

Hacking the economic system: How to fix high rent in your municipality and what does it have to do with german colonial history?

rfl

flipdot

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slides at <https://code.flipdot.org/rfl/talks>



source: <http://www.quickmeme.com/meme/3td091>



Outline

- 1 Short Story
- 2 Basic Argument
- 3 How would I do it in a (german) municipality
- 4 Positive Effects
- 5 History
- 6 Final words



Short Story¹

¹source: <https://www.youtube.com/watch?v=M0mz2KRH15w>

Basic Argument²

- Nobody likes taxes, but we gotta pay for some stuff, so we should tax in the least destructive way we can.
- Turns out, land has this neat property where we can't really create it or destroy it, so it's almost immune to distortionary taxes.
- Plus, land has this ugly tendency to get hoarded and milked as a source of income for people who don't actually contribute anything to society.
- Plus plus, because of the eccentricities of how land works, you can tax land a fair amount before landlords can pass those costs on to land users.
- So, we can cut a bunch of bad taxes, like income tax and sales tax, replace them with a tax on unearned income from land, and make almost everybody better off!

²inspired by this discussion: https://old.reddit.com/r/georgism/comments/1esw819/where_do_you_start_when_introducing_georgism_to/

We gotta pay for some stuff

“a government that issues its own fiat money:

- Can pay for goods, services, and financial assets without a need to first collect money in the form of taxes or debt issuance in advance of such purchases
- Is limited in its money creation and purchases only by inflation, which accelerates once the real resources (labour, capital and natural resources) of the economy are utilized at full employment
- Uses taxation to provide the fiscal space to spend without causing inflation and also to give a value to the currency. Taxation is often said in MMT not to fund the spending of a currency-issuing government, but without it no real spending is of course possible”³

³https://en.wikipedia.org/wiki/Modern_monetary_theory

Destructive Taxes - An Example

- Imagine there will be a 10% tax on apple sauce starting next year.
- Producers are allowed to pass them to the consumer (as usual, and it can not be prevented really)
- Prices will increase by almost exactly 10% (all things being equal)
- Less people will buy apple sauce, even though the underlying demand does not change
- In a year's time, there will be around 10% less apple sauce, because here supply follows demand
- Now imagine this for other, more important goods, like medicine and income taxes that affect prices indirectly

The few different ways to make money in the economy

- Labor: You can sell your time to produce more of a valuable good or service.
- Capital: You can lend someone else your money, allowing them to make investments that will produce more valuable stuff.
- Information: You can do research, developing and selling knowledge of ways to create more valuable stuff.
- Entrepreneurship: You can take on personal risk and leverage the labor, capital, and information of others to create new valuable stuff.

And then there's land ownership. You can buy land, and then you collect rent from people who want to use your land.

Problems with land ownership

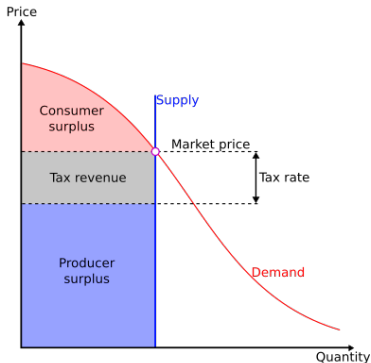
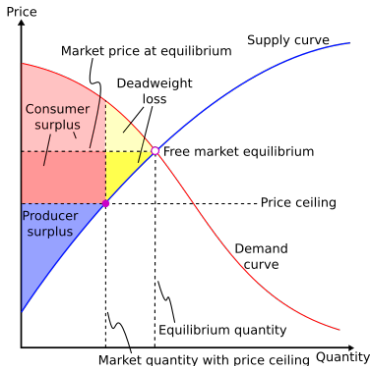
- (scarcity) there's a fixed supply of land. Realistically you can't create or destroy land (surface, which a mathematical area).
- (inelasticity) the demand for land is very stable. You can't decide to just not take up any physical space tomorrow.

This means

- landowners are effectively always running an auction for land use
- the rent for land use keeps rising to the highest rate someone is willing to pay.
- because you can't make more land, land owners get to capture more and more value as the economy grows, without the land owners actually doing anything valuable.

