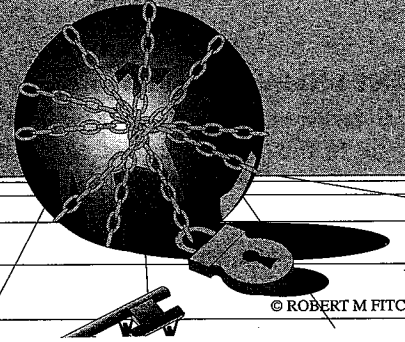


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RENT UNMASKED - Essays in Honor of Mason Gaffney
Edited by Fred Harrison (Shepherd-Walwyn, London, 2016)

(The following article is transcribed from an audio recording by GroundSwell editor Nadine Stoner. Ted Gwartney, Anaheim, CA, may be emailed at tgwartney@aol.com. Brendan Hennigan, Ottawa, Ontario, Canada, may be emailed at bhennigan@magma.ca. Fred Harrison, London, UK, may be emailed at fred.geophilos@gmail.com. Dr. Fred Foldvary, Los Gatos, CA, may be emailed at ffoldvary@gmail.com.)

TED GWARTNEY introduced the book *Rent Unmasked* August 16, 2016 to those attending the Council of Georgist Organizations in Orlando, Florida. The book is available from the Robert Schalkenbach Foundation, www.schalkenbach.org.

The book was inspired by Mason Gaffney and his years of teaching and writing at the (continued on page 2)

RENT UNMASKED (from page 1)

University of California at Riverside. Mason had planned to come to this conference but at the last-minute events caused him to be unable to make it.

This book has 14 authors in it of the various chapters in the book. I think you will find this book quite interesting. Joseph Stiglitz, who has been a proponent of raising revenue from land and natural resources, wrote the Foreword. Henry George argued that the land tax is not distortionary; it improves productivity of economy because it causes investment of productive capital into land. Professor Gaffney in early November last year had a wish when he started this project that contributors should analyze sustainable growth and theoretical anecdote.

The book is split into sections. The first section deals with the theoretical. The second section deals with empirical evidence. The third section drives in the direction of action. The first section has a title on it of Last Man Standing. The first article was written by Fred Harrison about socialism, the next by Kris Feder. Mary Cleveland, Fred Foldvary, and Frank Peddle have papers. The second section is called The Clean Slate. Again, Fred Harrison has a paper. I have a paper, as do Dirk Lohr, Terry Dwyer, and Duncan Pickard. The Third Section is Prophetic Voices which contains papers by Fernando Gerstein, Peter Smith, Roger Sandilands, and Nicolaus Tideman. The Epilogue is The Authors in Conversation with Mason Gaffney.

BRENDAN HENNIGAN presented a video of Mason Gaffney. On July 7, 2016 Brendan Hennigan and Ted went to visit Mason at his home where Ted gave a copy of Rent Unmasked to Mason.

Ted Gwartney commented, Mason was wide awake and he was so thrilled to get this book. Mason was thrilled that people were using his work to express themselves and to come up with new articles from ideas he had talked about. Mason really felt like this was quite a compliment. He feels good. He feels like he will live to a hundred. He is still working and writing. It was great to see him in his California home; he has moved from his home on a hillside to a senior center where he and Tish have their own attached house and they have the services of the senior center, medical care and meals. He was grateful for our hard work. Surviving in the academic world is not easy. He said, "I am most proud in my 90s of still being able to write and hope books are getting better. A lot of you will still be around when I am gone and it gives me pleasure you are still carrying on Henry George tradition."

Next, Brendan Hennigan presented a video of Fred Harrison, who is the editor of Rent Unmasked.

Fred Harrison said, "It has been my privilege to edit essays from a dozen authors from around the world whose writings were on economic and environment issues of the day. I had the pleasure of being a guest in Mason and Tish Gaffney's hilltop home among the orange groves of Riverside. Mason

escorted me to the urban areas of Southern California to investigate the economics of land speculation. We rode a cable car to investigate the economics of land speculation in the desert." Mason commented, "Around the South Bay there are lots of problems; why do people build up on hill when there is flat land below. The use of water is fine, but it is our water. They should pay for it instead of being subsidized, and adding to the national debt." When Fred asked Mason why economics had been compromised, he didn't mince words. "The Universities have been endowed by major rent collectors and land speculators and beneficiaries of government largess. Stanford University, for example, with a fortune from land grants from the Southern Pacific Railroad. Cornell made his fortune during the civil war by stringing wires behind General Grant. The University of Chicago was funded by John Rockefeller, the oil baron. So, it goes from university to university." Naturally Fred wanted to know what we can do about this. Mason suggested that it was time for religion to intervene. "There have been times in history when a lot of people got the word and character through locally supported churches and maybe it is time to come back to something more like that."

Fred H. said, "I know that all our contributors will join me in professing our profoundest appreciation to Mason for his lifetime dedication to the Georgist cause." Mason's words contributed to our understanding of precisely why things are wrong with our civilization and as it happens my next book is on the rise and fall of civilizations. Naturally I can cite Henry George's Progress & Poverty on that theme. And as usual, Mason had some very interesting insights into why civilizations collapse. "I believe we are seeing obsession of civilizations to violence and debt. Pyramids are probably an example. The Temple of Lumpur is probably an example. The pyramids of the Mayan civilization are probably an example. These are the inner thoughts, but something I intend to look into."

