TAXATION:

TODAY'S LESSONS FROM HENRY GEORGE

by

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THE HENRY GEORGE RESEARCH PROGRAM

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"Modern" tax burdens differ enormously from those of Henry George's time. Nevertheless, what George had to say about taxes has significance for our time. If our interest is the possible application of his proposals today, they must, of course, be examined in light of present conditions. This is the focus here. Today federal taxation commands most attention; yet, local tax problems continue, and opportunities for better policies deserve attention.

Freedom to Realize Human Potential

An outstanding element of George's message was his conviction that tax reform can reduce restraints on the development of human potential. The zeal of the missionary, the fervid conviction of one who sees visions of great promise, give a positive, optimistic tone to Progress and Poverty. The following paragraph gives some flavor of his reasons for advocating tax revision:

> To abolish the taxation which, acting and reacting, now hampers every wheel of exchange and presses upon every form of industry, would be like removing an immense weight from a powerful spring. Imbued with fresh energy, production would start into new life, and trade would receive a stimulus which would be felt to the remotest arteries. The present method of taxation operates upon exchange like artificial deserts and mountains; it costs more to get goods through a custom house than it does to carry them around the world. It operates upon energy, and industry, and skill, and thrift, like a fine upon those qualities. If I have worked harder and built myself a good house while you have been contented to live in a hovel, the taxgatherer now comes annually to make me pay a penalty for my energy and industry, by taxing me more than you. If I have saved while you wasted, I am mulct, while you are exempt. If a man build a ship we make him

> pay for his temerity, as though he had done an injury to the state; if a railroad be opened, down comes the tax collector upon it, as though it were a public nuisance; if a manufactory be erected we levy upon it an annual sum which would go far toward making a handsome profit. We say we want capital, but if any one accumulate it, or bring it among us, we charge him for it as though we were giving him a privilege. We punish with a tax the man who covers barren fields with ripening grain, we fine him who puts up machinery, and him who drains a swamp.

He continues:

> To abolish these taxes would be to lift the whole enormous weight of taxation from productive industry. The needle of the seamstress and the great manufactory; the cart horse and the locomotive; the fishing boat and the steamship; the farmer's plow and the merchant's stock, would be alike untaxed. All would be free to make or to save, to buy or to sell, unfined by taxes, unannoyed by the taxgatherer. Instead of saying to the producer, as it does now, "The more you add to the general wealth the more shall you be taxed!" the state would say to the producer, "Be as industrious, as thrifty, as enterprising as you choose, you shall have your full reward! You shall not be fined for making two blades of grass grow where one grew before; you shall not be taxed for adding to the aggregate wealth. [Progress and Poverty, pp. 434-435]

There is more about the oppressive, depressing effect of taxes on production and the opportunity to correct error. The optimism reminds one of present-day "supply-siders" who believe that reducing tax burdens will lead to an enormous outpouring of new production. Whatever the realistic expectations, huge or modest, the direction of change is toward economic progress.

The Setting

A century ago the national government raised revenues from tariff, liquor, and tobacco excises; it spent less and, in every year from the Civil War to the mid-1890s, reduced the national debt of the Civil War. State governments did little that involved expenses and needed only small amounts of revenue; they depended basically on surcharges on local property taxes.

Government spending in this country was predominantly local -- for schools, police, streets, etc. Relative to the size of the economy, government spending and taxes were below today's levels. The Census found that in 1902 per capita taxes were $7 federal, $2 state, and $9 local. (Converting to present dollars is not really possible, but multiplying by 10 would conform generally to the index of prices.) As a percentage of Gross National Product (GNP) taxes and spending were under 9 percent or so compared with four times the percentage today.

