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The Modern Georgism of Respected Economists Part 1/3: Joseph Stiglitz
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The Modern Georgism of Respected Economists Part 1/3: Joseph Stiglitz

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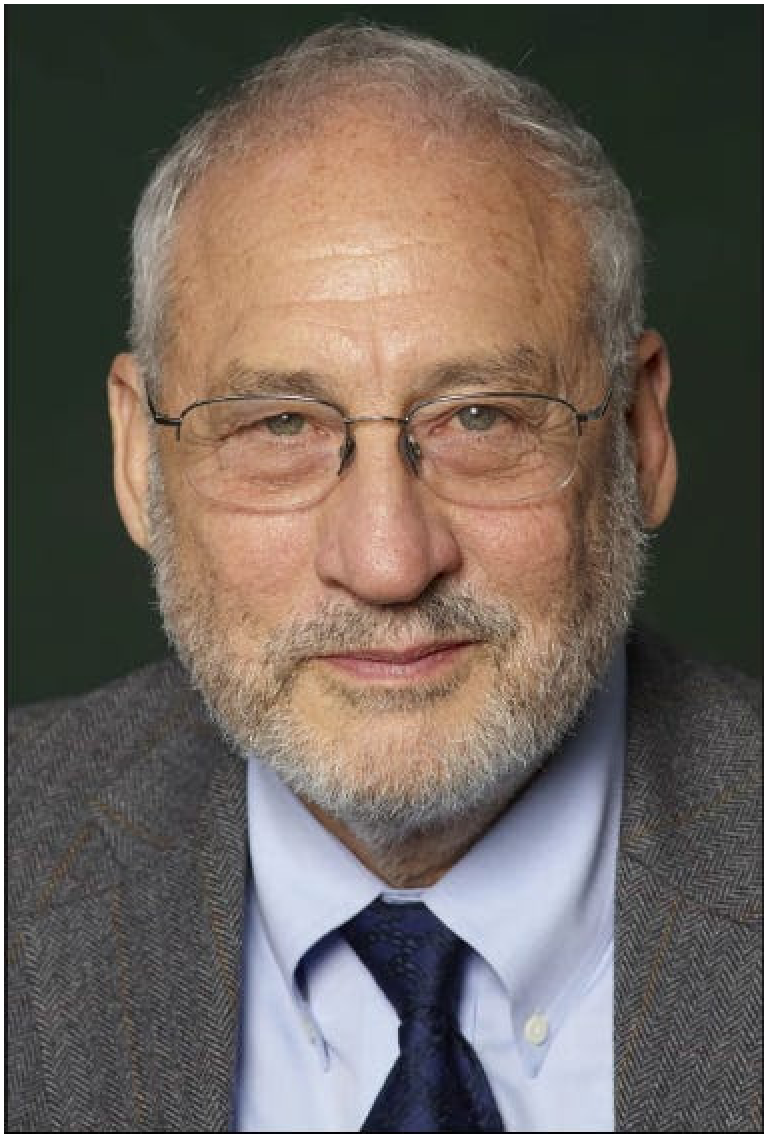
Georgism faces something of an image problem. A common perception is that it's a "crank" movement unsupported by credible authorities in economics. Georgists often try to counter this by citing the widespread support land value taxation enjoys among economists. While helpful as a start, this generally doesn't go very far. Many modern economists are happy to call LVT the best or "least bad" tax but aren't actually *Georgist* in any deeper sense. For them, LVT might be an efficient replacement for the property tax but that's about it. Georgism as an *ideology* has always gone beyond this. It was developed as a genera l lens for identifying and fixing the root causes of societal problems. Even today its adherents won't completely dismiss notions often seen as obviously unrealistic, like getting most state revenue from LVT or ending poverty. People might give credence to certain somewhat moderate claims about LVT but the "nutty" reputation of Georgism proper remains.

This skewed image requires correction. Georgism or Georgist ideas were never restricted solely to an ideological fringe. Mainstream economists respected by their peers in the field have *always* been advocates. Over the next three weeks, this article series will examine three who have engaged in this advocacy most prominently[1]. While not strictly orthodox proponents in every aspect, each saw value in the Georgist paradigm beyond the standard academic case for LVT. We will begin in the present, move to the mid-20th century, and end in the late 19th century. The lives of these figures together encompass the entire span of modern[2] economics alongside the revival, decline, and genesis of Henry George's movement.



