

The Georgist Paradigm

The Research Programme

The agenda for Georgist economic research today ranges over diverse fields. Some of the most interesting questions have been largely ignored, both by critics and by Georgists themselves. A fundamental one is the issue of whether annual rent or capitalized value is the preferred tax base. Opinions differ. George was the first to speak of land value taxation rather than rent taxation, but he appears to treat them interchangeably, never specifying the mathematical relationship between the two. Rent taxation and LVT are equivalent when rents and interest rates are stable over time, but not otherwise.

In macroeconomic theory, nonproduced land should be incorporated into models with labor, produced inputs, time, money, credit, and taxes. The role of land speculation in the business cycle, which depends on financial institutions and on expectations formation, is not yet well understood. Nor is the relationship between land tenure arrangements and long run economic growth.

In the field of public choice, Georgists can contribute to the growing literature on the incentives faced by voters, legislators, politicians, and government bureaucrats under alternative constitutional structures. There are intricate questions concerning the appropriate distribution of land rents among the different levels of a federal system. (Tideman, ndb)

Another neglected issue is the definition of the unit of assessment employed for tax purposes. Whether the assessment unit should be defined by the extent of ownership or on some other basis may have important implications for the measurement of rent and, possibly, for productive

incentives. (Vickrey: 1970) The problem of the assessment unit is intimately connected with a set of questions pertaining to the treatment of externalities in the Georgist program.

The Synthesis

Equity and Efficiency. It has long been standard in mainstream economics to lament a painful "trade-off" between equity and efficiency. Redistributive policies such as progressive income taxes and public assistance typically dampen productive incentives, but policies to promote economic efficiency, such as favourable tax treatment of savings or capital gains, tend to widen inequality.

According to Henry George, however, a correct interpretation of economic principles reveals that the goals of efficiency and equity are fundamentally harmonious. In particular, land rent constitutes a natural source of government revenue; its use for that purpose is both efficient and fair. More broadly, a society without economic (as well as political) justice is plagued by systemic inefficiencies, rooted in ill-managed conflict. In the very long run, growing inequality arising from institutional maladjustments can, and does, bring civilizations down. Equity is necessary for intergenerational efficiency.

Capitalism and Socialism. George wrote that both the "capitalist" ideal of individual liberty and private property and the "socialist" vision of equality and community require the public collection of resource rents for public uses. Once it is accepted that natural resources rightfully belong to everyone, there is a clear rationale for a fiscal structure which guarantees every citizen a minimum income that represents, not public charity, but the individual's rightful share of common property. At the same time, the reward of individual productive effort would be undisturbed by burdensome taxation.

In the aftermath of stunning political changes worldwide, socialism is widely perceived to have failed. Yet the Great Society has been no stunning success either. Schumpeter's confidence in the power of capitalism to eliminate poverty and want is an embarrassment today. (1950; see Sievers, 1962: 40-45) The measures of welfare capitalism, which treat the symptoms of maladjustment by forcible redistribution, hinder the efficient operation

of the capitalist engine, just as Schumpeter warned—but they do not work anyway.

What Georgists propose amounts to nothing less than a new paradigm of social organization. (Harrison, 1992) They view government as the guardian of the natural and social resources which are the common property of all. Their program, by addressing the distributional failures which made socialism appear attractive or inevitable, offers an alternative which can preserve and enhance the vitality of the market system. George himself said it best:

This revenue arising from the common property could be applied to the common benefit, as were the revenues of Sparta.... Government would change its character, and would become the administration of a great co-operative society. It would become merely the agency by which the common property was administered for the common benefit. (George, 1879: 456-457)

Increasingly, it appears, some highly regarded mainstream economists have expressed sympathy with the Georgist paradigm. A dozen years ago, for example, Kenneth Boulding wrote:

One cannot help feeling that if only George rather than Marx had been the dominant influence on reformers in the last hundred years, again how much richer and happier the world would be. ... The neo-Georgist view ... would represent almost the only genuinely valid criticism of revolutionary Marxism in terms of Marxism's own ideals of human welfare and the abolition of poverty. (Boulding, 1982: 8-10)

