



## **Equity Premises and the Case for Socializing Rent**

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Equity Premises and the Case for Socializing Rent  
Mason Gaffney\*

"Blessed are those who thirst for justice ..." - Jesus

"What is truth?" - Pontius Pilate

The Harvard Registrar reports the most popular undergraduate courses now are "Justice," "Principles of Economics," "The Concept of the Hero," and "Literature of Social Reflection." The "Me Generation" is passing; Justice, Heroism and Social Thought are "In." Are economists ready for this future? I think not: changes must be made.

Classical political-economists were moral philosophers. They made distribution of wealth and income central to their discipline. This led smoothly, if unintentionally, to slogans like "The problem is not production, but distribution." Neoclassical economists, overreacting, downplayed distribution. Beliefs about this, they held, are too subjective, numerous and conflicting; many are self-interested, subsidized and sophisticated, sowing discord and confusion.

Neo-classicals now refocus the discipline on "allocation of scarce resources among competing ends," guided by individual consumer sovereignty. Thus "efficiency" becomes the universal performance standard, enlarging the pie, helping all but the undeserving. Contesting distribution is divisive and counterproductive. "Heroic" is most often used as a sneer. Forget past crimes and other wrongs, they are "by-gones": only remember to honor the resulting property rights. Interpersonal comparisons of utility are impossible, so the only good changes are "win-win" exchanges, beginning from and sustaining extant claims on wealth. These include capitalized rents and subsidies. Some believe they have achieved a pure, "positive" science, free of judgment calls. Property rights must be specified, perpetuated, and extended throughout "The Expanding Domains of Economics." Doth Pride go before a Fall?

For tax policy, "uniformity" and "neutrality" are the touchstones. These informed the Tax Reform Act of 1986, and swarms of new user charges. The "level playing field" concept says these policies are not only efficient, but just.

Critics ask, however, who owns the playing field, and why? They say neo-classicals intrude their own values under color of objectivity. They dispute the judgments that unjust origins may be laundered through the sanctity of property, and that private claims to rising rents are valid in perpetuity. Does privatization of commons proceed without promoting inefficient "rent-seeking" behavior? Is private gain-seeking always productive, and other drives never so? Is common-pooling of

resources acceptable inside private corporations, etc., but not public agencies? If bygones are bygones, does not that say we may forget past services, savings, appropriations, and appreciation, and redistribute all wealth?

Even were the critics wrong, a tax system cannot promote efficiency while slighting justice. Many economists posit a trade-off between efficiency and equity, thus rationalizing inequity. However, the two are complements, not antitheses. If people don't get justice through the tax system they seek it through counterproductive devices like looting, graft, price controls, handouts, open access, debt repudiation, nationalization, featherbedding, or cross subsidy. Justice is not a socialist monopoly; equity issues have preoccupied mankind since the dawn of history. The great religions all preach it, and they are not going away.<sup>1</sup> True, some taxation is counterproductive like looting; but it need not be. That is why we are here to discuss taxing rent.

What, then, is justice? A common chant says taxes are rationalized either by ability to pay, or benefits received. That is too simple. Here follows a list of 20 familiar ideas of distributive equity. There must be more, and combinations beyond counting. Our effort, rather than multiply combinations, will be to reconcile these where possible, choose where we must, and suggest a package consonant with the demand for justice, as well as efficiency, capital formation, full employment and productivity. If these goals are subjective and normative, make the most of it: they are widely shared.

#### Familiar Ideas of Distributive Equity

(Codes, underlined in leftmost column are explained after the list)

1. Functional equity: reward effort, productivity and capital formation.

P Lemma I: Labor is the unquestioned property of the Laborer (Locke). Labor and saving are the legitimate bases of private property.

P Lemma II: land tenure derives from neither work nor saving, but from the sovereign state that acquires, protects and

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<sup>1</sup>"Justice, just, righteousness, and righteous" appear some 388 times in The Bible, which mandates, in the name of Justice, a regular 50-year equalizing of land shares. Rerum Novarum, 1891, set the Catholic Church on a sporadic course of speaking for the dispossessed culminating in "liberation theology" today. Judaism is, if anything, more consistently focused on Justice than Pauline Christianity, with its emphasis on personal salvation-by-faith.

improves land. Private tenure is a means to get land used best, not an end in itself, or the only store of value.

