

Public Finance and the Co-operative Society

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The Single Tax Complex

In graduate school I had the good fortune to study with Professor Ingrid Rima, author of one of the most widely-read texts on the history of economic thought. (Rima, 1986) When I asked to write a term paper on George, she indulged my wish with a word of caution. "Henry George," she gently explained, "is merely a footnote in the history of economic thought."

This took me somewhat by surprise, since I had heard that no economic writer had ever sold more books than had George. I had assumed that there must be some reasonable basis for his popularity, and that the profession would not have overlooked it. True, George never won acceptance within academia during his lifetime, largely by his own doing; he openly doubted the intellectual honesty of the professors, and even suggested that ordinary citizens could study political economy without the guidance of books and teachers. Surely by now, however, emotion will have long since cooled, and scholarship taken its place. Economists will have picked George clean, exploiting whatever useful ideas they can find, while carefully exposing the nature of his errors. Historians of thought will have searched beneath the particulars of personality, religion, class, and language to identify George's lasting contributions—if any there are—to economic science. Evidently, if Rima's evaluation represented the consensus opinion, then economic scholars must have determined that George's theory offered nothing both new and true.

I found that Rima's judgment is indeed the majority view of economists, at least in regard to the program of rent taxation for which George is known. It is, though, an opinion of long standing, not one which has finally been reached after decades of searching analysis and controversy. Seventy years ago, the Georgist public finance economist H. G. Brown observed:

... the majority ... of those who write our current textbooks on economics and on public finance have long regarded single-taxers as utterly unsound thinkers whose economic philosophy should be by all means clearly and definitely discredited. (Brown, 1924: 164)

Brown held that these authorities "have nevertheless failed to grasp entirely the theory on which support of the single tax is based." Textbook writers had caricatured, or, very often, simply ignored, many of single-taxers' arguments, even while complaining of alleged difficulties in the Georgist program. Brown attributed these attitudes and errors to an affliction which he called the "single tax complex." Textbook writers work hard to avoid meeting the Georgists' reasoning head-on because they reject *a priori* the policy conclusion to which it leads. "Being above all things scientists, they are more interested in showing the non-conformity of the policy to their intuitive ethics than they are in exhibiting its probable consequences!" (182)

Several later writers sympathetic to George have expressed similar views of the mainstream attitude. In 1941, George Geiger wrote that the vague idea of "progress and poverty" had become "commonplace," but that George's emphasis on the land question had found no acceptance. Henry George is "the forgotten man." The "neglectful contempt" for his philosophy is "one of the most curious anomalies of the entire literature of social reform." Geiger found the reasons to be unsatisfactory: the land question is out of date; the single tax was to be a "panacea"; single taxers are "crackpots." George believed in God, and in classical economics. Mostly, however, George "is simply outside their universe of discourse." (Geiger, 1941: 87-88)

Geiger hinted that the shelving of the land question may turn out to be a mistake with far-reaching consequences. He was moderately heartened, however, to observe an increasing recognition of the usefulness of what, in the literature, was called Land Value Taxation (LVT) in "town and regional

planning.” (103, 88)

Three decades later, George’s place in history had little changed, and Stuart Bruchey could write of the “twice forgotten man.” Yet Bruchey was confident that George was winning partial acceptance. He explained that although George’s “system” of economics, constructed in defence of his key principle, had failed, its “kernel” survives. “Georgist principles have clearly entered the mainstream of modern thought.” For example, experts on real estate taxation have come to agree that land value taxation “has no harmful effect of any sort on housing quality,” despite doubts concerning equity and yield. Also, LVT is recommended for land-rich, capital-poor countries as a means of stimulating capital formation and discouraging underuse of land. (Bruchey, 1972: 119)

Economics of Henry George: The Kernel

Insofar as Georgist principles have “entered the mainstream,” they have done so largely anonymously. It is well, therefore, to review the “kernel” of the forgotten theory. George traces the problem of “progress and poverty” to the institution of private property in land. The remedy is “to make land common property” (George, 1879: 326) by the simple fiscal device of collecting land rent in taxation, leaving exclusive, exchangeable land titles undisturbed. Rent should then be distributed fairly among individuals through the reduction or elimination of other taxes, government provision of public goods, and perhaps direct per capita payments.

