Henry George: Footnote in the History of Economic Thought

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1. THE SINGLE TAX COMPLEX

A. "THE FORGOTTEN MAN"

In graduate school I had the good fortune to study with Professor Ingrid Rima, author of one of the most widely-read texts on the history of economic thought. [*Rima, 1986*] When I asked to write a term paper on George, she indulged my wish with a word of caution. "Henry George," she gently explained, "is merely a footnote in the history of economic thought."

This took me somewhat by surprise, since I had heard that no economic writer had ever sold more books than had George. I had assumed that there must be some reasonable basis for his popularity, and that the profession would not have overlooked It. True, George never won acceptance within academia during his lifetime, largely by his own doing; he openly doubted the intellectual honesty of the professors, and even suggested that ordinary citizens could study political economy without the guidance of books and teachers. Surely by now, however, emotion will have long since cooled, and scholarship taken its place. Economists will have picked George clean, exploiting whatever useful ideas they can find, while carefully exposing the nature of his errors. Historians of thought will have searched beneath the particulars of personality, religion, class, and language to identify George's lasting contributions -- if any there are -- to economic science. Evidently, if Rima's evaluation represented the consensus opinion, then economic scholars must have determined that George's theory offered nothing both new and true, and that he founded no school of thought whose influence has survived in a significant way.

I found that Rima's judgment is Indeed the majority view of economists, at least in regard to the program of rent taxation for which George is known. It is, though, an opinion of long standing, not one which has finally been reached after decades of searching analysis and controversy. Seventy years ago, the Georgist public finance economist H[arry] G[unnison] Brown observed:

> ... the majority ... of those who write our current textbooks on economics and on public finance have long regarded single-taxers as utterly unsound thinkers whose economic philosophy should be by all means clearly and definitely discredited. [*Brown, 1924: 164*]

Brown held that these authorities "have nevertheless failed to grasp entirely the theory on which support of the single tax is based." Textbook writers had caricatured, or, very often, simply ignored, any of single-taxers' arguments, even while complaining of alleged difficulties in the Georgist program. Brown attributed these attitudes and errors to an affliction which he called the "single tax complex." Textbook writers work hard to avoid meeting the Georgists' reasoning head-on because they reject *a priori* the policy conclusion to which it leads. "Being above all things scientists, they are more interested in showing the non-conformity of the policy to their intuitive ethics than they are in exhibiting its probable consequences!" [*182*]

Several later writers sympathetic to George have expressed similar views of the mainstream attitude. In 1941, George Geiger wrote that the vague idea of "progress and poverty" had become "commonplace," but that George's emphasis on the land question had found no acceptance. Henry George is "the forgotten man." The "neglectful contempt" for his philosophy is "one of the most curious anomalies of the entire literature of social reform." Geiger found the reasons to be unsatisfactory: The land question is out of date; the single tax was to be a "panacea"; single taxers are "crackpots." George believed in God, and in classical economics. Mostly, however, George "is simply outside their universe of discourse." [*Geiger, 1941: 87-88*]

Geiger hinted that the shelving of the land question may turn out to be a mistake with far-reaching consequences. He was moderately heartened, however, to observe an increasing recognition of the usefulness of LVT [Land Value Taxation] in "town and regional planning." [*103, 88*]

Three decades later, George's place in history had little changed, and Stuart Bruchey could write of the "twice forgotten man." Yet Bruchey was confident that George was winning partial acceptance. He explained that although George's "system" of economics, constructed in defense of_ his key principle, had failed, its "kernel" survives. "Georgist principles have clearly entered the mainstream of modern thought." For example, experts on real estate taxation have come to agree that land value taxation "has no harmful effect of any sort on housing quality," despite doubts concerning equity and yield. Also, LVT is recommended for land-rich, capital-poor countries as a means of stimulating capital formation and discouraging underuse of land. [*Bruchey, 1972: 199*]

B. ECONOMICS OF HENRY GEORGE: THE KERNEL

Insofar as Georgist principles have "entered the mainstream," they have done so largely anonymously. It is well, therefore, to review the "kernel" of the forgotten theory. George traces the problem of "progress and poverty* to the institution of private property in land. The remedy is "to make land common property" [*George, 1879: 326*] by the simple fiscal device of collecting land rent in taxation, leaving exclusive, exchangeable land titles undisturbed. Rent should then be distributed fairly among individuals through the reduction or elimination of other taxes, government provision of public goods, and perhaps direct per capita payments.

> ... to take for public purposes the increasing values that attach to land with social growth ... [is] the only means by which it is possible in an advanced civilization to combine the security of possession that is necessary to improvement with the equality of natural opportunity that is the most important of all natural rights. [*George, 1879: 434*]

If rent were taxed, argued George, both production and distribution would be improved. Production would be stimulated by the removal of taxes which burden production and exchange, as well as by the rent tax itself.

Rent is the opportunity cost of land occupancy. It measures, not the intensity with which land is actually used, but the annual amount which others in the market would be willing to pay for the use of that land. A tax on either the rent or the capitalized value of land does not create any incentive to use land less intensively, since the owner cannot thereby reduce his payment. This means that there is no decrease in the market supply of land, no increase in tenants' willingness to pay for the marginal unit of land, and, therefore, no change in the equilibrium quantity or (demand) price of land. The tax cannot even be shifted to future buyers of land, since it is capitalized; the market price of a site falls by the present value of future taxes. The tax is borne by present landowners.

Moreover, the tax is neutral; It generates zero excess burden. This advantage is shared by few other significant sources of government revenue. The greater the revenue raised from a tax on rent, the smaller the revenues required from inefficient taxes on production and exchange. To the extent that taxes on productive activity inhibit production, their removal will stimulate it. George shared the concerns of modern "supply side" economists: "Today taxation operates upon energy, and industry, and skill, and thrift, like a fine upon those qualities." [*434*]

George further argued that the taxation of land values would discourage land speculation, so that "land now withheld from use would be open to improvement." [*434*] Distribution would become less unequal as rents are diverted from private to public uses, while "wages would rise to the fair earnings of labor." [*436*] Initially, land rents would fall as speculators deserted the land market. In the long run, the increase in production "would lead to an increase in the value of land -- a new surplus which society might take for general purposes." [*432*]

George appeals to Lockean principles of freedom and equality to show that his remedy accords with justice. Both efficiency and equity require that individuals have private property rights in themselves and in what their effort (labor and saving) produce, so they should be entitled to receive their full wages and interest, untaxed. However, in order to produce anything, individuals must have access to economic land, which encompasses natural resources, location with respect to other natural and community-created resources, and pure space itself -- standing-room. Efficiency and justice also, therefore, require that all individuals of all generations have access to land. Land Is not produced by individuals, George observes, and therefore cannot rightfully be owned by individuals. Society should, through the agency of representative government, possess the land in common.

In this, George expresses an ancient conviction. What is new is the recognition that there exists a practical way to share land both equitably and efficiently in a modern monetary economy. Obviously, land should not be physically divided and distributed equally, as perhaps it can in the simplest agrarian society. Nor should most land be treated as commons in the sense of unlimited public access; exclusive rights to the use of land are essential. What George shows is that society need not alienate land to individual ownership in fee simple in order to preserve productive incentives.

> The value of land expresses in exact and tangible form the right of the community to land held by an individual; and rent expresses the exact amount which the individual should pay to the community to satisfy the equal rights of all other members of the community. [*344*]

In fact, George held that absolute ownership of land interferes with its efficient use. Land value taxation is not merely neutral, but better than neutral: It removes impediments to efficient intertemporal and inter-generational use of land that are inherent in the system of absolute private property in land. LVT would break up land monopoly and deter land speculation, both of which cause misallocation of resources. Speculation not only misallocates land; in conjunction with an elastic credit system, it is the major underlying cause of industrial depressions.

George saw the importance of scale economies, externalities and government services in giving value to certain lands. He recognized that urban site values were rapidly overtaking agricultural land values in relative importance, and focused analytical attention on the processes and problems of urban economies.

