

PART I

**ANOTHER CRACK
IN THE
LIBERTY BELL**

THIS BOOK IS WRITTEN in the firm belief that Niccolo Machiavelli, astute politician and observer of human nature as he was, mistakenly used the word "never" when he wrote: "*People are always provoked by small injustices but never by great injustices.*"



Problems Hidden in Full Sunlight

“NOBODY SAW IT COMING.”

High officials, leading economists, pundits, bankers, legislators, and fiscal regulators insistently repeated that phrase after the 21st century's initial boom turned into an ugly bust. They were not paying attention, nor were they studying history.

Land economists, a rare breed, knew it was coming. Since the early 1800s, Americans have experienced economic breakdowns almost every generation. Most were relatively mild while some were catastrophic. They happened mostly for the same underlying reason. Speculative landholding sprees fueled the start of each cycle. Substantial numbers of individuals and businesses that had engaged in production diverted their efforts to the non-productive pursuit of profits from runaway land costs. When inflated land rents and land prices exceeded a great many people's and firms' ability to pay, the bubble burst, wiping out jobs, enterprises, and the savings of the mass of people who were behaving prudently.

Each panic, depression, and recession whittled away a bit more of Americans' optimism, pride in workmanship, and trust in the nation's economic and political systems. Each time, another bit of liberty was eroded.

Underneath All, the Land

Whether the economy rises or falters, whether it is erratic or on a steady course, is closely related to how land is treated. Land is so

critical because it is the source of all wealth. Land and the natural resources on or in it are the elementary building blocks of every economy. Land provides all the basic essentials for human survival. How we treat land touches nearly every aspect of the economy – from our homes to the health of cities, from family farms to giant manufacturing plants, from availability of jobs to the profitability of firms. Economic troubles arise when land monopoly deprives large segments of society of their access to the gifts of nature.

Land monopoly? In America? Most people are astounded to learn that a mere three percent of Americans own 95 percent of our privately held surface land. Even more concentrated is the ownership of oil, natural gas, coal, iron, and other raw materials. One man, Ted Turner, owns two million acres, nearly twice the size of the state of Rhode Island. In many cities a few families own most of the prime downtown sites. Land monopoly is alive and well in America.

Home ownership provides a kind of cover to this reality. Homeowners with their typical small lots are landowners of a sort, although mortgage lenders hold over half of the equity in their properties. Home ownership is a good thing, contributing to family and community stability. Those who cite the degree of homeownership as a gauge of economic well-being, however, are mistaken. West Virginia with its high poverty rates boasts a 76 percent rate of homeownership, highest in the nation. This masks the fact that, like a banana republic, the bulk of that state's rich natural resources are owned by absentee corporations.

Many parts of Latin America, Asia, and Africa suffer from exaggerated forms of land monopoly. The masses are beholden to small ruling classes typified by extensive landholdings and tremendous wealth. The United Nations reports that a mere 500 individuals earn more than 416 million of the world's poorest people. America is moving away from its egalitarian past and witnessing a rapid move toward great economic disparities. This wealth gap is not simply a measure of disparate annual earnings, nor of the miles-apart assets of rich and poor families. It is a reflection of the increasingly concentrated ownership of the land on which the economy stands, or totters. It is a flashing warning signal.

Clash of Ideals and Practice

America's land policies violate the noble ideals we profess. We recite our fundamental precepts but unconsciously permit them to mean something else:

All are endowed with inalienable rights to life, liberty, and the pursuit of happiness. But the lands necessary to activate these rights are increasingly concentrated in the hands of the few, diminishing the rights of the rest of society.

Equality for all, special privileges for none. Except that land monopolists drive a wedge between the overprivileged few and the growing ranks of the underprivileged.

People are entitled to the fruits of their labor – what they sow, others may not reap. But landed interests take unfairly large bites out of the earnings of workers and producers.

Thou shalt not steal is a Commandment we endorse. But we permit owners of prime urban sites that are required for commerce and the owners of natural resources that are essential to industry to siphon off land values that belong to the community as a whole. We imprison those who commit minor thefts but we protect by law, and tend to honor, those who take away the earth rights of their fellow citizens.

Custom, in short, has numbed people into accepting the land-owners' privileged status.

