God like omniscience. This is so absurd, change to do their best w. info they have.

10. Ecsts, standard-brand, have not led. in land ecs.

(1)

H G was pithe
R. Hind appreciation.
R. Babcock "
Von Thunen landowner
Faustmann forestry

Ecsts. w. seal of approval get wrapped up in rationalizing the system.

11. H G saw distr. inequity leads to social strife, highly expensive.

Today: windfall v. wipeout
X-subsidy
rent-seeking.

12. Saw hist. of land tenure as key.

(2)

Organic thy. Bisset. Royal prop. vs. pvt. prop.
Longest part of P+P.

13. Chi. ecsts. are interested in tenure etc. (instns. of) J. of Law + Ecs. But main int. is showing one shd. ~~put~~ create tenure + alienability. Do not see need to lubricate mkts by

avoiding fee simple.

O'look distrib. problems. Make violent entitlements, e.g. offset rts.

14. H G saw non-comm. origins of land tenure.

(3)

There none was for a party
But all were for the state
Then lands were fairly portioned
Then spoils were fairly sold
The Romans were like brothers
In the brave days of old.

The great man helped the poor
& the poor man loved the great

~~13~~. Fealty – pub., patriotic tenure. Sale to alien unthinkable. Nation as extended family.

15. Jeff. abolished entail, but not fee simple.

G. wd. make ~~land~~ titles strictly possessory, abolish resale value. Untie the bundle of rts into sticks small enough for one man to carry.

Saw spec. in Resale Values as obstacle to current use.

16. Allied w. A R Wallace, land nationalizer. An instl. diff – Wallace wd. extinguish titles, but compens. for loss of present use. – i.e. socialize dev. values.

"Diffs. of detail" said G. Then. In that spirit, grand alliances are formed. When details divide, you have cranks

383-4195 Purdy C.

17. G opposed Mill's buyout bec. int. on debt wd exceed present rent. Due to spec. price.

18. Ancient hist. of common rts. in land. G delved into: Lycurgus, (p. 10)

(3)

19. Greatly impressed by anti-heap of places winning, poss. int only, no resale value.

20. Always gives behavioral exs. -
Alt. remedies, e.g.
Ec. in govt - Boss Tweed
Ed. China
Techn Irish pots
Unions Land combines easier
Unions are inherently military.
Partic. Mortgage: long
Free Trade in land 3 Fs. Rent control.
Arthur Young.

21. G. observed ~~25~~ many behaviors not deducible a priori

(4)

a) Cash domin stronger than o.c.
b) Resale value overrides value of poss. int.
c) Land distrib. is political
d) Tend to coercion.
e) Rent seeking wastes efforts.

f) Rent is prior claim, not resid.
g) Tax-avoidance has excess burden
h) Cities are synergistic; rent is free lunch.
i) Taxes can redistrib. w/o revolution.
j) Public goods free

10-1

"After the Crash: Designing a Depression-free Economy"

Mason Gaffney

Jan 26 2011, Talk to Citizens-University Committee, UCR

FOREWORD

This is not an outline for a half-hour talk, but more like an appendix. In speaking I will just hit a few high spots.

These proposals will seem too radical to some, but consider:

A. We have been radically, spectacularly wrong, need to change radically. Bush I, Bush II, and now Obama have demonstrated incompetence. Clinton and his Congresses were only marginally better. They have used the same set of economists, the same paradigms with the same astigmatic limits. They narrow their vision to money, its quantities and flows, without reference to real events and resources. They look only at ancient "in-the-box" policies, sticking us with dismal choices. In Washington it is "inflation or unemployment, take your pick". In Sacramento with successive Governors it is "regressive taxation or kill incentives, take your pick". In either case it is our fault, not theirs, if the by-products are bad. They have no "win-win" solutions.
B. Many changes proposed here are returns to older traditions that prevailed when California and the U.S. were flourishing better than now. Returning to tradition is not "radical" in the sense of untried or frightening or unpredictable.
C. Some proposals here entail State and local action; some entail Federal action. I have not, in the time available, distinguished sharply between them, but left that to the listeners to infer.

I. **Premises.** (These go back at least to A.R.J. Turgot, the tutor of Adam Smith.)

A. Investing is the circular flow that animates all the work of society. Capital is a Great Revolving Fund: the faster any fixed quantity of it revolves, the more work it animates. More capital may be better, but we can always make do with what we have
B. "A" applies only to NET new investing, income-creating and job-creating. It does not apply to buying existing assets like land and old buildings. It MAY apply to IPO's, depending on how the new capital is expended. It does not apply to M&A.
C. Walter Heller demonstrated one way to downtax net new investing without losing revenue from the income of old assets. Since his time his policies have been abandoned and reversed; wage rates and the demand for labor have steadily fallen.
D. Land available in the right place at the right time at the right price is the necessary venue for "A".
E. Taxes and other charges based on giving and receiving jobs are directly and obviously job-killers. They have risen steadily and inexorably over the last century.

II. **Our present economic problem summarized**. We have a shortage of liquid capital; a shortage of available land and resources; and a surplus of labor.

III. **Solution Summarized**

The solution summarized: it should be obvious to any reasonably bright 12-year old - lower the coefficients of capital and land per worker. Get capital moving (turning over); get land in use. Those will put labor at work.

IV. Capital: turning too little capital into enough

Capital may be a Great Revolving Fund, but some capital revolves much faster than other. To simplify, there are two kinds of capital: fixed and working. We have lots of fixed capital just now, but capital in empty buildings, mothballed ships and airplanes do not make jobs by themselves. We need more working capital, or "Capital in motion", capital that keeps returning to be reinvested (revolving, or turning over) to meet the next payroll.

Two parts of solution to capital shortage:

1. When down in the hole, stop digging
    a. Avoid new pyramids, e.g. proposed tunnel under delta.
        i. Example of how long building periods swallow up capital, first in AFDC, then in slow recovery
        ii. Cases in point: SONGS; Tenn-Tom Canal; Chunnel; Seikan Tunnel (Honshu-Hokkaido); empty mansions in Riverside County.
        iii. Generic case: urban sprawl, continental sprawl, and our worldwide sprawl swallow up massive capital and keep it from recycling. We do not need "shovel-ready" projects so much as sales-ready or use-ready projects from which we recover capital fast to meet the next payroll.
        iv. Solve problems in other ways than building monuments and pyramids, e.g. by using local waters economically. Case of Kaweah Delta where little local economies would have obviated the Friant-Kern Canal
    b. Restructure income tax system, drastically – yet by returning to tradition
        i. Reallocate undistributed profits
        ii. Downtax quick profits, a la Heller; uptax slow profits and capital gains
    c. Forget "shovel-ready" slogan, replace it with "sales-ready"
2. Recover that capital
    a. It takes working capital to thaw out frozen capital. Use empty buildings, remove mothballs

V. Solutions to land and resource shortage

1. Repeal or amend Prop. 13; recreate the magnetic tax system that made early California flourish: no sales tax, no state income tax, heavy taxes on land
2. Note that property taxes based on land values are both progressive and pro-enterprise. This is one of the best-kept secrets of modern economic orthodoxy. Data available on request.
3. Note that the prospect of steady annual tax rates levied on the base of land values will have a tempering effect on the present high amplitude of cyclical swings in the price of land, which in turn is the collateral behind wild swings in bank credit. This is a central part of "Designing a Depression-free Economy".
4. Use new funds from proptax to lower other taxes, fees, that now "shoot anything that moves", and "welcome, strangers".
5. Stop water and other subsidies, to farmers who produce the least value per acre-foot of water: rice, alfalfa, pasture, sugar beets. Reallocate water to higher uses. The market would

do it, if we had a market, but we hardly do. Give high priority to creating new institutions to facilitate water marketing.

VI. Making jobs by untaxing labor, replacing revenues from resource and environmental taxes and charges

1. Remove FICA tax, and various state taxes and charges that vary with jobs. Replace revenues from:
    a. Higher proptaxes
        i. Raise rates to 1977 levels, 3%. It worked for a century before then; why not now
        ii. Sunset preferential assessments: TPZ, Williamson Act, Golf courses
    b. Various resource taxes or charges on resources that are now tax-free, and often heavily subsidized
        i. Assets held by licenses, which are not taxable property. E.g. liquor licenses; taxi licenses; utility franchises
        ii. Water: "Megabucks for Negabucks". Take seriously the State Constitution that declares "The waters of California belong to the people of California".
        iii. Oil and gas,
            1. Severance taxes, common in every other state but ours
            2. Administer leasing on State and some city lands more aggressively
        iv. Timber and timberlands, private and public
        v. Curb Parking on public land. Work of Donald Shoup
        vi. Road use by moving vehicles
            1. Crudely, by raising gas taxes that have fallen since 1920
            2. Gradually introduce more sophisticated methods as practiced in Singapore and some other pioneering cities
        vii. Effluents in air and water: work of Peter Barnes and others , estimates of enormous revenue potential
        viii. Coastal access: slips and moorings
        ix. Fisheries, fin and shell
        x. "Sweetheart" leases, e.g. on Federal lands ("possessory interests")
        xi. Eleemosynary institutions xii. Radio Spectrum; xiii. Air Space
    c. Close loopholes in sales taxes and income taxes (if we must have them). Long lists of loopholes are available on request.
    d. Assert State ownership using Public Trust Doctrine potentially covering vast areas, e.g. the entire Delta and that half of the original San Francisco Bay that has been filled in.

VII. SUMMARY

Please go back over headings I through VI.

Rent: Drug costs 3x as much in airport than local store.

011-44-181-943-3352

Land Rent in a Tax-free Society

Outline of remarks by Mason Gaffney, for use at Moscow Congress, 5/21/96

1. Rents are a taxable surplus. I estimate that this taxable surplus constitutes 35% or more of the national income in most nations with market economies, and more in resource-rich nations.

What is rent? Marx and market economists define it much the same. Marx spells it out in *Das Kapital* (Vol. III, Part VI, Chap. 46-47). In simple feudal conditions, the whole of surplus value is rent. Under capitalism, an industrial landowner gets a "surplus profit" above the cost of capital; location exerts the "overwhelming influence"; the landowner is "passive ... contributes nothing, risks nothing, unlike the industrial capitalist." Rent for housing land is "tribute for the permission of inhabiting the earth." "... space is required as an element of all production and all human activity." In urban industry, to increase production "demands an extension of the land area."

Marx continues, one can distinguish house value from land value. House and land are often even "owned by different persons." Growth of capital "necessarily raises rent" (while it lowers rates of ~~profit~~ return on capital). "Land, not the house, forms the actual object of speculation in growing cities." Machinery and other capital wears out, "but the soil, if properly treated, improves all the time." Marx ~~propounds~~ calls for a "Trinitarian Formula: Capital; Land; Labor."

In mining, rent comes from the low-cost mines, because they sell their product at the same price as the high-cost mines. In all fields, high product prices are "converted into rent and in this way fall into the hands of the landlord," concludes Marx.

2. The value of rent is huge. Every economy produces a large excess over wages. To be sure, not all of it is surplus. Some of it goes to replace capital that wears out each year. This is not part of the net surplus, nor income to the capitalist; it is a return of capital.