Why land is different

A tax on land value has no dead weight



price ceiling means *price before tax* in this context

source (left): https://en.wikipedia.org/wiki/Deadweight_loss

source (right): https://en.wikipedia.org/wiki/Land_value_tax

Actually, there are a few other things like land

- domains
- patents
- electromagnetic frequencies
- satellite orbits

(my) rule of thumb: if the thing you pay for is more like a right of usage than an actual item, then the market for it is economically similar to the land market

The land value tax can not be passed to tenants

The land value tax can not be passed to tenants

- The tenant is already paying the maximum price they're willing to pay for housing.
- If the landlord could increase the price further without negative consequences, they would've already done so.
- If taxes are passed onto the tenant, the tenant can no longer afford to live there, and the landlord will lose all revenue.

Where does land value come from

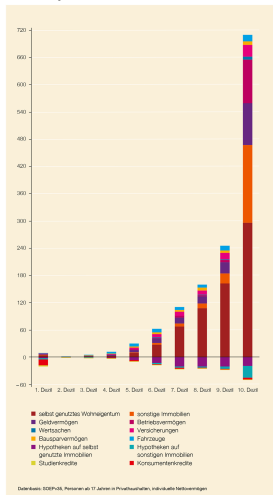
Land value is (mostly) the value of society

- Close to essential services like schools, hospitals, shopping centers, and recreational facilities
- Easy access to public transportation and major highways
- Near cultural amenities like theaters, museums, and restaurants
- Safe area with low crime rates
- Well-maintained public spaces and active community organizations
- Strong sense of community with local events and activities
- Located in an area with job opportunities and economic stability
- Presence of thriving businesses and a flourishing local economy
- Upcoming infrastructure projects or public improvements planned
- Zoning changes that allow for increased development potential
- Scenic views or natural beauty

Where does the wealth inequality really come from

Land has the ugly tendency to get hoarded

► Abb. 1: Zusammensetzung des Vermögens nach Dezilen des Nettovermögens 2017 – in Tausend Euro



source: <https://www.bpb.de/kurz-knapp/zahlen-und-fakten/datenreport-2021/private-haushalte-einkommen-und-konsumzusammensetzung-des-vermoegens/>

In General

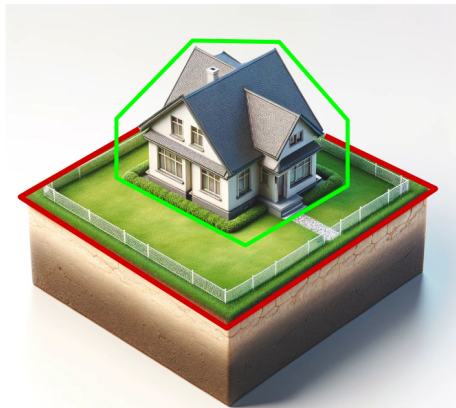
Improvement value

+

Land value

=

Property value



source: https://leg.colorado.gov/sites/default/files/images/land_value_tax.pdf

Background

Grundsteuer (property tax in Germany)

$$T = b_{federal}(type, A_{total}, A_{useable}, A_{netdwelling}, N_{floors}, N_{garages}, R_{rentlevel}, Y_{building}, \dots) * B(L) * H_{municipality}$$

weighted location value $B(L)$

$$B(L) = \left(\frac{B_L}{\frac{1}{|L|} \sum_{L' \in L} B_{L'}} \right)^{0.3}$$

Hessian Model (type B, most buildings), Example Kassel ⁴

$$T = (A_{netdwelling} * 0.5 * 0.7 + A_{usable} * 0.5 + A_{total} * 0.04) * \left(\frac{280}{214} \right)^{0.3} * 490$$

⁴avg found here: https://finanzamt.hessen.de/sites/finanzamt.hessen.de/files/2022-06/2022_06_13_stanz_ausgabe_24_s691_durchschnittliche_brw.pdf

[//finanzamt.hessen.de/sites/finanzamt.hessen.de/files/2022-06/2022_06_13_stanz_ausgabe_24_s691_durchschnittliche_brw.pdf](https://finanzamt.hessen.de/sites/finanzamt.hessen.de/files/2022-06/2022_06_13_stanz_ausgabe_24_s691_durchschnittliche_brw.pdf)

Constraints

- city recalculates location value for a city quarter almost regularly (2y)
- city (Stadtverordnetenversammlung) can *only* change H
- city has to set corporation tax factor (Gewerbesteuerhebesatz) to 200 or more
- depending on tax distribution in the federal state and the whole nation the city budget is (relatively) lowered or increased (Länderfinanzausgleich, kommunaler Finanzausgleich)
- people still have to pay those taxes
- city is only allowed to see aggregated statistics not individual tax statements