Today's largest revenue source, the tax on income, dates from 1913, long after George's death (1897). However, during, and for a time after, the Civil War this country did impose an income tax. Britain, by the time of George's travels in the British Isles, had been taxing income for decades. Thus, this source of revenue was known to him. Although he had little reason to discuss it, his vigorous condemnations of taxes on production applied to income taxation. Condemning regulation, he writes:

> For instance, . . . a graduated tax on incomes. The object at which it aims, the reduction or prevention of immense concentrations of wealth, is good; but this means involves the employment of a large

> number of officials clothed with inquisitorial powers; temptations to bribery, and perjury, and all other means of evasion, which beget a demoralization of opinion, and put a premium upon unscrupulousness and a tax upon conscience; and, finally, just in proportion as the tax accomplishes its effect, a lessening in the incentive to the accumulation of wealth, which is one of the strong forces of industrial progress. [Progress and Poverty, p. 320]

A quotation from the section on taxation carries the message explicitly:

> Taxation which lessens the reward of the producer necessarily lessens the incentive to production; taxation which is conditioned upon the act of production, or the use of any of the three factors of production, necessarily discourages production. Thus taxation which diminishes the earnings of the laborer or the returns of the capitalist tends to render the one less industrious and intelligent, the other less disposed to save and invest. Taxation which falls upon the processes of production interposes an artificial obstacle to the creation of wealth. [Progress and Poverty, p. 409]

Neither payroll nor retail sales taxes were used a century ago. The tax world was different from ours. Yet the two dominating revenue sources -- tariff and property taxation -- are still with us, albeit modified. The tariff had more of a deliberate trade-reducing intent than today. Property taxation presumably extended to personal property -- tangible and intangible -- but with mixed results, especially regarding household items and securities. In only a few states today is there any vestige of tax on intangible property and, except for some business inventory and machinery and equipment, tangible personal property is no longer taxed.

Past writings can serve us well today only if we examine them in light of any relevant wisdom that has accumulated since they were conceived. We must also consider present circumstances. What is the appropriate balance between the continuity of what existed when the ideas were formulated and the changes mankind has since made? Although classics of political economy contain value, discrimination is called for. Uncritical acceptance can mislead.

Drawing upon his insights and building upon them for our world, how can we and our children benefit from Henry George? Two elements of his writing on taxation that involve the taxing power -- tariff and property taxation -- can serve us constructively.

Freedom -- Including International Trade without Tariffs

The depth and the breadth of George's devotion to freedom is inspirational today. Time and again he writes about the potential of mankind that never has a true opportunity to develop. Taxes, including tariffs, choke off and needlessly obstruct human achievement.

George bitterly condemns our oppression of each other beyond the taxing power. Horrible examples of the past have counterparts today in a number of lands.

Yet varied types of restrictions on freedom have developed and grown. George's world, like that of Adam Smith's a century earlier, had examples of governmentally (political) imposed limitations on economic opportunity. He opposed but not without exception:

> . . . it is evident that whatever savors of regulation and restriction is in itself bad,

> and should not be resorted to if any other mode of accomplishing the same end presents itself. [Progress and Poverty, p. 320]

Regulation has multiplied. Advocates would cite the opening George left as the best way to serve the public interest. Some rules meet a reasonable standard, some do not. In international trade there is the relatively straightforward tariff which adds monetary burdens to exchange. Distinguishable from it are the myriads of nontariff barriers, including many modern devices unknown a century ago.

From George's time to ours American tariff policies have gone through several changes. In the 1930s the dominant forces brought significant rate reductions in this country and several others. Yet U.S. customs revenues have reached levels undreamed of not so long ago -- thanks to expansion of world trade in real terms as well as in prices that reflect broad inflation. From $423 million in 1950, tariff revenues have risen to an estimated $11.8 billion in 1985.

George's writings about tariff and international trade include biting criticisms of those academic economists of his time who endorsed tariffs for "protection" -- restricting exchange, the division of labor, and the opportunities for efficiency. By the time of George's death, university and college economics staffs undoubtedly included many who condemned protectionism and taught the benefits of free as opposed to restricted opportunity for exchange across national borders.

So perhaps it is out of place to suggest here a favorable reference to the potential of tariff as a revenue source under modern conditions. Chapter VIII, "Tariffs for Revenue," of

Protection and Free Trade arrives at conclusions which do not necessarily apply to all possibilities today.

Recognizing that national government spending will require heavy taxes, what reasons might support the imposing of revenue burdens on transactions crossing the national border? Bulky products that can be identified and valued without great difficulty may be inviting targets for revenue. They are relatively easy to collect, hidden from voters, and, to some extent, a burden shiftable to suppliers. (Corresponding taxes on domestic production must match the import tax if the restrictive effects of protectionist tariffs are to be avoided.) The political problems of tariffs for revenue only might be formidable; however, in early 1985 one sees serious proposals for import taxes on petroleum to raise revenue and for other reasons.