P Lemma III: no one should get something for nothing, or claim that any license to do so may be validated by purchase.

P Lemma IV: a bigger pie yields bigger slices.

P Lemma V: no property right is valid that obstructs the best use of resources or inhibits capital formation.

P Lemma VI: using wealth makes jobs, obviating much welfare and taxation.

P Lemma VII: human capacities to add value economically (work, save, manage, trade) are more equally distributed than claims to unearned wealth.

P Lemma VIII: government creates a "public value" in land, thus earning the land's rent (Quesnay, Smith, Walras, Marshall).

P Lemma IX: land has a marginal product that roughly equals its residual rent (Wicksteed, Euler). Marginal productivity does not refute, but bolsters classical residual rent theory.

P Lemma X: tax or otherwise socialize unearned (non-functional) wealth and income; downtax functional events like managing, working, exchanging, and investing.

2. Free market equity: justice results from free competition and exchange. Populism, Progressivism, and classical liberalism unite around this idea (Pollack, 1990).

P Lemma I: natural monopolies should be regulated or socialized to charge marginal-cost prices below average cost, covering any deficits with land taxes (Hotelling, Vickrey).

P Lemma II: equal distribution of wealth raises the numbers of potential competitors.

3. Egalitarian equity: tax ability-to-pay; level wealth and income.

N Lemma I: higher mass consumption raises output, employment, and even savings (Keynes).

N Lemma II: broaden definition of public goods; supply them publicly.

P Lemma III: any given social product yields more aggregate satisfaction when shares are more equal, because of: a) diminishing marginal utility; b) less divisiveness, jealousy, emulation, invidious contrasts, etc.; c) greater security; d) closer community.

C Lemma IV: tax income from all sources at progressive rates, seeking horizontal and vertical equity in those terms.

A Lemma V: tax all property, subject to circuit breakers or homestead exemptions.

A Lemma VI: (in crises) effect equity in kind: rationing, military service, etc.; bypass market system.

N Lemma VII: tolerate inflation to tax and discourage hoarding, raise effective income tax rates.

4. Intergenerational equity: birthrights for the young; security for the old.

P Lemma I: each generation deserves a fresh start. A nation's land is a birthright of all future children, unalienable (entailed), and cannot be traded away. Recognizing the efficiency need for commerce in land, the idea is to keep the kernel of rent unalienable by taxing and distributing it.

P Lemma II: social dividends as birthrights are the property of every child, including the unattractive, rejected, unpromising, illegitimate and abused.

P Lemma III: organic theory of the state

A Lemma IV: tax inheritances

P Lemma V: foster capital formation, to compensate new generations for inevitable losses of exhaustible resources.

A Lemma VI: foster processing and recycling; discourage exhaustion of primary resources.

A Lemma VII: floor under social security, backstopped by diversion of social dividend.

5. Ethnic equity

P Lemma I: ethnicity not a factor in tax liability, or social dividends.

P Lemma II: recognition that impoverished ethnic groups are more disadvantaged in terms of property than ability to earn wage incomes.

*III: demand for restitution*

6. Gender equity.

A Lemma I: tax abatement or deferral for unemployed widows, especially with children.

N Lemma II: aid for single mothers without property.

P Lemma III: increase new jobs, a special benefit for newest members of labor force.

*IV: equal tax treatment of homework & wage work*

7. Status quo equity: validate existing claims, regardless of their origin (whether as "earnings, findings or stealings").

A Lemma I: contract theory of the state; benefits-received theory of taxation; privatizing public services, and/or financing them with user charges.

C Lemma II: an "old tax is a good tax." Only "win-win" changes are tolerable, following Pareto. *Buying clean of tax.*

SC, AP Lemma III: some older uses of land (status quo) deserve public protection against new, higher uses, preferably at the owner's option.

