

Land tax -- denying the market matters (Re: better tax code: no income tax, head tax (&| ppty t)

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- *From:* RogerDodger <none@xxxxxxxxxxxx>
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On Wed, 5 Mar 2008 03:25:48 -0000, "Andy F." <never.mind@xxxxxxxx> wrote:

"RogerDodger" <none@xxxxxxxxxxxx> wrote in message <news:f6vms31pcqblq5lou0ua6cp8bsvoge7oc@xxxxxxxx>

On Fri, 29 Feb 2008 01:04:32 -0000, "Andy F." <never.mind@xxxxxxxx> wrote:

"RogerDodger" <none@xxxxxxxxxxxx> wrote in message <news:iatds39esjerivimj72rg6jnpf2cpvmlk7@xxxxxxxx>

.....

Of course, supply is the amount of something \*brought to market\*, not the amount of something existing in the physical universe.

^^

The point our Georgists can't deal with -- that this is as true with land as with anything else..

Friedman himself made this point in a friendly letter to a Georgist web site, in response to a question from it about why he wasn't a Georgist or single-taxer in light of a quote from him that Georgists always throw about on the potential virtues of a land tax.

The Georgist claim is that land tax is superior to taxes on labor, improvements, etc. because land supply is inelastic and their supply is not.

Friedman pointed out that labor supply certainly *is* inelastic in the "physical existence" sense in the near to intermediate term -- dropping a big tax on labor doesn't reduce the population or number of workers at all at the time -- and buildings and other improvements to land are even more inelastic in supply, dropping a big rent tax on them doesn't eliminate them from existence at all (and they can't sell their homes and move away in the long run).

That's clearly wrong..

It's clearly entirely correct.

A high tax on labor would cause some people to stop working, thus reducing the number of workers.

Careful here: If you insist that workers pushed into part-time work, under-the-table work, and the ranks of the unemployed are no longer workers, not only will the BLS disagree with you but liberals will not like you.

By definition, people who don't work aren't workers.

By your definition.

By the definition of the rest of the world, starting with the BLS, a full-time worker who as the result of a tax imposed on his labor becomes a part-time worker, or a black-market worker, or an unemployed person desirous of working if he could at his previous after-tax wage, remains very much a "worker".

The only difference is that he is now bringing less of his labor *to*

Land tax -- denying the market matters (Re: better tax code: no income tax, head tax (&| ppty t)  
the market\* because of the tax.

This is an easy example, one of Friedman's, of how a tax on an item in inelastic supply in the physical world can \*immediately\* reduce the supply of that item \*on the market\* and thus reduce economic welfare all around.

Georgists who have built their church on the bedrock notion that an item in inelastic supply can't have its supply reduced by being taxed are in complete denial about this.

Thus, in cases like this, they are compelled to respond with the like of what we see here: "workers who are taxed into part-time work, black market work, and unemployment while desirous of work are \*not\* workers -- by definition!"

Then they wonder why the rest of the world doesn't take them seriously.

<irrelevant nonsense snipped>

The "irrelevant nonsense" being how taxation of other items in totally inelastic supply in the physical world reduces -- and can wipe out -- their supply \*in the market\*: copper, Mickey Mantle rookie baseball cards, 1870s gold coins, etc.

Let's not be distracted by that! ;-)

.... And this is (one of the) fundamental problem(s) of

Georgism.

Georgists insist as the foundation rock of their church that if an item is in elastic supply a tax on it doesn't reduce the supply of it -- defining as "supply" the amount that physically exists in the universe.

But the supply that actually matters for human welfare and productive economic activity is the amount that is \*brought to the market\*

That's nonsense. My house hasn't been brought to the market for years. But it's clearly good for my welfare to have a house to live in.

You so very modestly confuse your welfare with society's. ;-)

Land tax -- denying the market matters (Re: better tax code: no income tax, head tax (&| ppty t)

But let's imagine you are one of millions of people each year who need to buy a house -- and that there is a large " house sale tax" on sellers that reduces the supply of houses offered for sale \*on the market\*.

Thus, you, (and all the others like you) have both fewer houses to choose from, very probably reducing the quality of the one you can get for your needs, and certainly as a result of supply/demand forcing you to pay a higher price for the one you do get. Right?

So increasing the size of the market certainly increases the welfare of buyers -- and a tax that reduces supply \*on the market\*, without reducing the number of houses in physical existence, reduces their welfare.

Also, as a person who owns a home you might be a little less myopic and realize that the large tax on home sales reduces \*your\* welfare too -- it reduces the after-tax value of your home, and thus the amount you can sell it for, or borrow against it should you need to do so.

So larger markets are good \*for society\*, and thus taxes that reduce market supply are bad, right?

Of course, another unavoidable result of a big tax on something like house sales is black-market and back-room dealing in them, right?

The sale price is reduced to lower the tax, and then made up for by some under-the-table cash payment, a non taxable "favor" made in exchange, an offsetting business deal made on favorable terms going the other way, etc. Right?

