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Socializing Land Rent, Untaxing Production

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Social justice, urban renewal and development, the provision of decent dwellings and healthy conditions for the people can only be achieved if land is used in the interests of society as a whole…. Excessive profits resulting from the increase in land value due to development and change in use are one of the principal causes of the concentration of wealth in private hands. Taxation should not be seen only as a source of revenue for the community but also as a powerful tool to encourage development of desirable locations, to exercise a controlling effect on the land market and to redistribute to the public at large the benefits of the unearned increase in land values… The unearned increment resulting from the rise in land values resulting from change in use of land, from public investment or decision or due to the general growth of community must be subject to appropriate recapture by public bodies (the community).
Paul Collier in his speech titled *Land as a Key Development Issue: Insights and Implications for the Policy and Research Agenda*, the opening presentation at last year’s World Bank Land and Poverty conference, clearly stated his view that rent should be socialized.
Collier said:

“Density is valuable and that value is reflected in the price of land. The taxation of land appreciation offers huge scope for financing the cost of urban infrastructure. But the default option is for the costs of urbanization to be socialized, while the benefits are captured by private land owners.

In the urban centers there are enormous rents on rising land value... these rents should be socialized.”
It takes land, labor and capital to produce anything. Notice that land comes first.

The classical factors of production:

**Land** = surface land and all natural resources

**Labor** = people

**Capital** = tools (hammers and factories)

Note: money = none of these and thus while important is not fundamental
LAND
LABOR
CAPITAL TOOLS OF PRODUCTION
Labor (physical and mental) on Land (gifts of nature) yields Capital (tools). Basic needs can be secured with minimal capital.
The Classical Economic Terms for Distribution of Wealth
Each factor of production receives a part of what is produced

Land receives **RENT**

Labor receives **WAGES**

Capital receives **INTEREST** (PROFIT)
David Ricardo – *The Law of Rent*

One of the most important and firmly established principles of economics, the *Law of Rent* holds that the rent of a land site is equal to the economic advantage obtained by using the site in its most productive use relative to the advantage obtained by using marginal (i.e., the best rent-free) land for the same purpose, given the same inputs of labor and capital.
Johann von Thünen (1783-1850) developed the first serious treatment of spatial economics, connecting it with the Law of Rent. **Locational rent**, a term used by von Thünen, is to be understood as the equivalent to land value.

The diagram shows von Thünen graph of land value (rent) from an urban center to the periphery beside a recent land value scape.
How does land get its value if it is not produced?
Where does the “land rent” go?

The community of all people create the value of land measured by land rent and cost of purchase.

Individual owners of land and natural resources do not create the value of their particular pieces of land.

Because land owners do not create the value of land its rent is unearned income in their hands.

Since land value invariably increases with population growth and development, and as we know from the “law of rent” at a pace faster than wages once the margin is reached, then wage earners must borrow ever greater amounts to purchase a house.

Thus a portion of land rent is also going to banking institutions via mortgage payments, as described by economist Michael Hudson.
BUT - Neo-Classical Economics Has Only Two Factors: LABOR and CAPITAL
LAND (Earth Resources) was made a subset of CAPITAL

When the factor of LAND is reduced to a subset of CAPITAL what happens to the concept of RENT? Verschwindet! RENT magically and perhaps conveniently disappears from the economic lexicon and praxis.
Who would have pulled such a trick on the promising science of political economy just at the point when it had found a way to structure a market economy that would be fundamentally equitable in its distribution of wealth? *Cui bono?*

Mason Gaffney answers this question in his book *The Corruption of Economics.*
Compares wage and productivity growth but excludes the factor RENT.

http://thecontributor.com/40-americans-now-make-less-1968-minimum-wage
Now, that we've replaced the left wing with another right wing... boy, howdy, you're gonna see some flyin'.
Q and A

Comments

Discussion

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Economics Principles in the Vedic Tradition
by Nicholas Kazanas

Dr. Nicholas Kazanas is a Greek-born scholar of Vedic history, Indology and the culture in the Indus Valley back to 5,000 years ago.
Kazanas tells us:
“...the work of wise lawgivers in the remote antiquity of the Vedic period” (shows) “the same concern about the distribution of wealth that occupies the mind of modern economics.”
Ancient Indian Codes of Law

“..the sages who instituted their Laws, recognized fully all the needs...for bodily wholeness, food and shelter, locomotion and assembly, property and reputation, solitude and peace, physical work and spiritual development.”
A most surprising feature is the principle of free access to land for all and the Land Value Tax which should be the source of Government revenue (and expenditure).