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A simple glance at his Wikipedia page will show **Joseph Eugene Stiglitz** to be one of the most distinguished economists in the modern day. Even aside from his Nobel in economics, the other honors he's received, prestigious institutions he's headed, and general accolades all speak for themselves. A recommendation from Stiglitz is about as mainstream an endorsement as you can get. In light of this, consider the following quote:

"One of the most important but underappreciated ideas in economics is the Henry George principle of taxing the economic rent of land, and more generally, natural resources. This wonderful set of essays, written over a long and productive scholarly career, should be compulsory reading. An inveterate optimist, Mason Gaffney makes an excellent case that, by applying the Henry George principle, we can reduce inequality, and raise ample public revenues to be directed at any one of a multitude of society's ills. Gaffney also offers plausible solutions to problems of urban renewal and finance, environmental protection, the cycle of boom and bust, and conflict generated by rent-seeking multinational corporations." —Joseph Stiglitz

Mason Gaffney is about as Georgist an economist as one can be and has a long history of activism in the movement. The quote above is from the back cover of *The Mason Gaffney Reader*, a collection of 21 essays by Gaffney himself. Stiglitz clearly shows an appreciation not simply for land value tax as a *policy* but for Georgism as a *lens*. As *"one of the most important but underappreciated ideas in economics"*, the *"Henry George Principle"* can be applied to solve a variety of societal issues. The derision sometimes directed at Georgists as "panacea-mongers" is completely absent!

Stiglitz himself supports both halves of the synthesis that lies at the heart of Georgist tax policy: taxing as many resource rents as we can while *untaxing* productive things like labor. For the former, see this quote from a Roosevelt Institute paper he wrote :

> *"One of the general principles of taxation is that one should tax factors that are inelastic in supply, since there are no adverse supply side effects. Land does not disappear when it is taxed.* ***Henry George, a great progressive of the late nineteenth century, argued, partly on this basis, for a land tax.*** *It is ironic that rather than following this dictum, the United States has been doing just the opposite through its preferential treatment of capital gains."*
>
> *"But it is not just land that faces a low elasticity of supply. It is the case for other depletable natural resources. Subsidies might encourage the early discovery of some resource, but it does not increase the supply of the resource; that is largely a matter of nature. That is why* ***it also makes sense, from an efficiency point of view, to tax natural resource rents***

> ***at as close to 100% as possible**. The well-designed auctions described earlier enable government to capture most of the rents derived from government owned assets."*[3]

And in an interview published in the Georgist magazine *Geophilos*, Stiglitz again emphasizes the importance of taxing all natural resources. He agrees with the interviewers example of broadband spectrum rights and says giving them away would be "*anathema to the spirit of Henry George"*[4]. He goes on to support the latter half of Georgist tax policy by saying that Henry George's moral appeals fit into *'a wide view today that we should tax environmental "bads" such as pollution and the like. And switch from taxing good things like labor. So, in a way, that's where it comes in:* ***let's stop taxing good things like labor, and tax things that are resources. So the argument is, "why tax things that are contributing to society?"'.***

The interview later mentions Stiglitz' work on the Henry George Theorem:

> *"Your academic work led you to formulate what you called "The Henry George Theorem." This demonstrated that public spending — where this was efficient — generated additional rental value that surfaced in the land market. Other distinguished scholars, such as the late Nobel prize winner, William Vickrey, confirmed your findings. You also noted in one of your books, co-written with Anthony Atkinson, that the Henry George Theorem was attractive both because it was the revenue-raiser that did not distort private incentives and because* ***"it is the 'single tax' required to finance the public good."*** *[Anthony B. Atkinson & Joseph E. Stiglitz, Lectures on Public Economics, London: McGraw-Hill, 1980, p. 525]"*

It is significant that an economist like Stiglitz (among others[5]) has provided a theoretical basis for local public goods being funded purely out of land rent. Of course, the HGT is a model and this doesn't necessarily mean a "Single Tax" of only LVT is viable in reality. In the interview, Stiglitz himself avoids endorsing that idea[6]. The significance lies in how a possibility usually dismissed out of hand is given a basis for serious investigation.

Finally, Stiglitz has a deeply Georgist view of economic inequality. His paper The Origins Of Inequality And Policies To Contain It summarizes this nicely. It critiques the view of another famous economist, Thomas Piketty, and his notion that *"a high and even growing level of inequality is almost an inevitable consequence of capitalism"*[7]. Stiglitz writes:

> *"In this essay, I focus on two questions: What has given rise to this inequality? What can be done about it? In particular, is rising inequality largely the inevitable consequence of market forces (capitalism in the 21st century), about which there is little we can do, at least little in the realm of practical politics?*
>
> *The major thesis of this essay (and my book) is that our inequality is not, for the most part, the result of economic forces. It is not, in this sense, the result of inexorable economic laws. Rather, it is the consequence of our policies, and in turn, a reflection of our politics. Yes, there are economic forces at play that are dividing the country, but even these forces are shaped by — and sometimes driven by — our policies."*[8]

