor they are themselves responsible for creating. Thirdly, a tax on ground rent fosters efficient land use configurations by removing the distortion that is caused by the absence of rent recapture. With resource conservation in mind, it reduces the throughput of natural resources that otherwise obtains due to the use of other tax regimes. This both reverses the centrifugal forces of sprawl development and reduces the excessive reliance upon transportation from one place to another, thereby consuming inordinate quantities of natural resources, materials and time.

One is therefore forced to conclude that the political factors that now over-ride economic rationality in the unfolding decisions on land use policies raise troublesome questions about their use in preference to taxing economic rent to finance the support of city services. The decisions accompanying infrastructure investments bear equal responsibility. If political factors warrant overruling considerations of efficiency and economic rationality in the choice of locations for various investments those should be openly stated and defended. It seems more often the case that inertia explains land use development configurations despite inadequate consideration of costs and benefits. The sprawl configuration that characterizes most contemporary urban design is a result of an over-reliance upon what are commonly known as “command-and-control” approaches as opposed to pricing approaches to resolve public policy issues.[23]

Rents from other “Land”

[23] For more on this line of thinking, see Batt, “Stemming Sprawl.” *Supra.* and H. William Batt, “Taxing Land Rents for Urban Livability and Sustainability,” in Larry Kreiser, et al. (ed.), *Environmental Taxation and Climate Change: Achieving Environmental Sustainability through Fiscal Policy. Volume X in Critical Issues in Environmental Taxation.* (Northampton, MA. Edward Elgar Publishers, 2011): 99-110.

From the earliest ideas of the French Physiocrats to the coherent philosophic framework of Henry George, the only appreciation of rent was that related to land. It was either for the "original and indestructible powers of the soil" described by Ricardo or the cost of transporting a crop to market for a given location of von Thünen. Today, while our definition of economic rent is by no means at odds with either of these, it is far more encompassing. Current definitions make a distinction between land rent and economic rent, a far more generalized and sophisticated concept. Economic rent, in the words of one economist who has explored this literature in depth, is "payment to a factor beyond what is needed to put that factor into use. Land rent, beyond what is needed to maintain a market for land, is [included in] economic rent.…[E]conomic rents are also earned by movie, sports, and music stars whose second best alternative would be a lower earning as well. Economic rent can be taxed without any excess burden."[24]

[24] Fred E. Foldvary, *Dictionary of Free-Market Economics*. (Northampton, MA: Edward Elgar Publishers, 1998): 121-122. Whether movie, sports and music stars really yield economic rent is somewhat a matter of dispute. Many students of the Georgist persuasion argue that such income is not rent but wages for labor, the reason being that their value is not the product of nature. One extensive online exchange on point of all this is by Dan Sullivan and this writer, quoting from a contemporary neoclassical economics textbook by economists William Baumol and Alan Blinder, "Are Exceptionally High Wages Really Rent?" Reprinted from a Land-Theory online discussion on 1 August 2002. http://www.cooperativeindividualism.org/sullivan_and_batt_on_surplus_wages.html.

Since there are many elements of nature that by themselves have no costs to create, their market price is a consequence solely of social demand alone. For the most part their supplies are fixed, inelastic in economic parlance. Like land, all these elements are the free gifts of nature and are by right the common birthright of all people, and whatever wealth they yield should be shared. This at least is the argument of those subscribing to the economic philosophy of Henry George. All natural resources – air, water, land sites, the electromagnetic spectrum, minerals and petroleum, and many other assets, some mentioned earlier – have rental value to the extent that they have a relatively fixed supply. Additionally, depletable resources of the earth in the nature of minerals and fossil fuels, although not having immediate fixed supply, also yield rents.[25] Were there no scarcity, they would have no price. Rents owe their value not to anything done by human hands or minds; they comprise windfall gains to whoever is fortunate enough to secure title to them. But by taxing the flow of rents to finance public goods and services, other revenue streams are obviated and unnecessary, and the economy is so much the more vitalized by the rent being drawn into the economy rather than being fixed in a capitalized market price. As Mason Gaffney argues, it is the turnover of investment that maintains economic vitality, and taxing all rent flows in forms to maintain their liquidity makes the market that much richer.[26] To emphasize the point once more, the failure to tax rent means it becomes frozen in capitalized form, and reduces the available wealth flowing through the market economy. Taxing rents increases the economic vitality of a community.[27] Reducing or capping a tax on real property, a fair part of which is a tax on land rent, locks up capital that can generate increased productivity – and jobs!