Second, some goes as a return to capital, over replacement. This is pure income. Income to capital is not a taxable surplus, but a functional incentive: it moves people to form and supply

capital. This entails securing new capital (by saving, and borrowing) and conserving old capital (avoiding dissaving, and avoiding export of capital).

Capital income serves another useful function: it steers capital into the most productive uses. Steering capital to its best uses has the same useful function as securing new capital, and conserving old. Using capital effectively is as beneficial as securing more capital, and ever so much cheaper. The Great Transition in Russia now is learning to allow income on capital, to secure these benefits. The trick is to do it without allowing more than is needed.

The rest of the excess over wages is captured in the rent of land. It is a true taxable surplus. The amount is already huge, and will become huger yet when existing taxes are abated.

The size of rent is not reported in capitalist nations, except to trivialize it. Their national accountants, dominated by landowners, neglect or conceal it artfully, to protect it from being taxed. Local governments do, however, measure and tax property by value. More than half the value of property is land. In Vancouver, B.C., 73% of the value of all property assessed for taxation is land, even though much land there is exempt from tax, and not assessed at all. In California's major cities it would be just as high if only we assessed land here as accurately as they do there.

Milw,

3. Rent will become huger yet when you abate taxes presently levied on production and exchange, because these now depress the rent of land. That is, in a tax-free market economy, the benefit of abating present taxes will lodge mainly in land rents. The taxable surplus simply shifts from one form to another.

This is more than a simple shift of a fixed amount. When you substitute land revenues for existing taxes, the surplus actually grows, as if by synergy. You gain more revenue base than you lose, because existing taxes now suppress much latent production. Payroll taxes directly drive workers from taxable jobs to untaxed gains from crime. Abating those taxes will unleash suppressed economic giants, along with all the new surplus values their latent production will generate. "Monetarists" warn you that "there are no free lunches." In fact, however, good policy creates lots of "free lunches." It makes the whole greater than the sum of its parts. Imagine the benefits, alone, of turning

people from destructive careers in crime to useful jobs producing goods.

At the same time, the effect of socializing land revenues is to stimulate better land use - the opposite of the effect of existing taxes. Every landowner, to pay the required land charge, is pushed to steer his land to the best use (just as paying interest steers capital to its best use). Thus, the shift to rent-based revenues doubly induces new production: it releases the brake of present taxes, and replaces it with an added push to produce. This is "supply-side economic policy" in the best and truest sense. It generates yet more surplus. You may take all of rent to support government functions, without damaging private market incentives, but only sharpening them.

This policy lets us achieve and reconcile two policies that many now believe are incompatible, viz.: free markets, and common rights in land. It is a kind of miracle, yet simple to understand and implement. Monetarist advisers would bind you in a dilemma: they claim you must choose between private markets and common rights. In fact, you may have both at once. Public revenue is simply the kind of socialization that occurs in a market economy. Socialize the rent of land, and you socialize the net benefits of owning land, even while privatizing the management of land, and gaining the benefits of using free markets.

The combined effect of all this stimulus would be a burst of growth such as few economies have ever shown, except in wartime. We learned in the U.S.A. in World War II the astounding effects of simply taking the brakes off production. U.S. GNP doubled, 1941-43; all willing workers were fully employed. This same miracle can occur in Russia, 1996-98. The natural resources and human talent are here: you only need the right incentive structure to turn labor from idleness and crime to producing goods and services.

4. Some of the benefit of abating existing taxes will lodge in higher after-tax wage rates, rather than higher rents. For the present and near future, however, the supply of labor in Russia is highly elastic because so many potential workers are now unemployed, or underemployed, or occupied in crime. In this condition, raising demand for labor will raise payrolls by raising the number of good jobs, more than by raising wage rates. On balance, therefore, this effect on jobs will create new rents, more than it cuts into old ones. After Russia shall have

achieved full employment, wage rates may rise and cut into the surplus of land rents, but if this should then create a new kind of problem (which I doubt), it is greatly preferable to those that afflict you now.

5. Many varieties of natural resources generate rents. City land is the greatest single source. For example, one city, Vancouver, contains half the value of taxable property in B.C. - a province of 934,000 sq. kilometers, or 70% larger than France. However, many other resources yield rents. Some of them are also huge in value, even though some are inconspicuous. Here are a few varieties of them: access points to transportation (by water, rail, highway, air, etc.); clean air (or the license to pollute it); aircraft time-slots and gates in airports; amenities (good views, warm weather, soft breezes, freedom from pests, riparian access, etc.); aquifers; dam and reservoir sites; water in arid zones; rights of way; preferential use of "common" lands (e.g. street parking in New York); covenants over lands of others (e.g., covenants against competition); easements (e.g. the right to pass over land); fisheries; forests; franchises (exclusive right to sell in certain areas); the gene pool; geothermal energy; grazing; licenses; minerals and gas (rent includes the rise of value of minerals in situ); orbits; some patents (giving effective control over minerals); ability to wield political influence (meetings at private estates; special voting rights); ~~rights of way~~; foreign holdings and ocean shipping routes protected by national forces; soils; spectrum (radio, TV, communications); legal standing; strata rights; space on the streets; advertising sites; ~~water~~; wildlife (for hunting, viewing, etc.); wind (for power); zoning permissions; etc.

Some of those varied resources are highly valued. For example, newly minted fishing permits offshore of Washington State sell for $1 million @. Their owners retire and rent the permits to working fishermen, creating an instant class structure where before there was equal opportunity. Imagine the value of an exclusive right to take Caspian sturgeon. Radio spectrum amassed by the McCaw Company recently passed to AT&T for $13 billions. Dmitri Lvov estimates that your oil and gas revenues alone could support the entire national government (*Practicable Course of Economic Reforms in Russia*. Moscow: Russian Academy of Sciences, Central Economics and Mathematics Institute, 1994). They might even surpass urban rents in value, if they were valued at world market prices. In arid lands, access to water is life itself.

You may measure rents that these different varieties of resources generate, once their products sell in markets that tell you their true value. As mentioned, when we restricted fishing rights to those with licenses, licensees immediately began renting them out, creating a market price. If there is a market for logs, you may estimate the value of forests from which they come, using the "netback" technique. There is already an active world market for radio spectrum - and the price is very high, so do not neglect it. There is a world market for mineral leases to produce oil and gas. It is shark-infested, so enter it carefully, but there are hundreds of experts to advise you how to get your fair share from the minerals you own, and prosper like the Sheikhs of the Persian Gulf or, better, like the ordinary people of Alaska, Alberta, The Netherlands, or Norway.

A challenge for Russian science and statecraft is how best to tap for public use or equal distribution all these varied rent-sources. Each poses its own technical problems. Once you commit to pricing resources in free and world markets, however, markets generate the price data needed to measure taxable surpluses that each kind of resource generates. The Russian people, who spawned so many world-class composers, writers, and scientists, who turned back Hitler, and launched the first Sputnik, obviously have talent, industry, courage, and ability to organize and govern. It is a matter of bringing these virtues to bear on the question at hand.

The *Big Bang* Shift to the 'Single-Tax' Economy

A 2-day Colloquium
organised by the

School of Economic Science
&
Centre for Land Policy Studies
London

Nov. 9 & 11, 1999
Sarum Chase, Hampstead Heath

Participants: James Armstrong, Ronald Banks, Mason Gaffney, Michael Gilbert, Fred Harrison, Joseph Hyde, Martin Ricketts, Nic Tideman

AGENDA

Tuesday, Nov. 9

10.0 Welcome, & Aims of Coloquium: Joseph Hyde
10.15 Agenda: Fred Harrison
10.30 *Five Prepared papers*:
- i) *Fred Harrison* on Pre-conditions & Public Comprehension
- ii) *Joseph Hyde* on Asset Prices
- iii) *Ron Banks* on Banks
- iv) *Mason Gaffney* on the US Budget Surplus
- v) *Nic Tideman* on Compensation
- 15 minutes each, with 15 minutes discussion?

LUNCH: 13.00

14.00 Problems to be addressed: theoretical

15.00 " institutional

16.00 " personal

17.0 End

Thursday, Nov. 11

10.0 Global constraints on a country's fiscal options

11.00 "Act local" initiatives: the property tax

12.00 Parallel reforms: Finance Industry? Politics? Industry?

LUNCH: 13.00

14.00 The Transitional "Model": *Is there a Blueprint*?

15.00

16.00 Follow-up Action?

17.00 End

Pressures for Tax Restructuring

James Robertson

Pressures for change in taxation are likely to lead to greater emphasis on land taxation. They include the following, as well as the perverse effects of existing taxes like business rates on land use and development.

1) Growing **mobility**, both of capital and of highly qualified people, combined with sharpening international competition, will continue to press national governments to reduce taxes on incomes, profits and capital, in order to encourage inward (and discourage outward) personal and corporate investment.

2) Growing **internet trading** ("e-commerce") will make it more difficult for national governments to collect VAT (and other sales taxes and levies) and customs duties, especially on products and services that can be down-loaded from the internet. It will also make it easier for individuals and businesses to shift their earnings and profits to low-tax regimes.

3) Economic, social and environmental **arguments for a "tax shift"** – off employment and enterprise and on to natural resources (including the capacity of the environment to absorb pollution) - will gather support. The growing world market for environmental technologies is one.

4) An **ageing society** will experience increasing resistance to taxing fewer people of working age on the fruits of their employment and enterprise in order to support a growing number of "economically inactive" people.

5) International pressure, e.g. from OECD and EU, to reduce the **distortionary effects of "tax havens"**, will continue to grow. A tax shift (as at (3) above) would reduce the attraction of tax havens, which could be seen as a better way to deal with them than by trying to develop internationally harmonised tax regulations.

So, **for practical reasons** a restructuring of taxation over the coming years might include proposals to reduce taxes on employment, incomes, profits, financial capital, value added and sales. To balance the reductions, it might include proposals to develop new, less easily avoidable sources of public revenue, such as increased taxes and charges on land, on the use (by both producers and consumers) of energy and other resources, and on environmentally damaging activities.

Meanwhile, as a more **general principle**, it might increasingly be seen as sensible and fair:

... not to tax people and organisations heavily on the **incomes and profits they earn** from useful work and enterprise, on the value they add, and on what they contribute to the common good; but ... to **have them pay taxes and charges reflecting the value they subtract** by their use of common resources, including land and energy and the capacity of the environment to absorb pollution and waste.

Big Bang:
are there "Optimal Conditions" for this tactic?

Fred Harrison hypothesised:
By describing the optimal socio-economic conditions for introducing Big Bang – identifying the Appointed Day – we enable governments to plan a rational reform; rather than resort to it in desperation, which is likely to result in half-baked solutions.

Given the world in which we live, when would be recommend Big Bang?

(1) **During a deflationary depression**. This is ideal, if we can anticipate such an event, and make preparations. Otherwise, if Big Bang becomes popular during a major crisis, there is a risk of legislating for less than the Full Monty.

During the deflation depression, Big Bang would –

a) lift the economy, with minimal risk of inflation as a policy concern;
b) avoid the problem of driving land prices down from the peak point in the cycle;
c) public revenue would be at its lowest point, so government would be equipped with an interventionist policy that did not seek to raise the share of tax-take on a weakened economy.

But: what do we say about the rate at which Big Bang is phased in?