Piketty focuses on how the return on "capital" causes the concentration of wealth among capital owners. Stiglitz points out some incongruities with this narrative. For example: *"capital deepening would be expected to raise labor productivity, and thereby wages. But wages have stagnated. (The numbers are even worse if the wages of the top 1 percent are excluded — the pay of bankers, CEOs, etc. — in which case there has been a dramatic decline in the income share of wages (Giovannoni, 2014, 2015).)".*[9]

The key to these confusions lies in recognizing a key distinction of Georgism: the distinction between *true* capital and *spurious* capital. As both Stiglitz and Henry George point out, capital proper should refer to capital goods, tangible assets used to aid production. The issue is that increases in market values are not just restricted to those. Like George, Stiglitz points towards monopoly privileges like intellectual property, depletable natural resources, and of course, land as examples. *"The value of land on the seashore may be going up, but that doesn't mean, in a real sense, the country is "wealthier" (though obviously, the owners of that land have more paper wealth)...The fact that capital in any productive sense is not increasing as fast as wealth helps explain part of the anomalies; it could help explain the failure of the return to capital to fall, or even the failure of wages to rise as much as one would have expected"*[10]

These distinctions between value to the *individual* vs value to *society*, *zero-sum* vs *positive-sum*, and market value-from-*obligation* vs value-from-*production* lie at the center of Georgism. Henry George emphasized them over and over again as key in works like *Progress and Poverty* and *Science of Political Economy*[11]. In the paper, Stiglitz gives an excellent description of these concepts in his own language:

> *"Increases in monopoly power show up simultaneously in higher profits, lower wages, and a higher value of "capital.". If mining companies get more access to valuable natural resources on government-owned land at below-market prices — or the gap between what they have to pay and the fair market value increases — then the value of these mining companies increases. Changes in bank regulations, which allow them to undertake more risk, increase the chances of a bailout and thus the expected value of transfers from the government. The value of these transfers will be capitalized in the value of the banks, and thus the change in regulations will be reflected in an increase in the value of these institutions. One should not misread this as an increase in the wealth of the country.* ***In each of these instances, the true wealth of the economy is unchanged or diminished.*** *An increase in monopoly power shifts wealth from workers to the owners of the firms with market power, but the decrease in the wealth of workers is not recorded, while the increase of the value of firms is. Because of the market distortion associated with the exercise of market power,* ***societal welfare is actually lowered.*** *Increased transfers of money from the public to the private sector similarly increase the wealth of the banks, but decrease the wealth of taxpayers.* ***The former is recorded, the latter is not, and because of the distortion, overall wealth is lowered.***
>
> ***The exploitation theory can thus simultaneously explain the increase in the wealth-income ratio, the stagnation of wages, and the failure of the return to capital to fall."***[12]

The result is that much of the return to "capital" is actually just extractive rents. George noted that in the greatest fortunes *"there will always be found some element of monopoly, some appropriation of wealth produced by others"*[13]. Bill Gates could have been very successful purely through honest work but would he have become a *billionaire* without intellectual property privileges? Likewise, Stiglitz notes that:

> *"If we look at the Forbes 100 list of the wealthiest people, it is striking that it does not include those who have made the most important contributions to the advances in our standards of living — the discoverers of the transistor or the laser, those whose insights led to the invention of the computer, the Internet, or advances in modern medicine, or the discoverers of DNA. They do include those who have made important contributions to commerce, but their wealth is often the result of amplifying these contributions through the exertion of market power — as in the case of Bill Gates.* ***The basic laws of competition limit the wealth that any individual can, in a short period of time, accumulate without the exercise of some monopoly power. Similarly, if we look across sectors of the economy, it is remarkable in how many rent seeking (either based on the exertion of private market power or extraction of rents from the public sector through the exercise of public influence) is so evident: agricultural, health, natural resources, telecommunications, and high-technology****."*[14]

A consequence of all this is that Stiglitz concurs with the Georgist line that the marginalization or exclusion of land and other gifts of nature from neoclassical economics was analytically disastrous[15]:

> *"Earlier, I argued that the basic neoclassical model could only explain part of the increase in income and wealth inequality. Much of the growth in inequality and the increase in the wealth-income ratio are related to an increase in rents and land values.* ***In the middle of the last century, land was essentially dropped out of the models used by economists.*** *After all, agriculture, the source of the major demand for land, had shrunk to a very small fraction of GDP.* ***But as I noted earlier, housing services is an important component of GDP, and land values, especially in our urban areas, are an important part of housing services. Indeed, with urbanization, one would expect an increase in land values".***[16]

Stiglitz writes *"A tax on the return to land, and even more so, on the capital gains from land, would reduce inequality and, by encouraging more investment into real capital, actually enhance growth. This is, of course, an* *old idea, promoted most famously by Henry George (1879)"*[17]*.* In saying an LVT would *enhance* growth, Stiglitz actually disagrees with the conventional praise for LVT in modern economics. The standard line there is that LVT is simply neutral in being non-distortionary. Henry George, other Georgists, and Stiglitz deviate from this in characterizing LVT as *super*-neutral. That is, as *improving* the economy. As George and Stiglitz both understood, justice and efficiency are not opposed but aligned. We can have both economic equality and economic growth by addressing the root causes which stifle both.

