

LAND VALUE TAX: CURE FOR POVERTY AND UNEMPLOYMENT

by Pat Aller

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ABSTRACT:

This paper presents an analysis of the fundamental, systemic flaw in dominant economic theory which distorts governmental policies worldwide, whether capitalist, socialist, or other. Neoclassic economic theory is based on only two factors of production - labour and capital - having blended the most important factor - land - into capital. This error blinds economists, political scientists, planners, and others to the persistent cause of poverty - maldistribution of wealth due to maldistribution of access to natural resources, including land. Although urban economists began to question their tenets during the past half century, it is only during the past decade, with the rise of global interest in environmentalism and the decline in the wealth of many nations, that development economists too have opened their eyes to this mistake, cause of immense damage and unrest.

The paper examines recent studies in development and environment economics, showing that International Monetary Fund, World Bank, United Nations, university, and other experts have misinterpreted or overlooked significant data, failed to incorporate externalities, and prescribed remedies that exacerbate already volatile conditions. Different kinds of reform are compared, including best practices that have been ignored. Recommendations are made for simple studies that NGOs or local governments could conduct.

The conclusion is that no progress in social development will be achieved until economic thought and policies restore land to its basic role as one of the factors of production, and until fiscal reform which recaptures gains in land value for the community or State - not for individual or corporate speculators - is instituted.

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POVERTY is a very serious problem facing the world's people and also their organisation, the United Nations. Since the Brazil conference on sustainable development in 1992, a cumulative total of at least two full years has been spent in UN preparatory committee meetings, major conferences, intersessional meetings, and the like. A few NGOs and more than a few diplomats or their staff have attended almost all of those meetings. Great things have been done, greater still planned, and yet, increasingly, each conference ends with plaintive calls for new and additional resources. By which is meant money.

One way to raise money for countries, so that they do not have to depend so much on the UN, is to adopt a land value tax. I represent the International Union for Land Value Taxation at the UN and will describe how a land value tax, or LVT, works. But let me tell you first that it is getting more attention at the UN. In 1996 the world conference on shelter, Habitat II, proposed a return to the community of gains in land values due to population increase, community spending on infrastructure, and other amenities. In April of this year a similar plan was urged on the Commission for Sustainable Development, by the Popular Coalition, related to FAO (Food and Agriculture Organisation), through the International Fund for Agricultural Development. And, at the April preparatory meetings of the Commission for Social Development, Discussion Paper 11 was circulated by the UN Department of Economic and Social Affairs. The author recommends land value taxation to raise money for social development, as a priority over several other proposals, including a currency transfer (Tobin) tax.

A TAX REFORM, NOT A NEW TAX

WHAT IS a land value tax? First, it is a tax reform, not a new tax. The property tax, or real estate tax, in most countries consists of a tax on land and a tax on buildings on that land. Unfortunately, in most places, buildings are taxed too high and land too low. In many countries, undeveloped land, with no building on it, is not taxed at all. These conditions encourage land speculation and land monopoly. As the population in a town grows, and as the town provides more roads, water, schools, and other infrastructure and services for new residents, the available land becomes scarcer and therefore more valuable. Under most conditions, the landowner receives the profit from increases in land values. My organization, and others, including some economists, consider this a maldistribution of the world's wealth. We believe that the system needs reform, so that increases in land value due to population or infrastructure growth are returned to the community, which is the real creator of increases in land values. Land reform, made possible by fiscal reform, should recapture increases in land values for the community treasury. No matter how poor a nation or town, residential land and business land always have value, which usually is the most important source of revenue for government spending.

An important advantage to such a fiscal reform is that a more accurate tax on land values means that taxes on buildings can be lowered. Taxes on buildings are really taxes on the labor that creates the buildings or taxes on the capital that is used to hire the labor and the machinery for such construction. Lowering or removing such taxes automatically puts more money in people's hands, which leads to more manufacturing and construction, thus reducing both poverty and unemployment.

(By land I mean all natural resources on, below, and above the earth, including water, oil, minerals, the electromagnetic spectrum, air and radio waves, and the like - a definition used by many economists.)