Owning and Selling Air and Land

Suppose a man claimed to own the air and refused to let others breathe it until they paid him. His sanity would be questioned for claiming what he had no role in creating and for saying, in effect, "Pay me or die." Land, like air, is a provision of nature that nobody can live without. Yet our legal system is out of sync with this fundamental fact.

An owner might insist, "I got my land fair and square and I have a clear title to it." A search may trace that title back to a grant from

Congress, a king of England, or the pope who, sight unseen, assigned New World domains to the Spanish and Portuguese. None of these grantors, of course, obtained a prior grant from the Creator of the land.

This is not to question the need – nor the genuine virtue – of giving people exclusive rights to the *use* of land for their homes, farms, or business sites. Rather, it suggests the need for a mechanism that respects both the private use of land and the equal right of all people to nature's bounty. As described in the next chapter, such a mechanism exists but is too rarely put into practice.

The Injustice in a Nutshell

To challenge the notion that all people have equal rights to land is to argue against the hallowed concept that all people are born with equal rights. It is to claim that the life-nourishing qualities of land and the ability of land to bestow economic prosperity may properly be concentrated in the hands of a relative few instead of serving all members of society.

Not only individuals and families suffer from the misappropriation of land rights. Governments, on behalf of all citizens, also have legitimate claims to land that are not being recognized. Failing to collect their fair share of the land values created by nature and by their own activities, governments short change themselves. Then, to make up for their lack of funding, they over-tax the privately created earnings that rightfully should be left with workers and producers.

Compounding this injustice are the individuals, businesses, and so-called financial wizards whose mad pursuit of rising land values produces the bubbles and blows them up to the bursting point, utterly disrupting the economy.

European settlers brought their unfair land system to our shores. For several centuries Americans were largely inoculated against the harm of this system because of a most fortunate circumstance. The pioneers and settlers had *easy access to great expanses of free or cheap land*. Difficult as it often was to eke out a living on this land, its availability opened the way to almost unlimited job opportunities and kept our enterprise system free.

Once this happy circumstance was no longer the case, a greatly increased population had a harder time finding home sites and work

sites. Unwholesome land tenure practices multiplied. Quintessential features of the American society – class mobility, a can-do attitude, and competitive free markets – were put into jeopardy.

Far ahead of his time, Philadelphia native Henry George, journalist and self-taught political economist, spotlighted this threat to our social fabric in his 1879 masterwork, *Progress and Poverty*. George's contention that there were serious cracks in our socio-economic foundation was seriously disputed in his day, and long after. Today few would deny that the country is beset with serious troubles. Yet the general public and our leaders reveal great confusion about the nature of those troubles and what to do about them.

Faulty Diagnoses

Not only did the most celebrated public affairs spokespersons fail to foresee the latest economic nosedive; after it arrived, most of them failed to ascribe satisfactory explanations to either the boom or the bust. Few cited land problems. Instead, they blamed soaring housing prices, unsafe mortgage lending, greed, mass psychology, and exotic investment devices. These were all sore points, but to a large extent each represented *referred pain*, as when a patient feels a severe ache in a thigh that is perfectly healthy but is painful because of an inflamed nerve in the spine.

The so-called housing price bubble was referred pain from a *land* price bubble. Few realized that home prices remained fairly stable throughout the cycle. It was the cost of the sites under those homes that were figuratively going through the roof.

The unsound economic behavior stemming from mass psychology and the greed of financial “geniuses” was transferred pain from vision defects that prevented people from seeing that there had to be an end to the steep climb in real estate portfolios, which is to say *land* portfolios.

The pain from the failure of the investment market was blamed by one camp on under-regulation and by another camp on over-regulation. Neither camp addressed the referred pain from *perverse land policies* that distorted markets and sent them into paroxysms. Neither those who defend the *free market* nor those who want to restrict it seem to recognize the extent to which the market is far from free, for reasons that are discussed later.

In economics no less than in medicine, focusing only on the referred pain is perilous. Operating on a healthy but painful knee, for example, makes the matter worse if the cause is elsewhere. Giving crutches, drugs, feeding tubes and other stimuli to various facets of the economy without treating the land policies at the source of the troubles will not keep the destructive effects at bay.

Such patchwork measures will set the stage for another wild ride on the roller-coaster unless there is a systemic treatment of the land system – the topic of the next chapter.

