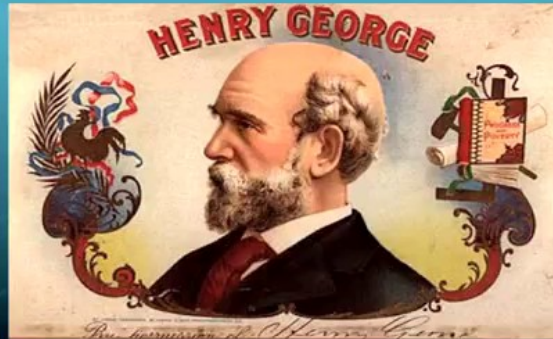


The background of the slide features a blue-tinted image of the Earth as seen from space, showing continents and clouds. A faint grid pattern is overlaid on the image. A solid horizontal orange line spans the width of the image, positioned above the title text.

LECTURE EIGHT - PART FOUR

The Single Tax Movement

- In *Poverty and Progress*, published in 1879, Henry George called for financing the government principally through property taxes on land.



Henry George's Idea

- Use this single tax to cut or eliminate all other taxes on capital, labor, and improvements on the land.
- Such a tax would not only be more fair, it would also be more efficient.

The Modern Economist Critique

- George was absolutely right that such a tax could improve the distribution of income *without* harming the productivity of the economy.
- Let's demonstrate the Georgist argument and in doing so prove this:

Key Point

A tax on pure economic rent will result in no distortions or allocative inefficiencies.

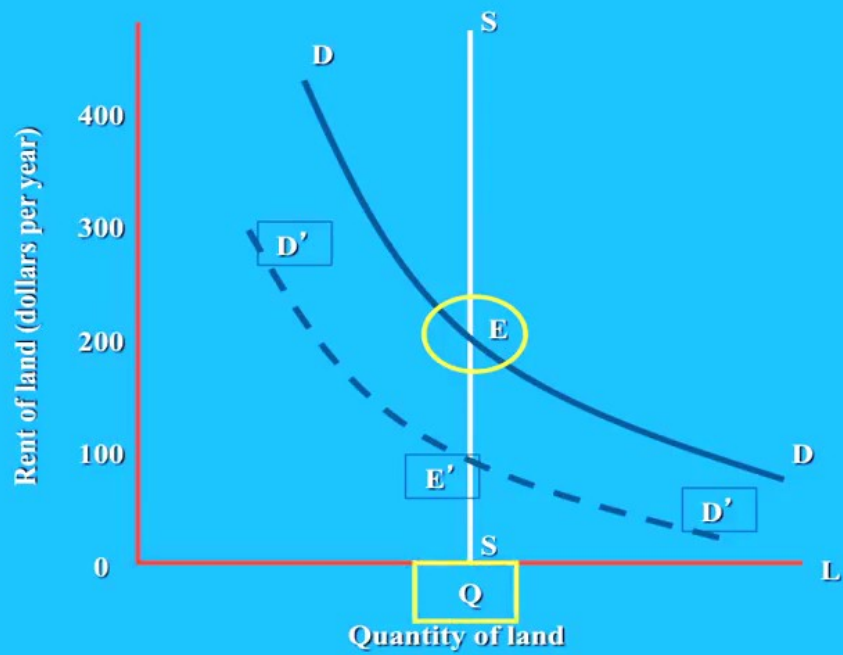
The Efficiency of a Land Tax

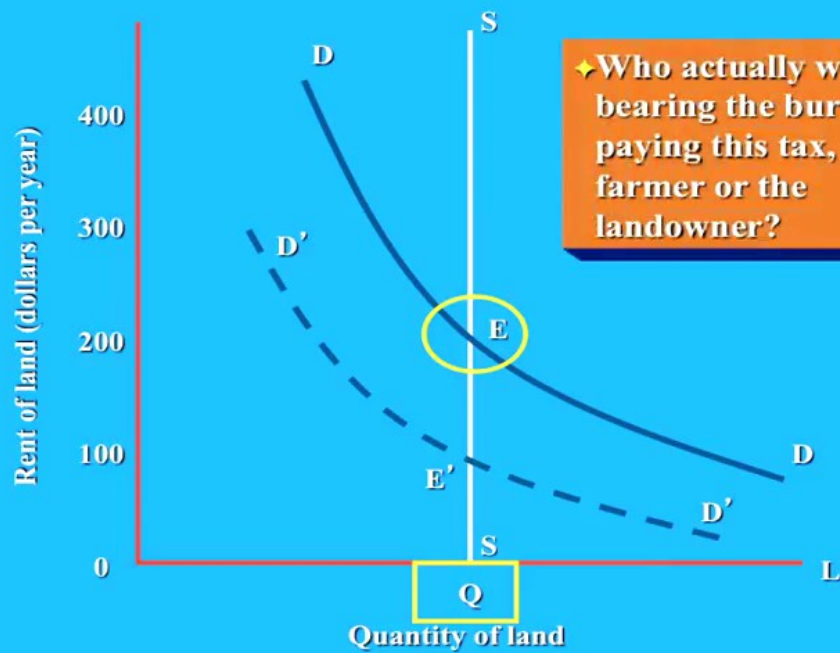
- Suppose the government introduces a 50% tax on all land rent paid by farmers to landowners.
- This is a pure tax on land alone.
- This is not a tax on the buildings on the land.
- Nor is it a tax on building improvements.

