

Lesson 9 — Effects of the Remedy (a synopsis)

Based on Book IX Progress and Poverty

Effects upon Production and Distribution

If the rental value of land were fully taxed it would eliminate speculation; many workers and much capital would migrate to more productive land that was previously held idle or under used for speculation. That would increase their output. By eliminating speculation there would be greater economy in transportation --- less vacant land to carry things past and a larger number of producers with mutual support in the same area. It would mean smaller divisions of labor and larger economies of scale. The same amount of roads, pipes, and wires and the same amount of fire and police protection would link a larger number of producers and economize the cost of government. Because everyone who was willing and able would be working (full employment), total production would increase again.

Taxing the rental value of land would stop land speculation and recreate the free land margin. Under these circumstances eliminating taxes on wages and interest would create a greater incentive to work and invest in capital. As the margin of production offered superior land without the payment of rent, wages and interest would rise. As taxes were removed from wages and interest they would be increased by the difference.

As land speculation was no longer profitable the margin would recede. This would raise wages and interest and lower rent. However, the increase in productivity due to greater cooperation, invention, and additions to the infrastructure would increase productivity disproportionately more on superior land where population is denser.

Wages and interest would increase in general. Rent would increase on particular lands and would be used to maintain the infrastructure, which enabled denser populations. The rest would enhance the common fund in which all people would benefit.

The selling price of land, which is often a large part of buying a house or starting a business would be eliminated. The Selling price of land is based on the unearned income that attaches to a parcel of land (net income). To that is added a speculative component incorporating future expectations of income. With the rent being taken in taxation there would be no income from land, and therefore no selling price. In the left model below, there is \$100 in income that goes to the landholder. \$100 is 4% of \$2,500. Therefore, \$2,500 plus a speculative component will be the selling price. In the right model below, there is no income that goes to the landholder. Therefore, no one would be willing to pay for the title to land.

| | |
|----------------------------|---------|
| Rental Value of Land | 110 |
| Current Taxes paid | \$10 |
| Unearned Income | \$100 |
| Current Rate of Interest | 4% |
| (Fee Simple) Selling Price | \$2,500 |

| | |
|----------------------------|--------------|
| Rental Value of Land | \$110 |
| Current Taxes paid | \$110 |
| Unearned Income | \$0 |
| Current Rate of Interest | 4% |
| (Fee Simple) Selling Price | \$0 |

As soon as people stopped buying land no one would hold it for the increase in its selling price. Not having to pay the speculative price for the use of land would make it much easier to acquire. A tax on the rental value of land would be levied on the “Potential Rent” of every location, so it would be the same amount whether the land was developed with buildings or left vacant.

As land speculation ceased and land was put to its most profitable use labor and capital would migrate to the best here-to-fore unused land. No one would hoard land they weren't using,

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because they would know that as soon as it attained a value a payment would be due. The value of land arises when two people want the same piece at the same time. A free land alternative would give labor and capital far more than enough reward to maximize production. With higher wages each worker would have the incentive and the time and money to go to school and otherwise increase their productivity.

When taxes are collected on the rental value of land all additions to material progress increase wages and interest. Technology and the infrastructure increase production on the best and the free land. Rent, which belongs to everyone, increases on superior land because technology and the infrastructure increase production disproportionately more where population is dense. Should society choose to it could spend some of the rent on medical research and development of technologies that reduce pollution. It could also choose to grant a cash dividend to all our residents.

The value of agricultural land is relatively low compared to that of town and city land. Therefore, if only the rental value of land were taxed the working farmer who owned his farm would pay less than he pays now in taxes. The tenant farmer would pay less because the rental value would fall as speculation stopped. The prospective farmer would find it easier to acquire a farm because he would only have to buy the improvements, and the rental value of the land would be less than before. The absentee farm owner would gain nothing from his title to land. Only if he also owned buildings and machinery would he then receive an income --- interest.

The value of residential land is higher than agricultural land, but relatively low compared to industrial and commercial land. Therefore, if only the rental value of land was taxed, the homeowner would probably pay less than she pays now in total taxation. When she went to sell her house she would be selling only the building and other improvements. She would transfer the lot to the person who bought the house. She would profit less in selling only her house, but she would not have to buy any land when buying her next house.

The highest land values and therefore the largest revenues from a tax on the potential rent would be derived from commercial, industrial, and mineral lands with iron, oil, gold etc.

With speculation removed people in sparsely settled areas could move closer to the centers of population; people who were crowded in cities could spread out.

If the rental value of land were taken by taxation it would vastly simplify and reduce what many refer to as Big Government. It would eliminate our vastly complicated tax agencies and cut down on tax legislation. The fundamental problems of subsistence wages and unemployment would be solved. Recurring cycles of recession would be ended. Governments would no longer have to manipulate the economy and administer a large safety net. Taxes would be limited to the rental value of land, but some of the rent could go directly to each resident in the form of benefits or even a cash dividend.

Without the fear of unemployment or the deprivation of low wages there is every expectation that in addition to material satisfaction people would also strive for intellectual and moral achievements. The greatest waste of society today is the mental power wasted by conditions that permit so few to develop their full potential. With an abundance of opportunity the moral, intellectual and cultural life of society would tend toward constant improvement.

THE LAW OF HUMAN PROGRESS (abridged)

Civilization is co-operation. Union and liberty are its factors. . .

What has destroyed every previous civilization has been the tendency to the unequal distribution of wealth and power. This same tendency, operating with increasing force, is observable in our civilization today. . . .

As corruption becomes chronic; as public spirit is lost; as traditions of honor, virtue, and patriotism are weakened; as law is brought into contempt and reforms become hopeless; then in the festering mass will be generated volcanic forces, which shatter and rend when seeming accident gives them vent. Strong, unscrupulous men, rising up upon occasion, will become the exponents of blind popular desires or fierce popular passions, and dash aside forms that have lost their validity. The sword will again be mightier than the pen, and in carnivals of destruction brute force and wild frenzy will alternate with the lethargy of a declining civilization. . . .

Whence shall come the new barbarians? Go through the squalid quarters of great cities, and you may see, even now, their gathering hordes! How shall learning perish? Men will cease to read, and books will kindle fires and be turned into cartridges! . . .

. . . . in the decline of civilization, communities do not go down by the same paths that they came up. . . . the decline of civilization as manifested in government would not take us back from republicanism to constitutional monarchy, and thence to the feudal system; it would take us to imperialism and anarchy...

Where Liberty rises, there virtue grows, wealth increases, knowledge expands, invention multiplies human powers, and in strength and spirit the freer nation rises among her neighbors.... Where Liberty sinks, there virtue fades, wealth diminishes, knowledge is forgotten, invention ceases, and empires once mighty in arms and arts become a helpless prey to freer barbarians!

Only in broken gleams and partial light has the sun of Liberty yet beamed among men, but all progress hath she called forth. . . .

Shall we not trust her?

In our time, as in times before, creep on the insidious forces that, producing inequality, destroy Liberty. On the horizon the clouds begin to lower. Liberty calls to us again.... It is not enough that men should vote; it is not enough that they should 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. . . . This is the universal law. This is the lesson of the centuries. Unless its foundations be laid in justice the social structure cannot stand