Black markets are \*bad\*, right?

And they are what result \*immediately\* when an item in \*inelastic\* supply is subjected to a new fat tax -- a fat tax on homes doesn't reduce the amount of them in physical existence at all \*immediately\*, eh?

But if you want to think that as long as you are happy in your own home that's off the market, so none of this matters, well ... that's Georgism!

-- and

a tax on the supplier that reduces the price he receives for doing so absolutely reduces the amount supplied to the market, to be available to buyers, users.

Land tax -- denying the market matters (Re: better tax code: no income tax, head tax (&| ppty t)

A land value tax doesn't do that.

Assertion is not reason, no matter how times you repeat it.

It thus reduces potential mutually beneficial exchanges between buyers and sellers, and thus the welfare of both biuyers and sellers.

E.g.: The amount of copper that physically exists on earth is totally inelastic. Putting a confiscatory tax on all copper sales will not change the "supply" of copper on earth by even one atom.

Of course it will destroy the supply of copper \*brought to market\*, and thus deeply harm the welfare of both copper sellers and copper buyers/users.

It is the supply of an item that is \*brought to the market\* that counts for welfare. And this is the same with land as with copper and every other item in inelastic physical supply in the universe.

A tax that reduces the return to suppliers of supplying an item to the market reduces the supply of it \*on the market\*. Duh. It's called "the law of supply and demand". And that reduces welfare.

Land value tax doesn't do that.

No matter how many times you repeat it!

It's the same with land as with everything else.

Hey, I said Georgists have no answer to this problem but to deny it.

Looks like I'm right so far. ;-)

I've read all the answers to my original statement and none of them answered it, they all just denied it.

Thank you all for making my point for me! ;-)

Land tax -- denying the market matters (Re: better tax code: no income tax, head tax (&| ppty t)

A high tax on buildings would reduce the amount of new buildings...

Nice attempt to change the subject.

I didn't change the subject.

You said that "dropping a big rent tax on (improvements) doesn't eliminate them from existence ."

Tut, tut, tut. I wrote:

"...in the near to intermediate term..."

Let's not delete that.

"... buildings and other improvements to land are even more inelastic in supply [than labor], dropping a big rent tax on them doesn't eliminate them from existence at all (and they can't sell their homes and move away in the long run).

"Yet dropping a big tax on labor or on rent for improvements to real estate \*immediately\* drive supply of these items \*out of the market\*, harming the economy. Workers immediately start working under the table, off the books, or cease working altogether.

"Rent for improvements to real estate goes under the table, or is sharply reduced in back-room deals (I slash your rent, you hire my wife for a no-show job, etc.)

"All this is entirely well known and extremely well documented."

I pointed out that that isn't true.

It isn't?

You are saying the above is wrong ... a high rent tax \*doesn't\* result in use of key money, under-the table deals, etc, to avoid the tax?

Or maybe you are saying it does \*immediately\* cause buildings to disappear from existence?

So now you're going to pretend you never said that, and say something else that isn't true instead.

Land tax -- denying the market matters (Re: better tax code: no income tax, head tax (&| ppty t)

I'm happy to quote myself accurately. ; -)

A high tax on rentals of buildings \*immediately\* moves rentals on \*currently existing\* buildings into tax-avoiding "off-market" and black-market arrangements -- under-the-table payments ... collecting favors instead of rent ... non-cash swaps .... business deals that move income into lower-tax forms of income ... hoarding by owners since the property is now worth more for their own use than they can get after-tax by renting it ... etc. etc. -- that reduce the supply of real properties available on the open market to prospective renters.

It does so before the supply of buildings changes one iota.

Be honest, you know this. It doesn't help the credibility of the Georgist case to deny reality.

A tax on rental income is called income tax. You're quite right to point out that income taxes can have bad effects.

Property taxes work differently. All the tricks you describe can help to reduce income tax liability. But they won't reduce your property taxes by one cent.

Property value is capitalized flow of future rent.

Even Georgists know that -- do you want me to quote [henrygeorge.org](http://henrygeorge.org) on that for you?

Reducing flow of future rent to property (through under-the-table payments, back-room deals etc) reduces that capitalized value, property value. QED.

Right?

Are you denying this?

You'd know this if you were honest. But it does help your case if you deny reality.

Well, Michael Hudson says land value has \*already today\* been reduced by 50% by owners who benefit tax-wise and otherwise by shifting its value to other things.

Land tax -- denying the market matters (Re: better tax code: no income tax, head tax (&| ppty t) 7

Land tax -- denying the market matters (Re: better tax code: no income tax, head tax (&| ppty t)

So \*somebody\* is denying reality.

Is it you or him? Are you saying he's dishonest?

He's very much a \*pro\* land taxer, you know.

...

