

APPENDIX 1

NEOCLASSICAL ECONOMICS

Perhaps the most effective continuous force ranged against LVT throughout the world has always been the neoclassical school of economic thought.

Neoclassical economics arose in the US in the late 19th century, almost concurrently with the rise of Georgism but represented a very different ideology where the status of land was concerned. Georgism continued the classical economic view that there were three basic elements leading to wealth creation which were separate and distinct: land, labour and capital. Henry George made these distinctions very clear and pointed out that the return to land was rent, the return to labour was wages and the return to capital was interest.¹

The neoclassical view was that land was merely another form of capital and therefore only the two elements, labour and capital were significant. This view was advantageous for landowners and large industrialists who were able to claim their rightful return on capital—which now included land.

The political philosophy of Henry George was seen by the rich and powerful as a direct threat to their power base. In his book *The Corruption of Economics*,

co-authored with Fred Harrison, Mason Gaffney comments,

Henry George and his reform proposals were a clear and present political danger and challenge to the landed and intellectual establishments of the world. Few people realise to what degree the founders of neoclassical economics changed the discipline for the express purpose of deflecting George and frustrating future students seeking to follow his arguments.²

This opposition to George was seriously organised in the US. In an article on the *Wealth and Want* website, William Batt gives an account of the influence of the railroad and land ‘barons’ who, through their financial sponsorship of the major universities, were able to determine important placements of academic positions favourable to neoclassical economics.³

The early reformist movement in the US, in which Georgism played a leading part, became forgotten in the tumultuous events of the first half of the 20th century; two world wars and a major economic depression.

During this time the neoclassical school prevailed and came to dominate economic thought throughout the world. The neoclassical movement was centred in the US at the university of Chicago, which became known as The Chicago School. One of its leading exponents was the economist Milton Friedman, quoted in the epigram for Chapter 13 as a supporter of the idea of LVT. How does one explain this seeming paradox?

Having watched the video of the lecture in which he makes his statement of support⁴, my only explanation is

that Friedman was praising LVT because it is efficient and difficult to avoid—a view that most economists hold. However, in another interview⁵ he advocates the use of digital currencies because they would make it more difficult for the government to collect taxes generally, a seemingly libertarian view that appears to contradict his earlier position. For me this remains a mystery.

The neoclassical school later evolved into neoliberalism, that puts its faith in free markets, deregulation and privatisation and which still holds sway today. But in recent years there have been signs that the neoclassical/neoliberal orthodoxy is being questioned as inequalities become more acute and the current system is seen to be working only for an ever-smaller elite.

The practice of LVT in various forms is still alive in the world, especially in Pennsylvania in the US, and there is evidence of a revival of interest amongst economists, journalists and academics worldwide.⁶ At the political level, recent evidence of this revival comes from Germany where, in November 2020, the state of Baden-Württemberg elected to introduce a land value tax system in 2025.⁷ This could well be due to the influence of the burgeoning Green party, who are strong supporters of LVT.