(2) **TIMING**. To be able to predict a deflationary depression far enough in advance would help governments to undertake the necessary preparations. These include

a) public education: democratic support for fundamental fiscal restructuring is important, if the reform is not to be reversed by a subsequent government; especially necessary where (as in the US) constitutional change is necessary.
b) Provide time for adjustment in the private sector. Knowledge of the Appointed Day would provoke defensive strategies that might do much of the government's work for it:
    i) Drop in land prices (but this would not reduce competitive rents);
    ii) People's concerns would be with jobs, rather than the price of their houses (this would be the post-housing boom period).
c) Public sector reforms:
    i) changes to the national accounts;
    ii) land valuations (the tax base);
    iii) ?

NOTE that, if the above argument is correct on conditions/timing, we now have another problem: *unless we can convincingly demonstrate* that the depression will be caused by existing arrangements (property rights + public finance), the advocates of Big Bang will be blamed for the depression!

Thus, we have to be convincing about

a) the causes of depression (to exonerate the Big Bang policy), and
b) the timing of the next depression (which I identify as 2010).

Nic Tideman writes:

Given the world in which we live, when would we recommend the Appointed Day? I don't think it makes sense to try to identify an optimal time. It is difficult to get very far before there is understanding, and once there is understanding, it makes little sense to wait. People will see the handwriting on the wall, and land prices will fall.

Fred Harrison replied:

We would have to narrow our choices down quite hard, to these:

EITHER we advocate a very fast, and very full, capture of land-rents;

OR we keep our ambition a secret, and go for the incremental approach, a la Steve Cord.

Why? Because if we declared our eventual ambition, but opted for the progressive approach, we would, indeed, be causing chaos. The most effective defence strategy would be for landowners to withdraw their cooperation: they would seize up the land market, causing havoc with construction, etc. And then blame the government.

The cost of inaction

We could develop at least two scenarios for introducing rental charges at critical levels.

SCENARIO A

100% rental charges imposed by government on all forms of rents on the Appointed Day.

To qualify as the Big Bang approach, however, the government has to commit itself to the full implementation of the proposal: ie., implementation would have to be within the lifetime of the government – there must be no uncertainty attached to the proposal. (If an election intercedes, the government could be replaced and the policy reversed.)

Mase Gaffney wrote:

One of the selling points for LVT is that it is non-catastrophic in application. It uses existing institutions. "Big Bang" breathes of catastrophe, revolution, crisis. even warfare.

The American Constitution has gradualism enshrined within it, but they did not get rid of slavery gradually (although the effects were less than favourable to the ex-slaves for more than 100 years).

Yes, and no. The Emancipation Proclamation was a wartime measure, an exec. order by the C i C, probably unconstitutional. Later there were the 13th, 14th and 15th Amendments, passed by virtue of packing the confed. states reps while they were under martial law. Then came the deal of 1877 that virtually restored the status quo ante bellum for many years. The net effect was pretty gradual.

SCENARIO B

The incremental approach to introducing the full collection of all rents. This is the option in which landowners would retain the opportunity to defeat the policy; say, at the point of an election.

Each of these scenarios (is there a third?) requires justification, in depth. A special burden of responsibility falls on us to alert people to all possible major consequences of either strategy.

For example, with Scenario B, we are obliged to inform the public of the costs of the drawn out process – of noting going for Big Bang on Day 1.

We need to explain how government's present approach to raising revenue is
ANARCHIC
ARBITRARY
ABUSIVE

Questions arise. For example, if we postpone the introducing of full market rental charges, we are accepting economic anarchy, arbitrary setting of tax rates by government, and abusive assaults on the natural rights of wealth-producers by government. The public would want to know that, if they did not back the 100%/Big Bang option, ***what level of shift in current arrangements would at least begin to reverse the*** 3 As? 10% of currently uncollected rents? 50%? 75%? What?

We need to explain why we think that rental charges fixed at X% of current market rents would begin to

- ñ restore order to the economy;
- ñ qualify as a principled approach to public finance; and
- ñ rebase the public sectors relationship to the private sector, such that government becomes a support agency for people who want to work, rather than the single major obstacle to production.

These considerations are qualitative as well as quantitative. Some members of the public – those for whom morality matters – would want to know how they could justify the collection of anything less than 100% rental charges. Viz

(a) how much INJUSTICE would be tolerable (leaving part of monopoly rent in private hands = injustice);
(b) how much rent capitalisation would constitute an insufficient reward to speculators, such that they would begin to shift their energies to value-creating forms of activity? and
(c) how much disorder is containable within the system, such that economic growth would not carry within it the seeds of self-destruction?

People and governments seek SUSTAINABLE economic activity. We claim that rent privatisation is the single major source of instability, which defeats sustainable growth. At what level of rental charges, below 100%, would government be able to deliver sustainable conditions – an economy in dynamic equilibrium?

Put at the highest level of abstraction: on the interface between JUSTICE and EFFICIENCY, could we really have the latter without having the former?

SCENARIO C

The incremental approach to reforms. No pre-determined timetable.

This section requires a review of the history of site-value taxation in NZ, Australia, SA and Denmark.

Mase Gaffney wrote:

Some resources can be socialized quicker than others.

- ñ Those only recently privatized, like the radio spectrum, are vulnerable.
- ñ Others, like farmlands held for centuries in one family, are a tougher nut to crack.
- ñ Minerals have traditionally been regarded as more touched by a public interest than surface lands.
- ñ Waters are complex and poorly understood.
- ñ Forests have their peculiarities.

I doubt that any big bang will hit them all in the same way at one instant. We are dealing with politics, now.

Mase Gaffney writes:

In the U.S. Federal system, with all our checks and balances, there is no way to move except gradually, however firm our intentions. Madison planned it that way, and we're stuck with it.

We do have 51 little semi-sovereignties, constituting a great laboratory to show the effects of different tax policies. Within each of these, we have many municipalies, boroughs, counties, school districts, improvement districts, et al., some of which have local options on how to raise revenue. No way will they all act synchronously.

The only way to apply uniform pressures on each of them is through Federal provisions that create local incentives.

The U.S. Supreme Court majority has recently taken radical steps curbing Federal powers, and restoring powers to the States - "devolving" power, they call it. State action is now where it's at - it's almost pre-Gettysburg. Forsooth, it's almost pre-Constitution, for better or worse. (With that in mind, we should have our Pa. friends focus their forces on Gettysburg now - its symbolic value almost equals that of Philadelphia!)

Canada is another story.

In today's anti-tax Weltanschauung, more than ever, our best strategy is to focus on the tax or taxes we want to remove. In Canada, that would clearly be their new GST. In the U.S., Nic and I need to iron out our differences. Nic would focus on taxes on capital; I would focus on taxes on payrolls. Something to discuss. Nic and I are both capable of differing in an amicable, constructive way - (not like some).

Fred Harrison asked:

How do we determine the timetable for phasing in the fiscal restructuring. Note this proposition:

The increase in rental charges on land and natural resources must be proportionate to the rate of reduction of taxation of labour or capital; otherwise, there would be a catastrophic surge in land prices and rents, with the prospect of a boom/bust driven by the land market. This upsurge has the potential to be unstable, causing panic in government and possible postponement of the restructuring, as government resorts to conventional tactics for re-stabilising the economy.

Mase Gaffney wrote:

The problem I have with the alternatives is mainly that it presupposes that there is, or will be, a "we" possessing the power to regulate the rate of transition.

What "we" are, rather, is an advocacy group with some powers of suasion. We will move one step at a time, willy-nilly. This is reality.

I've no objection to floating scenarios, but I see limited gain to the effort involved in spelling out unlikely scenarios in great detail. Let us, by all means, consider our "ultimate" goal, and explain it to those interested. Let us hurry along the plodders and temporizers. Let us inspire those who have not lost the capacity to receive inspiration. But let's keep feet planted firmly on ground."

Fred Harrison comments:

The kinds of responses to the decision to introduce rent charges at a critical rate will vary, according to the public's perception of the government's conviction, which includes the timetable.

We know from post-war Labour legislation, which ranged from the most extreme - nationalisation of all development land - down to the introduction of development charges, that the property industry can be very disruptive indeed in defence of its interests. Such disruption ends up buying time for the opposition to gain power and terminate the laws.

The public would demand answers from us, of a detailed kind. "If such-and-such happens, how would the government handle it?" "How am I supposed to deal with such-and-such situation if you start to confiscate part of equity value in land?" etc.

Mase Gaffney noted:

California State Senator Al Rodda, a Georgist from Sacramento, was for years Chair of the Senate Committee on Taxation. As such, he was able to propose studies, but he had no majority to do much more than that with LVT (one of his more antagonistic members was George Deukmejian, later a right-wing Governor).

He commissioned a study of how LVT would affect all kinds of interjurisdictional relations - side-payments and subventions based on this or that formula, etc. He had a veteran bureaucrat work for over a year on this report; it was massive, and forbidding. I doubt that anyone read it; I couldn't get far in it. It mainly showed that a major tax shift like this would involve intricate restructuring of state aids and equalization payments, and generally raise hell with established relationships.

Then along came Howard Jarvis with Prop. 13. Carping critics asked him similar questions, only tougher, like who will support the schools if you take away 2/3 of their revenue? His profane answer carried the day: "Let those pointy-headed politicians in Sacramento figure it out, that's what you pay the bastards for!" Irresponsible, reprehensible, but politically very effective. People had equalization payment formulae coming out of their ears, and the inside chatter of the political junkies who purported to understand some of them. They went for something simple and sweeping. Rodda had failed by being too conscientious about answering all the questions anyone might raise, and ending with a study no one could read.

Fred Harrison wrote:

The virtue of setting out a minimum of two scenarios is that we present ourselves as fair-minded, objective, detached from the process; wishing to expand the democratic debate, by enbling people to choose which strategy they preferred. This is not dogmatically insisting on a preferred approach.

But we are entitled to narrow the options, on the basis of (a) ethical and efficiency principles, and (b) political realism.

M.G. here: see comment next below.

Fred Harrison wrote:

From the point of view of the present exercise, it helps to concentrate discussion on some specific scenarios; in that this focuses the analysis.

Note that virtually no discussion is necessary (on our side) if we were proposing a 2-rate tax strategy.(1) We don't have to be detained by ethical considerations: they

are irrelevant - it is sufficient to defend the small tax shift in terms of efficiency, such action being within the realms of what is currently politically acceptable. (2) The impacts are small, and benign. So there's no public perception of a disaster that needs to be analysed and answered.

But we are proposing a major shift. How major is major? Can we decline to propose something that falls short of 100% rental charges? No. Why? Because to do so is to accept injustice. There are no degrees of injustice. So a partial privatisation of rent is unjust, and therefore unacceptable; unless society says, explicitly, that it has abandoned the quest for justice, and wishes to be known as an unjust society.

Mase Gaffney replied:

Note how you have shifted ground from points (a) and (b), above (ethics, efficiency, and political realism). This is confusing. Suddenly you shift over to an absolutist theological ground that brooks no compromise and gives all the answers, closing off further discussion. No fair!

Fred Harrison concluded:

Mase is proposing Scenario 3: incremental change untied to timetable. This is an important additional option, which needs to be discussed. It has to start with proposing some kind of rate of increase of charges on rent (if we are to analyse the immediate responses). Then we also have to describe the consequences of this approach, good and bad.