It is surprising because Land Value Taxation is supposed to be a fairly modern concept.

There is a concept of “rent” or surplus: a higher charge on the more fertile land. - Kazanas
Dr. Yu-Hung Hong researched 4,000 years of land taxation in China from 2697 B.C. to 1911 A.D. Lessons learned from this extensive survey include the stability of civilization when the land is fairly allocated and land taxes are around 10 percent of the product of the land.
The Early Christian land ethic echoed Old Testament teachings concerning land rights.

• The land must not be sold beyond reclaim, for the land is Mine; you are but strangers resident with me. - Lev. 25:23
• The profit of the earth is for all. - Eccles. 5:9
• Woe unto them that join house to house, that lay field to field, till there be no place. - Isaiah 5:8
• Restore, I pray you, to them even this day, their lands, their vineyards, their olive yards, and their houses. - Nehemiah 5:11
The Gemara, Baba Bathra, (122, A)
Solomon Solis Cohen, "The Land Question in the Talmud"

Their Question:
How to equalize (make fair) the return to labor given the fact that some land locations are more valuable than others?
Biblical Jubilee Justice: Those with poorer land were to be given more acreage and those with more fertile land would be given less.
That is to say, those holding land nearer the city (Jerusalem) should pay into the common treasury the estimated excess of value pertaining to it by reason of its superior location, while those holding land of less value, by reason of its distance from the city, would receive from the treasury a money compensation.

As for land disadvantageously situated, the adjustment was to be made by money.
Rent, Wages and Return to Capital Goods
These ancient teachings affirm a just land ethic that natural advantages are common property, and may not be diverted to private gain.
Q and A
Comments
Discussion
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The French Physiocrats

Physiocrats

François Quesnay
1694 - 1774

Anne-Robert-Jacques Turgot
1727 - 1781

Victor Riqueti de Mirabau
1715 - 1789
• The Physiocrats coined the phrase "l'impot unique" ("the single tax") and urged the French kings to levy taxes on land instead of labor.

• One of the Enlightenment's wise men, Mirabeau the Elder, held that their discovery would be if enacted a "social advance equal to the inventions of writing and money."

• Henry George wrote that the most accurate translation of their phrase Laissez faire, laissez aller! is “A fair field and no favor.”
Adam Smith (1720-1790) wrote in his classic, *The Wealth of Nations*, that "Both ground rents and the ordinary rent of land are a species of revenue which the owner, in many cases, enjoys without any care or attention of his own... Ground rents seem, in this respect, a more proper subject of peculiar taxation... Nothing can be more reasonable than that a fund which owes its existence to the good government of the state should be taxed peculiarly..."

Vol 3, Book 5, Ch 2, Pt 2, Art 1, P 289
"[As capitalist production develops], landed property acquires the capacity to capture an ever-increasing portion of this surplus-value by means of its land monopoly and thereby, of raising the value of its rent and the price of the land itself.

The capitalist still performs an active function in the development of this surplus-value and surplus-product. But the landowner need only appropriate the growing share in the surplus-product and the surplus-value, without contributing anything to this growth."
They are in Agreement that Rent Should Be Socialized.

Karl Marx

Adam Smith
Move beyond compromise. Reconcile. Land Value Taxation

"[Rent is extracted by the land owner despite] the palpable and complete passiveness of the owner, whose sole activity consists....in exploiting the progress of social developments, towards which he contributes nothing and for which he risks nothing, unlike the industrial capitalist."
- Karl Marx

"Land should be taxed as much as possible and improvements as little as possible."
- Milton Friedman
It is not enough that men should vote; it is not enough that they be theoretically equal before the law. They must have liberty to avail themselves of the opportunities and means of life. They must stand on equal terms with reference to the bounty of nature. – Henry George
John Kenneth Galbraith
President Medal of Freedom, 1946 and 2000
(The highest civilian award in the United States.)
his books on economic topics (e.g., American Capitalism, The Affluent Society, The New Industrial State) were bestsellers. Galbraith taught at Harvard University and served in the administrations of Franklin D. Roosevelt, Harry S. Truman, John F. Kennedy and Lyndon B. Johnson; and among other roles served as U.S. ambassador to India under Kennedy.