"Land reform is an important economic and social necessity." declared Bishop Diarmud Martin, secretary of the Holy See's Pontifical Council for Justice and Peace, when he spoke to the Commission for Social Development a year ago. "In many countries, indeed, it is a major question of social justice. Large tracts of land are under-utilised, while many persons living in poverty have no access to land. But many attempts at land reform have failed in their primary objectives. Land reform can be politically sensitive. New models of land reform

can be envisaged which are less socially divisive, for example, through using fiscal means to make it economically less attractive to maintain underutilized land."

LAND REFORM WITHOUT GREAT SOCIAL DISRUPTION

A LAND VALUE TAX is the best, and economically just, way to achieve land reform without great social disruption. While it may be opposed by many landlords, speculators, bankers, and others, it is in accord with good governance and environmentalism and would go a long way towards correcting the widening gap between poor people and rich people, which is the symptom of a serious mistake in global economic thought and practice.

The particular concern of those of us here today is social development and how the world has met the commitments made in Copenhagen in 1995 to alleviate poverty, unemployment, and social disintegration. What do we find? Despite some progress, today poverty is worse, unemployment or underemployment has increased, and society is plagued by ongoing wars within or between nations in Africa, Asia, Europe, and Latin America.

SHOULD THE UNITED NATIONS ADJUST ITS LENS?

IS IT POSSIBLE something is wrong in the way we address these problems? Should we take a lesson from Seattle and Washington? If the International Monetary Fund has been forced to admit to errors and the World Bank has been forced to seem more eager to listen to the people, should not the United Nations consider adjusting the lens through which it views problems and the means to solve them?

Among the UN, non-governmental, and development research organizations to whom David Smiley, economist, recently sent his monograph, *Third World Intervention*, he found "a lack of familiarity with the standard literature on development, and with concepts of monopoly, rent seeking, environmental economics, taxation principles, and land value taxation. . . . It is argued in the report that such an understanding is an essential prerequisite to the policy shifts seen as necessary to any long term solution to third world problems.

"For the last half century, third world development strategies have been based on neoclassical labor-capital models. These predicted high economic growth rates arising from capital inflows, the benefits of which would trickle down to labor. In most regions the results are quite the reverse of these expectations. For the last decade or two, in most regions of the third world, per capita income growth rates have been negative. The greater the endowment in natural resources, the more negative this growth. It is apparent that the labor-capital models have been quite inappropriate, particularly in those economies where landed institutions usurp resource inflows, block growth and maintain inequality. . . . Several kinds of surplus [known as economic rents] are being consumed, not invested . . . in a process which economists call 'rent seeking'" (Smiley p 7)

What Smiley is saying is that rises in land due to municipal expenditures and population growth should be repaid to the municipal treasury, but instead are usurped - appropriated - by private, corporate, or State speculators and monopolists.

"In addressing this behaviour," he continues, "SAPs [Structural Adjustment Programs] face many complex and elusive examples of diversions of economic rent in a dense network of collusion and corruption. In contrast, LVT [Land Value Taxation] faces one highly visible, tangible, and immobile kind of economic rent: increases in land values. Land's economic rent, transferred from consumption to investment by LVT, would double or triple existing levels of savings. It would also remove much of the dead-weight loss holding back third world economies so far from their production possibility frontiers. . . [A]most without exception, recent banking collapses worldwide have followed excessive property loans seeking untaxed capital gains in urban land." (Smiley p 7)

There are economists, political scientists, and others who recognize the important role of land in economics, a role first postulated by classical economists, who classified the three factors of the production of wealth as land, labor, and capital. During the past century, however, neoclassical economists, ruling economic thought and practice, have subsumed land under capital. They no longer regard land as uniquely important.

"BUY LAND. THEY AIN'T MAKING ANY MORE OF IT."

BUT as Will Rogers, American humorist, put it, "Buy land. They ain't making any more of it." Land **is** different, and should be restored as the third--and most important--factor in economics. As population increases, so does individual, or corporate, or State, land speculation. But the supply of land remains the same ("inelastic" is the economic term) and therefore the cost of renting or buying space for housing or workplace rises. At the same time, other millions find their access to land shrinking because their income has fallen, or vanished.

Landlessness is the worst of problems for human beings because it means poverty - idleness, despair, hunger, sickness, death. It means community decline, unhealthy competition. It means national drift, dependence, fascism, conflict. It means world corporate hegemony, wars. It means planetary destruction. These effects may have other causes, it is true, but all result from inadequate access to land by all human beings--when access to land means survival itself.