The contemporary economy needs to address the rental significance of many additional natural resources, ones that are today equally important. Many Ricardo could never have envisioned – for example, the market value of air-sinks currently now being priced for auction sale. Current proposals would allow markets to dictate prices at which utilities can own the air as their property, and hence to dump their effluents. This “cap and trade” system provides market efficiencies as conceived by Ronald Coase,[28] an idea for which he was awarded the Nobel prize in Economics, but it effectively privatizes the air unlike an alternative arrangement under which polluters would pay to society a rent for the privilege to pollute. This latter idea was that of British economist Arthur Pigou, which never received the blessing of polluting industries.[29]

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[25] The inside front and back covers of a monograph entitled, *The State of the Commons: A Report to Owners from Tomales Bay Institute* in 2003 lists numerous elements of what rightly constitute “the Commons.” Inside the front cover are commons that are “Shared Natural Creations. Inside the back cover are commons that are “Shared Social Creations.” The Report can be downloaded at onthecommons.org/sites/default/files/stateofthecommons.pdf.

[26] Mason Gaffney. (2009). *After the Crash: Designing a Depression-Free Economy*. (Boston and London: Wiley-Blackwell). See also Nicolaus Tideman, “Taxing Land is Better than Neutral; Land Taxes, Land Speculation and the Timing of Development,” in Kenneth C. Wenzer (ed.), *Land-Value Taxation: The Equitable and Efficient Source of Public Finance*. (Armonk. New York: M.E. Sharpe and London: Shepheard-Walwyn, 1999): 109-133.

[27] See, for example, Guerney Breckenfeld, “Higher Taxes that Promote Development,” *Fortune Magazine*, August 8, 1983, pp. 68-71. This is reprinted online at http://localtax.com/fortune/hightax.html. (accessed Nov. 2011).

[28] Ronald H. Coase, “The Problem of Social Cost.” *Journal of Law and Economics* Vol. 3:1 (1960): 1-44.

[29] Arthur C. Pigou, *The Economics of Welfare* (London: MacMillan, 1932). Especially Ch. IX. Mason Gaffney has written an interesting commentary on the moral tension between the two perspectives. Originally a lecture, it is published as “Sleeping with the Enemy: Economists Who Side with Polluters,” *Groundswell* (Jan-Feb, 2011), and http://commonground-usa.netJF11Sleeping.html.

There is also the market value of the electromagnetic spectrum, which provides the medium for radio, television, and other communication systems, despite the conventional wisdom that "the public owns the airwaves."[30] There is the value of water, which has a scarcity value today impossible to have foreseen in Ricardo's time, and which remains under threat of privatization today.[31] Still others too numerous to mention are the value of genetic code, taxi medallions, Internet domain names, airport time slots, and so on.[32] And not to be overlooked are all the rents that arise from fossil fuels and minerals, just as much a function of their market demand as any resource Ricardo understood. All of these yield rent. The ongoing freehold sale and privatization of resources that could yield rent to finance public services is the continuation of what Karl Polanyi many years ago labeled *The Great Transformation*.[33] Today the practice is known in all its dimensions as a "land grab," the privatization of the "commons." Indiana University's Elinor Ostrom received the 2009 Nobel prize in Economics in recognition of her indefatigable work for appreciation of the commons, belated understanding that privatization of the resources of nature constitutes what Henry George regarded as theft of the birthright gifts to which all people on earth are entitled. If the thrust of privatization cannot be reversed or stemmed, perhaps at least the rents from such resources might still be captured and returned to society or to government acting in its stead.