I am not "proposing" it so much as describing it as the most likely evolution. This is how the bad taxes grew, starting with the thin end of the wedge.

So let's factor in Scenario 3: the incremental change. This is the segment in which we refer to the introduction of site-value charges in NZ, Australia, Denmark, 100 or so years ago; which means having to explain the fate of that approach in those countries, the better to give folk the realistic choice of whether to back this horse.

100 years is not a bad run - longer than most of us live. It would be nice to settle human fate for the next 1,000 years or more, but most likely each generation will do its own thing. Most likely, too, we will spend most of our lives in various states of transition, as people always have before, so I'd like to take a look at transitions. The "Big Bang" concept compresses transitions into an instant, thus in a way solving the problems by assuming them away. "Millenialism," one might call it - as opposed to "Transitionalism."

Mase Gaffney asked:

Wasn't there a best-seller a few years back, *Transitions*? It's a salable, dynamic concept. "Big Bang" might be described as "comparative statics," which is also the methodology of NCE: first you're here, then you're there. It's salable, too, as NCE shows, but it does neglect transitions.

Big Bang is great for God, Who can create universes. It is also, however, what happens to fallible man at the foot of a cliff when he thinks he can fly from the top. Transitions are plodding your way from origin to destination, step by step; or at least, preparing a parachute for the jump, to arrive in one piece.

Like you, I would prefer to get there in one giant step. I just don't think life, and our fellow human beings, are going to let that occur. For example, here in the states we live with aggravated urban sprawl, the joint product of several factors, beginning with underuse of the best land, supplemented by dozens of subsidies to spatial extensions of roads and utilities. Compacting settlement to what it should be

will leave millions of people stranded in peripheral locations, with houses, schools, roads, etc. ad inf. Recovering from scattered settlement will take time, and forethought, plus continuing thought-in-action over a considerable period.

Nic Tideman wrote:

Some random thoughts on scenarios. William Penn once asked George Fox, the founder of the Society of Friends (the Quakers), "For how long shall I continue to wear my sword?" Fox replied, "For as long as you can." If there is to be a Big Bang, it will be because there will be a shift in human consciousness, and people will no longer be willing to have tax collectors tax labor and capital in their names. I don't know how soon that will happen, but I like the idea of doing some work on a Big Bang, so that if that shift does occur in response to our efforts, we can offer a plan for how to proceed.

If the change occurs in response to efficiency considerations, on the other hand, the questions asked will be different. We will be evaluating transitions by the present value of their future total consequences, trading off the efficiency cost of a slower transition against the potential gain in terms of reduced chances of disruptions.

If we are constrained by political realism, then we want to be able to evaluate and improve upon incremental changes in our direction that might be proposed.

Thus I see **possible reasons for developing three types of scenarios**. What is the best use of our limited time is a tactical question that I have no defininte view on.

Fred Harrison wrote:

This prospect drives me to this interesting conclusion: **wouldn't politicians be derelict in their duty if they did not implement the fast-track big bang solution?** For anything less would cause chaos. We in the UK can draw on very serious historical evidence to back up this contention - cf the chaos in the property market caused by Labour legislation from 1947 onwards.

Some cases of social earthquakes

In making the case for a gradualist approach to fiscal reform, Mase argues that history is full of attempts at major leaps forward – which were then reversed: hence need for incremental moves in the correct directionThis fact needs to be taken into account and analysed.

However, there are counter-examples that encourage the **Great Leap Forward** strategy, some of which would have been farcical if their advocates had championed progress at a two-rate rate.

(1) Free Trade. Cobden didn't seek half a free trade; or transformation spread over decades. He won.

(2) Abolition of slavery. It would have made no sense to seek half a freedom; or 10% freedom p.a. – or emancipation for sections of the slave population, while testing the waters to see if it was possible to capture full freedom for everyone.

(3) Abolition of apartheid. An example of political transformation that was telescoped into a very short period of time. Mandela's movement did not seek partial rights for blacks; it demanded full and equal rights for all residents in South Africa.

(4) Thatcher didn't go for half a privatisation programme, and her market liberalisation – especially in the financial sector – was not built on compromises. Her attack on the power of trade unions was not incremental either. Her vision left indelible marks throughout the world, on the labour and capital markets.

(5) UK Liberal government, circa 1911, laid the foundations for the Welfare State with legislation on pensions, unemployment, etc. Again – startling transformation, in a short period of time, based on advocacy of empowering people.

The fact that Thatcher, and the Liberals post-1910-People's Budget disappointment, were wrong-headed, is neither here nor there. The point is – they saw what they wanted, and they went for it.

There must be other examples from modern history which encourage those who refuse to compromise on principle (justice) and see rapid progress as a necessary condition for success in fiscal reform.

E.g.: the 1688 Glorious Revolution was not a minor affair; and the "gains" were not reversed.

Lenin was a let-down; but can we say the same of Mao? Sure enough, Chinese communism is being buried....but ever so slowly, on the terms of the Chinese Communist Party, who are undertaking the transition to a new system while retaining total control.

Other examples would be welcomed. Here's two interesting ones -

One that fits into Mase's list of disappointments: the major strides in creating land-rent charging systems for local government in Oz, NZ and South Africa at the turn into the 20th century. These were Big Bangs (in their time) which have been reversed over an agonisingly long period.

The USSR, circa 1988, is very illuminating. Gorbachev wanted a gradualist change. He lacked vision, and so he was not guided by appropriate principles. Outcome: events overtook him, mainly in the guise of Yeltsin – and the course of history was entirely unintended, and at the expense of millions of innocent people. This was a case not of trying to rush through big changes, but of failing to control the process by knowing what to do. The change was not a reverse of what was intended, but much more than what was intended!

Mase Gaffney replied, on abolition of slavery [(2) above]:
Actually, it took about 100 years, and isn't completely done yet. The "Radical Republicans" who ran Congress, 1866-77 or so, aimed at complete social, political and economic equality, but never took the big step of redistributing the land. It all fell apart when Hayes became President in 1877, in alliance with the Dixiecrats. A new revolution was begun in the LBJ Administration, 1963-69.

Change in history

Mason Gaffney

"Transition" or "How to segue" or "Discrete vs. gradual change" or "revolution vs. evolution" might be more neutral. However, history moves, as a rule, continuously, rather than in discrete jumps. When there are discrete jumps, or revolutions, there has been a tendency to turn back in a few years.

Example #1: The American Revolution, as it proceeded, was a radical social movement, with massive redistribution of lands, 1776-83 and for a while thereafter. In 1787 there was a massive reaction and we got the U.S. Constitution, Federal assumption of state debts, tariffs and excises, Alexander Hamilton, and the Federalists. Of course, in 1801 there was another reaction, in the Jeffersonian direction, with continual wavering back and forth thereafter.

Example #2: The Civil War placed Abolitionism in the ascendancy, followed by Radical Reconstructionism in the old South. However, in 1877 the Republicans of the North allied with the conservatives of the old South to undo it all and institute Jim Crow.

Example #3: Robespierre's Reign of Terror led to the Thermidor reaction of 1794, and the Directory of 1795 - thence to Napoleon, and finally to the Restoration, the Holy Alliance, and Metternich.

Example #4: Cromwell's dictatorship led soon to the Restoration of Charles II, thence to the Parliamentary Revolution and revival of the Enclosure Movement.

Example #5: the Russian Revolution.

Of course, none of those revolutions was led by people with good Georgist understanding; doubtless we could do better. However, when you consider the number of nuts we keep finding in our own ranks, ... well ... you never know who will finally be in charge.

On the other hand, the success of the movement for land taxation in the late 19th and early 20th Centuries was so quiet and gradual and equivocal that it escaped the notice of many, who wrongly conclude that H.G. "failed." Yet by 1920 most state and local revenues in some states, e.g. California, came from taxes on land values. It was evolution, not revolution. It came from an institutional structure built up gradually over a century, at the state level, the county level, the city level, and via improvement districts. Since its peak, it has been gradually dismantled, piece by piece, in the same way. It's involved legislation and adjudication at every step.

ONE THING that will happen as excise taxes fade out, and land taxes segue in (or as we "cut" from one to the other, if you insist), is a considerable shift of tax burdens from local residents to alien owners of land. This will considerably improve the local balance of payments, and terms of trade.

The ineffectual opponents of Prop. 13 in Calif. totally failed to utilize this argument. I think they had been brainwashed into thinking it was somehow a mark of unworthy provincialism to think in those terms.

The champions of local excise taxes use this argument all the time. They tout sales taxes as nicking the passing travellers. This is why taxes on hotel rooms are so high.

Chauvinism often overrides mere economic logic, as I learned in B.C., 1974-76. I pushed for land taxes, using the argument that much of the best land in B.C. is absentee-owned. I learned that in B.C. an "absentee" owner is an American, but not a Canadian resident in Ontario, or even a corporation chartered in Ontario.

I also learned that the FIRE sector sells the notion that taxing land rents will drain B.C. of capital, because eastern lenders insist on land value collateral. This is part of the FIRE sector mystique we must handle.

Banks & the Transitional Challenge

Ronald Banks

To introduce the Rent Revenue scheme, in as full a way as possible, from day one, would have a major impact on the banking and financial institutions. But, an immediate implementation would, paradoxically, take time. Valuations would need to be undertaken, appeals heard and decided upon, the parliamentary processes gone through, and the machinery put into place.

All the above would give people time to study all the ramifications of the scheme, discuss and debate the issues, make representation to the government for special consideration (either a delay, minor or major concessions, complete relief from compliance with the new scheme, compensation, etc), and possibly a referendum on the issue.

This applies to the banking and finance sector. The sector will have time to consider the impact on their operations and balance sheet. Any concession from the basic principle would lead to everyone seeking concessions and would vitiate the whole scheme, and so we assume that the government has made it clear that there will be **no concessions**, except *maybe a compensation scheme for some homeowners*. This forces the banking and finance sector to focus attention on the impact, rather than on asking for concessions, and on making the necessary adjustments in the way they view the collateral on their books.

In order to study this impact, a certain assumption must be made - viz. That there will be

- no company taxation
- no capital gains tax
- no any property taxes on businesses or people.

In the UK, these figures amount to some 20% of total taxation, or 8% of National Income. The banking and finance sector has a number of activities, other than collateral lending, that produce profit. With no tax on the profits on all their business, this sector might just decide that it can handle any problems arising from their collateral lending.

Thus, the major impact is centred on the quality of the loans and the ability of their borrowers to repay the loans. Business borrowers will also be operating without tax on their profits, too. (Of course, some loans will be non- performing, anyway, and would have to be written off.)

In the UK, two major recessions over the last 30 years saw property values and prices collapse to a point where there was **under-collateralisation** of loans, producing the phenomenon known in the UK as 'negative equity'. This was a disaster for homeowners, but *the banks survived* on both occasions - the first time through a combination of government-led inflation (thus pushing up property prices) and just taking the losses on the chin; the second time through a combination of taking the losses on their loans and making up the loss from charging more than 20 million individual customers.

JOSEPH HYDE notes:

Some questions have arisen about regulation of banks to minimise their lending to finance asset price inflation across the board but in particular in relation to land.