TED then introduced Fred Foldvary to talk about Kris Feder's article, Economics from the Ground Up: Public Revenue and the Structure of Production.

FRED FOLDVARY: Mason Gaffney got the concept of the structure of production from the Austrian School of Economics. It is the theory of capital goods. But Mason picked it up and it is quite complimentary with Georgist economics. Georgists use the term capital goods, when they are talking about one of the three factors of production and not the generic term capital. In the concept of the turnover of capital goods, even in the Austrian School of Economics, it is the timed structure of capital goods. The neo-classical mainstream school treats capital goods as a homogenous entity and it doesn't matter if it is stable inventory, it is all just goods used to produce other goods. The neo-classical school is highly mathematically based. Based on that mathematical model it is easier to have a model with two verticals of capital goods and labor, than three inputs. The turnover of capital goods is based (continued on page 15)

RENT UNMASKED (from page 2)

on the duration of the turnover. The duration is based on the depreciation. Example, a machine that lasts ten years, it depreciates and after ten years it is no longer servicing. And then they get a new machine. So, there will be a turnover of capital goods. The Austrian School emphasizes the role of the interest rate in the structure of capital goods. Imagine a stack of pancakes. The pancakes at the lower portion have a high turnover or short duration. That inventory in storage will quickly be sold and last only a few days in the store. The store buys the bread and sells it within a day or two. That is a quick turnover.

Yet higher on the stack you have capital goods that have longer turnover. Among the highest levels of the stack you have, as an example, like a real estate development which takes many years to assemble land, get the permits, build the structures, etc. If you have low interest rates, which makes the stack taller, because the money is tied up for a long time, and you only do so, because the return on those capital goods is greater than you can get from bonds. So, think of the alternative as safe bonds when you have a particular rate of interest. If the interest rate goes up then the stack gets lower because you are not going to invest in capital goods if you get more interest from bonds.

So, bonds compete with the return on capital goods and affect the stack. Austrians emphasize the lower the interest rate, but what Mason Gaffney introduced, unique to Geor-gist economics, is that the structure of capital goods are also affected by taxes. Capital goods generate more income and employment as it turns over faster. Quicker turnover creates employment as it has a quicker turnover. Taxes on gross revenue slow down the turnover. The rate of turnover is that of the duration, and he also introduced the term valence from chemistry. In chemistry atoms have a valence if they have an attraction to one another, so capital goods have high valence if it is complimentary to labor. A few capital goods also employ more labor. In low valence, you have a machine that replaces labor, so capital goods for the short duration quick turnover have a high valence for labor.

This is also related to another aspect of Mason's work and that is the quantum leap effect. He adopted the term quantum leap from physics. In physics, think of an atom, you have different energy states of electronics as they surround the atom, and you don't go gradually from one energy state to another in the atom. You leap from one energy state to another in the atom, so he adopted that term and applied it to economics where you have a quantum leap from production, depending on the tax system. So, therefore, the damage done by taxes on goods is hard data that conventional economic analysis would suggest. So, the tax on gross revenues is the worse. It can push land to less productive uses.

The surplus of an enterprise after paying for labor and capital goods is land rent. In neo-classical economics, there is a concept of the producer surplus. Both production

and consumption create a surplus. But the difference in the economy is that surplus. The consumer surplus is the difference between the most we pay for a good and what we actually buy. That is a psychological surplus. The producer surplus is the difference between what the seller gets and the cost of production at that quantity and that is a surplus that is really land rent. Neo-classical calls that a producer surplus but most economics recognize that the so-called producer surplus is really land rent. The surplus does not go to labor if labor is competitive, it does not go to the producers of capital goods if that industry is competitive, instead land rent is the one factor that cannot expand to lower the cost.

Another question raised in Kris Feder's chapter is whether all taxes come out of rent. The chapter has a bunch of tables showing the quantum leap effect of say switching from a tax on land to a tax on gross revenue. We are changing the use of the land. For example, think of a book store being replaced by a gas station. That book store will generate more output, and more employment, but if there is a tax on the gross receipts of the book store, and they cannot pass the tax onto customers, because of global competition, competition from e-books, competition from libraries, other sources of competition, if they cannot pass that gross receipts tax to customers, it will eat into the profits.

And if the store was only making a normal profit, it shuts down, but that gets replaced by another enterprise that has less overall production, less overall employment but nevertheless can pass on the tax or the margin between gross revenues and land revenues to pay the tax and survive. So, the book store could get replaced by a gas station that employs fewer people, has less output, and pays less taxes because it has less overall revenue. So that is why the lower tax will not only lose output but will literally lose tax revenue. The effect of the quantum leap is unknowable. We don't know how many enterprises are there because they could have been replaced by more productive enterprises if not for the tax system. But it could be a huge amount.

(Other Rent Unmasked authors also made presentations during the panel. Mary "Polly" Cleveland, spoke on her paper, Time Traveling Back to Space Age Economics. Fred Foldvary spoke on his own essay, Shifting the Landscape: Mason Gaffney as the Ultimate Heterodox. Frank Peddle spoke about his chapter, Accounting for the Common Good: Mason Gaffney's Philosophy of Reconciliation. Ted Gwartney spoke about his paper, The Potential of Public Value: Assessing the Dynamics of Real Estate. Nicolaus Tideman spoke about his chapter, The Needed Moral Revolution.) <<