The Great Spirit Speaks¹

*I have given you lands to hunt in,
I have given you streams to fish in,
I have given you bear and bison,
I have given you roe and reindeer,
I have given you brant and beaver,
Filled the marshes full of wild-fowl,
Filled the rivers full of fishes;
Why then are you not contented?
Why then will you hunt each other?
I am weary of your quarrels,
Weary of your wars and bloodshed,
Weary of your prayers for vengeance,
Of your wranglings and dissensions;
All your strength is in your union,
All your danger is in discord;
Therefore be at peace henceforward,
And as brothers live together.*

NOTE

1. From Henry Wadsworth Longfellow, *The Song of Hiawatha*, Grosset & Dunlap, 1923.

2

'Secret' Remedy that Works

THE LOWER THE TAX ON LAND, the higher its price. The higher the tax, the lower its price.

These counter-intuitive but dynamic facts provide clues for fixing what is wrong with our economy. Armed with this insight, a select number of cities began reducing taxes on the value of housing and other buildings, while shifting more of the tax burden onto the value of the land, thus giving an incentive for making improvements. By retooling the property tax in this way, they started to achieve the revitalization that the rest of urban America has been seeking.

Remarkable Results from a Tax Change

By applying this "secret" remedy, many Pennsylvania jurisdictions achieved the following uniformly consistent results:

- Most homeowners won tax breaks.
- Businesses sprouted up on idle business district sites.
- Boarded-up shops and housing units were fixed and put back into use.
- In-city development created new jobs.
- Sprawl was retarded or suppressed.

- Neighborhoods were stabilized as their housing was kept affordable.
- Local treasuries in the red were soon in the black.

As detailed in Chapter 28, the achievements of these cities, all in the state of Pennsylvania, reveal that a corrective to our land tenure system is waiting in the wings, ready to be adopted. To repeat, the remedy calls in essence for *shifting property taxes off homes and other structures and onto land values*. The reform is known as the *two-rate tax*. This differentiates it from the conventional property tax that imposes a single tax rate on the *total* land-plus-building value. (For further explanations, see Appendix E.)

Cities that pioneered this reform of the property tax began modestly. At first, they imposed a tax rate on land that was only two or three times higher than their tax rate on improvements. As residents saw their property taxes stop increasing and even go down and as officials saw the old resistance to property taxes diminish, these cities further reduced tax rates on buildings and raised them higher on the value of land.

By 2009 Harrisburg's tax rate on land was six times higher than on buildings. In Clairton the land rate was 13 times higher than the improvement rate. All but eliminating the tax on improvements, Washington (Pennsylvania) and DuBois taxed their land values at a rate 29 times higher than buildings. Most homeowners in these cities enjoy lower taxes while holders of idle or underused sites in prime locations see substantial increases. The two-rate reform is reducing tax bills for 58 percent of property owners in Altoona, for 73 percent of those in Titusville, and for 91 percent of those in Allentown.

In short, modernizing the property tax to accord with a sound understanding of land economics has been tested. It works. It is evolutionary, not revolutionary, phased in at whatever pace is deemed appropriate for local circumstances.

Of course, this remedy is not really secret. It only appears so because it has been receiving the silent treatment for so long, with little serious attention in professional public finance circles or in the popular media.

Beyond the Property Tax

The *land tax* part of the formula looks like the indispensable missing piece of the puzzle for anti-tax politicians and their followers, who offer no alternative to funding the public sector. Their anti-tax stance leads them to take an anti-government stance. This tends to make them at a loss when it comes to satisfying the majority of citizens who still want excellent schools for their children, police protection, national security, highways, and the rest.

Anti-tax ringleaders claim the free market will make everything turn out fine if government will just get out of the private sector's hair. They forget that the almost totally unregulated economy of the 1800s did not prevent frequent runs on the banks, business failures, major unemployment, and nationwide panics. They forget that the free-wheeling private economy under blatantly pro-business administrations of the 1920s were the preface to the disastrous Great Depression. They forget that the deregulation supported by Federal Reserve Chairman Alan Greenspan was, as he himself belatedly admitted, a big mistake. What they forget makes them part of the problem.