“If a tax were imposed equal to the annual use value of real property excluding its improvement, so that it would now have no net earnings and hence no capital value of its own -- progress would be orderly and its fruits would be equitably shared.”
"Our ideal society finds it essential to put a rent on land as a way of maximizing the total consumption available to the society.

...Pure land rent is in the nature of a 'surplus' which can be taxed heavily without distorting production incentives or efficiency. A land value tax can be called 'the useful tax on measured land surplus'.
"The user of land should not be allowed to acquire rights of indefinite duration for single payments. For efficiency, for adequate revenue and for justice, every user of land should be required to make an annual payment to the local government equal to the current rental value of the land that he or she prevents others from using."
James Tobin
Nobel Memorial Prize in Economics, 1981

“I think in principle it's a good idea to tax unimproved land, and particularly capital gains (windfalls) on it. Theory says we should try to tax items with zero or low elasticity, and those include sites.”
Franco Modigliani, 
Nobel Memorial Prize in Economics, 1985

"It is important that rent of land be retained as a source of government revenue. Some persons who could make excellent use of land would be unable to raise money for the purchase price. Collecting rent annually provides access to land for persons with limited access to credit."
James Buchanan Jr.
Nobel Memorial Prize in Economics, 1986

"The landowner who withdraws land from productive use to a purely private use should be required to pay higher, not lower, taxes."
"Economists are almost unanimous in conceding that the land tax has no adverse side effects.
...Landowners ought to look at both sides of the coin. Applying a tax to land values also means removing other taxes. This would so improve the efficiency of a city...."
“In their simplest form, rents are nothing more than re-distributions from one part of society to the rent seekers. Much of the inequality in our economy has been the result of rent seeking, because, to a significant degree, rent seeking re-distributes money from those at the bottom to those at the top…. rent seeking distorts resource allocations and makes the economy weaker.

It is a centripetal force: the rewards of rent seeking become so outsized that more and more energy is directed toward it, at the expense of everything else.
The Hidden Taxable Capacity of Land: Enough and to Spare

Dr. Mason Gaffney, University of California, Riverside, has identified how conventional data relied upon by most economists hides or underestimates land values and land rent, giving the false impression that the tax capacity is low.
He describes 16 elements of land’s taxable capacity that are either trivialized or omitted from the National Income and Products Account (NIPA) and other data sources.

“Any one of these 16 elements indicates a much higher land tax base than economists commonly recognize today,” says Gaffney. “Keepers of the national accounts keep deluding us that land rent and land value are trivial.”
Components of Australian GDP

- Land and resource rent: 26%
- Taxation - all levels of government: 24%
- Net incomes of labor and capital: 48%
- Other: 1%

Chart designed by Bryan Kavanagh, Land Values Research Group, Australia
Shows median income house price rising compared to median income.

Income needed to purchase a median priced home compared to median income

2010 income estimates not yet available

Q and A
Comments
Discussion
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After one California rancher who owned one million acres of land won full rights to the water of the Kern River (1886), citizens organized and the Wright Act was legislated permitting local irrigation districts to build dams and canals and other infrastructure to be funded by bonds paid off by land rent.
California – Wright Act Resulted in Land Reform

In ten years, the Central Valley was transformed into over 7,000 independent farms. The Wright Act was amended to mandate the total exemption of improvements from the tax base. Irrigation Districts included and taxed land that was used not only for farming but also for residence and commerce within townships.