George supposed that a single tax on land values would always be sufficient for the legitimate needs of government. As progress goes on, individuals become more interdependent economically, and the responsibilities of government. However, these activities of society and government give increased value to land, increasing the tax base. [*George, 1879: 436*]

To George, the tax on rent was key to reconciling the apparent conflict between efficiency and equity. Be argued that inequality in land ownership, once established, tends to produce further inequality, ultimately leading to the stagnation and decline of society. Efficient and stable operation of an economy cannot be sustained if principles of equity and freedom are ignored. "In Justice is the highest and truest expediency." [*367*]

C. IS ANYTHING NEW AND TRUE IN GEORGIST ECONOMICS?

Is there truth to Brown's diagnosis of a "single tax complex"? Or are there definitive reasons to dismiss George's emphasis on the land question, and to reject his specific tax proposal? Are economists right to relegate George to a "footnote"?

Many economists now admit that LVT has certain advantages over property and other taxes. Milton Friedman once described it as "the least bad tax." [*Human Events, Nov. 18, 1978*] However, the point is not much advertised. The case for LVT is seen as a minor issue of local tax reform. The full reach of Georgist thought goes unrecognized. Land has apparently lost its special analytical status in economic theory. [*Skouras, 1980*] Few economists have more than a cursory familiarity with the ideas of Henry George, or of his twentieth century advocates.

> The economists have never seriously attacked the theoretical validity of the single tax program. In the main, in fact, they have come nearer to ignoring than to condemning. [*Davenport, 1910: 279*]

The words of H. J. Davenport are less true today than they were in 1910 -- but not very much less. If Georgist economics has been defeated, it is by ignorance, not by argument or evidence.

Meantime, however, a rich and varied Georgist research program is underway. The agenda touches virtually every sub-discipline. Some questions pertain to a spatial, urban economy with externalities and public services. Some pertain to a dynamic economy with money and credit, and with imperfections in land, capital, or other markets. Some focus on savings, capital formation, and growth; others on the vagaries of the business cycle. Yet others refer to issues of public choice, administrative practice and bureaucratic incentives; to questions of population, environment, and sustainable development; even to the grand issues of justice, political stability, and international cooperation.

The time may well be right for a resurgence of interest in Georgist economics, much as Bruchey suggested twenty years ago. It is my belief that George's central economic principle is valid and profound -- and that the reasons to pay attention to it are gathering power and urgency.

In the remainder of this section, I discuss the standard reasons offered for rejecting the proposal set forth in *Progress and Poverty*. It is, of course, impossible here to weigh all the arguments against George, or even all the important ones. Instead, I simply list some of them to give the flavor, and focus attention on a few central ones. Two, in particular, appear to be plausible and persistent: First, the judgment that switching to land value taxation is unfair to innocent landowners; and second, the estimate that land rent is an insignificant and declining share of income.

In the second section of the paper, I indicate some of the directions, unfamiliar to most economists, in which the Georist tradition has developed.

In the final section, I conclude that what George offers is not a simplistic panacea, but a paradigm -- a conceptual structure built on simple principles, to be sure, but principles which interact in complex ways. As a number of authors have argued, the Georgist paradigm promises to forge a "synthesis" between the "thesis" of capitalism and the "antithesis" of socialism -- thereby resolving the tension between the twin social goals of efficiency and equity.

Moreover, the accelerating environmental crisis is the catalyst which makes Georgism an obvious alternative. In the past, George's critics pointed to rising relative wages and falling materials prices as evidence that land is no longer an important factor of production. Yet public concern about resource depletion is deepening. The apparent gains in the efficiency of materials use have come at the cost of drastic increases in the volume and toxicity of wastes spilled into air and water -- both also vital land resources, the use of which has traditionally been unpriced. Sadly, these frontiers of free land are closing.

We cannot continue to behave as though environmental resources were limitless and valueless. As the global commons grow scarce, and as international political arrangements are negotiated to ration their use, we are faced anew with the question of how to allocate economic land efficiently while distributing its rent equitably.

In conclusion, I shall suggest that most of the tired and tattered old controversies about the "Single Tax panacea" can be put behind us, and that a tantalizing array of new or, at least, neglected research questions awaits pursuit.

D. STANDARD ARGUMENTS AGAINST THE SPECIAL TAXATION OF LAND RENT

Robert Heilbroner

Probably the most widely read history of economic thought is Robert Heilbroner's *The Worldly Philosophers*, first published in 1953. It has done as much as any other book to form the opinion of Henry George held by economists, social scientists, and the educated public today.

Unfortunately, Helibroner shows advanced symptoms of that affliction of textbook writers diagnosed by H. G. Brown, the "single tax complex." George is depicted as a good-hearted but simple-minded amateur, driven by childish enthusiasm and self-assurance, who gravely underestimated the difficulty of the world's economic problems. Heilbroner does not waste space explaining George's actual theory. He devotes seven pages to colorful (and partly fanciful) biography; about a page to George's economics. "We need not spell out the whole emotionally charged argument," he says. [*Heilbroner, 1986: 188*]

What explanation be does provide distorts George's views unrecognizably. Heilbroner fails both to convey the basic principles of George's economics, and to suggest the richness of George's philosophy as a whole. Moreover, even in the "completely revised" sixth edition of 1986, there is no hint of the fact that later writers have formalized and vastly extended the Georgist approach.

"The argument was not too clearly delineated," Heilbroner writes. [*188*] "George's mechanical diagnosis is superficial and faulty." [*180*] Actually, George's argument was painstakingly delineated over the coarse of several hundred pages, and while it may be faulty, superficial it surely is not.

More damaging, however, is the fact that Heilbroner ascribes to him a patently absurd position -- the "equation of rent with sin." [*189*] Henry George, we are told, wanted to "abolish" rent! In fact, of course, George believed that rent is a social surplus which would steadily grow as progress goes on; what he wanted was to have rent collected publicly rather than privately.

Heilbroner pauses somewhat longer to give a few of the standard arguments against the single tax. He refers, for example, to George's treatment of land speculation, but only to reject his explanation of the business cycle as a far-fetched exaggeration. "Land speculations can be troublesome," he declares, "but severe depressions have taken place in countries where land values were anything but inflated." [*189*] No evidence or reference is offered. (The innocent reader presumes that economists have by now achieved consensus as to the true cause of depressions.)

"The single tax," chuckles Heilbroner, "in abolishing rent ... would be -- there is no other word -- the ultimate panacea." [*188-189*] The reader is led to infer that no trained economist today is seriously interested in George. Just as Brown complained seventy years ago -- and Geiger, fifty-three, and Bruchey, twenty-four -- students have been forewarned that George was a crackpot, and that it is not worthwhile to look further in his direction.

It is no surprise that Heilbroner misses the irony of his next words:

> But something else was going on in the underworld, something more important than Henry George's fulminations against rent. …A new and vigorous spirit was sweeping England and the Continent and even the United States. …The age of imperialism had begun, and the mapmakers were busy changing the colors that denoted ownership of the darker continents. [*191-192*]

Joseph Schumpeter

In his *History of Economic Analysis*, Schumpeter makes clear that he has no use for the single tax "panacea." [*Schumpeter, 1954: 865*] He indicates that he has "compunctions about the analytic value of the proposition: God gave the earth In common to all men." [*458*] He disparages one writer (Oppenheimer) for "his Henry-George attitude toward private property in land." [*854*] Despite this, Schumpeter shows relatively few symptoms of the single tax complex. He allows that George's program benefits from good analysis, insofar as it causes minimum disruption of economic efficiency. He recognizes George as "a very orthodox economist" except with regard to the "Single Tax." [*865*] His specific criticisms are rather well-aimed, and worth recalling.

Schumpeter imputes to George the thesis that the existence of private property in land "reduces, of necessity, total real wages" [*458*], and is the reason why land is a scarce factor at all [*854 note*]. In this, he has identified what may be the key argument of *Progress and Poverty* -- an argument which, indeed, may not be quite strong enough to support the weight it carries.