Noting the failure of banks generally to support real investment in new productive capacity, leaving industry to bear this burden out of retained profits; and on the need to implement banking reform so that it is done at the right time in the right way to minimise problems a la Japan; and:

Assuming that the principle of taxing rent to provide the basis of government revenue had been accepted and had been introduced in such a manner as to minimise disruptive effects, and also to preserve the free tradeability of titles, and had not been accompanied with any additional reforms to the structure of finance and credit, *what additional reform of the banking system would either be necessary as a consequence of the first, possibly in the nature of repair, or support, what other reform would be desirable to secure or achieve or extend the first?*

I see two answers. The first relates to a start-up economy. The second to a mature economy such as ours. The two situations are entirely different and examples of both are current.

- ñ Can the two reforms proceed separately (I say no); or even,
- ñ could the land reform be achieved without prior banking reform (is the patient too sick to go into surgery?)

Banking Crises: Estimates of Costs

	Years	Costs (% of GDP)
Argentina	1980-82	55
Benin	1988-90	17
Bulgaria	1990s	14
Chile	1981-87	41
Cote d'Ivoire	1988-91	25
Finland	1991-94	< 10
Hungary	1987-99	10-15
Israel	1977-83	30
Japan	1990s	10
Mauritania	1984-93	15
Mexico	1994-99	12-15
Poland	1991-99	< 10
Senegal	1988-91	17
Spain	1977-85	10-15
Sweden	1990-93	< 10
Tanzania	1987-95	10
United States	1980s	2.5-3.0
Venezuela	1994-99	18

Source: Bank for International Settlements, Annual Report, 1996, Basle, Quoted in Charles Wyplosz, "International Financial Instability", Inge Kaul, Isabel Grunberg and Marc A. Stern (Eds.) *Global Public Goods*, New York: Oxford University Press, 1999, p.154

Big Bang & the global banks

Mason Gaffney

There is an "international comity of property" that will oppose radical land redistribution anywhere. It led the charge against the French Revolution. It formed the Holy Alliance. It put down the '48. It stifled Radical Reconstruction in the s.e. U.S. It trashed H.G. It waged 70 years of cold war against the U.S.S.R. It stifled land reform in Guatemala, Nicaragua, and dozens of other third world nations.

At the same time, it enforces international debt payments.

Now, with the MAI, it seeks to inhibit local measures to protect the environment.

It seems to be less extreme in its reaction to tax reform, unless I am missing something. It does seek to enforce uniform floor levels of income tax rates and VAT, but I know of no invasions thus occasioned.

It would be interesting to see how it reacts to a rise of land tax rates that has the effect of forcing private landowners to repudiate debts to foreign banks, when the debts are secured by land collateral. Conceivably, it might construe this as debt repudiation, justifying invasion, but I know of no such cases. Generally, other measures have sufficed.

For example, in 1936 or so the banks of California, led by the Bank of America, held paper on thousands of farms in Irrigation Districts. These private mortgages were junior to the land taxes levied by the Districts themselves, mainly to pay off their own debts. (The B of A evidently had much more interest in the private debts than in the public bonds.) The B of A and its allies pushed through the Munic. Bankruptcy Act, ca. 1938, which let the I.D.s declare bankruptcy and repudiate their bonds. This is the power of organized finance.

A modern example is the World Bank, and allied internat. lenders, who act as a monopoly in dealing with any small nation repudiating its debts.

If we can take the Lincoln people as representative of the "Comity of Property" viewpoint, they are mainly concerned with adequacy of the tax base, so that nations and other governments can pay their debts. Thus, when we show that land is an adequate tax base, part of their concerns are abated. Of course, they will develop a new concern: are we paying the public debts by jeopardizing the payment of private debts? Worrying Willies will shuttle from one concern to another, and never be content; but we can assuage others by developing the excess burden argument, showing that LVT creates a net increment to the surplus available for paying debts.

During the campaign for Prop. 13, Calif. Bankers on the whole opposed Prop. 13. This is because by 1978 they had developed strong vested interests in local bonds, secured by proptaxes.

The opposite effect appeared in 1787 when Hamilton sold the Const. Convention on having the new U.S. Govt. assume the state debts, shifting the tax source from State proptaxes to Fed excise taxes and tariffs. At this time, bondowners saw excise taxes as a surer source of repayment: the new States were in a repudiating mood.

In 1879 there was a new Calif. State Constitution. Its proptax provision was interesting: the tax base was the landowner's equity only, i.e. the assessed value less any recorded lien on the land; and the owner of the lien bore the rest of the tax.

We cannot demand that any govt. commit itself to full implementation, in perpetuity. No govt. can commit its successor. We, the living, must recommit ourselves every year, or at least every election. This is where mind-control is so central. Quesnay wanted political economy (his kind) required in every school, like natural science. This is where Georgism fell down.

There was a de facto alliance of public school teachers and the proptax for years. Teachers knew whence came their salaries. By the time of Prop. 13, however, the teachers of Calif. had lost

it. They had been converted to the sales tax; and their ave. age had turned them into homeowners first, and public employees second. I gave many speeches against Prop. 13, and the public school teachers did not rise to help my cause. My dad, who knew little and cared less about H.G., was a school superintendent, and he sure worked his tail off to pass bond issues supported by the proptax.)

When it comes to teaching LVT in the classroom, teachers would naturally bend that way, but only timidly. They were intimidated by watchdog groups saving our children from communism.

The teachers' colleges are partly at fault. They dumbed down the teaching profession until it lost most of its respect.

South Africa:

Georgist Policy In Republic of South Africa "Under Threat," according to Godfrey Dunkley, Former UN/NGO President Cape Town, RSA (Godfrey Dunkley/GNS) - A National Rating Bill will be placed before the RSA Parliament some time this year. In other countries, this might be good news, but here, it has a more and more ominous aura everyday.

Overview: Things have changed in Cape Town. Land valuation and rating ordinances are under legal attack and the Central Government is promising to change them. As a result Cape Town and adjoining Municipalities have suspended implementation of SVR (Site Value Rating). There appears to be no way out of this predicament.

Central Government: For some 10 - 15 years there has been talk of legislation to standardise the system throughout the whole of RSA. This actually goes back to the old Nationalist Government. The new ANC (African National Congress) Democratic Government seems to have taken up the same idea but for seemingly totally different reasons.

It has always been difficult to find out what goes on behind the scenes here. Earlier, we were to understand that SVR was under threat but were never able to engage in discussion with those planning the legislation. The National Party (NP) represented most farmers and also property owning organisations. As none of them really had any sound knowledge on the benefits of SVR and LVT, it is possible that they saw both as a threat.

The ANC, Communist Party and Trades Union Alliance Government all see property from the wrong perspective. They all tend to describe their policies as "leveling the playing fields." It appears none understand the significance of land values nor how they're generated. Immovable property is, of course, a sign of wealth and ruling bodies here seem to believe that all property (including homes and buildings) should be taxed in order to provide land and facilities for the previously disadvantaged. The superficial view of property neo-classical economists promote is taking over. To the untrained eye and mind, it is easier to recognize the wealth in magnificent buildings than the market value of the land beneath. Meanwhile, we've much advice from the same ilk as "helped" Russia and Japan recently.

There have been a number of Americans here advising both the Central and Municipal Governments on rating. They seem to have been sponsored by some form of overseas aid, but it isn't known from whom.

While the emphasis is on "uniform" methods of valuation, it is expected that rating will include improvement values. It's difficult to contact those guiding the bill.

Western Cape: The Cape Metropolitan Area, consisting of six municipal areas including Cape Town, is by far the major economic region within the Western Cape Province. Following the decision by Cape Town and South Peninsula Municipalities to change their rating systems to SVR

and to prepare valuation rolls based on site values only, the Cape Metropolitan Council agreed to do the same.

Soon there was a reaction from three of the municipalities that had relatively up-to-date valuation rolls with both site and improvement values. They did not wish to prepare new valuation rolls and objected to SVR. This resulted in the CMC reversing its decision.

The Western Cape Provincial Ordinance on rating was amended to allow for valuation rolls based on land values only. This was done in haste, leaving many weaknesses. The 1993 ordinance defined "Land" as including improvements on, in, over or under such land. This error was allowed to remain.

Cape Town, Blaauwberg to the north and South Peninsula to the south, all prepared new valuation rolls. Blaauwberg's Valuation Roll was completed early in 1998 and made public and open for appeals. Most were handled right away.

Cape Town and South Peninsula had almost completed their Valuation Rolls which showed large increases in land values, particularly in the more desirable and affluent areas or suburbs. A group of affluent property owners, startled by the increases, started legal proceedings against Cape Town based on technicalities in the Ordinance. After taking legal advice from various sources Cape Town were advised not to go to court. They then decided to suspend further action on the land-only valuation roll.

Cape Town decided to continue using the existing roll for the time being and South Peninsula Municipality followed suit, but, this has left both in a very difficult position with the impending new system.

South Peninsula imposed a 19% across the board increase in assessments, which were challenged in court by ratepayers from some less affluent areas, on the basis that it is against their constitutional rights which call for equality and equity.

A corrective formula was applied that reduced the existing rateable values in some areas and increased them in others. After these corrections are applied there will be a general increase of approximately 10%, the final amount still to be determined by the needs of the proposed budget. This was accepted by the court as a one-time provisional measure.

The Cape Town Problem: The City of Cape Town has a major problem that applies to only a small degree in the other municipalities. The existing valuation roll is badly out of date and extremely inaccurate. Land values have soared since the last proper valuation of land took place and this compounds the injustice. This injustice discriminates against the less affluent areas and favours the most affluent.

The last detailed valuation of property values was in 1963. Subsequent Valuations were established by common percentage increases. Since 1963, site values have increased considerably, on average some fifty times. The increases in market values have varied much more when considering different geographical areas and different types of usage. The extremes by area, not individual properties, covers a range from eighteen times to a hundred and fifty times.

During that same time span, there have been two new approved valuation rolls. For the 1973 and 1979 rolls, values were increased by overall percentages and without making full corrections for market value changes. There are diverse opinions on what actually took place. The 1979 valuation roll, which still forms the basis of rating, already had large inconsistencies, mainly in favour of the higher priced properties.

Unfortunately a valuation roll that was compiled in 1993 was defeated in court on the basis that valuers did not enter the houses. It had to be declared invalid after spending about R17M. This action was also instigated by the more affluent members of society and aided and abetted by one of the political parties representing them.

Cape Town has just announced that as an interim measure, it will increase general rates an average of 8%. This is only a correction of 16%, compared to the rating discrepancy, which, in many cases, is well in excess of a thousand percent.

Perceptions: ublic meetings, held by South Peninsula municipal officials in order to explain the situation, revealed some interesting aspects of public perception. In the more affluent areas the prevalent idea is that rates cover municipal services and that the proceeds should be spent where they are collected. Some maintain that every household should pay the same amount for these services and object to subsidizing poor areas. Others stated that the cost of running the municipality should be added onto income tax and that there should be no rates on property. A city councilor commented that it was obvious there is a great need for voter education.

Cape Town has a bigger problem -- delay. Whatever the solution, it can only be a minute step towards justice and the day of reckoning will be postponed deeper into the future.

