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

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- *From*: The Trucker <mikcob@xxxxxxxxxxx>
- *Date*: Sat, 26 Apr 2008 10:07:13 −0700

On Tue, 18 Mar 2008 23:59:01 −0400, RogerDodger wrote:

> On Wed, 5 Mar 2008 03:25:48 −0000, "Andy F." <never.mind@xxxxxxxxx>
> wrote:
>
>> "RogerDodger" <none@xxxxxxxxxxxx> wrote in message
>> news:f6vms31pcqblq5lou0ua6cp8bsvogei7oc@xxxxxxxxxx
>>
>>> On Fri, 29 Feb 2008 01:04:32 −0000, "Andy F."
>>> <never.mind@xxxxxxxxx>
>>> wrote:
>>>
>>>> "RogerDodger" <none@xxxxxxxxxxxx>
>>>> wrote in message
>>>> news:iatds39esjerivimj72rg6jnpf2cpvmlk7@xxxxxxxxxx
>>>>
>>>>> ....
>>>>> 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..

That is a ridiculous claim refuted many times over. I see that I will
need to refute it again (though I am not a Georgist).

> Friedman himself made this point in a friendly letter to a Georgist web site, in respose 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 −−

This is essentially correct in that earths population (the source of labor) does not respond to price. An increase in wages does not create more workers in the whole earth sense. It does, however, cause migration of people from a low wage area to a higher wage area. That is the elasticity in the labor deal. Locations, OTOH, are not going to "migrate". They are where they naturally are and they do not move. Not only is the total amount not altered by price fluctuation but the actual locations are also left unaffected.

> dropping a big tax on labor doesn't reduce the population or number ofr workers at all at the time

It actually does. The people (and the capital) migrate to where the taxes are less. The land (and the sun and the rain that it gets) will not get up and move "offshore", however. Nor will the clean water and the oil and the gold.

−− 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).

A tax on improvements is not a tax on rent. But a uniform tax on assets (buildings) will not cause them to assume mobility either. It does, however, cause mid term dislocation of fixed capital in that fixed capital will tend to be PRODUCED where it is taxed less. Land, of course, is not produced and therefore will not be actualized/realized/erected in differing locations.

That's clearly wrong..

It's clearly entirely correct.

Such contortions on "supply" are gibberish.

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".

A definition from the Bureau of Lying Sadistics has no bearing on real economics. But the point is moot. There are no "workers" in real economics; only laborers. The word "workers" is used in neoclassical economics and latter day politics to differentiate those who perform more common labor from those who perform specialized labor or who do not perform much labor at all. It is part of the need in neoclassical economics to confound rent, profit, interest, and economic rent into an unrecognizable collage. The need arises due to the insistence that unearned income flowing into the hands of the ruling elite be hidden as much as possible.

> The only difference is that he is now bringing less of his labor *to the market* because of the tax.

So you are saying that the amount of labor available will vary in respect of the actual gain realized by the laborer(s). That is quite true of course. That is what "elasticity" means. If you want to apply that particular principle to FIXED LOCATIONS it also works. But it works in reverse if one assumes privately OWNED locations. As the tax rises, the number of locations for sale on the market increases. The effects of labor taxes are the opposite. It is actually the inelasticity (the land cannot move) of land parcels that produces this actual result. As the actual benefit to ownership decreases (the tax applied) the amount of parcels made "available" (unencumbered by blood sucking owners) INCREASES.

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

I wonder if Friedman was that stupid or if you just don't understand what he had to say.

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

The very definition of the word "elasticity" precludes the variance of the actual supply due to price. Unfortunately for the Georgist detractors, the MARKET supply of land deeds will increase as ad valorem land taxes increase.

> 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 definiton!"

I am not forced to respond to such stupidity by falling into the trap of language designed specifically to prevent any real discourse or to allow the false frames created by neoclassical neoconomists.

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

I do not take neoclassical economics seriously. Anyone who does has fallen into the trap of a false value theory or the trap of "there is no such thing as the common good".

>>> <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! ;−)

I am not sure what you think you are saying here. But if the cost of "owning" any particular "deed or right" is increased then the value of the "owning" is decreased and the overall market availability of the item is increased IF THE ITEM CANNOT ESCAPE THE COST. IN your examples of inelastic supply you fail to credit the mobility of the items. As such, it is possible to hide the items or to move them out of the tax jurisdiction. With raw land this mobility does not exist.

>> .... 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.

That is the actual definition of the "supply".

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 houe 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. ;−)

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*.

A "sales tax" is a transaction tax. An ad valorem ta is a tax on ownership. Yet the detractors of Georgism will forever lie about this fact.

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?

The effect of shifting ad valorem taxation from structures to land values results in an increase in the market availability of both land and structures.

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 existance, reduces their

> welfare.

That is why transaction taxes and labor taxes reduce general 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.

The value of the home is a value in use and it is not actually changed by any transaction tax on the home. We do not buy homes for speculation. We buy them to live in.

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

Generally speaking, a tax that increases transaction costs will be bad for the society.

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

An ad valorem tax is not a transaction tax.

> 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?

More strawman crap.

> Black markets are *bad*, right?

A black market in location rents is impossible.

> 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?

More straw: Real economics is not primarily concerned with immediacy. You are talking "finance" as opposed to economics. In economics the concern is for the intermediate and long term.

