

CHAPTER 20

WHAT GEORGISTS COULD DO

In 1979—80 a remarkable application of George's essential principle took place in the United States. Involving tens of billions of dollars, the unearned gains of certain owners of "land" were appropriated for the public treasury.

What a breakthrough! The only trouble was, the Georgist movement either ignored or mildly disapproved of this development. Though it had been in the limelight since it was proposed by President Carter in April, it was not discussed at the Centennial Conference of August 1979; and nobody missed it.

It was, of course, the windfall profits tax on oil. The reason Georgists didn't care for it is because a tax on profit-as-such is unacceptable to them. George had said that "profit" was an unscientific term including the just returns to supervisory labor and capital with the unearned gains of monopolistic privilege, and that it therefore was not valid to tax away profits in themselves.

All this is true as far as it goes, but the Georgists overlooked two elements in the situation:

George wrote, "while it would be extremely difficult, if not altogether impossible, to levy taxes . . . so that they would fall exclusively on the returns of such monopoly and not become taxes on production . . . it is much better that these monopolies should be abolished."¹

For one thing, the windfall profits tax on oil involved a clear case of excess profits *not* being indistinguishable from earned

profits: they were the automatic result of the rise in price of imported mid-East oil.

Secondly, what George advocated where such profits were inseparable from earned profits was "that these monopolies should be abolished"; and although in *P & P* he was here referring to spatially determined monopolies (railroads, etc.), in *Social Problems* he cited Standard Oil as one of the "combinations" not to be tolerated in a just society—one of the "wrongs . . . which it is within our power to amend."²

By any reasoning it seems inescapable that he would have recommended either the windfall tax itself, or some other stringent curb on the suddenly-swollen profits—in view of the energy crisis perhaps even nationalization.

But it is noteworthy that although the windfall tax was then pending before Congress, there was no recommendation at the Conference to solve the oil monopoly in this or any other way.

The windfall profits tax was only the most striking of such measures aimed at curbing the unearned gains of natural-resource owners. There had been many others, either proposed or passed by non-Georgists. For instance:

1) Anti-oil-depletion-allowance legislation was passed during the Nixon administration. 2) President Ford recommended a "windfall tax" on the high profits of gas producers, and President Carter (before 1979) similarly advised a ban on "unwarranted profits." 3) When oil-shale deposits were discovered in Western states, Senators Paul Douglas and William Proxmire proposed that their value be retained by the people. 4) The 1976 Tax Reform Act made it impossible for investors in oil, gas, farming and (later) coal to use their leasing arrangements as tax shelters. 5) In 1976, over President's Ford's veto, a coal-leasing reform bill was passed which raised the minimum royalty to the Federal government.³

The Georgist movement in the United States has taken no part in any such issues, though there have been occasional approving remarks in some of the little Georgist magazines, or by a speaker at one of their conferences. Even more completely disregarded by them is a related category of issues: the

draining of unearned profits from public utilities such as electric companies, transportation lines and communications. Although George even advocated public ownership for these, such curbs to them as have been currently suggested have been made entirely by non-Georgists.⁴

The chief reason Georgists neglect these and various other issues which one might expect to interest them is that they are preoccupied with a single legislative aim: the differential tax-shift or "land value taxation." Though this term in its purist definition simply means the high taxation of land values, in the movement's parlance it almost invariably denotes a mathematically corresponding abatement of taxes on buildings. This 'LVT,' the direct descendant of Shearman's "single tax limited," is the goal of which Georgists are enamored. Its balanced dualism of higher taxes on the land supplied by nature, and across-the-board tax relief on what individuals have built, seems to them the basic expression of George's theory.

The great bulk of their written and spoken efforts, their approaches to legislators, city planners, civic leaders, editors and economists, and the application of their funds, has gone in this one direction.

Yet this expression of the land-tax principle, whatever merits it may have in itself, does not truly embody George's theory. It alters the incidence of the proposal in two ways: in regard to both its impact upon landowners, and its results for the public at large.

1) LVT is applicable only to urban and suburban land, where improvements yield a large component of the total real estate value. Vast tracts containing oil, minerals, timber or water power, land adjacent to railway lines, the airwaves, etc. are excluded from its intention.

Not only are the owners of these resources untouched by the measure, but even in cities, the unearned gains of landowners are captured only to a limited degree. For expensive buildings and expensive sites habitually go together, and if the former are to be tax-abated, the landlords of the latter are at least partially compensated. The proposal certainly does not affect

rich city-dwellers who own no land as such, but who may be amassing wealth as stockholders in corporations based on natural resources.

2) LVT alters George's primary intent not only by affecting such limited categories of landowners, but in the way it allocates the extra land-revenue collected. The increased yield from the higher tax on land does not go into the public treasury but, by a mathematical formula, is wholly applied to building-tax relief. This net land-revenue benefits a special and not necessarily needy group: people-whose-improvements-are-worth-more-than-their land. To be sure, this group is apt to include small homeowners, shopkeepers and businessmen; and to reduce their tax bills has a certain utility. But the procedure offers no relief to the poorest people who live in rented rooms (there is no guarantee that the landlords would pass on their tax savings to them).

