

Testimony submitted to the Assembly Standing Committee
on Libraries and Educational Technology; November, 29, 2012
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Honorable Committee Members:

At a time when public institutions feel hard put to find adequate financial resources for their programs, it is helpful to understand a bit of tax theory. I am a former university professor who later served for a decade with the Legislative Tax Study Commission before retirement in 1992. I have spent my time since preoccupied with economic thinking outside of mainstream discourse, a school mostly following the writing of Henry George. It has had a dramatic revival in the past two decades due first to the power of computers and available data, to the strength of the internet in bringing together its advocates worldwide, and to the collapse of current economic theory. Since working outside the confines of government, I regret to say, my success has been far greater than my efforts ever were within. I hope perhaps to broaden your thinking here.

If policy makers look in the right places, there is no shortage of potential revenue at all, and it can be had painlessly. Nobel Laureate Joseph Stiglitz recently put it well:¹

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.

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.

In classical economics, which can be traced as far back as the writing of John Locke, but which is normally associated with Adam Smith, a central factor of production was called rent. As he noted, "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."² This is because land, as well as almost all other resources of nature, has an inelastic supply. The more it is taxed, the more this otherwise frozen wealth is made liquid and thereby increases economic vitality.³ All the economic writing until the early 20th century gave substantial attention to rent, also sometimes called land rent or ground rent. With the rise

¹ "Principles and Guidelines for Deficit Reduction," The Roosevelt Institute, December 2, 2010, Working Paper No. 6.

² *Wealth of Nations*, Bk 5, Ch.2, Pt.2., Art.1.

³ Guerney Breckenfeld, "Higher Taxes that Promote Development," *Fortune Magazine*, August 8, 1983, pp.68-71; also at <http://www.savingcommunities.org/docs/fortune/hightax.html>

of neoclassical economics, discussion of rent essentially dropped from textbooks, an interesting story by itself. But Stiglitz three decades ago, along with his late colleague at Columbia, Bill Vickrey (also a Nobel Laureate) showed that “there is a Pareto efficient allocation in which in each community, public goods expenditure equals land rents,”⁴ what is today known as the Henry George Theorem. I recently brought back a book on this matter myself, with an Afterword bringing things up to date.⁵ The truth is we’re just not looking for revenue in the right places.

What we should be doing is phasing out the destructive part of the property tax placed on improvements and shifting to a higher rate on land value. Now we have a tax analogous to a train with an engine on each end, each one negating the impact of the other. The land value is really a flow of rent that is otherwise capitalized in the market value of sites, thus removing social wealth that could otherwise circulate. Instead of untaxing property entirely, we should try to get rid of those taxes that are destructive in their impact. Not long ago Reihan Salam of the New America Foundation⁶ asked, “What if the problem isn’t the property tax at all but rather, well, all other taxes?” Those other taxes—mainly on income and sales—create a burden that economists call deadweight loss, an amount that is about a third of the amount collected and about a tenth of the total economy. Taxing land by its market value comports with 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.

The elimination of rent in neoclassical economics is a longer story, one that need not be repeated here. But if revenue streams tapped rent flow, there would be no dearth of finance for public programs, and our markets would be substantially enriched. A substantial body of literature is available to those that wish to tap it; indeed other nations, especially in the British Isles, are way ahead of the US in exploring these policy options. I have testified before government bodies here and elsewhere over several years and am astonished at the lack of interest in these renewed ideas. Indeed I am preparing for a trip shortly to Asia where I will be talking with academics and public officials, as well as arranging a 2014 international conference in Seoul. I would be happy to talk with people here in Albany if there is interest. It’s surely true to say, one is never an expert in one’s own backyard.

⁴ Joseph E. Stiglitz, *The Theory of Local Public Goods Twenty-Five Years After Tiebout: A Perspective*. Working Paper, No 954, National Bureau of Economic Research, (August, 1982) p.17; 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. Wenzler (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.

⁵ Gilbert M. Tucker, Jr., *The Self-Supporting City*. Robert Schalkenbach Foundation, 1946, 1958, 2010.

⁶ Reihan Salam, “End All Taxes – Except One,” *Atlantic Magazine*, Vol. 304:1 (Jul-Aug, 2009): 60.