Conclusion: In retrospect it may appear to be unfortunate that an attempt was made to convert to SVR at this particular point in time, as there are too many factors against it. However there is now a much greater awareness and acceptance of the deeper principles involved. Many municipal officials see the wisdom of SVR, but are powerless to do much about it at the moment.

The threat of a national bill on valuation and rating is far more serious and could cause many problems. Johannesburg has been a thriving city with its SVR, but, in the last ten years, there has been a great influx of people. Initially, most are without the necessary qualifications for employment in a first world situation and crime has escalated dramatically.

Hawkers line the pavements forcing pedestrians onto the streets. Muggers have made it unsafe for employees and clients to reach offices in the center of town. Businesses are moving to the suburbs and property is only partly occupied. Even the Stock Exchange has left the central business district.

If the rates are changed by government legislation and improvements included in the rating account, it will be very difficult to restore the city's economy to where it was a short time ago.

Meanwhile, both government and municipalities are being advised, and very possibly deceived by US "experts." Since over 70 percent of local government rates come from site value rating only, it would make good sense to standardise this system of rating rather than that recommended by folks with personal agendas. They can always fly out when their recommendations lead to chaos. We'll be the ones who have to live with it.

Queensland, Australia

The government here has announced that the 5% rebate of land tax, to which property owners are entitled by a 1997 amendment to the Land Tax Act of 1915, will soon be tripled to 15%.

The conservative coalition in Queensland (National Party and Liberal Party), has a policy of phasing out the State land tax altogether and, when in power, established the "general rebate," as it's called. The Labor Party declined to match the conservatives' long-term commitment and was narrowly elected in June of last year.

Yet, when the 10% increase in the rebate was announced, it was said to be honoring an election promise. That promise must have gone somewhat under-reported.

Apparently, the press nor the people understand the problem. The recent increase in the land tax rebate, along with the understandable glee of the property industry, was blandly reported by the Brisbane COURIER-MAIL. There was no analysis, impact projections nor reference to the implications of this trend.

** Here are sites for details about Queensland legislation <www.qld.gov.au and Australian Federal and State legislation <www.austlii.edu.au.*

Principles of Compensation

Nicolaus Tideman

1. Neither Poor Widows with Nothing but Land, Nor Anyone Else, Should Starve.

The British Society, like almost all societies, recognizes its obligation to ensure that no one starves. Thus in evaluating claims for compensation, starvation is no the issue. No one is going to starve. The question is how the comforts of life are to be distributed among people.

2. By Using a System of Private Collection of the Rent of Land, a Society Incurs an Obligation to Those Who Rely on the Continuation of that System.

A person needs a place to live, so he buys a house. To buy the house, he must buy title to land under the house. Shortly thereafter the society in which the person lives realizes that the rent of land ought to be collected publicly, and the selling price of the land under the house falls to zero. There is a prima facie injustice in telling a person that if he wants a house he must buy title to land, and then telling him after he has bought the land that it has been decided that he must pay the rental value of the land to the public treasury. Some compensation or adjustment is needed.

3. Compensation Should Be Based on Net Losses Rather than Gross Losses.

Everyone will gain from the elimination of the VAT, the personal income tax and the corporation income tax. A person who gains as much from the elimination of these taxes as he loses from public collection of the rent of land does not have a respectable claim for compensation. Thus anyone who seeks compensation for losses from the introduction of public collection of the rent of land can reasonably required to report his off-setting gains, and these can reasonably be set against the losses for which compensation is claimed.

4. Compensation Can Be Either a Lump Sum or a Series of Annual Payments.

It should not be necessary to mention the fact that compensation can be either a lump sum or a series of annual payments, except for the fact there is a tendency to think of compensation as a lump sum. Furthermore, there is an important advantage of making compensation a series of annual payments. The value of the benefits that people receive from removal of taxes on labor and capital emerge over time. By providing compensation as a series of annual payments, it is possible to adjust for the observed value of these benefits.

5. Past Gains from the Sale of Land Can Offset Claims for Compensation.

If a person has made money in the past through the sale of land as prices that were more he paid for it, then these past gains can offset a claim for compensation for the introduction of public collection of rent. Some gains on land occur entirely without effort on the part of the person who gains, while others are the result of deliberate speculation. If there was no effort, then there is no moral basis by which the gainer can claim entitlement to the gain. It was an accident. If at a later time society realizes that all of the rent of land should be collected publicly, and this imposes a loss on the person, then, to the extent that the loss is undeserved, it is in the same category as the previous undeserved gain. Thus the gain offsets the loss, and it is only for the net loss that a reasonable claim for compensation can be made.

If the previous gain on the sale of land was the result of purposeful speculation, then the basis for using the gain to offset losses from the introduction of public collection of rent is somewhat different. Land speculators achieve their gains by being the ones who own land during a time when participants in the land market come to realize that the return that can be obtained from particular parcels of land is greater than had previously been believed. A reduction in land speculation does not lead to a reduction in total social product, but only in a change in who receives the gain. In fact, the discouragement of land speculation may be positively beneficial, since people who find land speculation attractive tend to be persons who have extreme views about how valuable it is to leave land idle rather than put it to current use.

Since the discouragement of land speculation is neutral or beneficial to total social product, there is a basis for singling out the gains from land speculation for special treatment. They can be taken to finance compensation for those who lose from the introduction of public collection of the rent of land, without discouraging productive activity.

From the proposition that past gains on the sale of titles to land can be taken to finance compensation, it follows as a corollary that, if a person purchased title to land for a price that was less than its market value at the time when public collection of rent was instituted, then any claim by that person for compensation should be based on the purchase price and not on the value at the time when public collection of rent was instituted.

In any of these calculations involving purchases and sales in the past, it is important to adjust for inflation. This is accomplished by multiplying every purchase price and sale price by the ratio of the current price level to the price level at the time of the transaction, before the dollar amounts of different transactions are added, subtracted, or otherwise compared.

6. Those who Made Past Gains from the Sale of Land Titles Can be Required to Finance Compensation for Those Who Lose from the Initiation of Public Collection of Rent.

Principle 5 established that losses from the initiation of public collection of rent can be offset by past gains from the sale of titles to land. If a person made such gains in the past but does not have losses from the initiation of public collection of rent against which to offset them, then he can be called upon to provide compensation for those who do have such losses. The past gains were undeserved and can be regarded as the cause of current loses. If the land had been held rather than sold, no compensation would have been owed on the amount of the gain. Therefore it is reasonable to single out the recipients of such gains as persons who ought to finance compensation for those who lose from the initiation of public collection of rent.

7. Compensation Should be Limited to the Lifetimes of the Current Possessors.

One of the reasons that people may wish to own title to land is so that they can bequeath to their heirs the possibility of receiving an income without working. Public collection of the rent of land frustrates the possibility of achieving this goal by bequeathing land. But the heirs do not have a case for compensation. They do not have a right to a guarantee that that which is bequeathed to them will be valuable. For the loss of value of land that is bequeathed to them, they are generally compensated adequately by the removal of taxes on their labor and capital.

8. There Should be No Compensation for Loss of Value of Land Received by Gift or Inheritance.

There are two parts to the argument for this principle. The first part applies to land that comes from ancient patents of nobility. This is land that was assigned generations ago to conquerors or to friends of the monarch. There was a time when obligations were attached to the right to collect the rent of land, but that ended in the 17th century. There was generally little if anything socially useful about what the initial possessors of title did to acquire their titles, and in any event, if there were social obligation to them for what they did, these can be considered fully discharged. The rent of this land can be fully collected publicly without any need for compensation.

The second part of the argument applies to land that was purchased by the ancestors or other devisors of the current possessors of title to land. Compensation is not owed for the loss of sale value of these land titles because the current possessors of title received the titles to land as beneficences, rather than in exchange for money or other things of value. Society should not be held responsible for guaranteeing that a gift will turn out to be valuable. Furthermore, as mentioned in Principle 7, any obligation to compensate the devisors would have ended with their deaths. Similarly, by making a gift of title to land, the possessor of title

ends the obligation of society to maintain the value of what was acquired through traditional sacrifice.

9. The Owners of All Existing Capital Can be Called Upon to Finance Compensation When Individuals with Particular Obligations to Finance it Cannot Be Identified.

If it were possible to trace all past transactions, it would make sense for the obligation to compensate those who lose from the introduction of public collection of the rent of land to be assigned to those who appropriated land initially, to those who made gains on the sale of land in the past, and to those who received larger inheritances because of these events. But the past cannot be traced perfectly, and some who made past gains spent the gains on themselves and then died, leaving no one with a particular obligation to finance compensation. In this case, providing that the introduction of public collection of rent was unpredictable, it is sensible to distribute losses from introduction of public collection of rent in proportion to asset ownership.

10. At Some Point, People Have So Much that Further Compensation is Not Warranted, Even If it Otherwise Deserved.

Suppose that the compensation that is calculated for some person comes to £100,000 per month. That is simply too much. At that level of resources, people should expect that they must take their chances that the evolution of social justice will reduce the value of their assets. What should the limit be? I suggest a limit of £2,000 of compensation per month for persons without other income. Compensation would decline as income increased and disappear entirely for persons with estimated tax savings of £2,000 per month or more.

11. Perfection is Not Possible; It is Proper to Leave Some Costs Where They Fall.

If an attempt were made to compensate for all losses of all deserving persons from introduction of public collection of rent, costs would be exorbitant, and in the end the goal would not be achieved. Since it would be unreasonable expensive to try to achieve perfect compensation, some losses of deserving persons should remain uncompensated.

Asset Prices: the downside...

Fred Harrison wrote to Michael Hudson:

There is no apparent rationale for your description of management using revenue to hold up share prices.

MH: One rationale is to support the value of the CEO's stock options. IBM spends $10 billion each year to buy its own stock. This is only one notorious example. If you look at statistics, much more stock has been RETIRED over the past two decades than has been issued!

FH: My principal interest is in whether there is a negative impact on firms by the capital gains seeking share deals of outsiders who buy and sell on the stock market.

MH: Yes. Capital gains are maximized by pyramiding and leveraging - by going into debt. This expends revenue on debt service to repay the creditors who back the takeover artist.

FH: E.g. If I over-bid for a Picasso, and lash out $10m., and then, next year, the market in Picassos collapses - this asset of mine continues to hang on the wall; my 10 million which went to the seller is out there, invested in whatever the seller chose to invest in....and nobody loses his job as a result of my Picasso now being worth, say, $6m. Nothing changes, except my ego.

MH: Wrong, when you take into account that (1) it is companies rather than Picassos that are being bought and sold, and (2) that banks back this, and often go under, requiring public bailouts that must be paid by issuing yet more bonds (or raising taxes). The process is internally corrosive, a kind of tumor.

FH: So what happens if the value of shares drops, as a result of the frenzy of buying and selling. Who gets hurt? How? Sure enough, my total assets are now worth less than they once were. But how does that negatively impact on industry?

MH: The banks finance industry. There is a break in the chain of payments. Try looking at companies that have been raided, and then forced into bankruptcy. They default on their pension obligations, people are fired (downsized), and industry as a whole becomes more debt-ridden and hence, less competitive.

Collateral consequences of the "Single Tax"

Fred Harrison asks:

Hypothesis that, of the G7 countries, G1 introduces heavy reforms. Land no longer a reliable asset. Dramatic increase in net incomes of labour and capital.