This is not to blame the market. America's market system has never been fully free. Many corporate monopolies are based on control of vital natural resources, stifling competition. Powerful minority interests disrupt the workings of the market by raiding and manipulating land values, depriving enterprisers, workers and government alike of their rightful earnings. Government compounds the problem by failing to tax back the land values it helps to generate. Thus, to fund its basic function, government instead dips deeply into the wages of individuals and profits of businesses, further impeding the market. Capital is diverted from production to the pursuit of publicly created land values, which starts each cycle of artificial land bubbles. Is it any wonder, in the face of such irrational and chaotic distortions of the productive system, that markets do not seem to work?

A leading guru of the anti-tax camp, the late Milton Friedman, was pressed to say how governments should be financed. He grudgingly admitted: "*We need taxes. So the question is, which are the least bad taxes? In my opinion the least bad tax is the property tax on the unimproved value of land, the Henry George argument of*

many, many years ago."¹ However, I find no evidence that Friedman ever promoted this "least bad" tax.

The anti-tax camp often appears heartless because, when public treasuries are short-changed, programs to help the needy tend to be the first to be cut back. People in this camp need to be shown that the value of the land under their homes, businesses, factories and shops is largely a reflection of the public works and services that make these locations desirable. It is difficult to imagine a more equitable or logical source of public funding than these publicly created land values.

Most officials, economists, and citizens in the opposite camp – those calling for more public expenditures – stress compassion for the needy. Too few of them, however, do better than the anti-tax camp in distinguishing between private and common property. They seem unaware that the types of high taxes they support and the public programs they devise often exacerbate the joblessness, poverty, and other problems they are designed to alleviate.

Here is a reality-based but clearly oversimplified scenario of how that works. Corn farmers are in trouble. Aid to them increases feed prices for pig farmers. Then aid to pig farmers disadvantages those who raise cattle. So ranchers get aid that boosts food prices that hurt the poor, who are given food stamps and housing allowances. Welfare subsidies tend to translate into higher rents, which hurt lower-income people like teachers and police. Aid to them requires higher local taxes that put marginal firms and people out of work. To create jobs, subsidies are given to new businesses, which make it harder for older businesses to compete. Soon this evolves into a regimen of aid to almost everybody. Then big corporations, large agribusinesses, and wealthy homeowners – those whose campaign contributions make them super-represented in Congress, state legislatures and city halls – walk away with the most generous public welfare, while the truly needy get mere crumbs.

Both the pro-tax camp and the anti-tax camp thus condemn America to repeat the boom and bust cycles that hurt our society. To avoid the incongruousness of their present stance, both camps would be well advised to consider how the tax shift formula cited at the start of this section could serve their goals.

Transition

The suggested tax shift is a far cry from current policy. How might we get from here to there? One of the first orders of business to achieve this transition should be the launching of an intensive public education campaign on land ethics and land economics.

Property tax revision is essential before land taxation can become feasible. The destructive part of the property tax – that is, the payments based on the value of homes and other improvements – needs to be greatly reduced or eliminated. The constructive part – taxes based on the value of lands and resources – needs to be greatly magnified. Then the increased taxes on socially created land values need to be matched by greatly reduced taxes on labor and production.

Gradually recycling the land values generated by public facilities will increasingly meet the costs of building, repairing, and operating our public works. This will begin a process whereby infrastructure can become largely self-financing.

Land value gains, misnamed as *capital* gains in the federal tax code, should be taxed as heavily as possible and certainly should not be given favorable tax treatment.

Federal grants should be designed to encourage land value taxation by states and localities. For their part, cities and states can use land taxes to wean themselves off reliance on federal funding and to regain more control of their own destinies.

This brief sketch is fleshed out in Part VII. It provides a suggested blueprint for getting from here to there.

Taking Your Property Away?

In case talk of land rights sounds frightening, threatening, or confusing to those who are unfamiliar with the concept, let's hasten to clarify the reforms that are being discussed and analyzed.

1. This is *not* a proposal to confiscate individual or company property. So long as property holders pay their annual land value taxes, their right to the exclusive use of their sites will continue to be secure, the same as it is now for those who pay their property taxes.