M Lemma IV: ownership includes the right to alienate land to the highest bidder. Where this conflicts with Lemma III, the public (other taxpayers) should buy up development rights, preferably without condemnation.

C Lemma V: priority, discovery and power are legitimate bases of property rights.

C Lemma VI: property is an ultimate moral good, its own voucher, requiring no higher justification. *"Sanctity of property."*

C Lemma VII: if it was efficient to end slavery, the owners (not the slaves) should have been compensated.

C Lemma VIII: it was acceptable to take land from aborigines because they did not hold it in private. Killing and driving them off was just an investment, like any other (F. Knight).

C Lemma IX: when it is politic to redistribute land in the third world, the private owners should be compensated by U.S. taxpayers, preferably wage-earners and consumers.

C Lemma X: political actions that create private property are not reviewable (Dartmouth College Case). Ongoing governmental subsidies, once granted, must never be withdrawn (Wahl; Angelides and Bardach; Willey).

SC,AP Lemma XI: private property as a store of value is a welfare system, especially for the old, widowed, provident, and long-time employees of permanent institutions.

SC,AP Lemma XII: private property is the basis of bank credit, the security of small depositors, borrowers' credit ratings, and the nation's supply of circulating media. Sustain real estate prices at any cost (P.C. Roberts).

C Lemma XIII: windfalls belong to landowners, but wipeouts are unconstitutional takings and should be compensated, levying taxes on others.

C Lemma XIV: all resources are the same; labor and land are simply forms of capital. "We do not see any fundamental difference between ... labor unemployment and high vacancy rates in office buildings" (Hirshleifer, Milliman and DeHaven, p.131).

C Lemma XV: users of open commons have no inherent property rights, and may be evicted without compensation (subject to political power).

C Lemma XVI: high wage rates may be lowered or taxed without compensation, there being no property right. Lowering rents lowers land prices, and compensation is due.

C Lemma XVII: taxes on property should pay only for services, narrowly construed, to property (H. Jarvis).

C Lemma XVIII: The nation was won, built, and well-governed by people of superior northwestern European stock. Others are free riders, and have little claim on social dividends from our land.

C Lemma XIX: Empty land, however valuable, uses no public services and should not be taxed.

C Lemma XX: Holders of ripening land render social service by reserving it for its best future use (Ely).

C Lemma XXI: Buying land is a macro-economic investment and should be fostered by easing credit and lowering taxes on capital gains (Bush).

## 8. Interregional equity

### A. Domestic

SP,AC Open access to local public lands, parks, etc. spreads the rent around more evenly. Seamy side: open entry overcrowds commons, dissipates rent.

SP,AC Indirect open access to rich local tax bases is provided by public goods freely accessible through migration. Seamy side: results in maldistribution of population, dissipation of rent (Cannan), and costly defensive measures by rich localities.

C Regional cross-subsidy through Federal taxing and spending and price controls (e.g. cap on oil/gas prices). Seamy side: money paid to governments, not individuals.

C "Horizontal fiscal balancing": equity among electoral districts

C Subsidies to develop frontiers

C Subsidies to sustain backwaters: "area redevelopment"

C Subsidies to risky ventures: disaster relief, crop insurance, etc.

#### B. International

P Common rights to oceans, polar regions, space, radio, airlines, etc.

C Duty to LDCs by nations that tax payrolls: "taxing poor people in rich countries to aid rich people in poor countries."

P Duty of oil-rich states to subsidize poor states

N Overlap of equity issues with imperialist, ethnic and religious issues (our Crusade; their jihad).

C 9. Pressure group equity: "a fair shake for the (oil man, surfer, gas consumer, hunter, farmer, banker, union man, boater, logger, ...)"

10. Consumerism as equity: Nader as folk-hero; Consumer Reports as text.

P Lemma I: A free economy requires easy access to information.

11. Middle class populism: "farm folks are good folks," etc. SC,AP Lemma: farmers deserve subsidies to keep alive true American small-town culture and values.