Religion, philosophy, and other aspects of the major civilizations have always recognized that land is every human being's birthright. Society used to ensure that people had enough land for shelter and subsistence. Even slave owners and so-called noblemen who ruled over serfs, for all their indifference to freedom, recognized that a hungry vassal was not a productive worker. But gradually individual greed for land as a sign of power, as a way to become richer through speculation, and even as pastures for animals instead of residences for people (as in the case of British landlords over Irish peasants, or other examples of colonialism) led to privatization-- usurpation--of the commons, the land originally provided by communities for their people, including the poor, for subsistence farming and wood gathering.

Fred Harrison, editor of *The Losses of Nations: Deadweight Politics versus Public Rent Dividends*, points out that the root cause of the widening gap between rich and poor in feudal English villages was the enclosure of the commons by powerful or wealthy individuals.

"There were three primary ways to deny people their birthright and render them dependent labourers," according to Harrison. They were 1) dispossession from land, 2) taxation, and 3) raising the price of land. Concerning dispossession, he writes, "The objective of those who engineered this social transformation of property rights was seeking control over the rental income of land, which had previously been treated as public revenue." (Harrison, p 41)

For taxation as a device to usurp humanity's birthright, Harrison cites colonization of the Republic of South Africa. "The state controlled taxation; it was persuaded to use this tool of exploitation, a link in the chain that locked people into a system in which their freedoms were written off in the interests of foreigners who wanted to plunder nature." (Harrison p 42)

About price rigging, he cites Australia, when land was abundant. "The solution was to persuade the state to impose artificially high prices for land. In that way, the landless settlers from Britain would be forced to accept wage work." (Harrison p 42)

Harrison defines net income as "the surplus which has been used by all civilizations to create those cultural attributes which distinguished them from their tribal roots . . . [With the rise of industrialism] "society was divided into a complex structure of antagonistic classes based on the ability to appropriate part of the net income. Social problems were largely the result of the privatization of net income, forcing government to invent new forms of revenue raising which punished people who worked and saved." (Harrison p31)

MAJOR CAUSE OF INSTABILITY IN MODERN ECONOMY AND SOCIETY

"The failure of government to build this dynamic relationship between taxation and the community's net income into its policy-formulating process has been the major cause of instability in the modern economy and society." (Harrison p50)

The theft of people's birthright to land coincided with the rise of industry. Both the loss of their commons and the lure of factory wages forced or attracted rural dwellers to towns and cities, where housing then became scarce. The shame of the 19th century slums in developed nations became widespread in the 20th century, in countries of all economic levels. According to the UN Centre for Human Settlements, urban slums will be the dominant residential style--and problem--of the 21st century, unless we are serious about confronting poverty, landlessness, and homelessness.(UN *Habitat Agenda*, 1996)

People of concern, including NGO representatives and others here assembled, recognize that something is wrong when a fifth of the world's people - really more like two fifths - spend their so-called lives poor, homeless, or in hovels. Experts float compassionate remedies. But most fail to realize that below the peak of the iceberg of homelessness is a far greater danger, a totally unnatural phenomenon--landlessness.

Yet how often is access to land and other natural resources mentioned in the Copenhagen papers? In the documents prepared for this Geneva review by the General Assembly?

Is it possible that fiscal measures can correct such an imbalance in access to land? Can land reform through tax reform achieve the positive social development we desire?

The second half of the 20th century enlarged the field of economics to include development economics. Some economists, especially those dealing with urban problems, saw the unique role of land in creating wealth--and poverty. But most had been taught to ignore this vital fact and therefore did not ask the right questions as they sought causes of socioeconomic imbalance within and between nations. (Look in the index of any economics textbooks for much about land. Descriptions of its accessibility, its monopoly concentration in the hands of very few people or corporations, its costs relative to income, and its changing values based on planning, and taxing, find little or no attention.)

If experts overlook land, what can one expect of reform-minded citizens? We rally to the appeal of poverty specialists, good governance gurus, environmentalists. Nowhere, until very recently, do we find references to landlessness as a major problem. As for poor people themselves, they are taught that poverty is part of the nature of the world. Socialist countries, it is true, have attempted to distribute wealth better. But, by curbing individual freedom and initiative, most socialist States curbed their own economic development. They ignored or misallocated the fiscal possibilities inherent in land, even when the land is State-owned.

