Georgist Analysis: Some Room for Improvement

by Mason Gaffney, Ph.D

Henry George's core ideas include a formula for achieving full employment and relieving the poverty of the landless well within the bounds of existing settlement. It is a matter of substituting labor for land, in many respects and dimensions. There is virtually no need to go against the market — for well-oiled markets contain their own price incentives to foster appropriate technology. It is a matter, rather, of removing tax biases that presently warp the market the wrong ways.

There are some crudities, errors and omissions in George's writings, but none of them is central or powerful enough to annul the relevant core of truth. Nevertheless, it might be useful for George's supporters to examine some of the areas in which George's — and Georgist — thought should be updated to deal with modern realities.

George's Errors George went overboard identifying capital with labor because labor produces capital. He saw labor, simply, as the source of capital — ignoring the specific role played by saving and investing behavior.

As a theorist, George was insouciant about the need for market incentives to create capital. He saw the role of taxation in weakening such incentives, and so he advocated untaxing capital. But, his rationale is rather twisted — he thought that by untaxing capital he was untaxing labor. This left a blind spot among some of his modern like-thinkers, who are not alert to the bias and distortions involved in untaxing capital while taxing labor.

George had little concept of the role of interest rates and rates of return in allocating or rationing capital. He did not envision the role of interest rates in conserving working capital from being sequestered and wasted in "pyramid-building" kinds of projects (whether developmental, premature, or just megalomaniac). He dismissed his contemporary Austrian economists for what he took as merely scientistic obscurity, pomp and pretense, while he missed the valid analysis underlying them. They taught that the function of interest rates is to direct capital away from "hard path" technology, reserving it for the "soft-path." The way they saw it, higher interest rates discourage what we now call "upstream" production (mining, primary products) in favor of more downstream production (processing, storing, packaging, distributing, recycling, etc.), nearer the ultimate consumer. ("Near" may mean in space or in time, or some combination.) Thus, high interest rates are friendly to the environment, and today's panacea, lower rates, lead us from soft to hard technology.

Curiously, George's first book, *Our Land and Land Policy*, (1871) contains a cogent criticism of the waste of capital in premature railroad building — but this is missing from later works.

Needed Modern Adaptations Like any great writer's ideas, some of George's are timeless. Others need modifying in view of later insights, perceived problems, technologies, and social organizations.

Green Economics George's paeans to compact settlement, both rural and urban, are highly compatible with the modern need to discourage invasion of wilderness areas, wetlands, etc. George would satisfy the demand for land on the lands best suited for human use, leaving most of the earth undisturbed by people. If anything, he understated the high capacity of good lands to meet all human needs. As a son of the frontier, he overstated its virtues in some oratorical passages, anticipating Frederick J. Turner. His pioneering work on the marginal productivity theory of wage determination puts too much emphasis on the frontierish "margin of cultivation," borrowing from Ricardo. In practice, however, George was a devoted urbanist (like Ricardo himself).

In other respects, to "green up" Georgism we need to free it from its exclusive focus on the virtues of a land tax levied in the form of a property tax. George himself stated his central thesis in another form: "We must make land common property." To him, the property tax was simply the most convenient and practical tool to that end, one directly at hand.

Recalling that George's definition of land included the entire material universe, exclusive of humans and their products, we can see the need for some modifications. One is to recognize the occasional virtues of taxes on the extraction or withdrawal of natural resources from the earth. An obvious modern case is the withdrawal of water from rivers and wells. Another obvious case is levying effluent charges on polluters, where that is feasible.

Additionally, we must recognize the pervasive tax biases toward extracting and consuming energy and other primary products. It is not just that a commodity like gasoline is subsidized; it is worse than that. Within the stream of production, subsidies go to those activities involved in extraction, while taxes fall on activities downstream that conserve and economize on the primary product.

"Preemptive" Capital Some capital serves its owner to preempt common lands. An example is a large, fast, noisy, dangerous, polluting motorboat on a small lake. Thousands of small lakes would in effect be made larger, in terms of satisfying human wants, by taxing or banning such craft.

A more common example is the preemption of space on streets and highways by vehicles. Many modern Georgists recognize the wisdom of parking meters, seeing them as an example of applied Georgism. But, moving vehicles also occupy scarce, valuable public space, and should pay for it. The Georgist tradition is to see things that move as productive, and to avoid hindering them. It is a good reflex, a needed antidote to the more general bias to "tax anything that moves." In this case, though, the moving vehicle actually preempts even more space than the parked one, and needs to be constrained.

The problems are formidable of designing optimal taxes on and controls over moving vehicles; and even moreso when we see them in holistic terms, as part of recasting our whole approach to mass transportation, and integrating it with massive reforms of land settlement patterns. Those are, however, the modern problems we should address. In doing so, we can do no better than think of ourselves as applying George's principle that land — space on the surface of the earth — is common property.

