HARTZOK AND SMITH AMONG "THERE ARE ALTERNATIVES" ESSAYS

Alanna Hartzok and Jeffery Smith, both frequent contributors of articles to GroundSwell, were among the five winners in the "There Are Alternatives" Project. Hartzok and Smith each won $100 and a nice Certificate. The TAA Project, http://www.mkeever.com/taa.html, was sponsored by the McKeever Institute of Economic Policy Analysis, directed by Michael Pierce McKeever, Sr., Economic Instructor at Vista Community College, Berkeley, CA.

Quoting from the McKeever Institute of Economic Policy Analysis website, the "There Are Alternatives" Project arose several years ago when Great Britain's Prime Minister Margaret Thatcher "announced that 'There is no alternative' to a world wide system of market based capitalism. This effectively meant that the economic development of lesser developed countries was to be left to market forces. Economic activity in these countries was to be focused on those commodities in which there was a 'comparative advantage' so that merchants in those counties could export those products and import other goods with the proceeds. Sadly, the promise that export led growth would provide benefits to all people has been proven wrong. Growth which depends on market forces brings uneven benefits - some people are helped and some are hurt. Thus arose a need for the creation of alternative economic models so that all people can choose how much to enter or how much to withdraw from the global economy. This project is an attempt to find and publicize such alternative economic models."

Judges of international renown determined the five winners. They were John Jopling, a London barrister and founding member of the Foundation for Economics of Sustainability based in Dublin. Also Terry Manning, a New Zealand lawyer residing in the Netherlands with 20 plus years' experience in the development of water pumping technologies for the world's poor. Plus John O'Connor from SW Florida who had served in senior staff positions at the IMF and World Bank before he took early retirement to study how decentralized decision-making could mesh with top-down processes; some of his process activities feed into the UN Commission on Sustainable Development.

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GEONOMICS: BOOTSTRAP DEVELOPMENT FOR A SUSTAINABLE PLANET

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(This paper was presented to UN Conference in Monterrey, Mexico, 2002, on Financing for Development, NGO Forum, March 14 - 16; Official UN proceedings with ministers, March 18 - 22. The essay is a winner in the McKeever Essay Contest on Self-Development, 2002. Copyrighted July 2002; reprinted with permission, of the McKeever Institute of Economic Policy Analysis and of the author. Essay is posted at http://www.mkeever.com/smith.html.)

Introduction: Prosperity On Land

Occasionally, people pulled themselves up economically by their own bootstraps, without relying overly on trade with or aid from outsiders, in a way that borders on sustainable. What these self-developers did was to use "geonomics"; they recovered more of their local "ground rents" and diminished their taxes upon production, a method proposed by a UN body (COMMISSION, 1996). Technically, most of these self-starters taxed land (rather than buildings, business, or income), a reform more cautiously cited elsewhere by the UN (PREPARATORY, 2002).
A few bootstrap jurisdictions leased public land to private builders, instead of taxing private land for public benefit.

Ground rents, or natural rents, are a social surplus. They're the monies people spend on the nature they use, the money paid periodically or in a lump sum, to a private owner or lender or a public agency or lender, to own or use sites, resources, the broadcast spectrum, or the environment as a sink for pollutants. Recovering such rents (measurable by Ricardo's Law), in lieu of taxing effort, empowers people to prosper for two reasons. As in the old story of the donkey and its driver with the carrot and the whip, recovering rent spurs people to produce while zeroing out taxes lures people to produce. People who produce sufficiently are more ready, willing, and able to produce sustainably.

As informed observers keep reminding anyone who'll listen, widespread ownership of land is a basic prerequisite to development. During the short time this paper was written (2002 February), the 2000/2001 Annual Report of the Church Development Service, the Earth Negotiations Bulletin of the International Institute of Sustainable Development (2002 Jan 31), and the Forum Declaration by the Norwegian delegation to the World Summit (in Johannesburg in 2002 September) all called for land reform to make possible the eradication of poverty. At least four times in history, the people of an area did receive greater shares of their own land, without bloodshed, following the adoption of geonomics (rent-sharing). While these four jurisdictions did more to help tenants become owners than just tax land value, this recovery of rent did play a key, yet often overlooked, role.