The suggestion implicit in Schumpeter's remark is that to transfer land rent from private to public hands would not, of itself, affect wages. Against this it may be noted that, by financing an ever-growing public sector, the single tax would, if not raise wages, at least raise real incomes, insofar as workers (like other citizens) are enabled to consume progressively more government-financed goods and services. Surely, too, to collect land rent in lieu of taxes on labor and products will obviously and directly raise after-tax real wages, in the short run at least. But George does not rely on this argument. In fact, he says in another place that under the existing land tenure system, a decrease in taxes made possible by greater economy in government will, in the long run, benefit landowners, not laborers. [*301*]

George's primary defense of the assertion that his tax plan will raise wages is the claim that LVT will curb land speculation, thereby railing the margin of production, which determines the equilibrium level of wages:

> Labor and capital would thus not merely gain what is now taken from them in taxation, but would gain by the positive decline in rent caused by the decrease in speculative land values. [*George, 1879: 442*]

Whatever be the truth to this, there is some internal difficulty in George's view. On the one hand, he vehemently rejects malthusianism, arguing that land is so plentiful that the Earth could comfortably support a population many times larger than that which prevailed in 1879. This seems to imply that the present population could comfortably occupy just a small fraction of the space available. Yet on the other hand, George argues that land speculators, by withholding some land from use, collectively wield tremendous power to exploit labor and capital. The evident contradiction is perhaps not entirely eliminated by supposing that speculation not only reduces the amount of land in use, but also diminishes the efficiency with which that land is used.

Schumpeter finds a second flaw in the logic of *Progress and Poverty*. This is. the "untenable theory that the phenomenon of poverty is entirely due to the absorption of all surpluses by the rent of land." There may be a suggestion here of the familiar argument that land rent is merely one surplus among many, which I discuss below. Schumpeter may also be referring specifically to George's argument that all the gains from population growth and technological advance ultimately go to the increase of rent. Although other classical economists are equally to blame for holding an all-devouring rent thesis, this does not excuse George; in particular, he might have seen that technological change may be land-saving instead of labor-saving, particularly as land becomes scarcer relative to labor. He might also have seen that as technical progress goes on, access to education becomes an increasingly important factor in income distribution.

It is one thing to argue that the elaborate classical system which George constructed to support his central thesis contains errors. It is quite another thing to show that the central thesis is unsupportable. About this, Schumpeter has little to say. Despite his reservations, he concludes with the enigmatic but not unsympathetic comment that George's proposal is "not economically unsound, except in that it involves an unwarranted optimism concerning the yield of such a tax." [*865, italics added*]

Is the reader to infer that the principle of rent taxation is economically sound, except that it is inadequate as a single tax? Is the tax perhaps ethically or politically unsound? Whatever be the intent of Schumpeter's negatively phrased affirmation, his pessimism concerning yield, which he shares with Heilbroner, is unfair and probably unwarranted: Unfair, because government budgets were far smaller a century ago -- George's contemporary critics feared that the yield of the single tax would be excessive, giving undue power to government. Unwarranted, because there are good reasons to suppose that the yield of a single tax on the full rent of land would be far larger than his critics today suppose, as I shall indicate below.

Arguments Against Rent Taxation

Opponents of the Georgist program have offered numerous additional counterarguments. Many of those which recur frequently are either unsound or irrelevant. A few have value and warrant careful attention, though none vitiates the fundamental Georgist 1ns1ght.

It is argued, for example:

- that a switch to heavy LVT is unfair to vested interests;
- that the tax would not reach most of those who have, in the past, benefited from private property in land;
- that land rent is merely one among many surpluses;
- that rent is not a surplus at all, but a reward for putting land to its best use;
- that land values sometimes fall;
- that land taxation will not raise real wages;
- that many low- and middle-income households own land;
- that LVT will throw the urban poor out of their homes;
- that LVT will bankrupt small farmers;
- that LVT puts government in the business of land management;
- that the value of land cannot be distinguished from that of capital improvements;
- that "land" denotes no meaningful, distinct economic entity;
- that the supply of land is not perfectly inelastic as the theory allegedly requires, since more land can be produced -- or, since land can be turned from one use to another;
- that land value taxation distorts intertemporal resource allocation by hastening development;
- that land speculation is efficient, and should be encouraged;
- that the tax will worsen speculation, or have no effect upon it;
- that the tax will cause severe cash flow problems for owners of appreciating land;
- that land speculation is not a cause, or the primary cause,, of business cycles;
- that LVT induces land abandonment;
- that LVT will cause overbuilding, further congesting urban areas and destroying open land;
- that rent taxation discourages conservation, and induces ecologically unsound exploitation of resources;
- that the single tax gives inordinate power to government, and leads inevitably to institutionalized corruption; or,
- that land rent constitutes an insignificant share of national income, so the tax would raise little revenue and would have a barely noticeable effect on economic behavior.

Textbooks continue to repeat old errors. Most textbook discussions of George confine their analytical comments to a cursory exposition of the inelastic-supply argument for land tax neutrality. Sometimes, the conventional theorem that a tax on rent cannot be shifted is denied, on the ground that a rise in rent will bring a large supply of land to market, or even stimulate production of more land.

There is also usually a mention of distributive impact; the program is generally felt to be unfair. Income and other taxes are promoted as capturing alternative sources of surplus. These are generally pushed on grounds of equity and revenue adequacy. Income taxes share few of the efficiency properties claimed for rent taxation. On the other hand, none of these writers has fully come to terms with the Georgist view of economic justice -- this despite evidence that, because of wholesale tax (and subsidy) shifting, our ambitious and costly redistributive programs have had little sustained effect upon the distribution of disposable income.

[*Holcombe, 1987: 286-288*]

It is not my intent to confront most of these objections. I discuss two of the more prevalent ones below, before going on to discuss further developments in Georgist economics. My aim is to show that the case for using rent as a source of government revenue is far wider and richer than is commonly realized. The various superneutrality arguments are virtually unknown. Also, economists have neither understood nor challenged the Georgist view of the abundant revenue potential of rent taxation.

Problems of Transition to a Georgist World

There is one objection which occurs even to those who are sympathetic to George's vision of economic justice and who understand the efficiency arguments. This is the objection that, even if a Georgist world is in principle to be preferred to our own, for an established economy/polity to undertake a transition to heavy or exclusive reliance on rent taxation would cause unconscionable harm. It would unfairly penalize the wrong individuals, violate vested interests, and shake public faith in government. The essence of this complaint is that it is not fair to change the rules in the middle of the game. Georgist tax reform would result in windfall losses to some individuals (and gains to others).

Since LVT cannot be shifted, the entire burden of the program falls on the backs of those individuals who happen to own land at the time the tax is announced. The tax neutrality/nonshiftability argument, usually seen as the first pillar of LVT theory, thus becomes a potent political and ethical argument against it. Voters accept income taxes, sales taxes and the rest precisely because they are shifted around, their burdens diffused widely and in imperceptible ways.

Georgists have several responses, none of which convinces everyone.

They hold that rule changes consequent upon public resolve to correct a newly recognized injustice tend to promote, rather than erode, public faith in government. Moreover, land is different. Georgists point out that in common law, real estate ("regal estate"] is the property of the State, and that private rights to land are conditional on the use being consistent with the public interest. We accept zoning as well as some degree of land value taxation, for example, as well as the principle of eminent domain, which, where it is applied, can be far more disruptive of vested interests tha[n] would be a well-orchestrated transition to a regime based on resource rent taxation.

Anyhow, legislatures and courts make rule changes every day. Some cause significant redistribution of welfare, as when tax codes are overhauled. Taken too literally, the vested rights protest becomes an absurd defense of the status quo. Defenders respond, of course, that to "make land common property" by taxing rent is an exceedingly drastic step. (One wonders what advice these conservative writers might have offered to the countries of the former Soviet Union and Eastern Europe.) George observed that slavery was rightly abolished with no compensation paid to slave owners. Defenders of vested interests recall the Civil War.