... to take for public purposes the increasing values that attach to land with social growth ... (is) the only means by which it is possible in an advanced civilization to combine the security of possession that is necessary to improvement with the equality of natural opportunity that is the most important of all natural rights. (George, 1879: 434)

If rent were taxed, argued George, both production and distribution would be improved. Production would be stimulated by the removal of taxes which burden production and exchange, as well as by the rent tax itself.

Rent is the opportunity cost of land occupancy. It measures, not the intensity with which land is actually used, but the annual amount which others in the market would be willing to pay for the use of that land. A tax

on either the rent or the capitalized value of land does not create any incentive to use land less intensively, since the owner cannot thereby reduce his payment. This means that there is no decrease in the market supply of land, no increase in tenants' willingness to pay for the marginal unit of land, and, therefore, no change in the equilibrium quantity or (demand) price of land. The tax cannot even be shifted to future buyers of land, since it is capitalized; the market price of a site falls by the present value of future taxes. The tax is borne by present landowners.

Moreover, the tax is neutral; it generates zero excess burden. This advantage is shared by few other significant sources of government revenue. The greater the revenue raised from a tax on rent, the smaller the revenues required from inefficient taxes on production and exchange. To the extent that taxes on productive activity inhibit production, their removal will stimulate it. George shared the concerns of modern "supply side" economists: "Today taxation operates upon energy, and industry, and skill, and thrift, like a fine upon those qualities." (434)

George further argued that the taxation of land values would discourage land speculation, so that "land now withheld from use would be open to improvement." (434) Distribution would become less unequal as rents are diverted from private to public uses, while "wages would rise to the fair earnings of labor." (436) Initially, land rents would fall as speculators deserted the land market. In the long run, the increase in production "would lead to an increase in the value of land—a new surplus which society might take for general purposes." (432)

George appeals to Lockean principles of freedom and equality to show that his remedy accords with justice. Both efficiency and equity require that individuals have private property rights in themselves and in what their effort (labor and saving) produce, so they should be entitled to receive their full wages and interest, untaxed. However, in order to produce anything, individuals must have access to economic land, which encompasses natural resources, location with respect to other natural and community-created resources, and pure space itself—standing-room. Efficiency and justice also, therefore, require that all individuals of all generations have access to land. Land is not produced by individuals, George observes, and therefore cannot rightfully be owned by individuals. Society should, through the agency of representative government, possess the land in common.

In this, George expresses an ancient conviction. What is new is the recognition that there exists a practical way to share land both equitably and efficiently in a modern monetary economy. Obviously, land should not be physically divided and distributed equally, as perhaps it can in the simplest agrarian society. Nor should most land be treated as commons in the sense of unlimited public access; exclusive rights to the use of land are essential. What George shows is that society need not alienate land to individual ownership in fee simple in order to preserve productive incentives.

The value of land expresses in exact and tangible form the right of the community to land held by an individual; and rent expresses the exact amount which the individual should pay to the community to satisfy the equal rights of all other members of the community. (344)

In fact, George held that absolute ownership of land interferes with its efficient use. Land value taxation is not merely neutral, but better than neutral: it removes impediments to efficient intertemporal and intergenerational use of land that are inherent in the system of absolute private property in land. LVT would break up land monopoly and deter land speculation, both of which cause misallocation of resources. Speculation not only misallocates land; in conjunction with an elastic credit system, it is the major underlying cause of industrial depressions.

George saw the importance of scale economies, externalities and government services in giving value to certain lands. He recognized that urban site values were rapidly overtaking agricultural land values in relative importance, and focused analytical attention on the processes and problems of urban economies.