Self-Development Worldwide

In Denmark in the 1840s, an idealist king, Frederick, was finally able to persuade nobles to accept a tax on land value. Denmark achieved the highest percentage of family owned farms in Europe and a reputation for their dairy products (Silagi, 1994). In California in the 1890s, an idealist schoolteacher was able to persuade the state legislature to permit localities to levy a land-value tax (LVT). While the reform lasted, enormous ranches were converted into tens of thousands
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family farms. California became known as the "breadbasket of America". In these cases and in Taiwan in the 1940s and 1950s, when big landowners had to pay more rent via the higher tax, they found it no longer worth their while to be a middleman, so they sold off their excess holdings to their former tenants at prices the farmers could afford.

The poster child for development is Taiwan, which set the world record for rapid and continuous growth. When the Nationalists took refuge on the island, they implemented the land reform that they had merely promised on the mainland. Working for themselves on their own land changed farmers; they worked harder and smarter, producing a surplus that enabled them to buy goods manufactured in the city, made in factories by sons no longer needed on the more efficient farms (Harrison, 1983). Taiwan's development has not been sustainable; the ruling party, which made itself into the richest one on earth, also made a huge mess of the environment. While in power, they failed to uphold one's right to Earth in a healthy condition and did not charge polluters (their own factories) for the costs they imposed.

With Taiwan, the other well-known success story is Costa Rica. This Central American nation enjoys widespread ownership of land not due to agrarian reform or a tax on extensive holdings but merely to historical accident; the indigenous population refused enslavement to the colonizing Spaniards and the topography is largely mountainous, both factors militating against the establishment of latifundia. Costa Rica shows the power of widespread ownership of land. Today, though it has slid backwards since the late 1980s Contra War waged on its western border drove millions of poor Nicaraguans to take refuge in Costa Rica, the country still has proportionally the biggest middleclass (the source of many environmental activists) (Busey, 1992) and the lowest crime rate in Latin America (Pan American, 1997). A stable democracy, Costa Rica was the first to abolish its army (followed by neighboring Panama), which is a huge drain on the public purse.

Other regions that developed by utilizing a tax on land values (the levy left after shifting the property tax off buildings) include towns in western Canada, South Africa, Australia, and New Zealand. Towns that thus recover Rent tend to have more owner occupants, paved streets, parks, higher voter turnouts, even town hall meetings to set policy. None of them have the slums that afflict US cities. (Andelson, 2000)

South Africa's Johannesburg, which began as a mining town, was rapidly becoming a ghost town when the ore was played out early last century. To avoid such a fate, the city fathers shifted their property tax from buildings to land, rescuing their town. Johannesburg grew to become the financial capital of the nation, eclipsing Cape Town, a port situated on one of the most strategic points on the planet, which taxed land and buildings equally. It was as if Canberra had out-developed Melbourne or Sydney. (Dunkley, 1990)

In Australia around Melbourne, about half the suburban towns tax only land, half tax both buildings and land. Those towns taxing only land enjoy about 50% more built value per acre (Lusht, 1992). During the recession of the second half of the 1970s, early 1980s, the towns taxing buildings lost business while the land-taxing towns gained new businesses (Bennett, 1996)

Most of these examples have a land tax in lieu of other, punitive taxes not for reasons of ideology or foresight but of simple common sense. At the beginning, when a colony is founded, very little else but land exists liable to taxation; there's not much in the way of sales or incomes or buildings. An alternative to the government selling off its newly claimed land is to retain it and lease it, as did Hong Kong (since the land was the Crown's for only 99 years). A mere rock in the sea lacking every resource but a harbor, Hong Kong nevertheless grows much of its own food and outperforms every other city on China's coast. By recovering so much site rent, it keeps taxes low. Low taxes translate into low prices, high investments, and high incomes. Hong Kong, whose metro operates profitably sans subsidy, often ranks as the wealthiest city in the world per capita, the freest by libertarians, and has often been voted the world's best city for business by FORTUNE magazine. (Fitch, 1993)

Bootstrap Development In the U.S.

A bit more than a century ago in America, a reformer named Henry George earned a huge following by arguing for a single tax on land value. After his death, his followers founded three colonies: Free Acres, New Jersey; Arden, Delaware; and Fairhope, Alabama - all on land held in common with parcels leased to individual homeowners. Although no longer recovering only rent today, all are more prosperous than neighboring towns levying the conventional property tax. Fairhope was one of only four towns on the Gulf Coast recommended for retirement by Consumers Report. Back in the 1950s, some Quaker Georgist residents of Fairhope fled the military draft during the Korean War, resettling in Costa Rica where they began what became that nation's first national park at Monte Verde. (Rybeck, 2000) Recently, this wealthy village pledged a half million dollars to the local private hospital.