Some land taxers have regretted George's blunt words, emphasizing that their purpose, however radical, is achieved by a simple, gradual, unobtrusive adjustment of the rates of familiar taxes.

Perhaps the argument most convincing to economists is that, if Georgists are right, the proposed regime change constitutes a potential Pareto-superior move. Depending on transaction costs, it may be possible to arrange a compensation system during the transitional period, paying net losers out of the winnings of the net gainers. This may not be as difficult as it sounds. A gradual, rather than abrupt, shift to heavier land taxation provides a significant degree of compensation automatically, since the present value of future taxes, capitalized into lower current land prices, is smaller, the longer the reform is postponed. It also allows investors to adjust their plans to a new set of rules. Moreover, since an increase in the LVT rate would be accompanied by a decrease in other taxes, there would be very few individuals (in the United States at least) who, on balance, stood to suffer a net loss of appreciable magnitude. Those other taxes had been shifted at least partly to land. Even individuals who lose in the short run are likely to find themselves better off in the long run than they would have been without the reform.

A related argument against the Georgist plan is that a rent tax would fall only on current landowners, many of whom are recent buyers; it wholly exempts past landowners -- who have already realized their unearned gains. The injustice to which George objects, if it is an injustice at all, is a regrettable but immutable fact of history. As Heilbroner observed:

> A vast body of rents goes to small landholders, farmers, homeowners, modest citizens. ...Rents are not frozen in archaic feudal patterns, but constantly pass from hand to hand as land is bought and sold, appraised and reappraised. [*Heilbroner, 196: 190*]

George's reply to this line of argument was that the purpose of his reform, like any other, was intended to correct, not past, but present and future injustice. (The complaint carries more force in the United States than in some other places, such as where the legacy of European colonialism includes the *latifundia* [great estates] of a powerful aristocracy -- much like those which, George reminds us, weakened the Roman Empire.)

The real issue is whether the efficiency and equity benefits of the proposed reform would be sufficiently large to justify the necessary expenditure of political will and disruption of expectations. The first constructive task, as Brown observed, is to predict the likely effects of the Georgist plan once it is in place. If they are desirable, the reasonable next step is to search for the most satisfactory way to achieve the transition.

One obvious place to begin is with the vast resources not yet subject to private property. Raise logging and grazing fees on federal lands to Market levels -- or higher, to reflect the environmental costs of these activities. Charge polluters for permission to foul the air, water, and soil; negotiate international agreements to allow fair, efficient, and sustainable use of the global commons. At the level of local politics, one place to start is by gradual reform of the real estate tax, just as cities in Pennsylvania and New York have done.

All these are already on the agenda in the United States. Ironically, public opinion seems in some respects to be bending unwittingly in George's direction.

One Surplus Among Many

A second persistent argument against the Georgist proposal is that, while land rent is surplus, there are many other important sources of surplus (or unearned income) as well. This view, only suggested by Schumpeter, is central to Heilbroner's critique:

> ... [L]and lords are not the only passive beneficiaries of the growth of society. The stockholder in an expanding company, the workman whose productivity is enhanced by technical progress, the consumer whose real income rises as the nation prospers, all these are also beneficiaries of communal advancement. The unearned gains that accrue to a well-situated landlord are enjoyed in different forms by all of us. [*Heilbroner, 1986: 189*]

"Neo-Georgist" Kenneth Bouldlng agreed that rent taxation is equitable as well as efficient, and that the tax system is the ideal instrument with which to socialize rent. However, he emphasized that land rent is only one of several varieties of taxable surplus; the "single tax" alone is insufficient to capture it all. [*Boulding, 1982: 8*] Boulding suggested that graduated income taxes are appropriate to achieve the redistribution George desired.

> Perhaps the movement that undermined George's influence more than any other was the rise of the progressive income tax, most of which took place after the publication of *Progress and Poverty*. In the opinion of most economists and men of affairs, this represented a method of redistribution, even the capture of economic surplus, which was more general than any land tax. [*17*]

Even if they reach some surplus, however, income taxes tap both earned and unearned income indiscriminately; they share few of the efficiency properties claimed for land value taxation. Moreover, since they are easily shifted, there is no assurance that income taxes affect the distribution of welfare as anticipated. George wrote that the goal of the progressive income tax -- a more equal distribution -- is worthy, but that its enforcement encourages bribery and evasion, and involves needless restriction of freedom. Worse, "Just in proportion as the tax accomplishes its effect, there is a lessening in the incentive to accumulate wealth, which is one of the strong forces of industrial progress." [*George, 1879: 320*]

In any case, Heilbroner's suggested alternative surpluses are suspect. In the first place, the gains received by a "stockholder in an expanding company" are interest and profit, not "surplus"; without such gains, corporations could not attract scarce capital, especially for risky ventures. Whereas a new buyer in the land market merely raises the price of the fixed stock of land, a new buyer in the stock market increases the aggregate of corporate capital.

LVT is not intended to capture entrepreneurial profit, which is a reward for risk and ingenuity. One who acquires land by purchase in a well-informed market and possesses no monopoly power enjoys no "unearned income" in the accepted sense unless there are land gains not foreseen and capitalized in the purchase price. If a certain landowning entrepreneur is able to extract a net income which exceeds the opportunity cost of the land, as measured by the market rent, then that excess is profit; it is not, and should not be, captured by a rent tax.

Ordinary monopoly profits, George knew, are indeed another source of unearned advantage. His preferred solution was either to abolish the entry barrier which produces the monopoly, or, in the case of natural monopoly, to have the activity regulated by government. Either way, there will be nothing left to tax.

In the second place, rent is a surplus only in the sense that land would exist regardless of who received its rent. More to the point, rent is the social opportunity cost of land occupancy. Rent rations scarce land services, which are rival benefits: One person's enjoyment of these general gains interferes with another's. By contrast, the rising real wages and incomes enjoyed by workers and consumers "as the nation prospers" are clearly nonrival benefits; one person's enjoyment deprives no other. These widely shared "surpluses" are a cause, not for alarm, but for celebration.

Heilbroner tells us that George wanted to "abolish rent" because rent has made some people rich. He was "outraged" at the sometimes "fabulous" incomes of fortunate landlords. [*Heilbroner, 1986: 188*] However, George was not at all opposed to wealth. On the contrary, he wished we could all be rich; he praised the technical and social advances which promise to make the wish come true. His book inquires, not why some men are rich, but why, despite a century of undreamed-of material progress, so many are poor.

2. Some Developments in Georgist Economics

Henry George: Footnote in the History of Economic Thought

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2. SOME DEVELOPMENTS IN GEORGIST ECONOMICS

A. INCENTIVE TAXATION: NEUTRALITY AND SUPERNEUTRALITY

Advocates of land value taxation argue that LVT not only is neutral in its effect on efficient resource allocation, but even generates incentives which tend to correct certain types of market imperfections and to promote economic growth.

Wealth and Portfolio Effects

When land is considered solely as a factor of production, then (ignoring income effects) a tax on rent cannot be shifted. If land is considered as an asset in investors' portfolios, however, then the traditional conclusion is modified. As Feldstein and others have shown, wealth and portfolio effects may cause shifting of the tax onto capital. This consideration has implications for income distribution and economic growth.

In his analysis of production and wealth, Henry George contrasted "value from obligation" with "value from production." [*George, 1879: 434*] The former, which includes land and monopoly privileges, does not constitute wealth from a social viewpoint, since in the aggregate each credit is balanced by a debit. George believed that when ownership of these assets substitutes for ownership of true wealth, production and capital formation suffer.