Developing nations are not the only ones to suffer from foolish tax theories which allow the private theft of what should be the public's--the common--wealth. Developed nations also lose huge amounts of revenue because of private usurpation of gains in land value. Tideman finds that in one year alone--1993, for example--the gain in output and per capita income under LVT for the G7 nations would have been \$6.84 trillion. (Harrison, p12)

Harrison refers to the failure of economists, planners, and government officials to recognize the major role of land in creating and distributing wealth, resulting in severe fiscal loss, as a "systemic crisis." He adds, "The loss to the wealth of nations is a measure of the indictment of governments that abandoned the best interests of all their citizens to retain a tax system that preserved the anti-democratic interests of the few." (Harrison, p28)

Professor Anthony Clunies-Ross of Strathclyde University, in *Resources for Development: Additional and Innovative Measures*, UN Department of Economic and Social Affairs Paper Number 11, distributed at the April preparatory meetings for this Geneva review of the 1995 Copenhagen summit, presents LVT as one of several "priorities for consideration by individual governments, and by the world community."

"There are plenty of additional sources waiting to be tapped for the social development of the world's poor--" Clunies-Ross explains, "available if governments individually and the international community can be sufficiently motivated to tap them. They can be realized through...fully and accurately taxing the use of natural resources through relating local levies individually to local infrastructural benefits and costs." (Clunies-Ross, p2)

"[T]axes must be closely targeted to the value of the resources rather than falling also on labour, capital, or enterprise," he writes. (Clunies-Ross, p14)

The author continues, "Provided the tax on unimproved value is frequently updated, the higher the proportion of the value of the land a tax collects, the less attractive is holding the land for speculative purposes...with the barrier to development it represents." (Clunies-Ross, p16)

He calls for "Full exploitation of the possibilities of taxes precisely targeted on the site value of land and the rents of other natural resources." and "Legislative authority and encouragement for the aims of government responsible for local taxation to apply local site-ownership levies based on the increase in property values arising from the extension or improvement of local infrastructure." (Clunies-Ross, p1)

But he also cautions, "[W]here land is the principal property of many poor people, any general tax on land that aims to tap part of its economic rent must be applied with extreme moderation. One solution is to exempt from taxation individual holdings of land below a certain value." (Clunies-Ross, p17)

"The approaches outlined in this paper do not for the most part depend on new ideas," the author explains. "They are *innovative* in the sense that they are not yet practised in many of the situations in which they might be useful." (Clunies-Ross, p3)

POPULAR COALITION: ACCESS TO LAND, WATER, & OTHER RESOURCES

THE POPULAR COALITION, a global consortium of intergovernmental and civil-society organizations, was formed to eradicate "hunger and poverty by empowering the rural poor through agrarian reform and access to productive assets, especially land, water and common-property resources." It aims to "strengthen the collection, analysis and sharing of knowledge on the innovative approaches to land reform that can overcome the constraints experienced in earlier models of agriculture-sector reform" and to "elaborate participatory methods...to secure access to land and other productive assets," including greater security of tenure, which the organization believes leads to better farming and less environmental damage, thus providing better food security for the world's people. (Popular Coalition, p8-10)

"Today, the number of rural poor is continuing to rise as they are joined by those displaced as the result of the privatization of common property, the expansion of commercial agriculture and the eruption of ethnic and other conflicts over land," according to the Popular Coalition, which sees the real obstacles to land access as institutional and political, influenced by the power of vested interests and the landed classes. It therefore stresses participation of all farmers, including women, indigenous, and the very poor, in decisions concerning land. (Popular Coalition, p3-4)

LVT SUCCESSES INCLUDE A CITIZEN'S DIVIDEND

"*If you're so smart, why aren't you rich?*" is often asked when advice is given. And you might well ask of LVT advocates, "Where are all your utopias?" The tax is fairly widely used, according to Robert V. Andelson, editor of *Land-Value Taxation Around the World*. Australia, New Zealand, parts of South Africa and other African nations, Taiwan, as well as parts of the United States and, formerly, Denmark and Japan, have used this fiscal reform for economic justice. However, land has often come to be assessed at too low a value to make much difference, because of the pressure of speculators and others.