Conditions are different from those of George's time. His discussions deal with the deep issues of opportunity and efficiency. Three selections from Protection and Free Trade will suggest the force of his teaching:

> Who would think of recommending a site for a proposed city or a new colony because it was very difficult to get at? Yet if the protective theory be true, this would really be an advantage. Who would regard piracy as promotive of civilization? Yet a discriminating pirate, who would confine his seizures to goods which might be produced in the country to which they were being carried, would be as beneficial to that country as a tariff. (p. 35)

> What protection teaches us, is to do to ourselves in time of peace what enemies seek to do to us in time of war. (p. 47)

> Trade is always to the benefit of both parties. If it were not, there would be no disposition to carry it on. (pp. 146-147)

Views on Taxation: General

In recognizing Henry George's intellectual capacity and his integrity, his search for truth, his devotion to the truth as his studies and feelings revealed it, one can be certain that his message today would reflect present conditions. There also would be insights into the future. If he had lived to continue to develop his insights and conclusions and to press his points, American (and world) public finance might now be significantly different. Is it not conceivable that the momentum he had built would have accumulated force? Numerous local governments might have adopted his proposals. One can try to imagine how American cities and their finances would differ today if manmade capital had been subject to little property tax (or none at all) and if more rising land values for the past century -- or the last three or four decades -- had gone to pay for schools, streets, and other services of government. With no difference in total local government services, Americans could have had more productive capital and housing in the low-tax communities. The capital facilities of local governments could have been acquired with little or no public debt if the community rather than private owners had gradually obtained through taxation much more of the increases in land prices.

Let us be clear. Tax rates on land in most urban and suburban communities are higher than a century ago -- as they are in rural areas. This country _has_ taxed owners of the land to finance local government; local governments here raise relatively more revenue than in most of the world. In doing so, they have added to the tax burdens on improvements to bring more revenue.

This result George condemned vigorously. Would it be correct to say that America has failed utterly to follow George's proposals? No -- but perhaps "almost" is correct. It is undeniably true that this country has acted contrary to elements of central importance in George's system.

Those who consider themselves Georgists today may differ considerably on some policy recommendations -- the practical procedures, the relative importance of steps that might be taken, and even the ultimate objectives. The following proposals represent one economist's view. They concentrate on property tax issues without, perhaps unfortunately, giving enough explicit attention to George's convictions about the merits and the moral imperatives of freedom. The tax program itself, however, in addition to its own merits, would be a means toward achieving the fundamental aim of enlarging opportunities. The realization of human potential would be aided by tax reform.

Capital Gains Taxation

Before considering property taxation, however, there is a fact which George could not have incorporated into his thinking. It relates to proposals which are sometimes made concerning a special tax on gains. Income taxes on capital gains reach some increases in land values.

There may be good reason why capital gains from (pure) land price increases should be higher than the tax on gains in common stock prices. The latter results to some extent from the reinvestment of earnings which have themselves been subject to income tax (or prospective earnings which will be subject to corporate income tax). Considerably more of the long-run rise in land prices than of securities of businesses will represent "unearned increment" from population growth and community development. Portions of land price increases result from no constructive effort of the owner; a tax system which absorbed most of such gains would be very different indeed from one which took an equal portion of the fruits of human effort and thrift. Although there is no possibility of devising and enforcing a capital gains tax limited to the unearned increments of land prices, national and state governments do get some of these increments. The portions are probably not large. Sales that constitute realization and occasion tax involve only a modest fraction of properties even over several years.

Property Taxation

The chief interest and the major opportunities of utilizing George's principles lie in property taxation. Realistic potentials for betterment are large enough to justify serious and sustained effort. Even today, with the lost opportunities of the past, property tax exists everywhere in the country but in widely different fashions. It now yields over $100 billion a year, half again as much as corporate income taxation.

Some discussions seem to place most emphasis on the merits of raising land taxes as a means of pressing owners of land to put it to the best possible use. Getting revenue for local government seems secondary. Debate here on the relative importance would be more diversionary than helpful. One should be cautious in generalizing about such enormously diverse matters as land use -- inherently a local matter. Conditions differ from one community to another, even from one parcel of land to another. In principle the goal should be a broad market structure which exploits the ability of all actual and potential participants on all land to play the largest role of which each is capable.