Offroad vehicles are another obvious example. Part of our great secular superstition about property is the notion that pieces of capital equipment are, maybe, even more sacred than persons themselves: that the vehicle endows its owner with more rights to public space than the simple possession of two legs. (This is also encouraged today by merchants who see motorists as bearing more cash than pedestrians.) Above all, those who foster this attitude are the makers and sellers of vehicles, fuels, and paving materials.

Surfboards make another example, but once one gets the basic idea, one can furnish scores of additional examples of preemptive capital. To tax such capital is, in effect, to tax the grabbing of common lands by the owners of the capital. Sometimes regulation or banning is the better choice, depending on particulars, but the principle is Georgist: recognize land as common property, and take measures to assert that common ownership.

The Rural Landed Gentry Georgists have focused on urban land, stressing its stupendous value p.s.f., and also its high value per capita. Some have favored ignoring rural areas completely, to placate the rural vote, and the supposed rural preservation of old cultural values. If those notions ever had merit, they do not today. Persons of great wealth have fled the cities and bought up (or retained) vast and valuable lands in rustic retreats. In addition there are individual spreads so vast they constitute regions in themselves. Once known mainly for blood sports, owners in these areas wrap themselves now in the mantle of environmentalism — a major challenge for those seeking to reconcile fair taxation with ecological values.

Where land is valued less for amenities, and more *(continued on page 25)*

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for cash crops, absentee ownership runs high in much of Iowa and central Illinois, with rents going to Chicago lawyers and European investors. Likewise the oven-like Imperial and San Joaquin Valleys of California, whose absentee owners are more likely to live in coastal California, but also have addresses all over the world — some real, and some in tax havens.

In such regions, land values per capita run high. Vilas County, for example, an abandoned old "cutover" county centered on Eagle River, now has the highest land value per capita in Wisconsin, thanks to its many little lakes, and the high social status of summering there.

There is no reason, in equity or efficiency, to exempt from taxation all this lavish use of rural lands. The challenge is to implement policies to sift out the legitimate contributions to the environment from the country club and boating and "trophy" and "privacy" and "fin and feather" and "snow-bunny" qualities that give these lands most of their market value.

Substituting Capital for Labor Georgists have a blind spot about the problem of biases in taxation, and other institutions, that force uneconomical substitution of capital for labor. The blindness follows from George's virtual identification of capital with labor. It leads many modern Georgists to focus mainly on getting capital exempted from local property taxes, ignoring the strong biases in income taxation that favor capital over labor, with malign consequences, both allocative and distributive.

An irony (or inconsistency) about this is that George had included in *Progress and Poverty* one lurid passage that might have inspired Karel Capek to pen his memorable play about Rossum's Universal Robots. George had raised the specter of the complete elimination of jobs, as labor-saving technology progressed, and landowners substituted machinery for labor. His specter was premature, as market forces tend to foster "appropriate technology," meaning that as land becomes dear, and labor cheap, technology bends in the direction of using more labor and less land. However, modern tax biases have brought the specter back in full force, because the tax code is now loaded with biases that favor the use of capital and penalize the use of labor, thus trumping market forces that would do the opposite.

Adapting to the Changing Nature of Inter-regional Competition Georgist policies had a good run at the local level in the days when cities sought to grow by attracting population. Federal income tax policies have changed that. By loading the Federal tax burden on labor, while sparing capital, Congress creates a universal bias for cities and counties to see purely proletarian labor as a "fiscal deficit generator," a parasite to repel, while capital and housing for the rich generate local fiscal surpluses. The resulting local biases toward selective growth policies are well known, but most advocates of housing for the poor are merely hacking at the branches of evil, ignoring the roots in Federal tax policies.

Capital Formation, Conservation and Maintenance George did see the merit of untaxing capital, but he had no concern about the aggregate supply: by inference, importing capital was as good as forming it locally, or domestically. Incentives are needed, not just to import capital, but to form domestic capital. Besides forming capital, we need incentives *not* to squander existing capital, in the manner of the notorious Prince of Brunei who indulges himself with his traveling harem, retinue, yachts and racehorses; or worse, in the manner of Osama bin Laden who indulges his passions with the Jihad that not only consumes his own capital, but destroys that of his enemies.

Modern conservative champions of incentives for capital formation err in failing to note that it is important to use any given aggregate of capital efficiently — as important as to create more capital. They err even more egregiously, and tendentiously, in making their favorite cause the exemption of "capital gains" from taxation. I put "capital gains" in quotes because most capital gains are land value gains. A tragedy of modern Georgism is how easily its Philadelphia convention, during the first Bush Administration, was stampeded into memorializing Congress to repeal the capital gains tax. A convention of land speculators could have done no worse.

Corporations George wrote little about the corporate form of organization. His modern allies are aware that corporations are our major landholders. That is a most important truth, one neglected by most other economists and reformers. However, the Georgists are mostly content to let it go at that. They do not see the corporate form itself as a menacing kind of special privilege. In this they are somewhat behind other reform groups, and have, alas, little to contribute to the current debate on this matter. They are unaware of the seminal old work by inveterate Georgist lecturer John Z. White on the meaning of the Dartmouth College Case decision of 1819.