George supposed that a single tax on land values would always be sufficient for the legitimate needs of government. As progress goes on, individuals become more interdependent economically. However, these activities of society and government give increased value to land, increasing the tax base. (George, 1879: 436)

To George, the tax on rent was key to reconciling the apparent conflict between efficiency and equity. He argued that inequality in land ownership, once established, tends to produce further inequality, ultimately leading to the stagnation and decline of society. Efficient and stable operation of an economy cannot be sustained if principles of equity and freedom are

ignored. "In justice is the highest and truest expediency." (367)

Is Anything New and True in Georgist Economics

Is there truth to Brown's diagnosis of a "single tax complex"? Or are there definitive reasons to dismiss George's emphasis on the land question, and to reject his specific tax proposal? Are economists right to relegate George to a "footnote"?

Many economists now admit that LVT has certain advantages over property and other taxes. Milton Friedman once described it as "the least bad tax." (*Human Events*, Nov. 18, 1978) However, the point is not much advertised. The case for LVT is seen as a minor issue of local tax reform. The full reach of Georgist thought goes unrecognized. Land has apparently lost its special analytical status in economic theory. (Skouras, 1980) Few economists have more than a cursory familiarity with the ideas of Henry George, or of his twentieth century advocates.

The economists have never seriously attacked the theoretical validity of the single tax program. In the main, in fact, they have come nearer to ignoring than to condemning. (Davenport, 1910: 279)

The words of H. J. Davenport are less true today than they were in 1910—but not very much less. If Georgist economics has been defeated, it is by ignorance, not by argument or evidence.

Meantime, however, a rich and varied Georgist research program is underway. The agenda touches virtually every sub-discipline. Some questions pertain to a spatial, urban economy with externalities and public services. Some pertain to a dynamic economy with money and credit, and with imperfections in land, capital, or other markets. Some focus on savings, capital formation, and growth; others on the vagaries of the business cycle. Yet others refer to issues of public choice, administrative practice and bureaucratic incentives; to questions of population, environment, and sustainable development; even to the grand issues of justice, political stability, and international cooperation.

The time may well be right for a resurgence of interest in Georgist economics, much as Bruchey suggested twenty years ago. It is my belief that George's central economic principle is valid and profound—and that the reasons to pay attention to it are gathering power and urgency.

In the remainder of this section, I discuss the standard reasons offered for rejecting the proposal set forth in *Progress and Poverty*. It is, of course, impossible here to weigh all the arguments against George, or even all the important ones. Instead, I simply list some of them to give the flavor, and focus attention on a few central ones. Two, in particular, appear to be plausible and persistent: first, the judgement that switching to land value taxation is unfair to innocent landowners; and second, the estimate that land rent is an insignificant and declining share of income.

In the second section of this study, I indicate some of the directions, unfamiliar to most economists, in which the Georgist tradition has developed.

In the final section, I conclude that what George offers is not a simplistic panacea, but a paradigm—a conceptual structure built on simple principles, to be sure, but principles which interact in complex ways. As a number of authors have argued, the Georgist paradigm promises to forge a “synthesis” between the “thesis” of capitalism and the “antithesis” of socialism—thereby resolving the tension between the twin social goals of efficiency and equity.

Moreover, the accelerating environmental crisis is the catalyst which makes Georgism an obvious alternative. In the past, George’s critics pointed to rising relative wages and falling materials prices as evidence that land is no longer an important factor of production. Yet public concern about resource depletion is deepening. The apparent gains in the efficiency of materials use have come at the cost of drastic increases in the volume and toxicity of wastes spilled into air and water—both also vital *land* resources, the use of which has traditionally been unpriced. Sadly, these frontiers of free land are closing.

We cannot continue to behave as though environmental resources were limitless and valueless. As the global commons grow scarce, and as international political arrangements are negotiated to ration their use, we are faced anew with the question of how to allocate economic land efficiently while distributing its rent equitably.

In conclusion, I shall suggest that most of the tired and tattered old controversies about the “Single Tax panacea” can be put behind us, and that a tantalizing array of new or, at least, neglected research questions awaits pursuit.