This Clarification Is Important

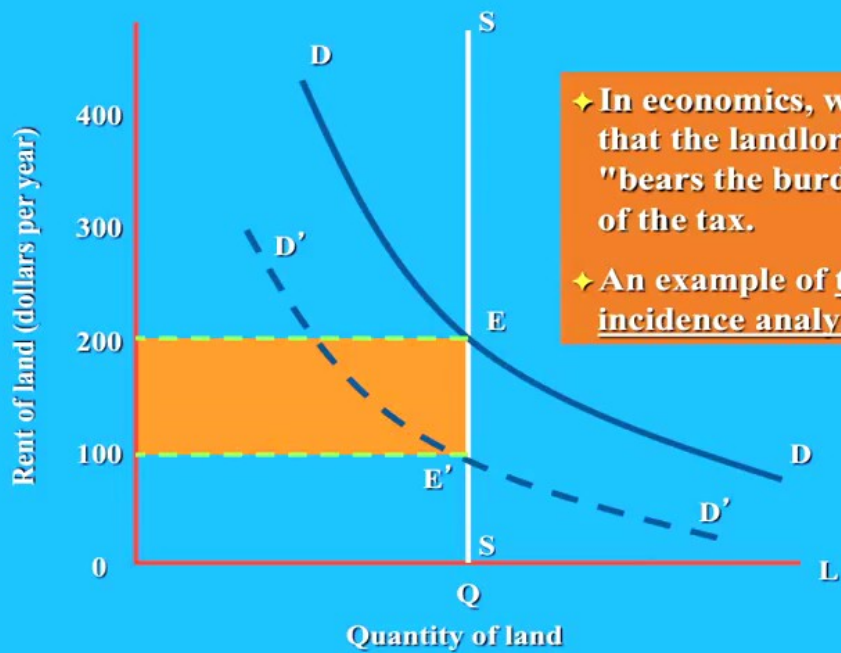
- While the supply curve for land is vertical, the supply curve for buildings and building improvements is upward sloping.
 - This is because the price of such improvements surely affects their supply.
- **Exercise:** Take a minute now to draw a graph of the market for land and what you think will be the impact of the 50% tax on the quantity of land supplied and demanded.

Pause the presentation to do this exercise.



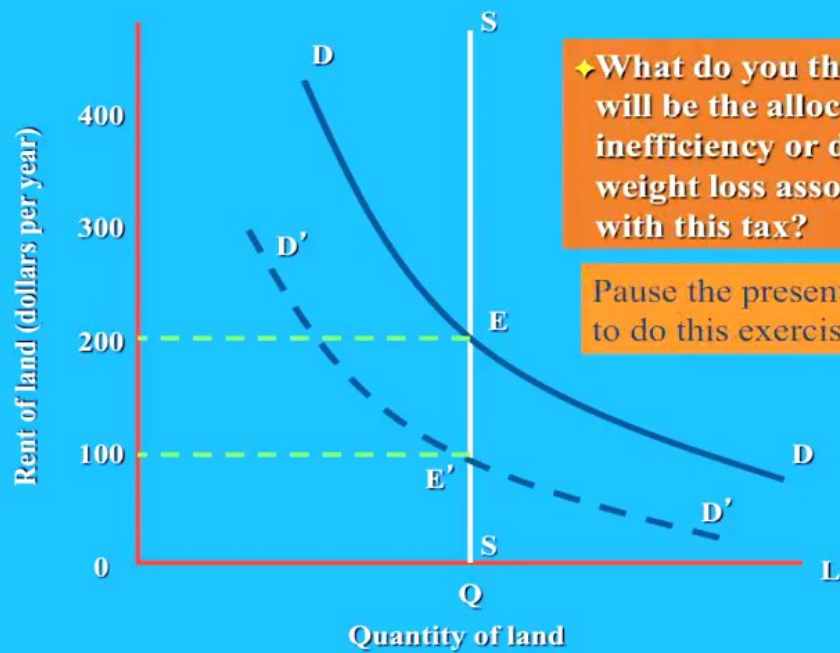


★ Who actually winds up bearing the burden of paying this tax, the farmer or the landowner?



✦ In economics, we say that the landlord "bears the burden" of the tax.

✦ An example of tax incidence analysis!



✦ What do you think will be the allocative inefficiency or dead-weight loss associated with this tax?

Pause the presentation to do this exercise.

A Surprising Answer

- A tax on pure economic rent leads to no allocative inefficiency or dead weight loss!
- The reason: A tax on pure economic rent does not change anyone's behavior.

No Change in Behavior

- Consumers are unaffected by the tax because price has not changed.
- The behavior of landlords is unaffected because the supply of land is fixed and therefore cannot react.
- Hence, the economy operates *after* the tax exactly as it did *before* the tax -- with no distortions or inefficiencies arising as a result of the land tax.

Criticisms Of Georgist Theory

- If the arguments offered by Henry George in defense of a single tax on land are so strong from both an economic and equity perspective, it is probably useful to point out why such a tax has never been implemented.
- One obvious problem is that current levels of government spending are such that a land tax alone would not bring in enough revenues.

A Second Problem

- Land is typically improved in some manner by productive effort, and economic rent cannot be readily disentangled from payments for capital improvements.

A Third Problem

- Historically, a piece of land is likely to have changed ownership many times.
- Thus, while *former* owners may have been the beneficiaries of past increases in land rent, it would hardly be fair to tax *current* owners who paid the competitive market price for land.