

GEORGISM AND THE DISMAL SCIENCE: ON THE CONTINUING ECONOMIC IMPORTANCE OF LAND RENT IN THE TWENTY-FIRST CENTURY

INTRODUCTION

Since I became involved with the Henry George Foundation about seven or eight years ago, one particular question has reared its head again and again in conversations with fellow members of HGF, in the pages of *Land & Liberty*, and in discussions on the subject of economic justice among those involved with other like-minded organisations, such as the Robert Schalkenbach Foundation, the Henry George School of Economic Science, and the Henry George Foundation of Canada: Why are fewer and fewer people taking any notice of Henry George and the solutions his economic philosophy offers, and why do these solutions appear no nearer to being implemented than they were more than a hundred years ago at the beginning of the twentieth century?

Answers to this question have been contrasting and wide-ranging: some point the finger at the economics profession, arguing that this field of study has never emerged from the shadow of the corrupting influence of big money in the early twentieth century, when some of the leading economists of the time were employed more or less expressly to silence Henry George; others make more general references to the power and influence – in politics, in the media, and in academia – exercised by those with vested interests in the status quo of unequal landownership and privatised land rent; others cite the inherent practical difficulties associated with the implementation of land value taxation in modern societies in which the majority of the population own their own homes; still others direct their criticism at the Georgist movement itself, arguing that Georgist organisations have been excessively inward looking and disengaged from wider discourse, and that Georgist thinkers lack awareness of the importance of the natural law foundations of George's economic philosophy, and are overly obsessed with the idea of the 'single tax' to the exclusion of the much wider range of policies that might reasonably be expected to promote economic justice as envisaged by George.

In my view, the reasons for the apparent decline of the Georgist movement are complex, and there is some truth in all these answers. All we can do is try to keep learning and contribute to the ongoing discussion however we feel we can. For my part, I am inclined to focus my attention on the following two issues: 1) the overly narrow focus on the single tax idea; and (2) the dreadful state of the field of mainstream neo-classical economics.

There is, however, another answer to the question posed in the first paragraph: that the question is misconceived, in the sense that it assumes what can be questioned – that fewer and fewer people are taking any notice of Henry George and the solutions his economic philosophy offers. One might wish to respond to the question by pointing out that many more economists and public policy experts are thinking about the problems of monopolies and economic rent than was the case a decade ago. Consequently, the kinds of policies that might have some chance of solving these problems – weakening or eliminating intellectual property

rights, using anti-trust legislation to dismantle monopolies in the tech sector, renationalising public transport and the utilities, introducing a carbon tax, and so on – are now much higher up the political agenda than was the case just ten years ago. Given that these are the kinds of policies that Georgists might be expected to support, one might plausibly argue that the Georgist movement is in a much healthier state than the question posed in the opening paragraph would seem to suggest.

I think there is something in this view, and the increasing attention given to the problems of monopolies and economic rent, as well as the practical solutions to these problems, is certainly to be welcomed. However, these steps in the right direction do not in my view invalidate the question of the lack of progress made by the Georgist movement. After all, public policy has been moving in the wrong direction since at least the late 1970s, and it is unclear whether an incoming Labour government would be capable of delivering any substantial change of direction. Moreover, although the problems of rent and monopolies have indeed been attracting more attention from economists, those focusing on these areas are still very much on the fringes of the economics profession. The vast majority continue to teach the defective and discredited models and theorems of neo-classical economics, which they (and their students) then reinforce and perpetuate in their research work. Even the otherwise admirable Rethinking Economics initiative, a network of students and graduates aiming to transform the teaching of economics, seems to make few references to rent and monopolies, and does not include Georgist or location economics as one of the plurality of economic 'perspectives' it seeks to highlight. And while a number of journalists and politicians have done a lot to bring the idea of economic rent into the public debate, awareness of this idea in the media and general public remains alarmingly limited.

