



ATCOR

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Davies ed., Part 3, for GJ #103, Summer 2005

Revised August 16, 2005 at Davies' request

It is unknown at this time what parts of this he will publish. It is much longer than Parts 1 and 2, yet parts are sketchy. Lindy will edit it.

a. Examples of ATCOR

i. Historical experiences with exempting buildings leading to land booms

NYC, Western Canada, HK, Taiwan, Australia, S. Africa, S.F. after the fire, Chicago after the fire, Calif. I.D.s, Cleveland 1903-20, Toledo, Detroit, Portland, Seattle, Houston, San Diego, western Canada,

Re Australia, Hutch 1963 pp14-15. Divides Aust into UCV States (Qnd, NSW, West Aust) and Improvement-value rating states (N.A.V.) (S. Aust, Victoria, Tasmania). Table p.14 shows value of impr. cf. with U.L.V. as 100, for town, country, and whole state 1939/40. UCV states are much higher. This is not because of lower LV: **p.16 table shows UCV per land taxpayer was nearly the same in both groups, ca. \$11k per land taxpayer.** (Data base: 23rd Report, Commissioner of Taxation dealing with the Commonwealth Land Tax. Data cannot be extended because: 1, Commonwealth retired from taxing land from July, 1952)

ii. Familiar micro cases

- Lowering corp inctax raises stock mkt prices.

- Private commercial rents in leases are usually multipartite. A lower share of gross revenues is traded off for a higher fixed rent, or vice versa. It's like the law of conservation of energy in physics: everything must be accounted for, and for every action there is an equal and opposite reaction.

- Commercial rents in retailing usually contain at least two elements: 1) a fixed monthly rent and 2) a share of sales (or sometimes of profits). If the rate in element (2) is higher, then element (1) will be lower, to compensate. Reports by the city-owned Port of Milwaukee show how they handle industrial leases the same way.
- Oil leases typically contain at least 3 elements: 1) A share of wellhead value, the "royalty"; 2) A fixed annual "delay rental" paid before the lessee begins production; 3) A "bonus" paid upfront as a lump sum, to secure the lease. Typically, if not always, elements (1) and (2) are fixed by custom or by the lessor, while element

(3), the bonus, is the "bid variable." If elements (1) and (2) are fixed at higher levels, the bonus bids will be lower.

- Stephen Cheung and Gale Johnson have shown how farm landlords with crop-share tenants limit each tenant's acreage, to force the tenant to concentrate his labor on a few acres.

- When payroll taxes and disincentive kinds of business taxes make firms leave California, or not come, it lowers demand for land. [[Walter Rybeck has sagely suggested that we distinguish two functions of "business": wealth-creating and resource-holding. A good tax system will not make people pay for creating wealth but for simply holding resources.]]

iii. The Peace Dividend Effect. World history of peace dividends ff. by land booms.

Over several centuries we can observe that major peace and disarmament treaties have kicked off land booms by lowering taxes - all kinds of taxes. A few examples follow:

- 1259, Louis IX (St. Louis) gives up warfare, makes peace all around by compromising with James I of Aragon, and Henry III of England. A skilled arbitrator, he also brings peace to Flanders, Hainault, and Navarre. Stands in well with the Pope, who gives him Sicily. Previously, 1229, France had made honorable peace with Raymond VII of Toulouse, ending Albigensian "crusade" (or perhaps coopting Raymond into it, for Louis cooperated in the papal inquisition). Louis is a skilled administrator, brings to France unprecedented peace and unity. As to "prosperity," he raised land values; yet the quarrelsome city-states of northern Italy, Flanders, and southern Germany forged ahead in trade, industry, and banking.
- 1431, French under Jeanne d'Arc lift siege of Orleans. Land values there rise from 16 to 92 francs per hectare.
- 1509-29, Cardinal Wolsey, counselor to young Henry VIII of England, advised "Greatness through Peace." This held down taxes, and raised English land values and so kicked off the enclosure movement. Mania of land speculation: era of Peace and Poverty - inducing some emigration
- 1519, Cortez conquers Mexico, a flood of gold into Spain ensues - raising Spanish land values
- 1524-25, German peasant revolt led by Anabaptists. Charles V suppresses with great slaughter, maintains power of landlords to collect rent.

Rule of Europe?