Proposal Outline

- provide a online platform where citizens of the municipality can upload their tax statements
- increase H
- repay registered amounts equally
- probably easiest to first focus on income, corporate, property sales taxes first
- in addition: because the property tax includes a tax on non-land-value, these amounts should be payed back as well

Proposal Open Questions

- how to mitigate value added tax (Mehrwertsteuer)? (arguably one of the most unfair taxes on the poor)
- how to include people that do not work (kids, elders, refugees)?
- can it be explained easier?

Detailed Handbook

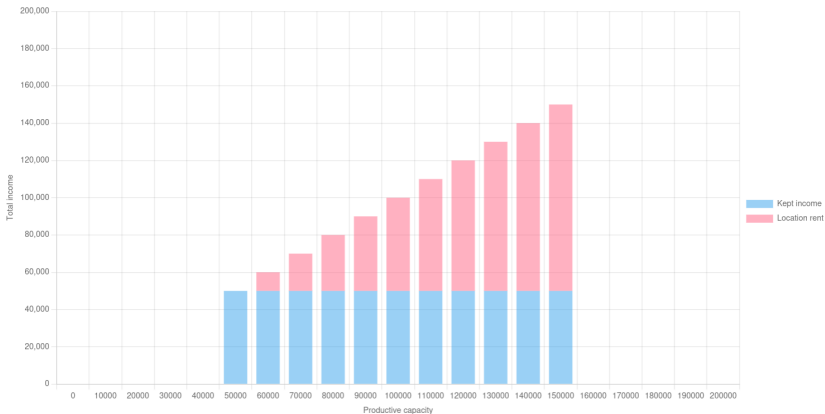
- explain proposal ← we are here
 - ...
 - get political majority, set current $H_0 := H$
 - simplify building codes (bebauungspläne)
 - add priority property sale order (vorkaufssatzung)
 - add city property lease order (erbbausatzung)
- } more or less optional
- activate tax portal
 - make citizen council on distribution mechanism
 - every year $n = 1, 2$ until “optimality”⁵
 - increase H by adding base rate H_0 , eg $H_n = (n + 1)H_0$
 - distribute $\frac{N}{N+1}$ of total property tax revenue to citizens according to distribution based on tax statements

⁵total property tax revenue is at least the same as other tax revenue

- empty houses/flats will be put on the market because it is financially reasonable to do so
- additionally there is now incentive to building new houses on vacant lots or add floors to existing buildings in high demand locations
- the rent distribution will shift downwards
- (small) businesses will have an easier time finding locations or operating in the existing ones

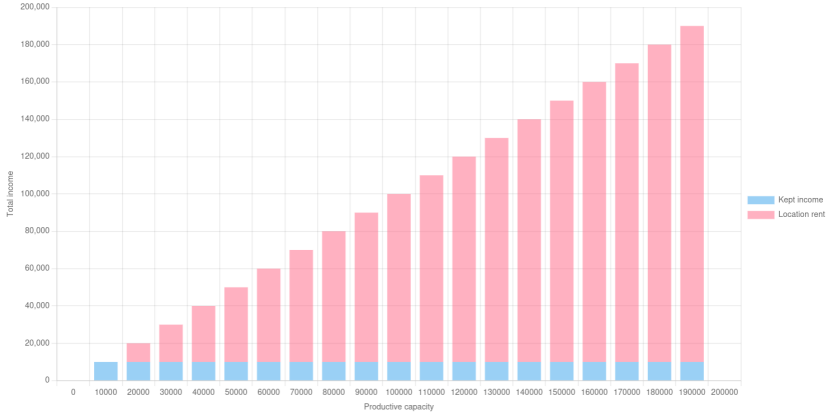
- people will move into the city
- the base property tax revenue H_0 will increase, thus public infrastructure can be funded better
- if land value is faithfully reflected in parking tickets, people will park cars on their own property or get rid of it
- tax evasion will become impossible