If you think so, here's a challenge, something in today's world for you to explain:

Every true Georgist is fond of Michael Hudson's claim that "official" estimates of land value (such as the Fed's '94 estimate) understate it by fully 50% in very large part because owners of buidlings inflate

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the value of their improvements to land while reducing the value of their land itself, since this gives them greater tax deductions for depreciation of the improvements (land isn't depreciable).

This is entirely sensible. You give people an incentive to shift reported value from land to buildings, pay them to do it, and they will do it. Who could argue with that?

Of course the "depreciation deduction" tax incentive is rather mild -- depreciation deductions for the cost of a building are spread out over 39 years, and if the building doesn't actually lose value they are taxed back in the end, so they only amount to a tax deferral.

In contrast, the incentive to shift reported value off of land and onto buildings and into other arrangements under a Georgist/Single Tax system would be \*hugely larger\*, being that land rent tax would be confiscatory and other income would be tax free. Incentives don't get much bigger than that!

Property tax assessments aren't based on reported values. So no such incentive would exist.

Really?

Property tax assessments aren't based on "comparable sales" -- the "reported values" of building sale prices and land sale prices?

Land tax -- denying the market matters (Re: better tax code: no income tax, head tax (&| ppty t)

When land and improvements exist on the same plot and are bought and sold together, land value isn't determine by reducing the "reported value" of the improvements? The value the owner reports for them, their acquisition price, depreciated value etc.?

When a property owner determines the value of improvements by totaling the value of its components – do you know what "cost segregation analysis" is? -- it doesn't "report the value" of them? Then add the total to determine the value of the building, which is then subtracted from the land?

Gee whiz, then what does the appraiser use to determine the value of land -- other than reported rent, reported value of improvements, reported value of comparable sales, etc.?

Is the Appraisal Pixie supposed to come whisper a number in his ear? ;~)

Too bad the Appraisal Pixie isn't around right now to keep land from being 50% undervalued today, eh?

Now, here's your challenge -- since you claim such shifting of value away from land and onto improvements and into other "back room" arrangements won't happen under a Georgist system.

Please explain:

1) How is it possible today, if it isn't possible under Georgism?

It's possible because the IRS allows it. Under the current system, the government has little incentive to insist on accurate appraisals.

Ah yes: the IRS, NYS tax office, NYC property tax appraisers, they are all \*happy\* with mass tax avoidance through value shifting today.

They allow it!

Ha, ha.

Now we come to the very essence of Georgism:

It would "insist" on accurate appraisals. Issue ended! LMAO.

No more shifting of 50% of land value! Easy as that!

Land tax -- denying the market matters (Re: better tax code: no income tax, head tax (&| ppty t)

Because ... well, just because! That's how you get to utopia!

Today's IRS and state tax collectors and local property tax assessors all are happy to lose God knows how much tax money by land values being 50% shifted into building values and otherwise. They allow it.

But for the Georgist assessor things will be entirely different -- because he will "insist"! ;-)

2) What tax appraisal system would you use under Georgism that we should be using \*today\* to stop all this current tax avoidance by undervaluing land?

What techniques should the property assessors in Manhattan be using today to fairly, accurately and equitably perhaps double their valuation of land in NYC, to eliminate this current tax avoidance?

Note:

You can't say "comparable sales", because all actual comparable sales of buildings are at these inflated prices -- so comparable sales give you exactly the result you don't want.

Nonsense. Properties are sold at market prices.

Of course! Including the cross-leases ... multi-party deals ... under-the-table payments, etc, used to \*reduce\* the market price by shifting a portion of it into other asset prices and other kinds of income.

Real market prices. You know, just like today. Reality.

Explain to us all again, for the first time, the Mysterious Mechanism of Georgist tax assessment that will prevent this?

It's only the split between land and improvements which is misreported.

Oh, that's ALL! ;-)

Merely 50% of land value today, as per Hudson.

Plus the value of both of land and improvements that is shifted into other tax-favored income through other multi-party deals.

Land tax -- denying the market matters (Re: better tax code: no income tax, head tax (&| ppty t)

You can't say "discounted rents" either because rents really are reported through binding leases to improvements, not the land. They give you the result you don't want.

And you can't include income shifted from land rent to other sources of tax-favored business income through complex multiparty (backroom) arrangements because you have no knowledge of them or what they amount to.

OK -- so, not using comparable sales or discounted value of actual rents, how do you determine by how much to increase the value of each separate and unique plot of land in Manhattan, NYC?

What is the low-cost and accurate value assessment method of the Georgists that today's NYC property tax assessors are missing?

Comparable sales.

Georgist reading problem? As that follows this...

Note:

You can't say "comparable sales", because all actual comparable sales of buildings are at these inflated prices -- so comparable sales give you exactly the result you don't want.

Seems like denial of reality as the least painful option.

Summary...

Challenge: What is the mechanism that Georgists will use to stop the 50% shifting of land value into value of other assets that Michael Hudson reports today?

Answer: No mechanism. Just "insist" that it not happen any more -- using the same comparable sales used today to miss 50% of land value.

Grade: F