- 1555, Peace of Augsburg, Charles V compromises with the French, avoids religious warfare in Germany - continues providing security for landowners. Massive enclosure movement, rise of land values.
- 1553, Queen Mary of England marries Philip II of Spain, continues era of Peace and Poverty.
- 1558, Elizabeth I, low taxes and peace, with desperate poverty. Poor laws. 1563-1601, recognize great poverty. Eliz builds up surplus. High land values, but Spain threatens.
- 1588, English fleet and bad weather defeat Spanish Armada. Rents and land values rise sharply in s.e. England.
- 1589-1610, Henri IV is King of France. Brings internal peace with Edict of Nantes; also peace with Spain, by Treaty of Vervins. Land rents and values rise in France.
- 1603, James I new King of England and Scotland, seals peace with Scots. James is related to powerful French Catholic Guise family, helps keep peace with France and Spain, avoids sharp cleavage on religious lines. Philip II of Spain dies. Privateering stops. Buckingham sways James I to spend little on the navy, letting Dutch and French expand. James puts down Irish revolt, plants Scots in Ulster. Spain makes peace with United Provinces. Peace dividends all around, land values rise.
- 1618, start of 30-years war in Germany, involves most of Europe, high costs. 1630, Richelieu supports protestants in Germany to curb Spain. Raises taxes; French land values fall.
- 1609-48, Holland is left alone to enjoy its commercial successes, and capitalize them into land values. Peace with Spain. France preoccupied in Germany. Rival English navy underfunded by Buckingham. Rival City of Antwerp betrayed to and suppressed by Spain. Great wealth seeking outlets leads to tulip bubble, 1634-37, a matter of great publicity, but the same search for wealth-storage and speculation must have made Dutch land values rise.
- 1620-40, victories over Indians like the massacre of the Pequods around Mystic, Connecticut, coupled with poverty and religious suppression in England, foster immigration and a land boom in New England. Land speculation on the Patroon pattern sterilizes main north-south valleys of Connecticut, and of course Hudson Valley of New York, aborting the immigration boom, leading to crash of 1640. Settlers are diverted to the thin soils, frigid winters, steep slopes, and precarious tenures of New Hampshire.

- 1648, Peace of Westphalia ends 30-years war, ushers in era of peace, lower taxes, rising land values. France (and Holland) were the major beneficiaries, but French landowners rebelled against taxes, anyway. The Fronde, 1648-53, is a series of outbreaks by rural landowners against taxes. Louis XIV and his ministers and powerful women advisers solve this problem by moving the feudal landowners to Versailles, leaving them their rents while relieving them of feudal obligations and taxes: they become pure parasitic rent-takers without owing the state or their local people anything.
- 1660, English tire of Cromwell's wars and high taxes. They restore the Stuarts under Charles II, who makes peace, which makes land values rise.
- 1675, Louis XIV opens wars for the lowlands. Colbert had held down taxes, opposed extravagance. Louis displeased, replaces him with Louvois, an ambitious general, 1672. Spends heavily, subsidizes English and other foreign governments, helps raise THEIR land values. French land values fall after about 1675. Europe gangs up on France in League of Augsburg, from 1686, to protect Holland, keep balance of power.
- 1688, Glorious Revolution, Britain dumps James II, whom Louis XIV had supported and subsidized. William and Mary, then Queen Anne, lead long wars against Louis XIV. Issues are now drawn sharply on religious lines of cleavage, protestant vs catholic. All nations drained financially. Marlborough rampages around Europe, but Brits fear his ambition and high taxes, rein him in. France revives, drives Brits from Spain, leading to ...
- 1713, Peace of Utrecht ends War of Spanish Succession. Britain gains the slave trade, or ``Asiento.'' Peace followed by land bubbles (Mississippi and South Sea), bust of 1720. George I and Walpole continue to keep the peace to 1742; era of ``salutary neglect'' abroad, rising rents and land values in England. Meantime, France under Cardinal Fleury recovers, bullies Holland and much of Europe.
- 1740-48, War of Austrian Succession, a standoff.
- 1748-56, Peace
- 1756-63, 7 Years' War, England takes over Mississippi Valley, France is set back but still strong.
- 1763-76, Peace
- 1776-81, American Revolution, France allies with the former English colonies, recovers some ground
- 1783, Peace of Paris, American land values rise
- 1789, opening of long French Revolution with huge expenditures, confiscations of some lands and threats against all, morbid fears, land values fall. French

introduce *levée en masse*, raise cost of warfare permanently. European land values suffer. Europe's internal struggles leave America alone to prosper, and undergo the land boom and bust of 1781-98.