How would Soros & Co react? They would speculate against the currencies of the G6. G6 countries would be forced into a defensive mode. To hold onto their market share, they would have to reduce interest rates, to stimulate their domestic production and cut borrowing costs. Cutting interest rates also necessary, to stop run against their currencies.

NT: If I were the finance minister of one of the G6 in this situation, I would of course first explain the importance of following G1 in reform. But if I could not get this, I would not lower interest rates. I would explain that since G1 was now offering investors a higher return on their investments, we would need to let interest rates rise to continue to get access to investment money, if we did not lower taxes on capital. There would be a lower demand for loans at the higher interest rate, and therefore wages might fall or not rise as fast, but higher interst rates are still the second-best response to an introduction of LVT elsewhere, when I am not permitted to introduce LVT myself.

Q: Would this defensive strategy boost local economies, in the short-term, vis a vis G1?

NT: Only in the very short term, and then only if you assume that market participants have little foresight. Very soon it causes inflation.

Q: Can we develop **a Theorem of Reform**, based on Global Financial Markets, which says the reverse of what Hudson has been arguing? That it would take just one rational economy (G1) to provoke Soros & Co into financial speculation that would drive demand for reform across the G6 in the one direction - a restructuring of public finance?

NT: There is something like what you describe. Any reform increases the cost of not reforming.

Q: If there is anything in this optimistic scenario, we ought to develop it as rigorously as we can, to
(a) encourage governments: by preaching the good news - how to harness the speculators; and
(b) neutralise the doom-sayers, who will emphasise the tragedy: the collateral consequences of a critical charge on rents would be to cause a collapse of the banking system and put us all out of work in a Depression, '30s style..

NT: Speculators make money only if governments insist on doing stupid things.

THE HUDSON THESIS

Fred Harrison writes:

Michael Hudson argues that there would be an automatic crisis if rental charges were so critically high that they undermined land as a collateral asset. Banks would implode – or at least, their credit-extending operations would be severely injured.

Let's follow through the consequences. Think in terms of the G7 economy.

G1 introduces heavy reforms. Land no longer a reliable asset. Dramatic increase in net incomes of labour and capital.

Soros & Co would speculate against the currencies of the G6. G6 countries would be forced into a defensive mode. To hold onto their market share, they would have to reduce interest rates, to stimulate their domestic production and cut borrowing costs. Cutting interest rates also necessary, to stop run against their currencies.

Would this defensive strategy boost local economies, in the short-term, vis a vis G1? Now we get a generalised increase in prosperity, but it's a fragile arrangement: in the end, G1 has the scalpel with which to cut deep into the market shares of the G7 economies. G1 strategy is sustainable. Meanwhile, Soros & Co are convinced that those economies that are dangerously over-dependent on land as collateral will collapse first.

Flight of investors to quality investments: capital, and high-value-added labour force economies.

Where is all this going?

Can we develop a Theorem of Reform, based on Global Financial Markets, which says the reverse of what Hudson has been arguing? That it would take just one rational economy (G1) to provoke Soros & Co into financial speculation that would drive demand for reform across the G6 in the one direction – a restructuring of public finance?

If there is anything in this optimistic scenario, we ought to develop it as rigorously as we can, to

(a) encourage governments, and
(b) neutralise the doom-sayers.

Nic Tideman argues that

(a) a change in the distribution of wealth need not be associated with dislocation of the markets (cf unemployment).
(b) Uncertainty is bad, because it is a disincentive to invest: but that is a reason for challenging policy-makers to remove the uncertainty by offering a certain programme, costed, defined, timed.

Uncertainty is not a reason for inaction. For there is the **human rights issue**: fiscal reform is comparable to the freeing of slaves.

Mase Gaffney notes:

Macro economists agree on a few things. One is that net new investment is the motor that drives the macro-economy. Two, is that investment opportunities are the key to the ignition.

LVT raises investment opportunities, hence the demand for capital. This tends to raise interest rates - not from stifling supply, but raising demand.

If a central bank now uses its legal privilege of printing money to hold down interest rates by flooding the market with cheap money, it generates lots of problems - this is the essence of the Austrian theory of the business cycle.

Mase Gaffney writes re Big Bang - Soros & Co:

Any nation, or large state or province, that downtaxes capital and uptaxes land becomes a magnet for investors, and pushes up Rates of Return (RORs) to capital worldwide. Through the 19th Century, the U.S. frontier (along with the Canadian, Australian and S. African frontiers) served this function. In the 20th Century it was the Pacific Coast, and esp. California. There was recognized a "continental tilt" of RORs and interest rates, higher in the west, serving to draw capital west. Buildings that wore out in Wisconsin were replaced in California.

Did this force eastern states to reform? That is not so clear: some of them just wallowed in their decadence. OTOH, after Calif. passed Prop. 13, 1978, it had some imitators in the east. This "imitation" may have had something to do with the relaxation of competition for capital.

You could write a parallel tale about migration of labor. Movement of black labor to northern industrial cities has been well documented. Here we find a counter-phenomenon worth thinking about, though. Southern employers had a reason to welcome the emigration of blacks, after passage and enforcement of various civil rights acts, as blacks began to vote, and press their claims on public finance. This may be a peculiarly U.S. conjuncture of circumstances. Most other nations might take alarm at massive emigration (although Europe certainly seemed to welcome it for 150 years or so). I'll leave this one hanging - others may want to wrap it up.

Ron Banks notes:
I addressed the question of mortgages in Losses of Nations. While not coming to any firm conclusions, I thought that, even with a 100% collection of land rent, a few facts were worth keeping in mind.

1. A borrower was just as creditworthy after the 'implementation' as before. The income tax reductions enabled payment of land rent in most cases.
2. Banks, Insurance Companies and Building Societies (BIBS) would lose part of their collateral in the early part of a mortgage agreement. Towards the end, there would be plenty of collateral.
3. At some time during the mortgage period, the borrower would have 'used up' the purchase price of the land element of the property. By this I mean that, even with a cash purchase, there comes a time when purchasers cannot say, with reason, that they have already paid for the land - so why should they pay again through land rent.
In a period of rising land values, I estimate that 10 years is sufficient for a purchaser to 'use up' the purchase price of the land element. The last ten years would not, however, be a good example of this. In the UK, property prices fell from 1990 until about 1995, and there has been a recovery since then to about the levels of 1990. (In London & the South East, much higher).
4. The building/land ratio, which Mason puts in general terms, at 60/40 or 65/35, changes over the years. My new house, built in 1996, by a builder I know and talk to, had a starting ratio of 60/40. It has already reached 55/45 and the ratio will change over time in favour of the land element. This is without taking into account any depreciation of the building.

5. I posited in *Losses of Nations* that the BIBS suffer a massive loss in Anglo-Saxon countries and Japan from time to time as property prices

rise sharply and then fall. *The speculative phenomenon*. They take that loss and recover. I suggested that the implementation of land rent collection is a 'once and for all' phenomenon that BIBS could stand, even though painful. (Of course, this loss could be mitigated by negotiation between borrower and lender to take into account the level of land rent each enjoys).

SO - even without Michael's point about FIRE, I have already thought that BIBS or FIRE could stand our implementation. BUT, take Michael's point into account and WHY SHOULDN'T THEY? According to Michael, they ALREADY ENJOY THE LAND RENT!

Nic Tideman notes:

In my view, there is no reason why a move to a system of public revenue that promotes efficiency and justice has to cause an economic slump.

The taxation that we propose would redistribute assets from the mature to the young and to the unborn. That makes it hard to sell to selfish voters. And there are serious questions of administration that need to be worked out. But I believe there are approaches that will deal adequately with the issues that will arise.

Who is going to lose. In the first instance, those who have titles to land. But those individuals will also benefit to the extent that they have labor and capital on which taxes are removed. Older people benefit less from the removal of taxes on labor, but those with children also receive a gain in the form of a world for their children where labor is not taxed.

People with title to land have often received loans based on the income from land or its sale value. With the income now going to taxes and selling prices down, land no longer serves as collateral. Still, people with such loans may be able to pay them easily enough, since their labor and capital will now be untaxed.

To reduce the number of bankruptcies among those who borrowed to buy land, there could be a transition period in which the share of rent that was collected was gradually increased, and the deficit from not collecting all rent was made up by a very high tax (perhaps 80%) on interest income secured by liens on property in excess of the value of improvements.

This shifts a substantial part of the burden to banks. I think this is alright. I would say to them, "You should have know better than to suppose that the public would refrain indefinitely from collecting the rent of land. When you made loans available based on this presumption, you caused land prices to be bid up, making land less and less attainable for the young. It is appropriate that you should pay for this behavior."

It might also be possible to have a rule that permitted land purchasers to seek compensation from the persons from whom they bought land.

Having the banks bear a significant part of the loss of asset values carries the problem that the banks may fail. I don't mind too much if the owners of bank equity lose, but it will be important to keep banks open. We might say that banks that are unable to meet their capital requirements will be required to issue new shares to the government, constituting 9 times previous equity, in exchange for being bailed out.

In the U.S. anyway, we are not able to have the loss borne by ordinary depositors (if we would want it), because of deposit insurance. For this reason, it would be very good if we could introduce a rule that banks are not allowed to accept land as collateral, as one of our first political objectives. Our chances of this are slim.

This means that we need to put this loss somewhere else. I would much rather have a capital levy than a continuing income tax. If we have not distinguished adequately between capital and land in the past, then the owners of capital could just as easily have been owners of land titles. I believe we have an obligation to respect the full right of each person to his or her productive efforts, just as soon as we can.

I believe that a big bang can be managed without closing banks and without any significant disruption to production. But it will require lots of planning.

Another issue is what happens while the big bang is under discussion. The asset value of land titles becomes highly uncertain, and this uncertainty carries a cost in raising the rate of return that investors will require to undertake complementary investments in capital. Output may be lower in this period of uncertainty than if there were no prospect of reform. People will seek to block reform in the name of promoting investment. We need to reply that this cost of uncertainty is a reason to adopt the reform fully, just as soon as we can.

Mase Gaffney notes:

In terms of sheer justice, Ron concludes the FIRE sector should bear the shock of LVT, to the extent that they already are the rent-drones. I agree, of course.

However, behind Mike's sometimes wandering prose is the thought that the FIRE sector is also functional, and we must not destroy it. This argument needs to be addressed, for it will surely be advanced against us at some point.

To the extent that the FIRE sector is just an indirect way by which people buy land titles, it is NOT functional. It also, however, finances real investing (i.e. net income-creating creation and turnover of capital); it provides a medium of exchange; it provides insurance; etc.

Our position is that it is quite capable of adapting to a new tax structure and doing its proper job without speculating in land. History is the best guide: it has done so in the past, in the wake of every major land crash.

Ron Banks writes:

In the UK, circa 1992-4, many banks were technically bankrupt. But because of moral hazard, the banks knew they would not be allowed to collapse. And they made up their losses by transferring the losses to customers!