It remains to be asked how much these other resource-producing rents amount to as an element of the gross domestic product of a society? If land sites alone approach roughly thirty percent of a contemporary market economy, can one presume that all those other rents are an additional ten or twenty percent more? This is unclear, in fact it's unknown! The unfortunate truth is that studies are lacking, and data may not exist, that would allow for such answers. One very rudimentary study was done as a collaborative project at the University of Vermont's Gund Institute in 2008.[34] Using the year 2004 as its database, the total Vermont state and local revenue for that year was about $2.1 billion, which was about ten percent of its 20.4 billion GDP. The study concluded that the total increased available revenue from the taxation of rents was over $500 million, easily reducing other taxes on wages and capital goods by a fifth. Given too that the rescission of these other taxes would also remove much of the deadweight loss on the state's economic performance, the benefit might be that much higher.

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[30] For a review of the history of public treatment of the spectrum, see Robert W. McChesney, *Telecommunications, Mass Media, and Democracy: The Battle for the Control of U.S. Broadcasting, 1928-1935* (New York: Oxford University Press,1994); Thomas Streeter, *Selling the Air: A Critique of the Policy of Commercial Broadcasting in the United States* (Chicago: University of Chicago Press, 1996); and Paul Starr, *The Creation of the Media: Political Origins of Modern Communications* (New York: Basic Books, 2004).

[31] Maude Barlow and Tony Clarke, *Blue Gold: The Fight to Stop the Corporate Theft of the World's Water* (New York: The New Press. 2002); Alan Snitow, Deborah Kaufman, and Michael Fox, *Thirst: Fighting the Corporate Theft of Our Water* (Boston: John Wiley & Sons, 2007).

[32] James Ridgeway, *It's All for Sale: The Control of Global Resources* (Durham: Duke University Press, 2004); *Silent Theft: The Private Plunder of our Common Wealth* (New York: Routledge, 2003); Vandana Shiva, *Biopiracy: The Plunder of Nature and Knowledge* (Boston: South End Press, 1997); *Stolen Harvest: The Hijacking of the Global Food Supply* (South End Press, 2000); and *Protect or Plunder: Understanding Intellectual Property Rights* (London: Zed Books, 2001).

[33] Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (New York: Holt Reinhart, 1944, and Boston: Beacon Press, 1957).

[34] *Valuing Common Assets for Public Finance in Vermont*. Burlington, VT: MPA Program and Gund Institute: Vermont Green Tax and Common Assets Project, November, 2008. Accessed Nov. 2011 at http://www.uvm.edu/giee/research/greentax/documents/Valuing_Common_Assets_3_20_final.pdf

Estimated State of Vermont Taxable Rents

Green Tax Shift Option 1

Cut Personal Income, Corporate Income
and Telecommunications Taxes,
2004 revenue ~ $500 million

Taxes reduced:		
Personal income tax	cut	$429,488,824
Corporation tax	cut	$55,497,257
Telecommunications	cut	$15,000,000
Total Reduction		$499,986,081

Green Tax Shift Option 2

Decrease Federal Payroll Tax
by $500 million starting with
wage earners below $35,000/pear

Summary of New Revenue - Option One or Two

Item	2004 Revenue	2004 Revised Revised	New Revenue
Energy	$259,269,147	$521,540,000	$262,270,853
Air & Water	$1,201,769	$91,053,285	$89,851,516
Waste	$5,901,672	$155,005,344	$149,103,672
Chemicals	$932,100	$3,148,000	$2,215,900
Property	$782,118,363	$782,118,363	no change
General	$1,012,614,704	$1,012,614,704	no change
Other fees	$56,585,608	$56,585,608	no change
Total	$2,118,623,363	$2,622,065,304	$503,441,941

This study assumed that what other revenue rents being taxed would continue with no change, a total that together approaches the budgetary requirements of Vermont public services.