- 1787, U.S. unites under new constitution containing elaborate safeguards for private landownership. American land values rise, speculation in western lands goes wild.
- 1792, bust; 1798, more severe bust helps drive Federalists and Hamilton from power, opens door for Jefferson, whose expansionism and egalitarian land disposal policies hold down land values for many years.
- 1803, Napoleon sells Louisiana to Jefferson, doubles area of U.S.
- 1800-13, Napoleonic Wars. Europe preoccupied with itself, leaves us alone, except for War of 1812, a standoff.
- 1814- ushers in long period of peace. Minor downturn in 1819. In U.S., westward expansion at high speed. Peace dividend takes two forms: financing federal government from sale of public domain, and cheap land for settlers, who also fight Indians, protecting the border tax-free. Andrew Jackson also distributes surpluses to the states, letting them build public works without raising local taxes. That leads to extreme rise of speculative western land values, crash of 1837. Peace followed by boom followed by bust is a common pattern.
- 1848, Treaty of Guadalupe-Hidalgo, opens the rest of the west for settlement, sale of public lands, another land boom up to 1857 crash. Again the pattern of Peace, Boom, Bust.
- 1854, Crimean War removed any likelihood of European interference in U.S. affairs, gave security to bolster land boom in the U.S. Japan opened, 1854. Whale fishery thrives. China and Calif. trade open. Clipper ships; steam navigation. All signals go. Sudden large increase in military spending by England especially, and France, competing with investments in U.S. and worldwide r.r.s could have triggered off U.S. bust.
- 1861-65, Civil War, huge casualties and costs, high taxes and debts, land values depressed. Southern values nearly wiped out.
- 1865, end of Civil War, war taxes repealed, land boom in the north and west, the original "Gilded Age," up to crash of 1873.
- 1871, Franco-Prussian War, short and decisive, hence cheap. Leaves France with bearable reparations, so land prices rise even there. Germany gets new horizons and ambitions.

- 1873 - 1898, long period of peace, in spite of deep depression, 1873-86. Cap rates on land fall to low levels, price to rent ratios rise to high levels; European surplus capital seeks outlets worldwide
- 1898, easy victory in Spanish-American War leads not to a peace dividend, but to America joining worldwide naval and arms races. 1900-14, rearmament worldwide, world naval race. Britain introduces the dreadnought class of battleship, obsoleting the world's fleets, opening furious building boom in many maritime nations including Italy, Japan, and the U.S.A. World girds up for world war I. Taxes of all kinds rise, holding down land prices. Same time, new urbanization calls for much more local spending, paid by local property taxes.
- 1919, Treaty of Versailles launches era of intense reaction to war. Mutual disarmament treaties all around. Taxes fall sharply. U.S. taxes fall more than European taxes, because U.S. had been more influenced by philosophy of paying for W.W. I from current revenues, rather than debt. U.S. land values skyrocket - until softening in 1927, and crashing with stocks in 1929.
- 1945, end of World War II, land values lag rising rents for a while, a pessimistic generation sets the mood. 1950 Korean War and ensuing cold war keep taxes up, damp land values, which recover only slowly. 1965-73, Viet war depresses spirits, maintains taxes, depresses land values. Oil shocks transfer rents from most of the U.S.A. to oil states, and other nations. 1979, Volcker revolution spikes interest rates, damps land boom.
- 1980, Reagan revolution and collapse of USSR kick off peace dividend, finally. Lower tax rates, crowing triumphalism replace balance and moderation. Major shift of tax burden from property to labor. Growing national debt rendered less visible, as Republicans switch to favoring deficit finance. Sharp land boom, marked by a pause and setback around 1990.
- 1992, Clinton raises taxes to start paying down national debt, turn capital flow back into private sector ("reverse crowding-out").
- 2001-date, low-tax policies and prospects of G.W. Bush Administration, mother of all land booms grips the nation.

iv. The Resource Curse Effect: an influx of mineral revenues, obviating other taxes, leads to land booms.

Economists and historians have noticed that nations and regions that are rich in natural resources to export often lag in manufacturing. This is often now called "The Dutch Disease," although obviously they did not catch it until modern times, with the oil and natural gas booms. These prized exportable items raise the value of the guilder, making Dutch manufactures cost foreigners more, and letting Dutch consumers import competing foreign products. Canada exports lumber and energy products to the same effect; so does Alaska, which also collects great federal largesse, military and porkbarrel. Both Canada and Alaska also tap into resource revenues to lower national taxes. Thus, resource rents help raise other land values.

v. Historical experience with an income tax exempting wages: the U.S.A., 1916-40. "Pay-as-you-go" war finance in the U.S. during W.W. I.

vi. Utility-rate effect. Lower rates mean higher land values.

During the Progressive Era, rapid growth of cities called for providing costly utilities and transit on a new and massive scale. Many big-city mayors, some directly instructed by Tom Johnson of Cleveland, saw that providing these services raised land values, which could be taxed to pay for them. Private franchisees saw they could profit by squeezing monopoly profits from the franchises. It became a running battle.