Perhaps more importantly, there is I think a tendency among those who recognise the centrality of the problems of monopoly and rent to somewhat downplay the importance of land rent and the land monopoly relative to other monopolies and forms of rent. This is in part a reflection of the widespread view that while the land monopoly may have been of greater importance in the late nineteenth century, in the context of the modern, digitalised economies of the twenty-first century it is considerably less important and of less concern than the monopolies created by IP rights and by the first-mover advantages and network effects that boost the profits of tech platform giants like Amazon, Facebook, Google, and so on. The tendency to downplay the importance of land rent is also, perhaps, a reflection of the political challenges that are perceived to lie in the way of any serious attempt to reduce the privatisation of land rent.

For various reasons, I think the relative lack of importance attached to land rent by those concerned with the problems of monopolies and economic rent is a mistake. For one thing, the

sheer magnitude of land rent as a proportion of GDP in the twenty-first century would seem to make this form of rent of particular importance. More importantly, we have good reason to think that a program of reform which mitigates or eliminates monopolies generated by IP rights, network effects, implicit government subsidies, and so on, but which does nothing (or not enough) to challenge the monopolisation of valuable residential and commercial land, would fail to achieve its aims, and could even make things worse than they already are. If this is the case, then radical economic reform is not something that can take place in isolation from a serious attempt at solving the problem of the land monopoly. However, 'solving the problem of the land monopoly' does not necessarily mean 'replacing existing taxes on production and employment with a land value tax', and an excessively narrow focus on this particular policy could be counterproductive.

THE SINGLE TAX

There are, of course, many good reasons why Georgists have championed land value taxation (if it is even appropriate to refer to the public collection of land rent as a 'tax'): land rent, deriving from the value of nature and of the productive efforts of the community, is the natural source of public revenue, which, when publicly collected, facilitates rather than hinders the creation of wealth and is more than sufficient to cover the costs of legitimate and just government. However, even if we restrict our focus specifically to land rent, taxing landowners in proportion to the value of their holdings of land is not the only way in which land rent can be publicly collected or socialised. Particularly given the challenging political circumstances in which we find ourselves – after decades of Conservative and New Labour governments shamelessly buying votes by handing out vast sums of money to homeowners in the form of tax breaks and discounts for privatised council houses – it is essential that proposals for tax reform consider the full array of taxes that bear on land rent (from property taxes to inheritance, capital gains, and top rate income taxes), as well as the implementation of non-tax policies such as the construction of social housing and reforms of the planning system. It is also essential that the proponents of the public collection of land rent address a wide range of questions concerning the possible consequences of this policy – including, for example, those relating to the provision of social care for the elderly, the issue of the inheritance of family residences, the problem of income-poor but asset-rich pensioners, the plight of those who have recently purchased a house on a substantial mortgage, and so on.

While these kinds of questions have of course already received a great deal of attention from the proponents of LVT, I believe that a much more detailed and systematic approach is required to generate a set of policies that stand any chance of being implemented during the next decade or two. It seems unlikely (to me at least) that the simple replacement of existing taxes on employment and production with LVT would allow for the successful resolution of the kinds of complex problems that would arise from any serious attempt to reverse the privatisation of land rent. What is needed, rather, is a carefully constructed, systematic overhaul of the tax and benefit system, and, over the longer term, a systematic overhaul of the planning and banking systems. What is needed is a program of reform – a comprehensive set of policies that includes an implementation plan covering at least the five years of a full parliamentary term – on which a political party can reasonably expect to campaign successfully at a general election.