When Henry George's followers were numerous enough to threaten to upset the established order, speculators persuaded most American state legislators to amend their constitutions to require any property tax to fall on buildings and land equally. A rare exception was Pennsylvania, the home state of Henry George. (Coincidentally, William Penn was an early proponent of the geonomic method of public finance, as also was the founder of the Massachusetts colony, William Bradford). In Pennsylvania, about 20 jurisdictions (cities, counties, and school districts), almost all of them in the poorest region of the country, Appalachia, levy a tax rate on sites higher than on structures. Those towns thereby recovering ground rent enjoy 16% more output each year compared to their neighbors (Tideman, 1998).

Harrisburg, the state capital, was ranked by Rand-McNally at the bottom of US cities, 199 out of 200. Then the city council shifted their (continued on page 13)

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property tax. The number of arsons dropped, formerly abandoned areas were developed, and outlying farmlands were spared the bulldozer; quickly the city jumped into the top fifth of American cities. Their mayor Steven Reed credited success to their Property Tax Shift (PTS). (Rybeck, 1991).

While adhering to the PTS, Pittsburgh enjoyed the most affordable housing and by far the lowest crime rate of any major US city (Boyer, 1993). Rand-McNally twice named the Steel City "America's Most Livable". About 15 years ago, Ling Temco Voight, Inc. closed steel mills in Pittsburgh, which was taxing land six times higher than buildings, and in nearby Aliquippa, which still taxes land 16 times higher than buildings. Pittsburgh, which bought the land beneath the mill, lost this factory. In Aliquippa, where the city merely taxes land, former employees bought one mill at a price discounted by the underlying land's tax liability and re-opened it, while other investors built a new mill there, keeping the local economy alive. (Sullivan, 2002) Succumbing to pressure applied by speculators, Pittsburgh returned to the conventional property tax in 2001. Already it has seen a drop in construction starts steeper, 38.1%, than in the rest of Pennsylvania, 1.5% (Cord, 2002).

Green Support For Geonomics

Throughout the developed world, the environmental movement promotes shifting taxes off goods, onto bads, in general, and shifting subsidies in the opposite direction, from bads to goods. These "greens" are also gathering stream behind the PTS. In the US, they have lobbied state legislators in Vermont, Oregon, and Minnesota. What appeals to them is the fact that landowners, when required to pay an annual rent or fee or tax, choose to quit speculating in land and instead put it to good use. Utilizing the central sites of higher value spares the outlying sites of lower value; using urban locations more intensely means not using some rural sites at all. Using land optimally is a base for developing sustainably. (Smith, 2002)

Since a healthy area would have higher value and generate more revenue, jurisdictions that rely on natural rents for public revenue, not on taxes upon private sales or incomes, would be motivated to care about the health of the environment. To avoid contamination, jurisdictions should also levy four surcharges besides collecting rent: (i) collect an Ecology Security Deposit and (ii) require owners to hold Restoration Insurance, with both charges geared to the value of the land. Two other components in a strategy to "internalize externalities" are to (iii) require would-be polluters to bid on permits to emit potentially hazardous by-products and to (iv) fine severely and with certainty those who violate health standards. While all four of these protective measures are now used, none are widespread. Once in place, these surcharges would help preclude the waste of Taiwanesque development, but not the wealth of Taiwanesque development.

A government aiming for sustainability would also shift its subsidies from such items as the military, bureaucracy, "white elephant" dams and other grandiose infrastructure, to public goods that directly benefit all citizens in the short term, either services or dividends. Since an area in good environmental health would have higher value, it'd generate more public revenue, in turn funding better public goods. Citizens who'd receive rent-based public goods would likewise have a financial incentive to care about the health of their natural environment.

Sharing Rent, Essence Of Geonomics

The residents of Alaska receive an oil dividend, which the state pays to every man, woman, and child in the state. In 2001, it was $1,860. Since rental surplus is social (a value generated not by the owner or provider of the site or resource but by her neighbors), recovering and sharing it rests on firm moral ground. By paying a share of rent to residents directly - rather than paying taxes to politicians who're supposed to pay funds to bureaucrats who're supposed to serve citizens - a polity avoids some of the waste and/or corruption inherent in letting government spend public revenue. Redirecting funds from state to citizen not only primes the pump for development, it also enables consumers to choose the appropriate technologies that would make development sustainable.