Today, a variety of models confirm that the existence of private property in land diverts savings away from investment in productive capital. Land value taxation reduces the private equity and increases the public equity in land. Capital is substituted for land in investor portfolios, promoting capital formation and economic growth. Also, wealth and portfolio effects may shift some part of the burden of a land value tax to owners of produced capital (not only capital invested in real estate, but all capital). Significantly, wages may increase as [a] consequence. [*Dwyer, 1982: 369; Nichols, 1970; Skouras, 1977; Feldstein, 1977*]

Wealth effects may occur because LVT reduces the stock of private assets. Depending on savings motives and on the disposition of the tax revenue, this may induce households to attempt to buy more of all assets in order to return to their desired level of savings. If the taxing region is large enough, this bids up the prices of both land and capital. More land cannot be produced, but more capital can be, and is. In the long run, therefore, the marginal productivity (and rate of return) of capital falls, while the marginal productivity of land rises; there is some shifting of the land tax onto capital. (The decline in the interest rate raises the capitalized value of land.) There may also be an increase in wages, as the increase of capital raises the marginal productivity labor. [*Nichols, 1970; Feldstein, 1977: 350-353*]

Since land and other assets are not necessarily equally risky investments, LVT may be shifted through portfolio effects as well. The tax reduces the ratio of land to capital in private portfolios. If land and capital are not perfect substitutes, investors try to buy land and sell capital in order return to their desired asset ratio. In the short run, this merely drives up the price of land, again resulting in a shifting of the tax. [*Feldstein, 1977: 354-358*]

It is important to emphasize that tax shifting through income, wealth, and portfolio effects does not compromise the efficiency of LVT. It reflects no tax "wedge" sending distorted price signals to market participants. Instead, Georgists emphasize that by rerouting savings toward productive investment, the wealth effect of LVT promotes capital formation and economic growth efficiently and even-handedly, without recourse to government spending programs, subsidies, or price manipulation. The argument carries special force in many land-rich, capital-starved developing countries. [*Skouras, 1977; Nichols, 1970*] Land value taxation is urged as a valuable tool with which to accumulate capital while improving the distribution of wealth.

Land Taxation and Land Speculation

Several "superneutrality" arguments for LVT indicate that the tax actually improves productive efficiency. [*Dwyer, 1981*] One such argument begins by pointing out that capital markets are inherently imperfect, since they rely on estimates of future values which cannot be known with certainty. Investors face different discount rates. In financial markets, funds are allocated, not necessarily to those who will use them most productively, but to those who have collateral and can borrow at low interest rates. As Mason Gaffney [*1973 and elsewhere*] has shown, a (small) firm can sometimes be outbid in the land market by a (large) buyer who discounts future returns at a lower rate, even if the low bidder can employ the land more productively. The marginal condition for efficient factor employment is violated. This distortion is greatest for land which is appreciating in value.

LVT improves the efficiency of land allocation by reducing dependence on credit markets. Since it is capitalized into lower land prices, LVT simply substitutes an annual (tax) payment for a lump-sum (land price) payment of equal present value. This replaces the interest cost of landholding with an impartial tax cost, neutralizing the effect of credit discrimination. The result is a tendency for land, especially appreciating land at the fringes of growing cities, to be transferred from speculators to users, and therefore to be used with increased intensity as well as efficiency. [*Gaffney, 1973*]

LVT systematically discourages inefficient land speculation and underutilization in other ways, as well. While the tax cost is an explicit charge, the interest cost of holding land is borne only implicitly if owners are unencumbered by mortgages. The annual tax may make landowners more keenly aware of the opportunity cost of land. It creates a cash flow problem for owners who irrationally or unknowingly waste opportunities to earn an income from their land. LVT prods them to action, pressing them either to put the land to its best use or to sell it to someone who will.

Suppose a speculator buys land merely to hold, in anticipation of a rise in its value. Figuring that the appreciation rate will be sufficient to at least cover the interest cost of the investment, he deliberately chooses to forego the rents which could be earned in the interim. True, he fails to maximize his gain. Such inefficient land speculation nevertheless occurs for a variety of reasons, among them gambling, inertia, and indecision. Perhaps the speculator has no special expertise at land development, and prefers to invest any available funds in more land, rather than in buildings. Transaction costs may preclude his temporarily leasing the land to a tenant, even if there exist worthwhile interim uses which potentially could earn enough to amortize sunk capital before the land "ripens" to some higher use. [*Brown, 1927; Gaffney, 1961]*

LVT increases the penalty for inefficient speculation of this sort. The tax is capitalized in land value, which leaves total holding costs for the speculator -- interest plus taxes -- unchanged. But the higher is the LVT rate, the smaller is the capital gain for which those constant holding costs are incurred. The tax pressures owners to put land to its best use. *[Brown, 1927]*

Land hoarding can reflect ordinary monopoly power as well as speculation or capital market imperfections. As Henry George observed, since no more land can be produced, its exclusive ownership creates a primary condition of monopoly: the existence of barriers to entry. [*Gaffney, 1967; Dwyer, 1981: 65-75*] The immobility of land is another source of monopoly power. The idea of location as a barrier to entry -- spatial monopoly -- has recently received some attention from economists. [*Dwyer, 1981: 325*] Sufficiently heavy taxation of rents or land values, it is argued, erases the incentive to accumulate land with intent to monopolize.

Georgists have only begun to build the case for George's view that land speculation not only misallocates land, but also contributes to regional macroeconomic instability. [*Harrison, 1983*] A widespread collapse of speculative land prices often precedes a general economic contraction, as it did in 1928, and as it did recently, for example, in the United States (the "S&L crisis") and in Japan. Georgists claim that general reliance on land value taxation will dampen speculative booms and busts.

B. LOCATION VALUE

The Henry George Theorem

The allegedly "unpriced" benefits of local public goods are not unpriced at all. They are not sold, however, by the governments which produce them. They are sold to users by the owners of the lands serviced. They are sold as package deals; to buy or rent a location is to purchase scarce access to all the services accessible from that land parcel, whether you avail yourself of them or not. This is simply to say that competitive land rents reflect, in part, the demand for access to those benefits. This means that if local government expenditure provides services which people want, then with a sufficiently high tax on land rent, those services can be self-financing.

A family of models developed by urban economists indicates that, under certain rather general conditions, a tax on land rent is (not merely nondistortionary but) necessary for full efficiency in a competitive system of cities. Furthermore, the rent increases generated by the optimal level of public expenditure, supplemented where appropriate by efficient marginal-cost user charges, is exactly sufficient to finance the optimal expenditure. This result has been named the "Henry George Theorem," recalling George's conviction that a single tax on land rent would always be adequate to cover the legitimate expenses of government. [*Stiglitz, 1974; Vickrey, 1977*]

While all the formal conditions of the Henry George Theorem cannot be assumed to be satisfied in the real world, these models nevertheless carry an important lesson. People "buy" local public services when they buy land. They pay more for land in a district with good schools or good roads than for land in a district with, poor schools or poor roads, other things equal. For that matter, they also "buy" a package of privately-created externalities. They pay more to live where crime rates are low than they do to live where they are high, other things equal. When land is privately owned, these benefits are captured by landowners. Rent taxation returns this socially-created value to the public. From this perspective, LVT is not a true tax but, as one writer has put it, a "super user charge." [*Rybeck, 1983*]

Urban rapid transit systems, for example, require immense capital outlays. The costs rise still higher as cities sprawl and the density of land use declines; local governments have to scramble to provide the necessary subsidies. Raising fares diminishes ridership and forfeits the scale economies which are the rationale for mass transit in the first place. Yet we need more subways, not fewer. Mass transit reduces automobile congestion and pollution, reduces the area of valuable central land which must be devoted to streets and parking lots, and helps low-income central city residents get to jobs. If benefit-cost studies indicate that most mass transit systems do not pay, it may be because they fail to account for the benefits which are captured in land values. The lower are fares, the larger is the rise in land value which a transit system bestows on private owners. Land value taxation intercepts publicly-created windfall gains to landowners, making them available to finance public expenditures without distortionary taxation. With 100 percent rent taxation, efficient marginal cost transit fares maximize government profit.