The Frontier Speculators George's critique of land speculation came to be focused on "Speculator Type #1," who withholds good lands from timely use. Georgists have neglected to condemn the counterpart "Speculator Type #2," who acquires marginal lands cheaply, and then lobbies public agencies to extend roads, utilities, military and police protection, and other public services to them, below cost. This is a pervasive bias in most of our institutions, from city departments of public works up through state public utilities commissions clear to the Pentagon, World Bank, and CIA. Types #1 and #2, in tandem, create our form of Imperialism, that perpetual quest for Lebensraum that is our curse.

In my political experiences, one collects more cuts and bruises combating Speculators Type #2 than Type #1. The socio-political bias for territorial expansion is even stronger than the bias against cultivating, intensifying and renewing our internal frontiers. The Georgist dream of taxing central rents to finance public services becomes a nightmare when the public money is dissipated in enriching Speculators Type #2. This kind of spending not only dissipates rents, and wastes capital; at the same time it despoils the environment.

Renewal as Intensification George observed land speculation in California when it was young and raw. Today, an equally or more baneful aspect of underusing land is found in older blighted slums, where underuse takes the form of non-renewal. Thus, land of high capacity is providing only minimal service and employment. Why do we not get timely renewal? The most obvious reason is that the carcasses of old buildings bear only minimal tax valuations, and so do the sites under them. Let the owner renew the site, and taxes shoot up: not only on the new building, but often on the site as well. Result: nonrenewal. So capital migrates outward instead, to where tax rates are lower and subsidies are higher, wasting capital in duplicating the infrastructure, and of course also wasting land.

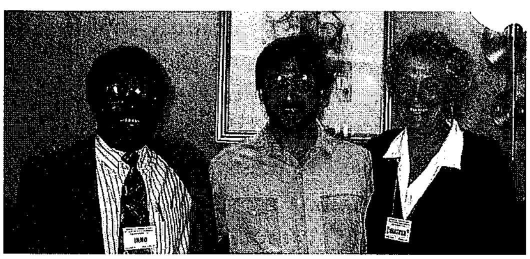
Many Georgists fail to see that a major part of the problem is underassessment of the land. Land is underassessed when tax-valuers lapse into using the "building-first, land-residual" method of separating land from building values. This results in land valuations so absurdly low that one observes, in many cities and neighborhoods, most of the joint value of land/building being allocated to the building in the very year that the owner chooses to demolish the building, i.e. when the building really no longer has any value at all. Then the assessor raises the land valuation under the new, or replacement building — making the land tax in effect an additional tax on the new building. The correct method is the "land-first, building-residual" method: value the land as though vacant, and give the old building the excess, if any, of the joint value over the land value. Then the land value remains fixed when a new building arises, and the land tax serves, as it should, as a stimulus to rebuilding.

Many modern Georgists tend, oddly, to trivialize the power of tax bias to keep land from its best use. This was inadvertently demonstrated by Chicago-School economists Gail Johnson and Stephen Cheung. They showed that sharecropping, as a private arrangement, creates a bias on the part of tenants to substitute land for labor and equipment, almost without limit. This is because extra land costs the cropper nothing, unless it adds to output, so the cropper's interest is to substitute land, which is free to him, for his labor and capital, which he pays for.

Taxes based on gross output affect all landowners the same way the cropshare lease affects croppers. They make every landowner a cropper of the state, giving every landowner a motive to substitute land for labor and capital indefinitely.

In conjunction, consider that taxes (other than property taxes) are based solely on cash flows, thus entirely exempting all the imputed income from and imputed consumption of the service flows of land — the "amenities."[9] Government tells the landed gentry, "Hold land as an heirloom, a private hunting and riding park, a speculation, a hedge against inflation, an entry into high society, a beach access, a protection against future neighbors, a shooting range, a golf course, a ski hideaway, a drinking club, a private landing strip — anything private and narcissistic or exclusionary or snobbish — and your pleasures are tax exempt. Produce goods and services for others, though, and we will treat you like a sharecropper — and tax your employees, too."

George wrote back in 1879 about the tendency of the rich to hold land as a totem — for pleasure and prestige. He noted that tendency in an age before we even had an income tax, or state sales taxes. Our present tax system magnifies the tendency beyond all reason, resulting in the relegation of much of our best land to the indulgences of the landed gentry, old and new.



One of the most thought-provoking panels at this year's CGO conference was "Land and Poverty in Africa", chaired by Dr. Heather Remoff, the author, anthropologist and longtime georgist educator. Dr. Inno Onwueme, Director of the Fulton Center for Sustainable Living at Wilson College, an expert in sustainable agriculture and published fiction writer, gave an authoritative presentation on the environmental, economic and political challenges facing farmers in Africa today. Lindy Davies offered a paper which is presented on the following page. Dr. Onwueme, who is new to the georgist philosophy, offered this verse when he arrived home from the conference.

The Rat Sees the Cat: a Tribute to the Henry Georgists

When land matters stink, beset with ethical pollution,
When there's a mess, rife with the smell of rat;
In step the Georgists, with a unique solution;
What rats can linger, when they see the cat?