Steadily the Irrigation Districts evolved to provide reclamation, recreation, and electric power. The formerly semi-arid plains of the San Joaquin Valley became the "bread basket of America", one of the most productive areas on the planet.
State of Pennsylvania, USA

Twenty cities in the US state of Pennsylvania have been gradually shifting their taxes off homes and other buildings and onto land rent. Although citizens still must pay state and federal income taxes, this “split-rate” or “two-tier” approach has proven benefits.
In 1982 Harrisburg, the state capital, (pop. 50,000), was second on the national list of distressed cities after three decades of decline. Thereafter it gradually restructured its tax base and now taxes land value six times heavier than building value. According to the Harrisburg Office of Business and Industrial Development, the number of vacant structures, some 4,200 in 1982, is now less than 500 and the city was voted the second "best investment" city in the Eastern U.S. two consecutive years in a national banking institution poll. Crime and fire rates dropped while businesses, private sector jobs and homes have increased.
Steven Reed, Mayor of Harrisburg from 1981-2005 says:

"The City of Harrisburg continues in the view that a land value taxation system, which places a much higher tax rate on land than on improvements, is an important incentive for the highest and best use of land in already developed communities, such as cities."
In 1997 Allentown (pop. 105,000) started taxing buildings less than land after a popular vote. According to analysis by the Center for the Study of Economics (urbantoolsconsult.org) Allentown’s new private construction and renovation thereupon grew by 32% in dollar value in the three years after the shift to land value taxation as compared to the prior three years.
Timeline for Alaska Permanent Fund Dividends paid to each citizen of the state.
Q and A
Comments
Discussion
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We can build a system of public finance that will strengthen and maximize incentives for:

- Fair distribution of wealth
- Environmental protection
- Efficient wealth production
- Provision of adequate government services
- Peaceful resolution of territorial conflicts
By Sharing the Value of Commons Rent (socializing rent)

- Surface land sites based on land value
- Emissions into air, water, or soil
- Timber, grazing, mining land use
- Oil and minerals
- Water resources
- Electromagnetic spectrum
- Geo-orbital zones, etc.
While reducing or eliminating taxes on labor created wealth:

• Income, especially from wages, payroll
• Capital, especially of sustainable quality
• Sales, especially for basic necessities
• Homes and other buildings.
GREEN TAX SHIFT:
“TAX BADS, NOT GOODS”

SOCIALIZE RENT, UNTAX PRODUCTION:
"PAY FOR WHAT YOU TAKE, NOT FOR WHAT YOU MAKE"

SUBSIDY REFORM:
“STOP SENDING GOOD MONEY AFTER BADS”
Holistic Tax Shift for Pacific NW
Current and Proposed Next Step Shift
Sightline Institute Model

- Property taxes: 27%
- Business, income, and sales taxes: 48%
- Existing environmental taxes: 18%
- Miscellaneous: 7%
Holistic Tax Shift for Pacific NW
Proposed Next Step Shift
Sightline Institute Model
VERMONT COMMONS ASSETS

Gary Flomenhoft, Fellow
Gund Institute for Ecological Economics
Lecturer, Rubenstein School
100% Green shift-OPTION 3

2004-100% GREEN

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$2.6B revenue

TOTAL ENERGY 36.0%
TOTAL AIR AND WATER 3.5%
TOTAL CHEMICALS 0.1%
TOTAL WASTE 5.9%
TOTAL LAND 54.5%
VERMONT COMMON ASSETS TRUST FUND

Pay to the order of: Every Vermont Citizen

One thousand, nine hundred seventy-two and 00/100 Dollars

For: Payment for use of common assets

Treasurer of Common Asset Fund
Basic needs for all can be secured when we share (socialize) rent and untax production.
Sharing A Small World

Environmental Activities for Young Learners
Sharing = Abundance
sharing is Caring!
IT'S TIME TO SHARE.
Whether found in ancient wisdom teachings or the leading edge of physics and cosmology, the truth is that our amazing diversity and uniquely individual expressions are part and parcel of our profound interconnectedness. For an economy to be both fair and free, to synthesize and synergize the polarizing opposites of right and left, of the individual and society, it needs to be based on this truth. Socializing rent to fairly share the surplus of our collective efforts while untaxing the production of our individual mental and physical exertions can help us build a world that works for everyone. Our problem on the planet right now is that power is not yet sufficiently aligned with this truth.
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