The term "monopoly" appears frequently in George's work and in the writing of his followers. Clarification is in order. Of course, each owner does have a monopoly on his or her parcel(s); competition is thereby limited. How close are the substitutes? The monopoly element will rarely be so powerful for the parcel of land as is usually implied by the term for a single supplier with no close rivals, e.g., the only newspaper in town. The owner of one parcel may have the key to a much larger project. When persons or businesses have other resources on land, mobility is limited. But landowners are not a homogeneous group in American cities. Rivalry among buyers and sellers of rural and suburban land is also far from monopolized as a rule.

Each location _is_ a monopoly. But there are many locations. For each there will usually be a good, or an acceptable, substitute.

Land does differ from other property, tangible and intangible. Land is space and space exists. Interrelations of interests exist. Quite generally there must be conditions which bring into the total situation more than _de minimis_ elements of externalities.

Market forces can be supplemented by governmentally imposed zoning and land-use rules. But issues are complex. Attempting to achieve goals of land use by property taxation -- indirectly and more implicitly than explicitly -- calls for caution. To try for more than increasing reliance on market guides must yield questionable results. However, important action can be taken to mute or enlarge the power of market forces.

The many urban-fringe, agricultural tax preferences represent efforts to use the tax system to bring nonrevenue land-use results. How close the actual achievements over the years will come to some true public desire no one can yet know. Cases differ.

Another application of tax policy with effects on land use is rather widespread -- the relative underassessment of vacant or underutilized land. Rationalizations for such tax favoritism may appear. There is little cash flow for the owner. (The reward hoped for will often be capital gain.) Should the general body of taxpayers, however, support such undertaxation? Hardly. Although land speculation can serve purposes that are useful and constructive for the broad public -- as well as producing the evils sometimes cited -- taxpayer subsidy (albeit indirect) of the speculation seems unwise as well as unfair.

Inducements for land use subject to stronger market forces would be one result of a package of policies resting on George's message.

<u>Restructuring of Basic Elements of Property Taxation Along Georgist Lines</u>

Change in the structure of property taxation along Georgist lines -- without changing total burdens -- is a realistic possibility. Doing so would reduce defects of the present system of financing local government while inducing valuable benefits. In perhaps one-third of the country, however, local tax rates are not high enough for any feasible change to exert "large" effects. (California has by constitution set a rate of about 1 percent of market value.) Federal income taxes exert forces which can overshadow changes in property taxation to an extent not readily estimated. However, in many localities, including most big cities and perhaps nearly half of the nation's population, the present property taxes are at a level where the change could significantly "alter the arithmetic" of real estate investment.

Economically, _the_ tax consists in fact of two aspects whose effects are quite different. A long evolution has blended elements which differ fundamentally:

1) Land was created by nature. It is immobile. The quantity is largely fixed and will not rise or fall depending on the height of tax. Price depends upon forces other than cost of production. Land differs from shoes or machines or other goods and services which must be produced.

2) Manmade capital -- buildings, machinery, and inventory -- must be created by labor and materials combined in the investment process which requires (a) saving, (b) waiting for results, and (c) the taking of risks. Suppliers expect rewards -- after-tax income. The weight of property tax will affect the quantity and quality of such capital expected in any locality.

The Proposals

Tax rated on buildings and improvements, machinery, and inventories would be reduced substantially. Land would become the base for much more of the property tax than it is today. The relations of tax rates on land to that on manmade capital might be three to one or five to one, differing from one place to another. Henry George would have removed all tax on manmade capital. To tax only land, however, would not be possible in the foreseeable future in much of the country. For revenue and other reasons, such a large change from present practice would not be on an agenda of realistic reforms attracting effort today.

What results would be expected? The total would include much that would be desirable. Not all could be foreseen accurately. In a society with complex interrelations there would be surprises. George himself in discussing methodology noted the impossibility of identifying all consequences of a single change. The existence of interconnections serves a human temptation to expect and predict more (desired) results in a chain of causation than would be justified by reality. We suffer from an inability to quantify adequately, especially the secondary and more remote results. The direction of changes, however, can be identified. Such knowledge is useful.

A reduction in the tax rate on buildings and machinery would lead to more investment in new structures and machinery and would reduce ill effects of the present system.