Urban Problems and the Property Tax

Heavy taxation of buildings coupled with undertaxation of land contributes to a staggering list of urban problems: sprawl, leapfrog development, rising costs of municipal services, urban congestion, vacant lots, abandoned buildings, decaying slums, stagnant central cities, and discriminatory zoning practices.

Cities exist because many kinds of economies can best be exploited when land is used at high densities. High density means low transportation costs, easy communication, and intensive utilization of collective consumption goods. High central land values are the key to private-sector urban renewal.

Building taxes are shifted partly or wholly to land, which dampens the incentive to salvage well-situated land by demolishing worn-out buildings. This perverse incentive is especially powerful because new buildings pay higher property taxes than old. Neighborhood effects from deterioration of old buildings further exacerbate the depressing influence of building taxes, sometimes causing renewal to be delayed indefinitely. A property owner in a blighted area may simply abandon title rather than incur the expense of demolition to recover the site. Every additional abandonment further depresses land values in the neighborhood.

As central cities are left to decay, people who can afford to get out scatter across the countryside. Urban sprawl multiplies the cost of municipal services, dissipates economies of density in commerce and industry, increases road mileage without lessening traffic congestion, worsens auto pollution, chews up valuable farmland, ruins open space, and pushes Jobs to the suburbs, out of reach of the urban poor.

The prices of horizontal transportation are kept artificially low by the subsidies implicit in toll-free roads, cheap gas, and flat-rate pricing of municipal services. The traditional property tax exaggerates the bias against vertical transportation. While streets and sidewalks are provided at public expense, elevators are taxed. Here is another institutional cause of urban sprawl.

Since the burden of a tax on improvements is greatest where buildings are tallest, the largest declines in land value caused by the property tax are in central cities. Accordingly, the "unshifting" which results from the removal of building taxes gives the largest land value increases to central locations. The urban rent function becomes steeper; the city grows more compact.

In short, the traditional property tax obstructs the operation of the synergistic forces which are the reason for being of cities. Conversion to LVT promises to stimulate development efficiently, even-handedly, and continually, without bureaucratic interference and at no cost to taxpayers. It automatically turns the vicious circle of urban decline into a virtuous circle of renewal, as each renovation and redevelopment enhances the values of neighboring sites. [*Gaffney, 1969; 1989*]

C. LAND AND "ENVIRONMENT"

Tax Reform and the Environment

The environmental consequences of heavier land value taxation, especially coupled with lighter taxation of improvements, are overwhelmingly favorable, particularly for the artificial environments of urban areas. As the tax bias against improvements is softened, structures will be built better, yet replaced sooner. A sea of downtown parking lots will give way to new offices, stores, restaurants -- and a single parking garage. Valuable urban land will be used intensely, providing more indoor space per person. As urban sprawl is reversed, dependence on the automobile will lessen, reducing air pollution, traffic congestion, commuting times, and auto accidents.

Property tax reform carried out unilaterally by a single locality may, in principle, lead to excessive development there, especially if the resident population is highly mobile. If this were to occur, the obvious solution would be to temporarily reduce the land-to-building tax rate differential, while advertising the benefits of tax reform to neighboring communities. I know of no evidence that overbuilding has ever occurred in two-rate tax regions; rate differentials could go much higher than they are. Unfortunately, our central cities have far to go before they need to worry about overdevelopment. Much of the concrete clutter in downtown areas today is yesterday's trash, still uncleared. Beneath it, potentially valuable land awaits recovery.

Applied nationally, Georgist tax reform would not cause overbuilding, a concern of many critics (unless buildings were actually taxed less than other capital). High density at urban centers means low density elsewhere. With speculation and sprawl curbed, fertile, conveniently situated farmland at the fringes of urban areas would be preserved. It would be easier to move around within the city, and easier for city residents to travel to rural areas. Also, insofar as high land taxes are capitalized into low land prices, tax reform makes it easier to acquire land for parks, playgrounds, landscaping, bicycle paths, and the like. Local governments will be rewarded for setting aside open space by the resulting increases in neighborhood land values and, therefore, tax revenues. [*Dywer, 1981: 225*] In principle, expenditure on parks should proceed to the point at which the marginal dollar of annual park expenditure (including the foregone rent of park land) generates just one dollar of increase in aggregate annual rent.

LVT and Depletable Resources

It has sometimes been argued that the non-shiftability of taxes on pure site rent does not extend directly to taxes on ownership of depletable resources; annual taxation of mines, for example, would encourage premature extraction. Gaffney has answered that mineral extraction or soil depletion amounts to "the liquidation or amortization of a fund, comparable to sale of title to part of the land itself." [*Gaffney, 1964-65: 540*] Georgist principles call for a severance tax "equal to the discounted value of the cost remote future liquidation receipt"; this amount "is part of land rent." [*556*] In conjunction with an annual tax on the value remaining in the ground, such a charge is neutral with respect to the optimal rate of extraction. [*Gaffney, 1987: 557*].

LVT and Nonexclusive Resources

Effluent taxes charged to polluters are assessments for the rent of environmental resources. A system of tradeable emissions permits is rent taxation too, if the permits are sold by government in a competitive auction. Congestion tolls designed to improve the allocation of roadway space are also rent charges.

It is more difficult to set the optimal levels of such taxes compared to site value taxes, since the social costs of pollution (or congestion) are not readily measurable. This is because, insofar as air and water and roadway space (unlike farmland or building lots) are nonexclusive goods, users cannot easily be made to reveal their demand for them, though benefit-cost analysts have devised clever roundabout ways to measure benefits. Monitoring emissions often turns out to be just as problematic. Nevertheless, well-designed pollution fees or marketable permit systems are likely to improve efficiency in many cases. At least, they achieve cost-effectiveness almost automatically, if they can be enforced. This is a compelling argument for using environmental charges as a source of government revenue, in preference to the usual taxes on production and exchange. Add to it the normative judgment that the public has the right to collect such rents, and it becomes a Georgist argument.

Nonexclusive, depletable resources such as the atmosphere and oceans are frequently referred to as "common property" resources. This phrase, however, is used in two distinct senses. Purely nonexclusive, free-access resources are common property in the sense of *res nullius* -- correctly, "nobody's property." Common property resources in the sense of *res commonis* are those to which access is regulated by public controls. [*Randall, 1993: 146*]

The growing scarcity of environmental resources has prompted a recent trend toward public oversight and regulation of formerly unowned resources. Pollution legislation is one reflection of this trend. Another is the pressure to end the systematic underpricing of our national forests, grazing lands, water supplies, and other government-owned resources.

Georgists emphasize that even Immobile land is characterized by nonexclusion in an important sense. The quality of any individual site depends on activities that take place in neighboring regions. Land uses are scarcely less interdependent than are the uses of a certain volume of ocean or air -- and not merely because pollutants migrate in the wind, rain, and ground water. Externalities abound. Ideally, perhaps, everyone would pay for the specific external costs he created, and would be compensated for the external benefit he bestowed on others. [*Vickrey, 1970*] But this may not be possible for nonexclusive spatial externalities. Under LVT, however, each individual, in effect, pays society for the use of positive externalities, insofar as they are accessible only from particular lands which are scarce. Symmetrically, the landowner is compensated for negative externalities by a reduction in his assessment. As Henry George expressed it:

> The tax upon land values falls upon those who receive from society a peculiar and valuable benefit, and upon them in proportion to the benefit they receive. It is the taking by the community, for the use of the community, of the value that is the creation of the community. It is the application of the common property to common uses. *[George, 1879: 421]*

D. THE SINGLE TAX AND THE THEORY OF GOVERNMENT

Revenue Potential of the Single Tax

An important reason for the neglect of land value taxation in recent times has been the view that land rent is a small and declining proportion of national income. "Suffice it to point out," says Heilbroner [*1986: 190*], "that rental income in the United States has shrunk from 6 percent of the national income in 1929 to less than 2 percent today." The conclusion is drawn that LVT would not raise much revenue, and could not significantly affect the overall efficiency of the economy. Textbooks concur.