2. **Nationalization of land is *not* advocated.** Converting private lands into public ownership would be counterproductive in most cases.
3. **The profit motive and enterprise system will *not* be weakened.** On the contrary, they will be strengthened by lifting tax burdens off producers. The land tax will provide a more hospitable climate for those in the private sector who are engaged in the creation of goods and services, safeguarding them from killing land costs.
4. **Tax burdens for the majority of taxpayers will *not* be increased.** Most people's taxes will be reduced. Their higher land taxes will be more than offset by lower taxes on their homes, business structures, and other assets and earnings.
5. **This is *not* "land reform" in the sense in which the term was used in many poor countries.** Those places decreed government-enforced redistribution of lands held by the rich to landless people. The poor who acquired land often went into debt and forfeited their lands back to big landholders. Using police powers to redistribute land runs counter to everything this book favors.

What justice requires is an equitable sharing of the land's *value*, not the land itself, and this, as will be shown, makes a world of difference.

NOTE

1. As reported in the *San Jose Mercury News*, November 5, 2006.

3

What Is This Thing Called Land?

DEFINING LAND would seem too obvious to dwell upon were it not for the fact that land as an economic factor has been nearly obliterated by the fashionable theories of the past century. Since exploding land values have played a role in nearly every American boom, and since a collapse of these values touched off nearly every bust, it is timely and imperative to define land carefully.

What is land? How does it differ from private property? What gives it value?

Common Property

In everyday conversation, *land* conjures up images of farmland. It is that, too. In a modern economy, urban lands and natural resource lands play more prominent roles. A few square feet in a city's central business district are usually worth many times the value of acres of pasture on the outskirts of that city. Land *quantity* should not be confused with land *value*. Small areas of land may be extremely valuable, large areas may be almost worthless.

Land encompasses the entire *natural world*. It includes rural and urban sites plus the soils, quarries and wild game on the ground; the oil, gas, minerals, and ores under the ground; and the space and electro-magnetic spectrum used to transmit communications above ground. To underscore this critical point, land in an economic sense includes *everything provided by nature*.

Because nature's gifts are in no sense made by any one or any combination of individuals or governmental units, they are properly regarded as *common property*.

Private Property

Private property, in contrast, encompasses things *people* create. Food, clothing, shelter, and the myriad array of man-made products are private property belonging not to society in general but to those who produce them, buy them, or are given them. Put another way, private property results from applying human labor, skills, and ingenuity to land. Examples clarify the distinction between common property and private property:

- Oil in the ground is common property. Oil that is drilled, refined, and transported is converted by people's labor into private property.
- Fruit growing wild is common property. Collecting it makes it the private property of those who pick it to eat or to sell. Fruit in orchards on the other hand is the private property of those who plant, cultivate, and harvest it.

Blurring these distinctions has monumental consequences, as illustrated by two clashing political systems. Communism fell into disarray by erroneously classifying almost everything, including what individuals grew and produced, as common property belonging to the state. Capitalism *as currently practiced* is in difficulty because of the opposite error, a tendency to classify almost everything, including gifts of nature, as private property. "As currently practiced" is emphasized because the economists who literally defined free market capitalism – Quesnay, Adam Smith, John Stuart Mill, and David Ricardo, among others – recognized private and common property as distinct from each other and therefore requiring different treatment.

An old spiritual warns, "Everybody talkin' 'bout heaven ain't goin' there." Similarly, everybody talking about private property as the foundation of our enterprise system ain't goin' there either. Americans who claim common property as their own private property mistakenly suppose they are benefiting from free enterprise capitalism when, in fact, they are reaping the rewards of a special privilege.

Owners who held their homes for several decades congratulated themselves on their financial sagacity as their property assets escalated a thousand percent or more. Their gains resulted not from their brilliance but mostly from community growth and a false sense of scarcity caused by intense land speculation. Lucky owners sold before the bubble burst. Unlucky ones bought just before it burst and watched their assets plummet to less than the value of their mortgages.

USUFRUCT

Thomas Jefferson said, "*Land is held in usufruct by the living.*" "Usufruct" means in trust. Jefferson understood that land differs from private property.

An owner of private property acquires nearly absolute rights to its disposition by virtue of having brought it into being (or by acquiring it fairly from others who created it). Ethically, the owner may use it, use it up, give it away, or destroy it, provided only that in so doing his or her actions do not interfere with the equal property rights of others. Because land is held *in usufruct* as the heritage of future generations, those holding it have a moral imperative to preserve and enhance it.