Gaffney puts the case succinctly:

Georgist policy has been shown as a means to revive dying cities, and in the process to reconcile equity and efficiency, to reconcile supply side economics with taxation, and to reconcile capital formation with taxation of the rich. It can be seen as a means of harmonizing collectivism and individualism, in the most constructive possible ways. (Gaffney, 1989: 15)

In 1990, thirty distinguished economists, Nobel prize winners among them, signed an open letter to Soviet President Mikhail Gorbachev urging him to resist public pressure to privatize land:

(T)here is a danger that you will adopt features of our economies that keep us from being as prosperous as we might be. In particular, there is a danger

that you may follow us in allowing most of the rent of land to be collected privately. ... For efficiency, for adequate revenue and for justice, every user of land should be required to make an annual payment to the local government, equal to the current rental value of the land that he or she prevents others from using. (Tideman, et al., 1990, in Noyes, 1991: 225-228)

The Catalyst

Environmentalism. If the Georgist philosophy indeed stands ready to undergo a revival, it is easy to find the reasons. For one, the recent theoretical developments in urban economics and other fields have generated a new appreciation for the single tax. For another, in the United States at least, local governments are in deepening crisis. Georgist policy offers a ready tool for encouraging urban renewal while at the same time replenishing municipal budgets. Perhaps most significantly, environmental issues have come to the forefront of public attention, fueling a debate about how scarce natural resources, including so-called "environmental" resources, may be shared fairly and efficiently. The Georgist paradigm can potentially offer a conceptual framework and an ethical basis for integrating these and other issues of public policy.

The eleven contributors to a recent volume, *Now the Synthesis: Capitalism, Socialism, and the New Social Contract*, agree that "the world is at the crossroads of a new epoch." (Noyes, 1991: 1) It is their thesis that the philosophy of Henry George, particularly his mechanism for socializing land rent, offers a workable synthesis of capitalism and socialism which avoids the fatal flaws of each. Moreover, they suspect that the global environmental crisis will provide the catalyst for the transformation. The same conviction is expressed in another recent collection, *Commons Without Tragedy: The Social Ecology of Land Tenure* (Andelson, 1991).

Natural resource scarcity and pollution impress upon all the realization that economic land is scarce and valuable. International negotiations to manage the global commons must solve the problem of efficient allocation of yet-unowned resources and equitable distribution of their rents.

Are We All Georgists Now? Anyone familiar with the writings of Henry George can see ideas reminiscent of George cropping up in public discussions.

Supply-siders decry burdensome taxes on productive activity. Environmentalists interested in "sustainable development" seek to ensure that natural resources are shared equitably among all generations. Economists recommend effluent charges and marketable permit systems to ration the use of atmosphere and water. There are calls to increase grazing and other fees for commercial use of public lands. Development economists are beginning to admit that the problems of population and world poverty cannot be solved without radical reform of land tenure systems.

However, the presumed efficiency/equity trade-off manifests itself as a conflict between economics and environment, and few participants see how the single tax principle offers a resolution. They recognize no link between their own views and those of the forgotten "crackpot", Henry George.

The environmental crisis can be the catalyst for public acceptance of rent taxation, but both scholars and political activists must show that the sort of arguments now gaining attention for effluent fees (and the like) for the use of air and water resources apply as well to user charges for ordinary ground rent. It is necessary to explicate the connection between the Georgist rent tax, and Pigouvian taxes and subsidies designed to "internalize" externalities. (Vickrey, 1970) The treatment of depletable resources is also tied to these issues.

More broadly, whether George re-enters history in the coming years may hinge in large part on the demonstration that the Georgist paradigm not only fits with sound micro- and macroeconomic theory, but can help to unify and simplify the fields of land economics, natural resource economics, environmental economics, urban economics, and the economics of the public sector.