1. High Effective Tax Rates Affect (Distort) Behavior. Although property tax rates when expressed as percentages or millages are small numbers, they apply to capital values. A 3

percent property tax equals 33 percent of the pre-tax net income -- and 50 percent of that after tax -- from a property which yields 6 percent to the owner. The property tax during the life of building when expressed on a basis comparable to that of a retail sales tax frequently exceeds 25 percent.

Any tax will alter behavior, and not just because people have less to spend and save. Individuals and businesses change the ways they conduct their affairs. When rates of tax are high, and when differences in tax burdens are large (e.g., from one area, type of property, or activity to another), the nonrevenue results can be substantial. Capital flows (but not land) will be diverted from the most natural sources. Economic distortions will be produced; capital and economic activity will produce less human benefit than possible otherwise. The lower the tax rate on manmade capital, the less the distortion.

2. The Perverse Character of Tax Burden in Relation to Costs of Government. The reform proposed would reduce insidious and costly results from the present system. What exists now requires that new, well-constructed, high-quality buildings be taxed more heavily per unit of space than are slums and "junk." And in many localities new machines are also taxed more heavily than old. Is it not foolish for society to decree that if a family acquires better housing or a company supplies more and better capital facilities they must also pay more toward the costs of government? Can justification for such a discriminatory burden be found in the cost differences which the two types of property impose on local government (per unit of occupied space

or machine used)? Most probably, no. George called this point to the attention of his audience. A million cubic feet of low quality building space probably puts the community to just as much expense for schools, policing, fire protection, and other services as the equivalent space of high quality.

Lowering the tax on new buildings and machinery would increase the attractiveness of such investment. Market processes would work to replace older buildings and machinery with newer ones. The forces of private enterprise -- decentralized, partially obscure, dispersed, but powerful -- would work more effectively than today to channel capital funds into new buildings and machinery.

Slums and obsolete machinery would not all be replaced before the next election; however, the process of renewal would be accelerated. Modernization of existing facilities would become somewhat more attractive.

Under the present system localities which would benefit from replacing obsolete, degrading buildings put tax impediments in the way of progress. No one, of course, wants to make a deliberate effort to base local finance on a tax that would favor holding on to decrepit structures while penalizing the new structures. But the property tax system does discourage improving productive facilities. The family which wishes to shift from poorer to better quality housing cannot do so without also paying more toward the costs of government. Is this not irrational and self-defeating? The reform would change the fundamentals.

3. Maintenance Encouraged. A high tax on buildings discourages maintenance and modernization. Both the realities of assessments as actually made and owners' beliefs of what the assessor will do must tend to discourage the maintenance and improvement of existing structures. The amount of such retardation may not be large in total. No one can possibly know how millions of owners of buildings modify their actions. But whatever the results, they are unfortunate. Is it not clearly unwise for society to create such obstacles to maintenance?

4. More Efficient Development of Structure Size. The present property tax on buildings operates to produce a rarely recognized effect which imposes what economists call "excess burden."

The expense per cubit foot of construction declines with increases in the size of the house, office, apartment, or other unit (within varying limits). In terms of cubic contents -- one of the major things generally desired -- unit cost drops as room size increases. The space enclosed rises more than in proportion to floor, wall, and ceiling area. Much the same plumbing, wiring, kitchen, heating, and other facilities can serve larger as well as smaller rooms and buildings through a range of sizes.

Human well being can be served best (within a range) by the construction of rooms, houses, and buildings of larger, as opposed to smaller, size. Resource allocation in the economic sense will be more efficient when raw materials and labor (and the interest element in capital supply) go into more commodious and less cramped housing, office, or other use.

Not observable from one year to the next, but unobtrusively, our present property tax on structures will lead to the construction of rooms, apartments, and buildings somewhat smaller than would be built in the absence of tax. Unknowingly, the public deprives itself of opportunity to exploit fully the potential benefits from the "law of the cube." The reform proposed would somewhat correct this defect.

5. Higher Efficiency in Land Use. Higher land taxes would add pressure for the fuller and better use of land. A more effective market in land would facilitate more productive use of this immensely important resource.

The change would tend to reduce land prices through the familiar process of capitalization in net income. (However, the reduction in tax rate on manmade capital would add countervailing pressure by enlarging the demand for land.) The upward movement in land prices due to economic growth would be less than under the present system. Such increases in prices do not create more land. They are a source of complaint by persons concerned with the cost of new housing. Heavier tax rates on land values would induce owners to make more effective use of land -- to put land to uses more nearly up to those which market demand suggests as most productive.

