

# Exposed: missing link in land theory

THE "missing link" in the theory that attributes unemployment to land speculation has been identified by Californian professor Mason Gaffney.

The theory was originally developed by American economist Henry George in *Progress & Poverty*.<sup>1</sup>

In Prof. Gaffney's view, the theoretical gap between land speculation and recessions is filled by the theory of circulating capital.

Speaking at an Engineering Foundation conference at Rindge, New Hampshire, Prof. Gaffney declared that we need new tools to analyse the role of capital in macro-economics, and money in banking.

"Labour as such doesn't create capital, it replaces capital which is advanced to labour as it works," he said.

"To create capital, someone has to save, which is more likely to be the property owner than the worker. It is a long, slow process."

Dr. Gaffney, who is professor of economics at the Graduate School of Administration, University of California at Riverside, said that the "villain" among economic theorists was John Bates Clark, the founder of neo-classical economics.

"Partly for the purposes of under-cutting Henry George, he eliminated the distinction between land and capital, and denied that capital turned over. He succeeded in putting this over as neo-classical economics, which differs from classical economics in eliminating the concept of capital turnover, and we have been wandering in the outer darkness ever since."<sup>2</sup>

ACCORDING to Prof. Gaffney, the nation's capital makes one complete rotation every three years. This circulation, however, is impeded by a wasteful expenditure of capital, which slows down growth and causes unemployment. "This is where land speculation comes in," he said.

"Speculation and sprawl cause massive over-commitment of our limited capital stock to infrastructure. This capital is then immobilised, frozen, sterilized, its rotation is stalled.

"When properly invested and re-invested, capital is a revolving fund

**By Paula James**

that animates activity with each revolution. But when it is frozen it might as well have been pushed off the edge of the world.

"If we eat the seed corn, to subsist while we are building roads to tap new land, how will we plant the new land? That is the strange sort of problem that land speculation leads us to. And initially it gets transformed into a capital shortage, and a sharp fall of land prices then gets the banking system."

Prof. Gaffney noted three relationships between land speculation and the circulation of capital.

- Scattered settlements increase infrastructural needs.
- Premature abandonment of old buildings – for example schools in old cities – results in the gross under-utilisation of capital.
- New infrastructure is built prematurely to validate speculative values.

"This is what water battles in California are all about. The pattern is one of investing public money, freezing it up for decades, so that landowners can have the option – for their future delectation – of using it some day, if they feel like it. But they are under no pressure, because no-one is taxing them."

A TAX on the value of land was a key solution, said Prof. Gaffney. This would deter speculators from wasting land and forcing people to invest in new urban centres on peripheral locations.

"The result, in addition to an improved use of land, would be a reduction in the enormous waste of capital, which would remain mobile and available for use in the private sector.



● Prof. Mason Gaffney thumps home his message

Henry George's vision, said Prof. Gaffney, was to tax land into use. "This should be supply side economics, but I don't see any sign of it in the policies of the present administration," he said in an attack on the shortcomings of President Reagan's economic strategy.

America, he noted, had plenty of surplus land. Historically, however, people bought it up and went to "sleep" on it. This, in turn, encouraged a wasteful over-commitment of capital.

In agriculture, for example, "we retire land in the east, which is favoured with abundant rainfall. So we reclaim land in the west with public money."

The paradox was that "this ultimately leads to a decline in the price of land. The long term result is an artificial abundance of land, caused by massive substitution as a result of the development of marginal lands. Sometimes this leads to a collapse of land values."

#### REFERENCES

- 1 Centenary edn 1979 published by Robert Schalkenbach Foundation, New York.
- 2 Prof. Gaffney's full critique of J. B. Clark appears in a new book, *Land Value Taxation*, editors: R. W. Lindholm and A. D. Lynn, Jr., Madison: The University of Wisconsin Press, 1982, which will be reviewed in the Jan.-Feb. 1983 issue of *Land & Liberty*.

**U.S. professor builds on Henry George theory**