Location, Location, Location

These are the "three" things, according to the familiar cliché, that explain land prices with values that range from almost worthless to gold-plated. To better comprehend why some locations are worth more than others, however, one must pay attention to the chief factors that determine value: nature, people, and government.

Nature endows locations with a huge variety of unevenly distributed features. These include soil fertility, salubrious climate, and

water for drinking, irrigation, and industrial use, to name a few. People willingly pay more for places where natural elements make life more productive, profitable, or enjoyable.

People passively generate land values simply by virtue of their presence and their numbers. In sparsely settled Podunk, land sells for a song. The cost is a bit higher in small college towns like Berea, Kentucky, but much higher in metropolitan centers like St. Louis or Denver. Site values there, in turn, are dwarfed by the value of sites in crowded Chicago and Manhattan. The greater the concentration of people, the higher the land values.

People also generate land values in an active way through the totality of their enterprise. The quality of their residential and commercial buildings, the vigor of their market activity, and their creation of amenities all affect the productivity and attractiveness, and thus the value, of lands in their neighborhoods.

Government services and facilities leave a trail of land values in their path. People readily pay more for neighborhoods protected by good policing, enhanced by trees and clean streets, served by quality schools, and endowed with quality transportation. Parks, playgrounds, water systems, bridges, convention centers – in fact, almost all government provisions – tend to raise the value of the sites they serve. We say “almost all” because some useful public facilities – like a refuse dump or an airport’s noisy flight path – negatively impact the price of adjacent lands.

True and False Values: The Speculation Factor

Nature, people and government account for *legitimate* differences in land prices. If these factors told the whole story, the message of this book would not be pertinent to civilization’s quest for a more just society nor to halting the cycle of recurring economic crises.

Unfortunately, genuine land price differentials are overwhelmed by *fictitious* values arising from *land speculation*. This damaging practice pushes land costs much higher and throws a monkey wrench into land markets, distorts land use patterns, and disrupts the normal working of the economy. How so?

The dynamics may be illustrated by speculators John and Jane, doing business as J&J Holders. They buy half a dozen prime central city lots, hoping to profit from their anticipated future

jump in value. Mary and Bill, who run M&B Builders, envision a development on one of those lots. However, J&J, eyeing a killing a dozen years hence, sets a price so far above current prices that this effectively takes that lot off the market. This shrinks the supply of available sites, enabling owners of comparable sites to raise their prices.

Eager as M&B was to locate in the city center, it settles for a cheaper second-rate site where the firm will produce less, hire fewer employees, and gain lower profits. Other developers are also discouraged from locating in the central business district. Land owners in second-rate locations then see a surge in demand for their lots and they up their prices too.

Soon development is pushed to third-rate and fourth-rate city sites, then out to suburbs and beyond into farmland – not for lack of close-in sites, but because speculation priced those sites out of reach.

Since the supply of land is fixed, *artificial* shortages of available sites translate into *actual* land price increases, based on no change in real value. Yet the easy profits made by land speculators induce still more speculation and the cycle mounts.

Why emphasize *land* speculation? In a society with open competition, speculation in *products* – unlike harmful runaway speculation in land – tends to be beneficial. The crucial difference is that the supply of most goods is not fixed, so the supply may contract or expand. When speculators withhold a product from the market and thus raise its price, others see a chance to profit by making this product more cheaply. As they get into the act, the resulting competition tends to increase the availability of this product at reduced prices. Consumers win.

Land speculation offers no such self-regulating feature because competitors cannot create new land or import it from elsewhere.

The stresses that land speculation imposes on metropolitan areas are not minor. It drains population and commercial activity from central cities. It drives leading stores and other commercial activity to outlying malls. By forcing businesses into less productive sites and by distancing workers from work places, it contributes to joblessness and poverty. It is one of the primary reasons for the sprawl that forces duplication of infrastructure, wasting time, money, and energy. It puts new home buyers and new enterprises at the mercy of land monopolists.

AN ANALOGY

A football stadium may be likened to a metropolitan area. The best locations – luxury boxes and seats close to the 50-yard line – are comparable to the central business district. People pay top dollar for these seats. People who want to pay less get seats in the bleachers. All spectators see the game at prices that vary in fairly direct proportion to the desirability of their view of the action. This is true unless scalpers buy up quantities of desirable seats. When the ticket office says “NO SEATS AVAILABLE”, scalpers descend on fans, taking advantage of the artificial shortage they themselves created, demanding many times the original price.