ATCOR and EBCOR

One reason why the amount and proportion of rent in an economy is so difficult to quantify is because of the phenomena of ATCOR and EBCOR. These terms are acronyms for the long appreciated but only recently named observations that "all taxes come out of rent," and that "excess burden comes out of rent." Again, it is Professor Mason Gaffney that has given identity to these concepts.[35] To understand ATCOR and EBCOR, it helps to start by the counterfactual assumption that there are no taxes. Were that true, there would be no taxes coming out of rent and there would be no excess burden due to the presence of taxes. Total rent therefore would not be in any way reduced by the presence of such influences. The questions are then how much is economic rent reduced by the imposition of taxes. (While doing this mental exercise it is helpful perhaps to keep in mind the fact that any taxes levied directly upon rents can be re-added to total rent estimates at the end, and such taxes also have no excess burden whatsoever.)

Following this logic, it can be demonstrated that all taxes, regardless of their initial assignment, ultimately rest on bases of fixed supply, essentially "land" or other natural resources. Sometimes this is explained a bit differently, that "All taxes are at the *expense* of rent,"[36] or that total rent is that which remains *net* of taxes. Even the earliest economists, the French Physiocrats, describe the ATCOR phenomenon.[37] It was this, which prompted them to recommend the "impôt unique," a tax solely on the rental value of land. American journalist and economist Henry George almost two centuries later came to the same conclusion. After passing through the economy, all taxes are ultimately shifted to rent flows on inelastic bases. As Gaffney explains:[38]

[35] Gaffney, "The Hidden Taxable Capacity of Land. *Supra*. 370 ff. For several further references to and discussions of ATCOR, see http://www.wealthandwant.com/themes/ATCOR.html (Accessed Sep. 2011), and Mason Gaffney, The Philosophy of Public Finance, especially, pp. 188-192, in Fred Harrison (ed.), *The Losses of Nations: Deadweight Politics versus Public Rent Dividends*. (London: Othila Press, 1988). See also Henry Law, "Who Actually Picks Up the Tax Bill? at http://www.landvaluetax.org/theory/who-actually-picks-up-the-tax-bill.html (orig. 1992, accessed November 2011). For several further discussions of ATCOR, see http://www.wealthandwant.com/themes/ATCOR.html (Accessed Nov., 2011)

[36] This is the approach of South African Godfrey Dunkley, as explained in a two-part explication in *Land and Liberty*, Vol. 1,068 & 1,069 (March-April, May-June, 1983), "Taxation and Land," and "Land and Tax."

[37] The insight even antedates the Physiocrats. In 1691, John Locke wrote the following to a member of Parliament:

> Taxes, however contriv'd, and out of whose Hand so ever immediately taken, do in a Country, where their great Fund is in Land, for the most part terminate upon Land. Whatsoever the People is chiefly maintained by, that the Government supports it self on: Nay, perhaps it will be found, that those Taxes which seem least to affect Land, will most surely of all other, fall the Rents. This would deserve to be well considered in the raising of Taxes, lest the neglect of it bring upon the Country Gentleman an Evil which he will be sure quickly to feel, but not be able very quickly to remedy. For Rents once fallen are not easily raised again. A Tax laid upon Land seems hard to the Landholder, because it is so much Money going visibly out of his Pocket: And therefore as an ease to himself, the Landholder is always forward to lay it upon Commodities. But if he will throughly consider it, and examine the Effects, he will find he Buys this seeming Ease at a very dear rate: And though he pays not this Tax immediately out of his own Purse, yet his Purse will find it by a greater want of Money there at the end of the year, than that comes to, with the lessening of his Rents to boot; which is a settled and lasting evil, that will stick upon him beyond the present Payment. "Some Considerations of the Consequences of the Lowering of Interest and the Raising the Value of Money, Part 3" accessed at http://etext.virginia.edu/toc/modeng/public/LocCons.html, accessed Nov. 2011.

[38] Personal Communication with Professor Gaffney, December 2001.