Today, keeping urban and suburban land idle (or nearly so) while waiting for the price to go up may cost the owner rather little in net cash outflow. Any higher income foregone would be subject to income tax. The owner's ability to deduct property tax in computing taxable income reduces the net cost to him or her, but not to society, of holding land largely idle while waiting for the price to rise. And the assessor may "cooperate" with the owner of underutilized land producing little or no net cash income through perhaps a significant unrealized capital gain. The assessor puts lower figures on underutilized land, relative to full value, than on developed property. Users of other property must pay more for local government when undertaxation of some land helps to keep it underutilized.

Lower taxes on improvements, coupled with heavier taxation of land, would reduce "urban sprawl" and switch the emphasis to the availability of more central-area land. New possibilities of, and incentives for, compactness would then appear. The new tax relations would weaken the power of some landowners to "force" people in a growing community to settle farther away. The filling in of the partially idle land would be accompanied by more vertical development. Horizontal expansion would be somewhat less attractive compared with more intensive (vertical) use of land.

Savings in transportation would result from a more compact development of urban areas. The worth of decline in time spent in travel -- plus the savings over the years in the cost of vehicles and roadways required for the shorter rather than the longer trips to and from work -- could be appreciable. Although one must be cautious in assigning weight to such secondary results, the direction of change would be welcome.

A higher tax on land would in effect increase the effective supply -- not because of new output in a basic sense, but because more land would be offered for new use. Owners feeling pressure to get more cash to pay tax would have incentive for finding uses for their land that would yield more income.

To assure efficient allocation of land, the use must pay the full worth of the site (location), the value of the best alternative use being sacrificed in the process. But the owner need not receive all that is paid because the owner's receipt does not need to go to producing the land. Therefore, government can step in and take more than it traditionally does of what the user pays, but not all. Owners must feel confidence that their efforts in finding a use yielding more return will bring _them_ benefit. _Positive_ incentive serves a valuable purpose. Any portion of land (location) price which results from activities and investment of owners should remain with them even though under property law the value may be "land."

6. _Justice in Sharing Cost of Local Government_. Much of what people pay for the use of land -- "the original and indestructible" qualities, plus elements of worth growing out of population increase and concentration, plus, government investment in streets, sewers, schools, parks, etc. -- reflect values created by the community. Although some owner outlays will have been made to bring land into its present condition, only rarely is any of the payment a reward for bringing land into existence. The community can capture in taxes some of the values which it has created -- including values resulting from local government spending on growth and development of society. Heavier use of the tax on land values would bring to local governments -- in contrast to taxes on capital gains going to national or state governments -- more of the fruits of land-price

increases which result from general economic progress. The "moral justification" for owning the fruits of effort and thrift is compelling. But the "gaining wealth while sleeping" of the owners of land involves claims on society without the creation of comparable value for those who must pay for it.

Over the longer run, landowners would get less of the increment in land values. The general public would get more to cover the expenses of local government; on this point, the equity results of George's proposals commend themselves powerfully. Socially created values would go for governmental rather than for personal uses. The benefits would flow to local treasuries, thus tending to produce the justice which comes from relating tax to benefit on a geographic basis. The localities doing most to make themselves attractive would have most of this revenue source.

Governmental costs of new communities are large. In and around major cities new dwelling units require substantial governmental outlays for school, street, fire and police, sanitation and health, park, prison, and other facilities. To varying degrees developers should provide some of the facilities. Reform of property taxation could enlarge and systematize such results by more general use of increasing land prices to pay for public facilities.

As for the future, the tax on land values above their present levels would be almost without burden, except as owners of land and their heirs get less "unearned increment" from rising values. Future owners would pay less for land -- the annual cost reduction being lower interest or equivalent expense. More would go in taxes. The total annual cost would be unchanged.

Transition Concerns

Reform, if it is to be constructive, must respect human beings, including their assets. Respect for human values in property must be part of the good society. Who benefits from property? Not only the present owners, but also others will profit, directly or indirectly, by using productive assets in the future, e.g., workers, investors, and consumers.