> 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!

Actually, that is reality. All REAL value is value in use as opposed to speculative value.

> > −− 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.
> >
> > A land value tax doesn't do that.
>
> Assertion is not reason, no matter how times you repeat it.

A good example using real terms in today's market can be seen here: http://www.greatervoice.org/essays/lvt.php

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

"It" being a transaction tax.

> > > 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.

There is little, if any, advantage in the concept of private ownership of natural resources. Any such arguments are based on the "dumbing down" of the citizenry and the withholding of information.

> > 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.

That claim is somewhat true. But the amount of land on the market increases as the tax on holding it off the market is increased.

> > 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!

An ad valorem tax does not reduce the amount of land for sale. It INCREASES the amount for sale. You, and the neoclassical nincompoops seem to have a religious fixation that does not coincide with known reality.

> > 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. ;−)

Your "arguments" look like a big pile of straw 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! ;−)
> > >
> > > > 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 otherimprovements to land are even more inelastic
> in supply [thn 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).

It is true that labor mobility is greater than fixed capital mobility
(fixed capital is NOT money) and hence the elasticity of (LOCAL) labor
supply is greater than that of (LOCAL) fixed capital.

> "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.

Actually the big difference is the relocation of labor to a less heavily
taxed location or the conversion of wages into profits (more
entrepreneurship and less wages by the hour). Lots of Sub−S corps. The

latter actually results in less "division and specialization" of labor and
is therefore economically perverse.

> "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."

It is well documented by the hand maidens to the rent seekers, i.e. the
schools of neoclassical economics. Who do you think funds The Cato
Institute"? IT sure as hell is not the laborers.

>> 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?

Not unless you change the definition of "rent" to be something other than
a return to land owners (or a return to privilege).

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

Private income from structures is rightly styled as _profit_ or
interest. It is not styled as _rent_.

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

> I'm happy to quote myself accurately. ; −)

(snicker)

>>> 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.

You seem to have a problem with the reality that land and structures are two different things and with the reality that ad valorem taxes are not transaction taxes. But this is typical neoclassical aggregation and redefinition.

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

All TRANSACTION taxes can have "bad effects". Some can also have "good effects" but these forms are typically excise or consumption taxes as opposed to income taxes. A high tax on cigarettes used to subsidize general health care delivery is an example of a transaction tax that has a beneficial effect for the society; an example of "common good".

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 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?

I don't deny that the trade price of land will be reduced by virtue od
increased ad valorem taxation. The problem with neoclassical nitwits is
that they do not have a rational value theory. They insist that since the
"market" is a God then value and trade price are equal. It is crap.

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.

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.

He may also have proper respect for the word "value".

...

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

^^^^^^^^^^^^^^^^^^^^

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.

"A tax deferred is a tax avoided". Inflation will do away with the real
effects of the tax.

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?

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 Appraisl Pixie isn't around right now to keep land from being 50% undervalued today, eh?

This sort of crap is ridiculous. The purported "value" (actually the trade price) of land is diminished by the inflation of the "value" of the improvements. All land is so affected. Hence, the "like sales" are so affected.

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 possibe 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 appraisors, they are all *happy* with mass tax avoidance through value shifting today.

They allow it!

Their political positions REQUIRE 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!
>
> Because ... well, just because! That's how you get to utopia!

The theory may well be flawed in that fiat money allows the expenditure of non existent tax revenues. The Republicans do this every day. But if one insists on rational fiscal and monetary policies then a single rate tax on land value does not allow any shifting. That should be obvious to any who are even minimally aware.

> 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.

The theory behind the "depreciation" concept is valid and realistic.
But such tax policy overstimulates construction and punishes maintenance creating empty shopping centers and empty apartment buildings.

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

If the only source of government revenue is a land tax and the creation of money as a finance alternative is removed then there will be no "shifting" of "values". The income from land taxation _MUST_ match government expenditures.

> > > 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 eliminte 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?

If the only source of government revenue is a tax on land then there is no way to avoid the tax. This assumes that government is REPRESENTATIVE of the people. AT present, this is a false assumption. It may well be a chicken and egg deal.

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.

All of these shifts are possible where in the single tax concept, there are no shifts. If the sales price of land falls then the opportunity for productive labor increases and the need for government decreases. The privatization of land is a pox on the society, and to the extent that government is necessary then to that extent will it be financed by land taxes.

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 though complex
multiparty
(backroom) arrangments 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?

Government cannot exist indefinitely without actual cost. The amount of
Republican borrowing cannot be sustained. The tax system MUST be used to
finance government. And if the only place to get the financing is
through taxation on land using a constant rate then there can be no
avoidance of the tax. The discreet "sales prices" are market determined
and not government determined. But there is also the valid point of
government assessment. It is the job of government to assess the prices
as reported by the market to insure that a FREE MARKET actually exists and
that the "underhanded", "black market", and privilege relationships do not

interfere with the FREE MARKET.

> 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

The failure is in the individual awarding the "Grade".

−−
"I know no safe depository of the ultimate powers
of society but the people themselves; and
if we think them not enlightened enough to
exercise their control with a wholesome
discretion, the remedy is not to take it from
them, but to inform their discretion by
education." − Thomas Jefferson
http://GreaterVoice.org/extend

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