The task of generating and promoting such a program of reform is in my view extremely challenging, requiring a great deal of time

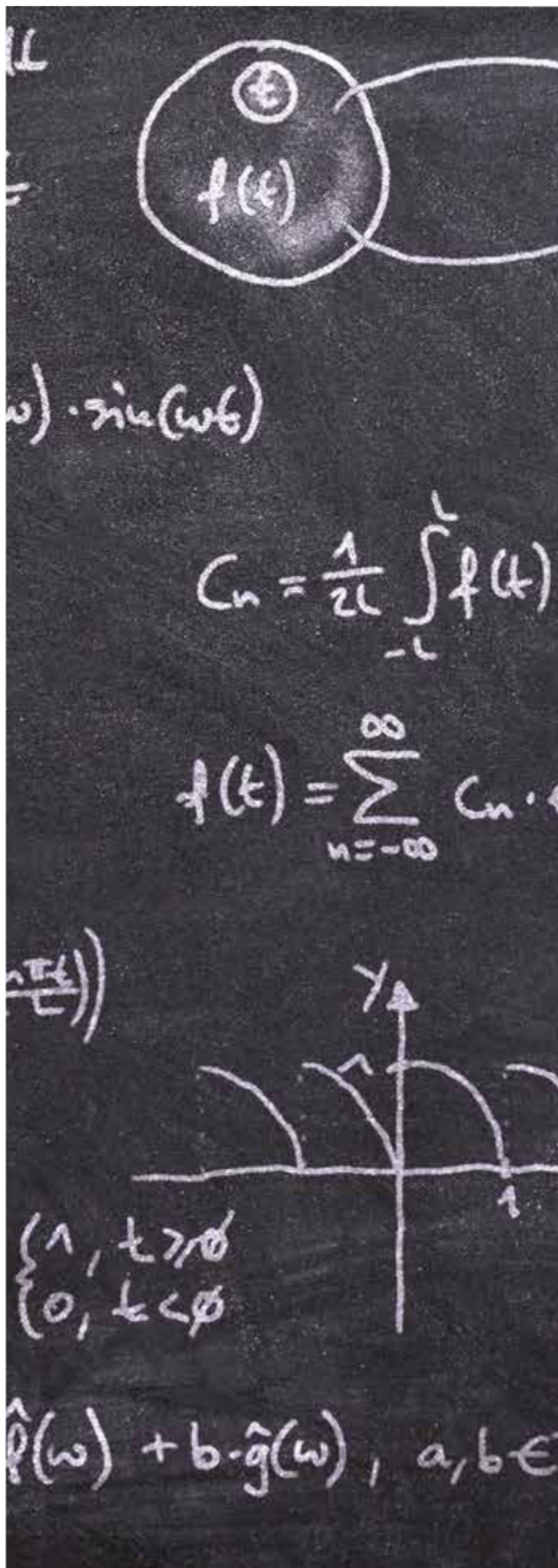
and energy, and the efforts and contributions of a large number of researchers, academics, public policy specialists, consultants, activists, campaigners, and so on. A useful comparison can perhaps be made here with the Universal Basic Income movement, which has gathered a lot of momentum in the last decade or so. Despite the politically challenging nature of the UBI proposal – with many people understandably instinctively opposed to the idea of governments handing out money unconditionally – the idea of a universal basic income seems much less politically infeasible than it did ten years ago, with a number of experiments and trials having already been implemented. Vast amounts of time and resources (money) have gone into this endeavour, and while I myself have my doubts about the supposed benefits of the UBI, it is worth taking note of the sheer numbers of university professors, lecturers, researchers, and PhD students whose research and teaching is focused on the UBI, with entire university institutes (like the FRIBIS institute of the university of Freiburg) devoted to gaining a better understanding of how a UBI could be implemented, how it could be combined with the existing tax/benefit systems of particular countries, how it should be financed, how the political obstacles to its implementation might be overcome, and so on.

The mobilisation of this veritable army of researchers and investigators has in my view been an important driver of the growing political prominence of the UBI proposal and the considerable momentum the movement has gained over the past couple of decades. Nothing remotely comparable can be said of the LVT/Georgist movement. As I have already remarked, while it is certainly true that awareness of the economic importance of land has been increasing steadily over the past couple of decades, with a number of prominent economists endorsing the idea of taxing rents, and numerous references to LVT in the mainstream media, interest among academics (economists, philosophers, political theorists, public policy experts) remains peripheral, and the time, energy, and resources invested in researching and developing the politics and economics of land rent theory are a fraction of those invested in the researching and developing the politics and economics of UBI.