Large, sudden, and even uncompensated changes in property rights can result from legislative and judicial decisions. Responsible advocacy of change, however, will consider the starting point and the conditions of transition. One can find in Georgist literature less concern for owners of property rights in land than most Americans would probably support. Yet any proposal to be put into effect must have popular backing.

There is the argument, stemming from George himself and still found in some Georgist' writings, that states that, since nature (or a divinity) created the land, an elemental portion of land value cannot really be justified as the property of the present owner. Much of present worth results from general community development, not the creative efforts of today's owners. Confiscation of their existing claims to income would not destroy the land or the community.

Some titles to ownership go back to distant origins. Some are certainly less morally meritorious than, say, the efforts of the pioneering homesteader or even the feudal lord who provided protection.

Value increases over generations have resulted from many things, only a few of which could be identified and measured now.

Some have involved owner commitment of resources in land. Some have resulted from owner efforts to make a better community. Truly unearned increments have also resulted. George, in Progress and Poverty, recognized the issue:

> . . . to attempt to separate all that the human race has done from what nature originally provided would be as absurd as impracticable. A swamp drained or a hill terraced by the Romans constitutes now as much a part of the natural advantages of the British Isles as though the work had been done by earthquake or glacier. The fact that after a certain lapse of time the value of such permanent improvements would be considered as having lapsed into that of the land, and would be taxed accordingly, could have no deterrent effect on such improvements, for such works are frequently undertaken upon leases for years. The fact is, that each generation builds and improves for itself, and not for the remote future. And the further fact is, that each generation is heir, not only to the natural powers of the earth, but to all that remains of the work of past generations. (p. 426)

American tax reform starting now would begin from a base in which land values and other values have been bought and sold as equal or similar per dollar. Men and women who have invested in land under long-standing rules have a solid moral base for expecting governmental protection, not destruction, of property rights. Nothing in our system, however, stabilizes rights in an absolute or fixed sense. An owner can get more if market forces permit -- or must take less. Government does not commit the public to refrain from changing taxes (or services provided to owners and users of property).

As suggested by the last quotation, inheritance as an institution can raise questions about the justification of property through time. The issue cannot be disposed of so briefly as George implied. Capital accumulation through time results from many human factors, not the least being a concern for children and grandchildren.

Whatever the considerations about the past, proposals for sudden and large tax changes that would transfer property values from present owners to local government would arouse opposition. Regardless of past thoughts about the development of rights in property, we cannot wisely or equitably ignore the past in looking ahead.

Incremental changes are very much a part of American government. And over time the change can cumulate to a great deal. Gradualism in property tax revision would permit substantial change in five years -- not a long time in the history of a family or a society. Settling on a definite program through the processes of capitalization and discounting would, in a sense, bring the future to the present. Hence the pattern of future tax change could quite properly seek to moderate opposition by a somewhat irregular schedule -- less next year than in the fourth year. Much more value, however, exists in manmade capital. Pressure for large, immediate tax rate reduction could be expected.

George saw the issue. He made a point which covers probably most cases. Owners of land would quite generally gain from the reduction of tax on buildings. A revenue-neutral reform would leave the bulk of homeowners with little or no net change in the immediate future. Each locality is somewhat unique. In

Pennsylvania, for example, a few communities have elected to impose lower taxes on buildings than on land each in a relation determined locally.

Administrative Feasibility

Can the values of land and structures be distinguished for assessment and taxation at different rates? Yes. The process, however, would not be without problems. In most places greater care than at present would be required. In numerous localities present practices might not need much refinement to give acceptable results. In general, however, assessment falls far short of the quality attainable. Adding a requirement -- greater accuracy in separating the building from the site (land) portion of total value -- would increase the demands on the assessor.

Yet the higher demands can be met. Adequate administrative techniques exist. Communities that want to see the job done well can apply known administrative techniques and expect success -- not perfection but adequacy.

Concluding Comment

George concludes *Progress and Poverty* with visions of the progress which would result from his tax proposal. A vastly improved economy would bring benefits everywhere. In the short run there would be some losers, but only a few; they would be families of such wealth that all their reasonable needs could be amply met with remaining property.

George predicted great change in the distribution of wealth, including a welcome reduction of poverty. Such forecasts were doubtless unrealistic a century ago. Nothing comparable should be expected today. Furthermore, nothing of such nature is needed to make the proposals highly desirable.

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