Scalping at the stadium is unfair. It cheats and upsets customers. Sports club owners try to prevent it. But this scalping is peanuts compared to the large-scale scalping of home sites and business locations. Land speculation scalping disrupts local economies, ignites recessions and robs millions of a fair seat in the game of life.

Urbanologists who analyze critical metropolitan issues without reference to land speculation are reminiscent of astronomers who charted the skies when they still believed the planets revolved around Earth. Those astronomers drew planets going through contortions, interrupting their orbits with a series of curlicues, called epicycles, while circling the Earth. Those charts seem unbelievably ridiculous today. Although their sense of relationships was not totally wrong, they missed the true pattern by failing to understand that the sun was the center of the planetary system.

Similarly, those who attribute the decline of cities to the automobile and highways, to federal and local policies favoring new development over old, or to corrupt politics are not entirely wrong.

These elements clearly play a role and require attention. Yet the true orbits of these other forces are misconstrued when the central role of land policy is left out of the picture.

The Trick of Sharing Common Property

Ancient peoples tended to be enlightened about the need to share common property. This natural understanding was almost put out of mind as civilizations became more complex – and for understandable reasons. People had not figured out fair ways to turn the concept into reality. How could all the people in a community exercise their equal rights to common property, including *your land*, without interfering with your private property, such as your home, your shop, or your garden on that land?

This dilemma led people to make protection of private property their top priority and to sweep thoughts of common property rights under the rug. When the landless poor lived in hovels in the shadow of luxury – the large estates and palaces of Indian rajahs, the chateaus of France, or the castles of British lords – they were cowed into believing inequality was the natural order.

The most articulate response to this dilemma was provided by Henry George. He was not the first, by any means. When the United States was in its infancy, the British economist David Ricardo threw light on the subject by formulating the law of rent. Long before that, the prophets of biblical times were outspoken in blaming the misery of the poor on the excessive privileges of the landholding rich. However, by zeroing in on the friction between common and private property rights, George illuminated a key issue that eluded many other social thinkers. Once grasped, it is eloquent in its simplicity:

Rights to common property are obtained by sharing the *value* of the land, not by physically carving up or redistributing the physical land itself. That value, collected by government through a land tax, may be used to provide services and facilities to all citizens and firms, with any surplus distributed as cash payments to everyone in the jurisdiction.

Rights to private property are secured by leaving the returns from it in the hands of those who create it.

This is almost the reverse of present policy. We unjustly allow privileged individuals to cream off common property values while governments get the bulk of their revenues by tapping into portions of people's private earnings and private property.

A just society requires treating both common and private property equitably. A land value tax regimen meets this criterion. No mere tax gimmick, it is a prescription for social justice. For those unfamiliar with the concept, following are some points about how it works and why it will be beneficial to adopt it as soon and as extensively as possible.

Under a land tax ...

- The value of any unit of land reflects its advantages relative to all other units at a particular time. This assumes no false speculative values, a fair assumption because a substantial land value tax will return most land value gains to the public. This wipes out the speculators' *raison d'être*.
- Owners of highly desirable locations repay the public for their special privilege – represented by the annual rental value of their land. These payments, transformed by government into public goods enjoyed by all, indemnify those who lack access to choice locations. Thus everybody shares in the benefits of land and resources.
- Owners of undesirable sites pay little or nothing in taxes but enjoy the public goods financed by the taxes paid by holders of valuable sites.
- A further equalizing feature is that excess revenues, beyond those required for public needs, may be distributed as citizen dividends to every man, woman and child.
- Paying annual taxes based on the worth of their lands gives owners exclusive use rights and security in their holdings. As with today's real estate taxes, if you pay, you stay.
- A rigorous land value tax changes economic incentives. It makes land *using* more profitable and mere land *holding* much less profitable. Land holding that suppresses job growth gives way to land use, which fosters job creation.

These points harmonize with and reinforce the American ideal of *equal opportunity for all*. In the tradition of our nation's earliest

leaders who wrestled with how to make democracy work, Henry George wrote, "We cannot safely leave politics to the politicians or political economy to college professors. The people themselves must think, because they alone can act."