But it **does** make a difference. Walter Rybeck writes, "In 1981, Harrisburg [capital of Pennsylvania, a large state of the United States of America], suffering from blight and a

sluggish economy, was cited by a federal agency as the second most distressed city in the nation. But by 1994, it had reduced vacant boarded-up housing units from 4,200 to less than 500. Its business firms in that period grew from 1,908 to 4,329. An additional 4,700 new job positions had been filled. The market value of private real estate rose from \$212 million to over \$880 million. According to Mayor Stephen R. Reed, the two-rate tax [LVT variation taxing land higher than buildings] played a central role in Harrisburg's resurgence. He also relates tax reform to farmland preservation....'This tax [says the mayor], 'by assuring better use of unused land in cities and suburbs, will discourage the gobbling up of farms.'" (Andelson, p127)

Now smaller cities in that state are shifting more of the real estate tax from buildings to land. And there is rapidly growing support among environmentalists, including Ralph Nader and Green party members in the USA and elsewhere for LVT as a way to halt urban or suburban invasion of not only farm lands but also park lands, wetlands, forests, and other vulnerable areas. Some call it a green tax shift.

Rybeck also cites the state of Alaska [USA] and the province of Alberta [Canada], where oil revenues have been paid back to the government in the form of a citizen's dividend or a commonwealth fund, reducing the need for other taxes. (Andelson, p128)

Land-Value Taxation Around the World, in a completely new edition nearly 45 years after the first was published, recounts the history of LVT from ancient Babylonia to its widespread, if inadequate, application throughout the world today.

NOBEL PRIZE WINNERS ENDORSE LAND VALUE TAXATION

EIGHT Nobel Prize winners in economics have praised LVT. They include James Tobin, whose eponymous Tobin (currency transfer) tax has many merits--but many problems. Unlike LVT, it does not address the systemic source of poverty. Other Nobelists include Milton Friedman, who wrote, "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." (Andelson, p46)

Smiley is especially critical of International Monetary Fund and World Bank policies, and he describes many ways in which their interventions harm third world economies. Most damage, he asserts, is because those institutions fail to realize how much aid money is siphoned off by government officials, powerful business leaders, and others. He argues that a land value tax would block much of such cheating, or diversion of economic rents.

One of his most striking findings is a comparison of how long it would take third world nations to achieve economic, environmental, and political stability under four typical economic models:

- 1) no new reform (the benchmark);
- 2) structural adjustment;
- 3) land redistribution; and
- 4) land value taxation (LVT).

(Land redistribution is only a temporary reform, because farmers with one or more bad crop years often end up selling their land back to the original landlord or a new one who has replaced him.)

According to Smiley, the comparisons between the number of years it would take LVT versus structural adjustment to attain stability are:

financial: LVT- 13, structural adjustment - 22

political: LVT- 27, structural adjustment - 88

environmental: LVT- 32, structural adjustment -110.

(Criteria are explained in Appendix G, "Economic Growth Projections"; other appendices explain development of his model and define economic terms.)

Smiley recommends that aid and development organizations, including NGOs, governments, UN, and others share evaluations of his report, adjust their budgets towards more domestic research, improve data gathering and modeling, move towards making future aid conditional on adoption of LVT, encourage much more NGO research, and give NGOs more responsibility in all UN projects, especially those concerning land reform.

As I mentioned at the beginning, at least three UN bodies urge consideration of a land value tax for national or local financing. In addition, the International Union for Land Value Taxation has just asked the new Financing for Development office to examine LVT's merits. The other bodies on record are:

UN Commission for Human Settlements, *Habitat Agenda*, 1996, paragraph 76 (h):
"Consider the adoption of innovative instruments that capture gains in land value and recover public investments."

Commission for Social Development, *Discussion Paper 11*, 2000:
"Full exploitation of the possibilities of taxes precisely targeted on the site value of land and the rents of other natural resources....levies on the increase in property values arising from the extension or improvement of local infrastructure...."

Commission on Sustainable Development, by Popular Coalition's *The Land Poor*, 2000: "Establish land-tax systems, especially for underutilized land and land held for speculative purposes."

I hope you now see better the true value of land and other natural resources, the great injustice done when the world's people are denied access to them because of personal or corporate greed, and--most of all--you understand that the present unjust tax can be changed to a just tax through land value taxation.

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