The economics profession lagged in responding. A number of professors were removed from leading universities after writing or speaking too openly against the franchisees (Tom Johnson hired one of them, Edward Bemis, to advise him on rate regulation). Rich franchisees, after all, might help endow universities as Chicago traction magnate Charles Yerkes did with his observatory. But in 1938 Professor Harold Hotelling of Columbia drew the point sharply in a leading article in the obscurely statistical journal Econometrica. He was followed over time by a school of thinkers who favor "Marginal-cost pricing," which often means lowering user rates on mass transit and utilities, making up the deficits by taxing the benefited lands. Theorist Abba Lerner even tried to squeeze all of economics into what he called "The Rule": set price equal to marginal cost. More recently Martin Feldstein, William Vickrey, Joseph Stiglitz, Richard Arnott and others have popularized what they call "The Henry George Theorem" wherein lower utility rates lead to higher land rents.

b. The Logic of ATCOR

i. Land supply fixed, capital and labor elastic, demand elastic.

The thesis that all taxes are shifted to landowners follows logically from two premises. One, after-tax interest rates are determined by world markets, so the local supply of capital is perfectly elastic at a fixed, after-tax rate. Two, labor has been reduced to so low a level that it cannot bear any more tax burden. Anyone may test the premises by observation.

Elastic labor supply, as assumed by Keynes, re effect of demand on employment. The supply of "work" (as opposed to "labor," defined as so many warm bodies) is highly elastic so long as there are unemployed. When we find work for the unemployed and underemployed, labor gains without its costing land or capital anything at all. In fact, it is even better: labor gains while benefiting other taxpayers, because of lower dole costs, lower crime costs, etc. The enhanced psychic benefit of universal job security is also worth a lot, although not in direct money. In the era when Keynesianism was in flower, many alleged that the social cost of putting the unemployed to work is zero.

Nowadays, of course, Keynes is out of style with the dominant anti-labor schools. Unemployment is simply leisure, a voluntary choice, a matter of personal taste. And yet, Chicagoans like Gary Becker freely postulate elastic labor supplies when they blame unemployment, as Becker routinely does, on min wage laws. "It's simple: hike the min wage, and you put people out of work" - Gary Becker, BW 6 March 95.¹ It's not clear if Becker sees the parallel, but that is a Keynesian assumption.

It is likely that real wage rates would rise, as better land use increased demand for labor and lowered product prices. This was the theme of P&P (George, 1879), and the primary goal of his reforms. However, that was before we had heavy payroll and income taxes on labor. Now, it is entirely possible for the abolition of such taxes to let after-tax wage rates rise while before-tax wage rates remain the same, or fall. There is ample "room" in the present tax system for that to be a likely outcome. In the event, however, that real wage rates should rise enough to absorb some of the gains from tax reform, few would call it a calamity.

Also, the rise of wages in the Georgist system implies a rise of GDP. The rise would result from removing the excess burdens of current taxes, which in turn will first

¹ David Card and Alan B. Krueger say otherwise. Becker cites studies saying it is so, by Donald Deere and Finis Welch, TX A&M; Kevin Murphy, U of Chicago. Papers at Jan AEA mtgs.

raise the marginal productivity of labor. That would ensue from opening what the English Radical Liberals (who ruled England in Edwardian days) called the "internal frontier." One can also view that as ending the artificial scarcity of land, an approach I use later in this work. This means that workers who now each add, say, £10,000 a year to GDP in menial tasks, or struggling on marginal land, would instead add £20,000 a year each. While this would redistribute income against rents, much of the increase would come from a net rise of GDP.

The net rise of GDP will raise the demand for land for residential and recreational (R&R) uses, because land is a superior good. (Cite P&P, and data herein on the point.) Lowering after-tax rents will, of itself alone, lower the R&R demand for land, but raising other factor shares, including rates of return on real investing, will replace the lost demand from any given GDP. The rise of GDP will more than replace it.

Elastic capital supply, observed and therefore assumed by most economists. Mostly they emphasize world markets, rapid transfers, arbitrage. In addition, even in small closed economies, there is underemployed capital, just like labor. This is because the return is held down by taxation. So it goes into untaxed consumer goods, and tax-exempt forms of capital like housing, eleemosynaries, foundations, govt. works, personal property, etc. From this would spring a large supply, when all uses of capital are untaxed. Here is the elasticity in supply of capital. George recognized this, although he had his own way of expressing it. He did not regard consumer capital as being "really" capital, but he did observe people living on it while they produced other capital. During W.W. II we experienced a graphic example of how people can draw down consumer capital to meet an emergency need.