> After-tax interest rates are determined in world markets and the local supply of capital funds is highly elastic. So, local taxes on capital do not stick to capital. Even national taxes on capital typically fail to stick, because capital is a citizen of the world. Local labor supplies are also pretty elastic, although not so totally. Local taxes on labor, therefore, do not stick to labor, either. Payroll taxes drive people out of localities that impose them, for example. Ditto for sales taxes. Customers move, or shift their purchases, to where taxes are lower, or zero. Sellers shift, too, to the extent they bear the tax. What else is left? Just land, and land cannot emigrate or immigrate from the local jurisdiction.

Most governments operate in the belief that balancing taxes on sales, income, property and other tax regimes will best protect the stability of their economies and maintain reliability of public revenue. Instead the business activity and every other tax base that is mobile escapes beyond the bounds of the tax's reach. The city of Philadelphia imposes a tax not only on real property but also on business privilege, on income, and on sales transactions too. It is taxes on labor and goods, with their elastic supply, that debilitate market performance, leading to market inefficiencies and distortions. Yet its political leaders are baffled and stymied in finding a solution to its moribund economy and the loss of investment to the suburbs.

But if all taxes ultimately come out of rent, what difference does it make from which factor of production a tax is levied? The answers have been amply shown. It is explained in the acronym EBCOR, that "excess burdens come out of rent." Excess burden, also known as "deadweight loss," is the productivity loss that results from the shifts in market behavior consequent from the tax designs. When other factors of production are taxed, there are several downside effects. Taxing land rent is free from all such flaws. These are not insignificant. Economist Martin Feldstein figures the deadweight loss of the income tax to be about thirty percent of the before tax income and fifty percent of after-tax income if Social Security included.[39] Taxes on the sale of goods have comparable effects. Other studies show the total productivity loss of our existing tax structure to be about a tenth of total GDP. Put differently, if taxes didn't damp economic productivity, we'd all be about ten percent wealthier as a society.[40]

The belief that revenue streams should be drawn from more than one tax base is conventional wisdom among mainstream tax theorists, in what is commonly defended as the "three-legged stool."[41] They advocate taxes on personal and corporate income, on sales, and on property. Despite the fact that this practice is compromised as often as it is touted, it continues to be gospel. So long as economic rent is opaque to mainstream neoclassical economists, the ATCOR doctrine will remain unrecognized. Although it flows richly through land in many forms, rent is ignored or trivialized in national income accounts, the consequence of which is the lack of understanding of how all taxes are shifted to rent. The answer to tax justice and progressive tax design is to recognize the existence of rent, and then to tax it instead of labor and capital. Then only titleholders to land resources will pay taxes. More importantly, the rent value that flows through all natural resources employed in the economy will be returned to society to finance the services of government, which give worth to those resources in the first place.

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[39] Martin Feldstein, "Tax Avoidance and the Deadweight Loss of Income Taxes," *Review of Economics and Statistics* (Nov. 1999). online at www.cooperativeindividualism.org/feldstein_martin_deadweight_loss.html.
[40] Nicolaus Tideman, et al., "How Much Excess Burden Can Be Avoided?" Presented at the Meeting of the National Tax Association, Nov. 15, 2002.
[41] See H. William Batt, "The Fallacy of the 'Three-Legged Stool' Metaphor" *State Tax Notes*, 35:6, (2005), 377-381 http://www.cooperativeindividualism.org/batt_on-tax-policy.html, and http://www.urbantools.org/policypapers.

Some two years ago, this line of thinking prompted a research fellow at the New America Foundation to ask, "What if the problem isn't the property tax at all but rather, well, all other taxes?"[42] His ability to think freshly about tax policy may be due to his having studied broadly on policy matters rather than being steeped in economics alone. As he explained it to the *Atlantic Magazine* in an outside-the-box list of "15 Ways to Fix the World," "the Single Tax [has merit] not least because it creates the right incentives for government. Simply put, the better you govern, the more valuable the property. The more valuable the property, the more revenue you raise." This elegantly direct and simple argument for taxing land value might be more persuasive than all the exposition of theory that has been marshaled. Without mentioning the word, he grasped the simple fact that the greater the economic productivity of a society, the higher the land rent available to be captured in taxes. Experience shows, however, that both plain and sophisticated arguments are necessary to reach the enormous array of people with strongly held opinions about taxation.