M 12. Merit as equity; Calvinism redux. Social dividends given only in form of education, or loans, requiring matching response by grantee. Noblesse oblige, but receivers are expected to be grateful, and support the system. *Most of us were products of that process.*

13. Environmentalism: equity as preservation of and access to desired natural conditions.

SC,AP Lemma I: In travesty, "Trees have rights."

C Lemma II: Naturalistic property doctrine, riparian owners' right to natural flow of streams, undiminished and unpolluted.

P Lemma III: newly rampant "Public Trust Doctrine," acknowledging every citizen's entitlement to natural environment.

P Lemma IV: "polluter pays" principle.

P Lemma V: rights are unalienable, held in trust for children yet to be born. (This might allow for leasing on limited terms, as in Mosaic Israel.)

C 14. Appropriative equity: taking and/or use creates a right. This ranges from residence requirement of Homestead Act to various grandfather rights, some of which seem like travesties but are upheld in the name of R. Coase. There are "offset rights" to pollute air, derived from histories of pollution; zoning rights derived from history of nuisance; water pumping rights derived from histories of wastage; etc. Rent-seeking runs wild.

15. "Ben Franklin equity": reward the provident saver.

P Lemma I: exempt depreciable capital from the property tax.

P Lemma II: exempt the income of depreciable capital from the income tax, using fast write-off or expensing.

P Lemma III: make up lost revenue by raising taxes on land rent. This has dual benefit. a) lowering land prices stimulates more saving; b) the windfall from downtaxing capital is offset by effect of uptaxing land, minimizing wealth transfers.

C 16. Anti-commercial equity: penalize fast turnover, trafficking, etc. Tax sales, exchanges. Zone out commerce, high density land uses, etc.

N 17. Contractual equity: enforce contracts; collect debts.

18. Low density equity: zone out higher uses.

C Lemma I: higher uses overload underpriced public goods.

C Lemma II: "empty nesters" should not pay to educate others' children.

C Lemma III: immigrants' votes threaten a majoritarian tyranny, jeopardizing real estate values.

C Lemma IV: immigrants raise everyone's property taxes by raising real estate prices. Where this conflicts with Lemma III, the community divides.

C Lemma V: old settlers have an implicit property right in their ancient way of life.

C Lemma VI: empty land serves by separating people.

U 19. Median voter theory: "public choice"

U 20. Utilitarianism: greatest good for greatest number.

A 21. Equal division of land: French morcellement. This is a crude, inefficient way of doing in kind what land taxation does in money. The viability of French farming, and the satisfaction of the French to stay at home, suggests that equality can overcome a lot of apparent inefficiency.

The codes in the left column say how the corresponding equity premise affects the case for socializing rent. Definitions and simple frequencies follow. P=pro (31); C=con (31); A=arguable (8); SP,AC=seemingly pro, arguably con (2); SC,AP=seemingly con, arguably pro (5); N=neutral (6); M=mixed (2); U=undecided (2). Simple frequencies are misleading, however. Actually #7, status quo equity, has been in the ascendant, nationally and locally, for a long time. Its Lemmas argue against taxing rent. The only hope for the "pro" case is that champions of status quo equity are spoiled by success and are advancing more extreme claims at exactly the wrong moment in history.

Some conclusions follow. 1), no single argument can carry the day; no single antithesis can focus the debate, except narrowly; 2), the weight of efficiency or functional and incentive arguments seems to favor taxing rent; con arguments are mostly distributive judgements focused on sustaining land values for its own sake; 3), taxing rent leans on free market arguments; 4), taxing rent leans on the idea of leaving birthrights for future children; 5), taxing rent is incompatible with taxing payrolls, at least philosophically; 6) taxing rent is consistent with ethnic equity; 7), taxing and distributing rent locally is not consistent with locational efficiency - only central governments can redistribute rents efficiently; 8), the benefits-received theory of taxation, beloved by rent-taxers, actually puts a low ceiling on viable collections; 9), the use of inflated land prices as collateral for bank loans has placed banks in severe jeopardy, and must be corrected with great care; 10) the apparent high concentration of landownership must be recalculated to take account of holdings by institutions with many depositors; 11) taxing rent will put an end to rent-seeking; 12; taxing rent will foster both saving and investing.