For most people, shifting taxes onto locations would save them money. Their land dues (or land taxes or land-use fees or deed fees - whatever mechanism the jurisdiction chooses) would be smaller than all the direct and indirect taxes that they pay now. Yet where people manage to prosper, land grows more valuable; their land dues (or taxes or fees) would rise, too. Receiving a rent dividend, owners of low value land (formerly the poor) could always afford to pay their land dues. Proposing a dividend to voters may also make geonomics easier to advance with the public.

Implementing Geonomics

Recently around the world, areas in all stages of development have turned to the PTS, even all the way to Land Value Taxation (LVT). In the "Third World", the mayor of Mexicali, Mexico, persuaded the local elite to replace their conventional property tax with a land-value tax (Cohen, 1999). In the former "Second World", Estonia levied a tax on agricultural land, receiving a favorable review in business press for its results (The Economist, 1998). In the "First World", Philadelphia, Pennsylvania, is now debating their city comptroller's proposal to shift their property tax. The real estate lobby in Philly, a city suffering from block after block of blight, is helping promote the PTS, even paying for full-page ads in local papers. (The Inquirer, 2002)

Advocates of geonomics offer benefits to major voting blocs. Once they understand how it works, they consent to it, even promote it in some cases. Business likes low taxes (as in Philadelphia, above). Greens like collecting rents for compact cities (e.g., Friends of the Earth). Farmers like collecting rents for affordable land (e.g., Denmarks' Justice Party, above). (cont'd on page 14)

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Citizens in general like living in a prosperous and stable society.

In most major metro regions, the ratio of site value from the commercial center to the rural fringe is 2,000 to one per acre (Gwartney, 1995). Hence the owners of the downtown locations of much greater value, usually the local elite and outside investors, would pay much more than would owners of other locations. Yet for their greater investment, higher payers, too, would receive a much healthier city, while the absence of other taxes enables them to profit from investing in new technologies and workforce retraining. Advancing the productivity of both humans and machines means the economy would get more from less, thereby minimizing its impact on the natural world.

In order to recover ground rent, assessors must have the cadastre (the land roster) in usable shape: parcels, their owners, and their values be identified and up to date. Then the jurisdiction could either shift its property tax from buildings to land, or repeal its property tax and levy a land-value tax, or since many jurisdictions already have an LVT albeit at a very low rate, increase the rate to recover their land's rental value. The jurisdiction could do so gradually, as Philadelphia contemplates, or immediately, as did Mexicali. After shifting the property tax, a jurisdiction could remove other local taxes and apply to the encompassing state or nation for permission to exempt residents from their taxes, while, if need be, raising the rate on land to recover any remaining site rent.

Although poor undeveloped lands seem of little value, their real estate values may actually be greater than the amount of aid, loans, and investments received altogether (DeSoto, 2000). Even if this estimate is overly optimistic, nevertheless, geonomics swells collectible rent by collecting it; where government recovers rent, while removing taxes, there people prosper and bid up land values. Comparing the collateral damage (reduced investment and employment) from taxes of different rates on sales and income, one sees that if a jurisdiction were to forgo such punitive taxes, it would let people produce more and earn more; output of goods and services would be one quarter greater. (Tideman, 1998)

Conclusion: Sharing Rent Works

Wanna-be developers still advocate the quasi-solutions advanced by agrarian reformers and world bankers, despite repeated failures. Even when working, land redistribution and structural adjustment would take from two to four times longer than recovering rent. To stabilize its economy, polity, and environment, a jurisdiction which taxes land value would successfully reach these three goals in three years, seventeen years, and twenty-two years, respectively. (Smiley, 2000)

Ironically, while geonomics develops a locality independently of trade or aid from the outside, by generating prosperity, geonomics simultaneously creates an area that enables trade and that attracts investment, not crippling debt, automatically. Thus by adopting first the carrot and stick of zero taxes coupled with land dues, a jurisdiction develops regardless of what the rest of the world does, and inspires the outside world to propose entering into mutually beneficial relationships such as consensual trade and investment. Thereby a geonomic locality could build on its incipient prosperity (Ades, 2000) delivered by sharing the rents of land and resources while eliminating taxes on human effort.

Expertise in geonomics resides with NGOs such as the Instituto Henry George in Managua, Nicaragua, that give presentations to specialists and the lay public. Others, such as the Center for the Study of Economics in Philadelphia help measure how much rent is available, who'd pay more and who less, and how to go about shifting taxes to recover it. The Lincoln Institute outside Boston, Massachusetts, and other international agencies help modernize cadastres. Wanna-be developers can call upon any of them in order to add the recover-rent option to one's toolkit.

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