An important and influential exception was E.R.A. Seligman, who expressed his point memorably: "There is no fund of capital floating in the air to be brought to earth by the magic touch of Mr. H.G." Parallel ideas are found in Harriss, Harberger et al., q.v. below. On the left wing, critics of tax breaks for investing commonly belittle and dismiss the breaks by alleging they only advance a fixed lump of investing, rather than adding to the sum over time. I will show, rather, that the "lump" is full of yeast and can grow: a) by capital formation, b) by better allocation of capital, c) by import of capital, and d) by faster turnover of capital.

Land value based on o.c. of land in highest and best future use. Calls for drastic reassessment of land when buildings are exempted, because that means FUTURE buildings are to be exempted. The effect on revenues is like taxing future buildings before they are actually built,

even though they are not to be taxed at all. Logic validated by experience in growing boroughs of NYC, 1922-33.

Compact settlement would create new rents via the synergies that are now aborted by scatter.

ii. Venerable tradition of ATCOR in the history of economic thought - Physiocrats, preceded by Locke and Vanderlint

- Adam Smith on "indolence of landowners"
- Paul Douglas; Bronson Cowan; Ebenezer Howard; David Bradford et al., 1992 NTJ; Dick Netzer (with caveats);

- Others?

iii. Muddying the waters of theory

- Forward shifting of proptax, a la Musgrave.

This shift requires our assuming the tax is imposed on just one land use, usually housing, in one small jurisdiction. It is what Howard Jarvis seized on and used to promise tenants that lowering property taxes would automatically lower their rents, since property owners, as he put it, do "not pay one cent" in property taxes, but shift them all to tenants. As soon as Prop 13 passed rents shot upwards, and have never looked back except in particular micro-markets like cyclical Silicon Valley.

This is one result of displacing production theory by price theory in economic doctrines. In production theory you would assume elastic demand, and focus on the effect on factor proportions (changing productive processes and products, a la Kneese and Bowers).

- Fixed capital supply. Harberger; Seligman; Harriss

- Twisting the Ramsey Rule by most economists.

The Frank Ramsey Rule of taxation, as stated by himself in 1927, and by his mentor, Arthur Pigou, says that to minimize the excess burden of taxation we should tax only those items whose supply or demand is least elastic. We should tax no item at all if we can find another one whose demand or supply is less elastic. This rule leads directly to obliterating all taxes except on land values. Inelastic demand over a range of prices is impossible, because buyers inevitably run out of money as prices rise. (Economists like to call that the "income effect," but it involves wealth and liquidity as well as income." That leaves supply, and only land is supplied inelastically. If there are exceptions they are too rare and contrived to concern anyone except as debating ploys.

Ramsey cautiously left that to inference (and then died young). Later economists, citing this rule over the years, have quietly dropped the word "supply". Charles McLure and George Zodrow and Laurence Lindsey, and most texts on

public finance, are examples. The only exception I have found is Stiglitz.

iv. Summary on ATCOR. The revenue capacity of land, when it is substituted for other tax bases, is comparable to current revenues. Owing to efficiency effects, and renewal effects, it may well be higher. The major reservation is that the supply of labor is not totally elastic, so some of the revenue gains may be "lost" in higher wage rates, but on the whole higher wage rates are socially desirable, and serve to lower many public costs as for welfare, policing and jailing, aggressive military spending, make-work projects, etc.

D. Summary on thirteen new elements of taxable capacity. Previous estimates of rent and land values have been narrowly limited to a fraction of the whole, thus giving an entirely false impression that the tax capacity is similarly narrow. We are adding Thirteen Elements to the traditional narrow "single tax" base:

- correcting omissions and understatements in standard data sources
- updating ancient sources that use obsolete low values
- raising the Land Fraction of Real Estate Values (LFREV)
- adding rents that are best taxed by use of variable excises
- adding rents taxable by income taxes
- substituting taxes for subsidies to foster conservation
- adding current unearned increments as part of ongoing rent
- adding previously invisible and undervalued resources to the tax base
- adding lands held under variant forms of tenure
- adding rents that are now dissipated, but need not be
- noting the feasibility of much higher tax rates on a base that is both non-erosive, and concentrated in ownership
- noting the great mass of holdout prices (WTA values) exceed visible market prices (WTP values) by a large factor
- adding the revenue from most existing taxes to the potential land tax base, on the ATCOR principle

Any one of those Thirteen Elements indicates a significantly higher land tax base than economists