Georgists have disputed this view, arguing that land rent in the United States is potentially far greater than is commonly believed. Measurements usually employed wildly underestimate the amount [of] privately collected land rent (after taxes) today. "Rent" as tabulated in national income accounts bears little relation to the economic rent of land. Some rent is counted as business profits and capital gains. Imputed rents are not counted at all. Statistics also fail to compensate for various methods of underreporting taxable net rental income, including systematic underassessment of land relative to buildings by local governments. [*Gaffney, 1970: 159*] Some forms of rent are simply ignored; these include the rental value of rights to emit pollutants, water rights, rights of way, air and shipping routes, utility monopolies, and others. Taking these and other errors into account, Mason Gaffney concludes "that land value today is at least half of real estate, and probably more." [*181*]

Moreover, current actual land rent is arguably far less than it would become under the Georgist system. For one thing, building (and other) taxes are largely shifted backward to land. Exempting improvements from taxation would thus cause rents to rise. Second, since building taxes impose substantial excess burden, their removal would cause rents to rise even more than the amount of the tax "unshifting." Third, since urban renewal generates spillover benefits, to exempt buildings from taxation would put in motion agglomeration economies that further augment land rent over time.

Recall, too, that as Gaffney has shown, land taxes reallocate land from the credit-strong to the credit-weak, loosening the hold of speculators and putting land into the hands of more productive users, who impute it a higher rent.

User charges on congested public facilities (bridges, highways, parks) constitute rent, but are not counted as such. If user charges are absent, congestion may dissipate potential rent. If optimal user charges were employed and their revenue counted in rent, measured rent would rise markedly. (User charges should also include rent charges for natural resource use; e.g., water and sewer fees.)

In short, switching from the current property tax to a land value tax "lets a community socialize as much of its taxable surplus as is possible under any system of taxation." [*Gaffney, 1970: 206*]

Turning to the other side of the budget, Georgists also anticipate that their proposal would significantly reduce the expenses of government. The machinery of tax collection will be simplified, and bureaucratic incentives will be better aligned with the public interest. Locally, present policies generate urban sprawl at the expense of the central city, multiplying the costs of public services and "the need for a tax base." [*Gaffney, 1970: 202-*

203] A more compact and rational pattern of land use would slash the costs of providing municipal services. Nationally, by raising real incomes and employment, tax reform would reduce social insurance programs and even expenditures for crime control. Internationally, if the Georgist philosophy were ultimately accepted worldwide, it would offer a principle for peaceful resolution of territorial conflicts, reducing military requirements.

Government as Landlord

Public sector economist Randall Holcombe defines "government" as "an organization that has the ability to finance its activities by compulsory contributions from individuals in a given geographic area." [*Holcombe, 1987: 96*] A government is a club whose rules apply within a geographically bounded region. An improvement district in which neighboring landowners collectively finance a local public good, such as irrigation, is a government under this definition; so is a condominium association. A bridge club is not.

Gaffney characterizes local government as a cartel of landowners who cooperate "to supply their parcels with certain kinds of collective improvements." [*Gaffney, 1982: 132*] It is entirely reasonable that the "compulsory contributions from individuals in a given geographic area" be land rent charges. Indeed, the Henry George Theorem and its relatives suggest that to achieve efficiency provision of public services, governments must collect land rent, supplemented where appropriate by marginal-cost user charges. [*Dwyer, 1981: 55; Hotelling, 1938*]

User Charges

Not only are some ordinary user charges really rent taxes, but also, all rent taxation amounts to user charges for land. Georgists advocate a dramatic reorientation of public finance: the substitution of user charges, pre-eminently land and natural resource rents, for compulsory taxes on economic activity. Rent, they say, constitutes a natural and ready fund for the support of government. It is argued that when nonproduced resources are treated as community property, and rent is taxed in preference to earned incomes, it will be easier to respect private property in produced wealth. At present, most governments perversely tax productive enterprise while leaving resource rents in private hands.

Government investment in schools, roads, parks, police, fire protection, and myriad other services intensifies the demand for land, increasing rents. It is not only efficient but also fair that these rents should be used to finance the public services which create them, rather than be forfeited to well-situated private landowners.

Rent Seeking

Gaffney observes that unproductive "rent-seeking" is likely to arise wherever surpluses are available to be shared. The surpluses resulting from urban synergy are typically shared by such inefficient means as rent controls, cross-subsidies in the pricing of government services, and in special-interest maneuvering for preferences in zoning and public expenditure. [*Gaffney, 1989*] LVT, by contrast, redistributes surpluses directly, fairly and efficiently. The higher is the tax rate, the smaller are the windfalls for which speculators and developers compete. Moreover, heavy reliance on LVT creates the incentive for budget-maximizing bureaucrats to adopt efficient land-use policies, since optimal policies maximize land values over all parcels. [*Dwyer, 1981: 236*]

Territorial Claims

Tideman argues that the Georgist principle of common property in land provides the key to solving territorial disputes worldwide. Customary justifications of territorial claims, he observes, "rest on an inconsistent combination of might-makes-right and appeal to history." [*Tideman, nda: 1*] He suggests that

> claims ought to be justified instead by a correspondence between the fraction of the world's population making a claim and the fraction of the world's territorial resources (in terms of rental value) being claimed. *[Tideman, nda: 1]*

If a nation's territorial claim were excessive by this standard, it could reduce the size of its claim, strive to attract immigrants, or pay compensation to those who claim less than their rightful share. [*8*] On this view, free competition among nations for land and citizens would result in a Tiebout world in which allocations of world resources and populations would tend to be efficient.

ED DODSON NOTE: This refers to an economic model developed by Charles M. Tiebout (1924-1968), presented in a 1956 article, "A Pure theory of Local Expenditures," and popularized by Wallace Oates. Tiebout's analysis is summarized by Robert Nelson [*Reason, April 2006*] as follows:

> Tiebout suggested that competition among units of local government could result in the delivery of public services roughly as efficiently as a market solution. Local taxes would function as prices; each person would choose a local community in which the common level of public services corresponded to his or her service demands at the given local "tax price." If there were enough communities, and if it were possible to move from one to another at a sufficiently low cost, each person would be able to cluster with others of similar economic means and preferences. Indeed, in a hypothetical world of economic analysis in which there were no transaction costs at all -- an assumption typical of economic modeling at the time Tiebout was writing -- each person would in theory enter a community with an optimal level of public services and pay a property tax precisely equal to his or her share of the costs of these services. The system of local government would match demands and supplies for common services in a perfectly efficient way, like the market system for ordinary goods and services in economic theory.
>
> The assumptions required to achieve a perfect Tiebout world are heroic, to say the least. It might be possible, however, to realize a very rough approximation, if there were a much wider flexibility in local governmental forms and boundaries than exists at present.

Common Property

Georgists view government as the guardian of the natural and social resources which are the common property of all. The single tax decreases individual and social risk, since unanticipated gains and losses utterly outside of individual landlords' control are transferred to the government and pooled with those of the whole community. Georgists argue that since land is infinitely durable, intergenerational resource misallocation occurs under a system of fee simple land tenure. A tax on rent, with assessments frequently adjusted, allows equitable distribution of resource rents, yet ensures that their services available to the highest-valued uses.

3. Not Panacea But Paradigm
1. The Single Tax Complex

Henry George: Footnote in the History of Economic Thought

Kris Feder, Ph.D.

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3. NOT PANACEA BUT PARADIGM

A. THE GEORGIST RESEARCH PROGRAM

The agenda for Georgist economic research today ranges over diverse fields. Some of the most interesting questions have been largely ignored, both by critics and by Georgists themselves. A fundamental one is the issue of whether annual rent or capitalized value is the preferred tax base. Opinions differ. George was the first to speak of land value taxation rather than rent taxation, but he appears to treat them interchangeably, never specifying the mathematical relationship between the two. Rent taxation and LVT are equivalent when rents and interest rates are stable over time, but not otherwise.