Conclusion

There are ample reasons to believe that not only is the taxation of economic rent (in lieu of taxes on people's wages and goods) warranted but that that there is sufficient rent in any economy to supplant those other taxes which are so egregious. Adam Smith observed, "Ground-rents and the ordinary rent of land are…the species of revenue which can best bear to have a peculiar tax imposed on them."[43] A tax on economic rent, or on what the classical economists collectively referred to as "land," comports perfectly with all the principles of sound tax theory. Among them are efficiency, neutrality, equity, administrability, stability, and simplicity. 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. A soundly based land tax 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. One can't escape a land tax by taking it to the Isle of Man or the Cayman Islands. A factor that Smith had no appreciation of in 1776 is the environmental merits of taxing rents. The consumption of the resources of nature, which the failure to tax rent does nothing to discourage, needs to be addressed now at a time when our finite planet is over-run by ravaging practices. Taxing the rents that flow through natural resources discourages the consumption of such elements. It reverses the centrifugal forces of sprawl development thereby making less necessary the inordinate waste of time, energy and resources now taken up for transportation services.

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[42] Reihan Salam, "End All Taxes – Except One," *Atlantic Magazine*, Vol. 304:1 (Jul-Aug, 2009): 60.
[43] *Wealth of Nations*, Bk 5, Ch.2, Pt.2., Art.1.

Most importantly, taxing rents restores to our market economy a moral dimension that was lost with the advent of neoclassical economics. The economics from the time of the French Physiocrats to the time of Henry George was often known as "political economy" or "moral philosophy." This dimension was lost in the effort of its subscribers to become a value free science. George tapped into a tradition which had as much a religious dimension as it did an economic one, and always made certain that the moral grounding of his thesis was central. That which was created by the community, the flow of economic rent which was the bounty yield from the earth, was rightfully our common birthright, that for all people to share. That which was created each of us by our own hands or minds was ours to keep. This was put well by Dr. Viggo Starcke member of the Danish Cabinet who also subscribed strongly to the Georgist tradition:

> 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.[44]

John Houseman, as Professor Kingsfield in the long-running TV series, The Paper Chase, later became the pitchman for Smith Barney. In that advertisement, his tag line was, "We make money the old-fashioned way – we *earn* it!" That we should earn our money rather than live off the efforts of others seems a simple enough moral tenet. But that is exactly how most wealthy people live – their income is largely economic rent.[45] They are *rentiers*! J.S. Mill called rent the "unearned increment" and William Gladstone called it "lazy income." 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.[46] 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. Only the modern western neoclassical economic tradition has ignored its reality. John Stuart Mill put it a bit differently: "Landlords grow richer 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 to the individual who might hold title."[47]

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[44] This is quoted at the end of an essay by Robert Andelson, "Henry George and the Reconstruction of Capitalism," published in a short booklet in 1994 by the Robert Schalkenbach Foundation. It can be accessed online at www.cooperativeindividualism.org/andelson-robert_henry-george-reconstruction-of-capitalism.html, and in Philip J. Bryson, *The Economics of Henry George: History's Rehabilitation of America's Greatest Early Economist*. (New York: Palgrave MacMillan, 2011): 204.

[45] It should be noted that the first modern income tax in the United States enacted in 1913, targeted not earned income from wages but rather the economic rent of the wealthy. See Clifford Cobb and Jonathan Rowe, "How the Income Tax Became a Tax on Labor," at http://schalkenbach.org/on-line-library/works-by-other-authors/how-the-income-tax-became-a-tax-on-labor/.

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

[47] *Principles of Political Economy*, Bk.5, Ch.2, sec.5.