Law of Rent



source: <https://sciolizer.github.io/ricardo-law-of-rent/>

Law of Rent



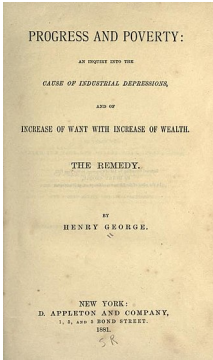
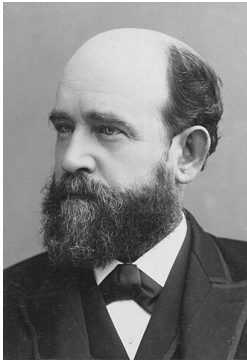
source: <https://sciolizer.github.io/ricardo-law-of-rent/>

Law of Rent

Law of Rent - your perspective

To some extent, it doesn't matter what location you chose for your coffee shop. Any excess profits you would have gained from a better location just go to the landlord there, and so your *kept income* stays the same.

Henry George



Fundamental Insight

Progress is a wedge that increases the divide in wealth between the land owners and the landless. Progress is the cause of poverty!

source (left): https://en.wikipedia.org/wiki/Henry_George

source (right): https://en.wikipedia.org/wiki/Progress_and_Poverty

Cutting all destructive taxes does not mean less budget

Henry George theorem⁷

$$\frac{dU}{dN} = 0 \Rightarrow R = G$$

- maximize utility of public goods wrt population size
- land rents would be just sufficient to finance a provision of local public goods
- is also that land rents equals government expenditures on local public goods

Work done by Joseph Stiglitz, who later won the Prize in Economic Sciences in Memory of Alfred Nobel 2001, although for a different topic⁶

⁶<https://www.nobelprize.org/prizes/economic-sciences/2001/stiglitz/facts/>

⁷https://en.wikipedia.org/wiki/Henry_George_theorem

Short Story
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Basic Argument
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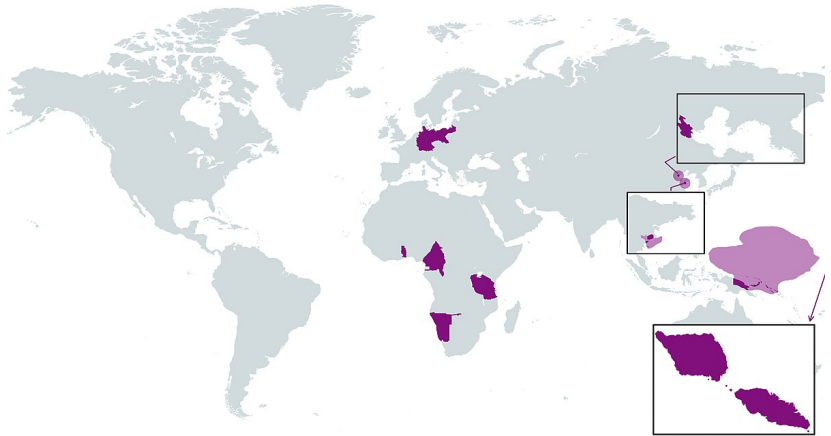
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Positive Effects
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History
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Final words
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Connection to german colonialism



source:

[https://en.wikipedia.org/wiki/File:GermanColonialEmpire\(UPT3\).jpg](https://en.wikipedia.org/wiki/File:GermanColonialEmpire(UPT3).jpg)

Or how that one point in time we almost got the (economic) solution right

“The territory fully implemented Georgist policy. Its sole source of government revenue was the land value tax of six percent which it levied in its territory. The German colonial empire had previously had economic problems with its African colonies caused by land speculation. One of the main reasons for using the land value tax in Jiaozhou Bay was to eliminate such speculation, which the policy achieved.”⁸

⁸https://en.wikipedia.org/wiki/Kiautschou_Bay_Leased_Territory

THE SYSTEM OF LAND TENURE IN THE GERMAN COLONY OF KIAOCHOW.

(For the Review.)

BY DR. SCHREIMER, FORMERLY LAND COMMISSIONER OF KIAOCHOW.

Land Reform in Kiaochoo, China:

***From 1898 to 1914 the Menace of Disastrous Land
Speculation was Averted by Taxation***

By MICHAEL SILAGI*

Final words

- “taxation is theft, but unmitigated negative externalities is theft” - reddit user nivlac22
- “[Georgism] is the best idea that will never happen. ” - BritMonkey⁹
- “There isn’t a single person in power that doesn’t own a lot of land.” - youtube user @tc3884 ¹⁰

⁹in https://www.youtube.com/watch?v=smi_iIoKybg

¹⁰as a comment to the video above