In macroeconomic theory, nonproduced land should be incorporated into models with labor, produced inputs, time, money, credit, and taxes. The role of land speculation in the business cycle, which depends on financial institutions and on expectations formation, is not yet well understood. Nor is the relationship between land tenure arrangements and long run economic growth.

In the field of public choice, Georgists can contribute to the growing literature on the incentives faced by voters, legislators, politicians, and government bureaucrats under alternative constitutional structures. There are intricate questions concerning the appropriate distribution of land rents among the different levels of a federal system. [*Tideman, ndb*]

Another neglected issue is the definition of the unit of assessment employed for tax purposes. Whether the assessment unit should be defined by the extent of ownership or on some other basis may have important implications for the measurement of rent and, possibly, for productive incentives. [*Vickrey: 1970*] The problem of the assessment unit is intimately connected with a set of questions pertaining to the treatment of externalities in the Georgist program.

B. THE SYNTHESIS

Equity and Efficiency

It has long been standard in mainstream economics to lament a painful "trade-off" between equity and efficiency. Redistributive policies such as progressive income taxes and public assistance typically dampen productive incentives, but policies to promote economic efficiency, such as favorable tax treatment of savings or capital gains, tend to widen inequality.

According to Henry George, however, a correct interpretation of economic principles reveals that the goals of efficiency and equity are fundamentally harmonious. In particular, land rent constitutes a natural source of government revenue; its use for that purpose is both efficient and fair. More broadly, a society without economic (as well as political) justice is plagued by systemic inefficiencies, rooted in ill-managed conflict. In the very long run, growing inequality arising from institutional maladjustments can, and does, bring civilizations down. Equity is necessary for intergenerational efficiency.

Capitalism and Socialism

George wrote that both the "capitalist" ideal of individual liberty and private property and the "socialist" vision of equality and community require the public collection of resource rents for public uses. Once it is accepted that natural resources rightfully belong to everyone, there is a clear rationale for a fiscal structure which guarantees every citizen a minimum income that represents, not public charity, but the individual's rightful share of common property. At the same time, the reward of individual productive effort would be undisturbed by burdensome taxation.

In the aftermath of stunning political changes worldwide, socialism is widely perceived to have failed. Yet the Great Society has been no stunning success either. Schumpeter's confidence in the power of capitalism to eliminate poverty and want is an embarrassment today. [*1950; see Sievers, 1962: 40-45*] The measures of welfare capitalism, which treat the symptoms of maladjustment by forcible redistribution, hinder the efficient operation of the capitalist engine, just as Schumpeter warned -- but they do not work anyway.

What Georgists propose amounts to nothing less than a new paradigm of social organization. [*Harrison, 1992*] They view government as the guardian of the natural and social resources which are the common property of all. Their program, by addressing the distributional failures which made socialism appear attractive or inevitable, offers an alternative which can preserve and enhance the vitality of the market system. George himself said it best:

> This revenue arising from the common property could be applied to the common benefit, as were the revenues of Sparta. ...Government would change its character, and would become the administration of a great co-operative society. It would become merely the agency by which the common property was administered for the common benefit. [*George, 1879: 456-457*]

Increasingly, it appears, some highly regarded mainstream economists have expressed sympathy with the Georgist paradigm. A dozen years ago, for example, Kenneth Boulding wrote:

> One cannot help feeling that if only George rather than Marx had been the dominant influence on reformers in the last hundred years, again how much richer and happier the world would be. ...The neo-Georgist view ... would represent almost the only genuinely valid criticism of revolutionary Marxism in terms of Marxism's own ideals of human welfare and the abolition of poverty. [*Boulding, 1982: 8-10*]

Gaffney puts the case succinctly:

> Georgist policy has been shown as a means to revive dying cities, and in the process to reconcile equity and efficiency, to reconcile supply side economics with taxation, and to reconcile capital formation with taxation of the rich. It can be seen as a means of harmonizing collectivism and individualism, in the most constructive possible ways. [*Gaffney, 1989: 15*]

In 1990, thirty distinguished economists, Nobel prize winners among them, signed an open letter to Soviet President Mikhail Gorbachev urging him to resist public pressure to privatize land:

> [T]here is a danger that you will adopt features of our economies that keep us from being as

> prosperous as we might be. In particular, there is a danger that you may follow us in allowing most of the rent of land to be collected privately. ...For efficiency, for adequate revenue and for justice, every user of land should be required to make an annual payment to the local government, equal to the current rental value of the land that he or she prevents others from using. [*Tideman, et al., 1990, in Noyes, 1991: 225-228*]

C. THE CATALYST

Environmentalism

If the Georgist philosophy indeed stands ready to undergo a revival, it is easy to find the reasons. For one, the recent theoretical developments in urban economics and other fields have generated a new appreciation for the single tax. For another, in the United States at least, local governments are in deepening crisis. Georgist policy offers a ready tool for encouraging urban renewal while at the same time replenishing municipal budgets. Perhaps most significantly, environmental issues have come to the forefront of public attention, fueling a debate about how scarce natural resources, including so-called "environmental" resources, may be shared fairly and efficiently. The Georgist paradigm can potentially offer a conceptual framework and an ethical basis for integrating these and other issues of public policy.

The eleven contributors to a recent volume, *Now the Synthesis: Capitalism, Socialism, and the New Social Contract*, agree that "the world is at the crossroads of a new epoch." [*Noyes, 1991: 1*] It is their thesis that the philosophy of Henry George, particularly his mechanism for socializing land rent, offers a workable synthesis of capitalism and socialism which avoids the fatal flaws of each. Moreover, they suspect that the global environmental crisis will provide the catalyst for the transformation. The same conviction is expressed in another recent collection, *Commons Without Tragedy: The Social Ecology of Land Tenure* [*Andelson, 1991*].

Natural resource scarcity and pollution impress upon all the realization that economic land is scarce and valuable. International negotiations to manage the global commons must solve the problem of efficient allocation of yet-unowned resources and equitable distribution of their rents.

Are We All Georgists Now?

Anyone familiar with the writings of Henry George can see ideas reminiscent of George cropping up in public discussions. Supply-siders decry burdensome taxes on productive activity. Environmentalists interested in "sustainable development" seek to ensure that natural resources are shared equitably among all generations. Economists recommend effluent charges and marketable permit systems to ration the use of atmosphere and water. There are calls to increase grazing and other fees for commercial use of public lands. Development economists are beginning to admit that the problems of population and world poverty cannot be solved without radical reform of land tenure systems.

However, the presumed efficiency/equity trade-off manifests itself as a conflict between economics and environment, and few participants see how the single tax principle offers a resolution. They recognize no link between their own views and those of the forgotten crackpot, Henry George.

The environmental crisis can be the catalyst for public acceptance of rent taxation, but both scholars and political activists must show that the sort of arguments now gaining attention for effluent fees (and the like) for the use of air and water resources apply as well to user charges for ordinary ground rent. It is necessary to explicate the connection between the Georgist rent tax, and Pigouvian taxes and subsidies designed to "internalize" externalities. [*Vickrey, 1970*] The treatment of depletable resources is also tied to these issues.

More broadly, whether George re-enters history in the coming years may hinge in large part on the demonstration that the Georgist paradigm not only fits with sound micro- and macroeconomic theory, but can help to unify and simplify the fields of land economics, natural resource economics, environmental economics, urban economics, and the economics of the public sector.

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JOURNAL ABBREVIATIONS

AER	American Economic Review
AJES	American Journal of Economics and Sociology
Eaitr	Econometrica
JPE	Journal of Political Economy
NRJ	Natural Resources Journal
NTA (Proc)	Proceeding of the National Tax Association
PRSA	Papers of the Regional Science Association
QJE	Quarterly Journal of Economics

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