Ultimately, Joseph Stiglitz is in *essence* a Georgist. He adheres to the fundamentals of the paradigm and more. To the extent that he deviates from the "original" single-tax, he isn't appreciably different from many ardent activists in our movement. It is only appropriate that we would find support from such a luminary at a time when Georgism is beginning to revive. We can only hope that as the movement grows, Stiglitz will feel comfortable explicitly identifying with it.

Next week: join us as we explore the Georgism of HG Brown, an economist who remained an academic beacon even as the movement declined.

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1 It is entirely possible that there is still much more to uncover. Sadly Georgism is severely understudied and so the sources available are relatively meager. Additionally, the poor reputation of Georgism means that advocates may have remained "in the closet" so to speak. For example, the economist Harold Hotelling did not present his Georgist influences (summarized in a footnote for the second part of this series) overtly.

2 "Modern" economics here refers to the neoclassical economics which succeeded the previously mainstream classical economics. This article series focuses on modern economists to showcase Georgisms compatibility with modern economics. This also means it won't examine the Georgism of classical economists who had important influences on later neoclassicalism. For example, Johann Heinrich von Thünen's influence on modern urban economics and his proto-Georgist ideas about natural wages.

3 Joseph Stiglitz, *Reforming Taxation to Promote Growth and Equity*, p.8

4 That Stiglitz would say this again shows his understanding of the Georgist lens. Spectrum auctions were unknown in Henry George's day but you'd be hard-pressed to find any modern Georgist who doesn't support some version of them.

5 Historian of economics Beatrice Cherrier has highlighted multiple modern economists who have demonstrated variants of the HGT. The mention of William Vickrey by the *Geophilos* interviewer refers to Vickrey's *"City as a Firm"*. We can include Jan Serck-Hanssens *"The Optimal Number of Factories in a Spatial Market."*, David A. Starrett's *"Principles of optimal location in a large homogeneous area"* , Frank Flatters, John Vernon Henderson, and Peter Mieszkowski's *"Public goods, efficiency, and regional fiscal equalization"*, Richard Arnott and Joseph Stiglitz' *"Aggregate Land Rents, Expenditure on Public Goods, and Optimal City Size"* , and James A. Mirrlees' *"The Optimum Town"* (from his book *"Welfare, Incentives, and Taxation"*).

6 *"Most economists would say that you cannot run the US economy on the "Single Tax." In my mind, the "Single Tax" is the wrong way to think about it. The question is: "Would it be better if we had more taxation of land and natural resource, and more revenue from natural resource management, and I would include atmosphere and spectrum." And less tax on income and savings. And I would say, "Yeah." And I think many economists would agree with that. So, if you want to sell it as a "Single Tax," then, no, you won't get anyone to agree that there's enough revenue there. If you look at is a more "central" tax, then, yes, you will get most economists to agree with you."* (Joseph Stiglitz: October 2002 Interview)

7 Joseph Stiglitz, *The Origins Of Inequality, And Policies To Contain It*, p.428

8 *Ibid*

9 *Ibid*, p.430

10 *Ibid*, p.431

11 For example, in *Progress and Poverty* see Book I, Chapter II: *The Meaning of the Terms* for Henry George's definition of capital and Book III, Chapter IV: *Of Spurious Capital and of Profits Often Mistaken for Interest* for contrasting examples of real vs spurious capital. In Lindy Davies abridged version of *Science of Political Economy*, see Part II, Chapter 10: *The Two Sources of Value* for George's concepts of value from an individual perspective vs value from a societal perspective, as well as production-value vs obligation-value (do note that George's references to "value" are Stiglitz's definition of "wealth" while George's definition of "wealth" refers specifically to tangible products of labor).

12 Joseph Stiglitz, *The Origins Of Inequality, And Policies To Contain It*, p.434

13 See Chapter 6 of Henry George, *Social Problems*, p.51

14 Joseph Stiglitz, *The Origins Of Inequality, And Policies To Contain It*, p.433

15 The video *"Thomas Piketty and Joseph Stiglitz on Inequality"* goes over much of the same information as the paper talked about here. Notably, Stiglitz says he made a *"major mistake"* in his older work by working with the two-factor neoclassical model of capital and labor which excluded land. See 2:08:57 to 2:09:17.

16 Joseph Stiglitz, *The Origins Of Inequality, And Policies To Contain It*, p.439

17 *Ibid*, p.443

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