Altogether the measure has some merit in that it captures some unearned land-income, notably from speculators in vacant and underused lots; it also encourages slum clearance, since when a landlord's tax bill goes up on his land he will be impelled to recoup this by erecting better, relatively tax-free buildings on it. But it is basically an incentive to the production of buildings rather than the redistribution of wealth. Even though this increased production may have results which in certain localities are beneficial, the procedure does not express George's privilege-destroying and redistributive purpose.

Georgists have claimed that if "LVT" were achieved in many cities, it would prove an entering wedge to a wider tax on all land, including natural resources. But an entering wedge is not much use if it is pointed in an irrelevant direction. A measure appealing to the champions of untrammelled production is—politically speaking—not apt to attract the opponents of monopoly. Such people as have supported the urban tax-shift, whether Georgists or public officials, have given little more than lip-service, if that, to the higher taxation of natural resources or landed corporations.

How, then, should George's proposal be applied to express his true intentions of taxing away land-profits, and of restoring these values to the public?

1. *How to tax away land-profits*

It is essential to appropriate more of the value not only of urban ground but of all "land." This includes the holdings of corporations dealing in oil, coal, timber, hydroelectric power and many other resources, and not only the raw materials they use in their operations, but also the real estate which many own sheerly for profit.

These values could be captured by higher leases, royalties or sales prices; by special taxes on the landed assets of corporations, or perhaps by an excess-profits tax indexed to the value of such assets. The reduction of oil depletion allowances, or of tax subsidies such as now enrich the coal barons of poverty-stricken Appalachia, could provide tax-money for the people of the regions.

Urban land revenues might be increased by two methods outlined in the Douglas Report: an income-tax rate instead of the present lower capital-gains rate on landed gains; or a transaction tax progressively geared to the value of the profit *at the time of a sale*. And simply bringing tax assessments closer to market value would yield extra revenues: this method is particularly appropriate where a public improvement, such as a new subway line, has enhanced the value of the land. The reduction of high real-estate depletion allowances would also help.

2. *How to allocate the extra land-revenue*

George's chief purpose for the appropriation of unearned land values was to return them to workers and producers. He thought that access to unmonopolized land would raise wages automatically. But this is not now the case in industrialized countries; and so different methods should be sought whereby the increased land-revenue could reward earners.

One such method (which in 1979 was legislated in Pittsburgh, Pa.) is to apply such revenue to the relief of the payroll tax. This is especially consonant with the spirit of George's reform, since the income tax, non-existent in his day, is now the chief source of revenue, and the payroll tax is laid on that portion of income least susceptible to monopoly profits. Another method would be to use the money to give employment in

needed public works, such as mass transit repair, or the erection of low-cost housing.

The revenue could also well be applied to the reduction of the national deficit—provided it served as an addition to, not a substitute for, other progressive measures currently being suggested. Such a nationalization of locally raised revenues—especially those from oil-rich states—would be in keeping with George's thought, for he wrote:

"There is no reason why at least the bulk of the revenues needed for the national government . . . should not be collected from a percentage on land values, leaving the rest for the local governments. . . . On the contrary there is . . . a strong reason for the collection of national revenues from land values in the fact that the ground values of great cities and mineral deposits are due to the general growth or population."

Many of the methods suggested above have been proposed from time to time by non-Georgists. Altogether there are ample opportunities for Georgists to join actively in land matters already in the public consciousness. These include environmental issues, where considerations of private profit from "land" often determine the usage of a natural resource.

The air waves furnish a prime example of this. With what eloquence might not George have pointed out that the mixture of triviality, consumerism and violence which constitutes so much of video fare is the result of the profit-motive having invaded this great realm of nature.

In another direction, the private ownership of oil has immense implication for the way people live, and even for foreign policy. Profit must of course be allowed for the work of extracting and processing raw materials, but if no profit were obtainable from *mere access* to oil, decisions as to its use relative to other forms of fuel, or its extraction from native rather than cheaply drilled foreign soils, would be made more clearly in the public interest.

Such reasoning applies to many other environmental and ecological issues. If there were no more advantage to be gained, for instance, from access to uranium than from harnessing the forces of sun, wind and water, the question of nuclear versus

renewable forms of energy would be freed from a motive that is unheedful of the best solution in human terms.

Finally, how could the educational arm of the movement become more effective?

Teaching *Progress and Poverty* as "fundamental economics" will never succeed, because it isn't that. Yet to eliminate the book as required reading deprives many students of what might be a unique inspiration. A solution would be to divide the *P & P* course into two parts:

The first—titled "*Progress and Poverty* as Literature, Philosophy and Economics", or something of the sort—should do no more than present the economic argument, leaving it to the second course to discuss it.

The second part might be called "History and Appraisal of George's Theory." The history, among other things, should point out how today's "land value taxation" is actually Thomas Shearman's "single tax limited." The appraisal should note the insufficiencies as well as the central truth contained in George's stated remedy.

Such a course (besides being available at the School) might be acceptable to certain high schools and colleges in a way that the present Georgist curriculum is not. As a sequel to this, some economics majors—with time, intelligence and freedom from vested interests in their favor—might chose to devise ways of gradually modifying the status of land ownership. The best of their theses could be handed on to civic and political leaders for consideration.