THE DISMAL 'SCIENCE'

This relative paucity of resources devoted to the development of land rent policy is surely in part a predictable and inevitable consequence of the dismal state of the field of modern mainstream neo-classical economics, with its models and theorems that bear no relation to any kind of reality, treating land and capital as though they were economically indistinguishable. It is also a reflection of the failure of many heterodox economists to recognise the significance of land as a factor of production. In my view it is vital that we do as much as we can to improve understanding and raise awareness among economists – both mainstream and heterodox – of the importance of land rent in the economy, and in this way generate the motivation to devote time, energy, and resources to a systematic and comprehensive investigation of the economics, and subsequently the politics, of land rent theory.

A comparison with the UBI movement might again be instructive here. The idea of a basic income has the advantage of being relatively simple and straightforward: by guaranteeing a regular stream of income unconditionally as of right to all citizens, governments can empower vulnerable people to exit from toxic relationships of dependency (with, for example, abusive spouses, employers, landlords, bureaucrats, and so on), while at the same time eliminating welfare 'poverty traps' and minimising implementation costs. There is no conflict between this basic



justification for implementing a UBI (whatever else we may think of it) and the models and theorems of neo-classical economics; the key arguments for a UBI are neither confirmed nor refuted by mainstream economics.

The situation is completely different with regard to the case for socialising (or eliminating the privatisation of) land rent, which is much more complex than the case for a UBI, contradicting a range of key theorems and policies affirmed by mainstream economists. For example, the idea that taxes that bear on land rent are preferable to taxes that bear on production and employment sits uncomfortably alongside the vast literature on the so-called theory of 'optimal taxation', which typically identifies broad-based taxes on wages, production, and consumption as the most optimal forms of taxation. Land rent theory is also at odds with mainstream economic analysis on the question of the distribution of economic output. Even fairly radical progressive economists like Thomas Piketty tend to attribute a far larger share of output to returns to capital and labour, and a correspondingly smaller distributive share to land rent, than the shares attributed by land rent theorists to these factors of production. Perhaps most significantly, mainstream and heterodox economists typically fail to recognise the macroeconomic significance of land rent. A clearer understanding of how the distribution of land rent can affect the performance of the economy at the macroeconomic level is essential if we are to develop a set of policies which will enable us to maximise production and employment (within the bounds of environmental sustainability) while minimising inflation and economic instability.

There are many other areas in which mainstream economic analysis is at odds with the insights and applications of an economic view that takes land rent seriously. The disparity between the dogmas of mainstream economics and the insights of land rent theory makes it extremely difficult to present the case for socialising land rent, since most of the supposed benefits of doing this depend on various aspects of the economics of land rent theory. This disparity also undermines attempts to encourage the devotion of resources to research in land rent theory that is required if we are to develop an effective and feasible program of reform. Thus, the social and political case for socialising land rent depends in part on the strength of the economic case for socialising land rent, and if the latter has not been sufficiently developed and defended, then the former cannot hope to get off the ground.

CONCLUSION

It is for this reason that I believe that organisations like the Henry George Foundation should seek to encourage and support projects that focus on improving understanding within the economics profession of the importance and relevance of land rent theory (and on investigating whether land rent theory really is as important and relevant as Georgists believe). Let me be clear: I am certainly not saying that organisations like HGF should encourage and support only projects that explore the economics of land rent theory – as I remarked at the beginning of this article, I am aware that there are many important questions on which Georgist thinkers need to focus their attention if the Georgist movement is to make progress. But given the state of the economics profession, and given the influence wielded by the practitioners of this dismal science, it is high time that the economic ideas and insights which have sprung from the Georgist tradition make their way into the mainstream of economic thinking. Then they can be interrogated and, if found to be sound, might have some chance of influencing the direction in which public policy is developed. ■