Early in the 1990s, I was part of a group discussion, which, at the time, was a 'within these four walls' discussion. The people present were all very senior people in the FIRE sector, including the Bank of England. The speaker was managing director of a merchant bank that specialised in analysis of the banking sector.
The analysis showed, at a time of massive property price depression, that the banks had collateral that was billions short of covering their loans. The speaker said that most were nominally insolvent. He made the further point that his team could not see where the money was coming from to finance the recovery when it came.

But the banks were clever. They took their property loan losses and looked to their millions of individual customers to fill the vacuum. They stopped free banking, stopped paying interest on current accounts, and made outrageous charges to their individual customers - for going overdrawn, for writing a letter,for stopping a standing order or direct debit. There was outcry, but they stood it and pocketed the cash.

In chapter 5, I posited a few scenarios, in the housing sector, that was meant To start discussion about an ACCOMMODATION between lenders and borrowers in the housing sector.

1. Borrowers are no less creditworthy after big bang than before. In fact, with the income tax cuts, many would be better off.
2. Many borrowers would have paid off a good deal of their mortgages, and would have enjoyed the land element of their purchase. It would be unfair to expect the lenders to pay for this section of borrowers.
3. So, there would have to be an accommodation between lenders and borrowers. Whether the government gets involved by setting out a formula, I don't know. But there will be numerous ways of coming to an accommodation.
4. Whatever the situation, I believe that the lenders would be able to stand the heat.

Mase Gaffney notes:

In either Austrian or Keynesian macro, investing is the motor that drives the macro-economy; and investment opportunities are the key to the ignition. Taxing capital and its income lowers the rate of return after taxes (RORAT). Taxing labour income also lowers RORAT, indirectly, by making labour more expensive.

Neither kind of macro gives much thought to the incentives of labour itself. That is a serious fault, which betrays their class origins.

A related effect of taxing labour is to incite the substitution of capital for labour. Here there is wide divergence, not just between Austrians and Keynesians, but also within each group. There is also a minor difference of opinion between me and Nic - let me limit my remarks to that, and Nic may want to comment.

Nic, if I understand his position, sees the substitution of capital for labour as generally a good thing, and would give priority to untaxing capital rather than labour. I see it as a bad thing, lowering the demand for labour, lowering wage rates, and slowing down the rate of turnover of capital generally. This is where I mesh with the Austrians, although their emphasis is different. They see slow capital turnover mainly as the product of artificially low interest rates, rates kept low by inflationary bank expansion. I see it as the product of that plus tax bias plus several other factors I spelled out in my chapter on "Toward Full Employment with Limited Land and Capital," in a TRED volume that Art Lynn edited ca. 1973.

Big Bang:
US fiscal surpluses as a polemical opportunity

Fred Harrison wrote:
Our exercise in contemplating the optimum strategy for fiscal restructuring is not hypothetical. The US government expects a surplus of $3 trillion over the next 10 years, and the debate in Washington is over how to disburse the revenue. We need to engage in this debate, to add the missing dimension: how the choices will impact positively on net income (rent of land and natural resources), and then feed back into the system in a myriad negative ways (because of existing fiscal arrangements).

Democrats want much of this surplus to be spend on health and education. That is good, in terms of raising labour productivity. The effect on the land market would be relatively slow, but positive: higher incomes at the bottom scales helps to raise general living standards, and ought to be reflected in healthier communities. Eventually, competition for properties at the lower end of the market raises prices, and adds further pressure on the excluded population.

Tax-cuts, favoured by the Republicans, will feed rapidly through into the stock market and land market. So the negative feedback on the economy will be immediate. At first, commentators will portray this effect as confirmation that the tax-cuts were correct: adding to the euphoria of prosperity. But this additional investing power will be added to the volume of cash that is already churning within the bubble economy, and will therefore deepen the crash when it comes.

We know how to forestall the negative effects: by turning them into positive benefits. The tax-cuts ought to be used to soften the effect of increases in direct public charges on resource rents. This has a cumulatively positive feedback, yielding progressively higher incomes for all.

Ideally, we ought to have a dynamic model of the economy already operating out of Virginia, so that the numbers now being discussed for the federal surplus revenue could be fed in and the positive accretions to net income (reflected in an INCREASED flow of funds into public coffers) could be measured.

NIC: Is your Mark III excess burden model capable of performing this task? Or could it be adapted to give you the authority of making pronouncements in this debate that ought to attract attention in the WSJ?

Observations and questions here from Mason Gaffney:
1. Fred, the strategy (or tactic?) you outline is quite different from the Big Bang idea, but seems to visualize a process of incremental and opportunistic change. Is this a change in your basic position?

FH: No change in my position. We have to adopt complex strategies. We have to hold in our minds several possible spheres of action - or, rather, layers of overlapping action; retaining flexibility in the field, in response to such opportunities as may come along on which it may appear worth expending some of our limited resources.

The overridingly important mind-set: seek to impose our will on the system itself; because, ultimately, it will resist changes of systemic significance that are of incremental proportions. Even a small explicit charge on rental income - which might seem inoffensive, proportionately speaking - will be deemed to be a threat to the status quo; to the logic of the system, its ethos, and therefore unacceptable. The two-rate tax is just about tolerable to the system. It does not threaten to subvert the paramount interests of the rent-appropriators, systemically speaking. It is therefore glossed over in silence.

This is a case where the opposition is clever in pretending that it is not happening; to oppose it with Big Guns is draw attention to it - to alert other municipalities of the possible benefits of the slight shift in the property tax profile, and to open up a national debate which might not be

controllable. Stay mum: best advice....until someone comes along and asks for a single tax on rent. Then - watch the explosion!

So we have to try and go for the jugular.

But: as part of the process of trying to break through the blanket of incomprehension that has been thrown over the population's mind, we have to try and exploit every opportunity that comes along, which appears to offer some hope of fruitful engagement. Therefore, while remaining determined to go for the Big Bang (= 100% capture of resource rents), we work into our blueprint a major opportunity such as the US Fed surplus revenue. If the numbers had been small; or if the timing was "off" - why bother? But the numbers are of such significance that the politicians are forced to debate the relative virtues of Tax-cutting v Increased Government Spending. And the timing is convenient: the next global depression (following '74, '92) will be '10. Deterministic, if you like, Mase; but mark my prediction. Well, that enables us to fuse the debate on what to do with the Fed surplus into Greenspan's concern about asset prices, and our argument that it is one particular asset that is the fly in the ointment.

The policy-makers are talking about the revenue surplus: so let's try and hijack that debate in the direction of our analysis. This is not an incremental approach: it is an attempt to show show how trends in unfolding history are working in terms of the logic of our paradigm, rather than theirs.

2. The economic process you premise is eerily parallel to H.G.'s chapter on the effects of the coming of the r.r. on California (in *Our Land and Land Policy*, 1871): first the boom in l.v., then a bust (which came 2 years later - pretty good sense of timing there).

FH: See above, on opportunistic intervention in current events; while at the same time trying to master history, from on high.

3. The cycle you visualize is not chronologically deterministic (the Harrison/Hoyt 18-year period) but depends for its timing on a big change in public policy. Is this, too, a change in your thinking?

FH: No change in my thinking. The Hoyt cycle is unstoppable (well, okay, except in the face of a world war). But given the land-value cycle, and its attendant features (expansion of credit, consumer spending spree, banks abandoning all reckoning of risks, etc), it is to be expected that policy-makers will do things that aggravate the underlying trend. Ergo, the 1988 boom is now known, in the UK, as the "Lawson" boom - after the incumbent in the Treasury. The 1972 boom is known as the "Barber" boom - ditto. Nonsense, of course. The booms were in the making, whoever the incumbent. Lawson, shocked, now says that the business cycle is a "law of nature". Well, he would, wouldn't he? Because (1) he promised to stop it, and failed, and (2) economists have not offered a convincing theory of the business cycle, with respect to periodicity. So it must be something to do with the gods, right?

When historians look back on the USA, circa 1999-2010, they will say that one of the causes of the great crash was the failure of Washington to figure out how to slurp the surpluses back into the economy without causing an unsustainable boom in asset prices. They might call it the Clinton boom. Or the Gore boom. Or whoever. If that's the outcome, we will have failed to convince the world of the fundamentals of the land-driven boom/bust cycle.

4. This fiscal dividend might be called a "peace dividend" - much delayed after it was originally expected.

FH: Important that we portray the dividend as potentially virtuous, a la peace dividend. But also important that we show the dark underbelly - the severe costs of failing to channel the dividend virtuously.

Mase Gaffney replied: you are cheating. You are not supposed to ask questions. You are supposed to supply the rest of us with answers! So what say you?

Flash Points in the Transition

Labour markets

Fred Harrison (?) wrote:

By reducing taxes on wages, people become more employable: their marginal product is closer to the employer's costs of hiring workers.

But would this cause a panic in the financial markets? The conventional wisdom says that reducing unemployment stokes wage demands which translates into inflation.

This is not a problem in EUROPE, today. Unemployment is high, and deflation is working its way through the system. Similarly, in JAPAN, commentators are actively recommending a dose of inflation. So the fiscal restructuring plan would not be of immediate concern in these countries.

In the USA, however, unemployment is low. So the economy is bumping along the ceiling of availability of factors of production – which means that, if employers started competing for more labour, wages would start to rise. And the Fed would regard this as a threat to inflation targets, and so raise interest rates. The Big Bang policy, in other words, would turn the labour market into a flash point of danger.

Question: would there be a compensating reduction in the cost of capital, such that the inflationary risk in the labour market is offset? The reciprocal effects in the capital markets need to be traced through, to see how the labour and capital markets interact.

Nic Tideman notes:

Question: would there be a compensating reduction in the cost of capital, such that the inflationary risk in the labour market is offset? The reciprocal effects in the capital markets need to be traced through, to see how the labour and capital markets interact.

The model that Florenz and I are developing will good at answering question like this.

Mase Gaffney writes:

The premise that wage hikes cause inflation - the "wage-price spiral" - is a false doctrine generated by landowners to distract people from noting that wage hikes can come at the expense of rents, i.e. they are redistributive.

Price inflation is largely a monetary phenomenon and, as such, subject to control. Money expands when banks have new opportunities to lend without liquidating old loans (create net new demand deposits). Most common causes of this are 1) A land boom, and 2) Government borrowing.

Capital markets

Mase Gaffney wrote:

Any nation, or large state or province, that downtaxes capital and uptaxes land becomes a magnet for investors, and pushes up Rates of Return (RORs) to capital worldwide. Through the 19th Century, the U.S. frontier (along with the Canadian, Australian and S. African frontiers) served this function. In the 20th Century it was the Pacific Coast, and esp.

California. There was recognized a "continental tilt" of RORs and interest rates, higher in the west, serving to draw capital west. Buildings that wore out in Wisconsin were replaced in California.

Did this force eastern states to reform? That is not so clear: some of them just wallowed in their decadence. OTOH, after Calif. passed Prop. 13, 1978, it had some imitators in the east. This "imitation" may have had something to do with the relaxation of competition for capital.

You could write a parallel tale about migration of labor. Movement of black labor to northern industrial cities has been well documented. Here we find a counter-phenomenon worth thinking about, though. Southern employers had a reason to welcome the emigration of blacks, after passage and enforcement of various civil rights acts, as blacks began to vote, and press their claims on public finance. This may be a peculiarly U.S. conjuncture of circumstances. Most other nations might take alarm at massive emigration (although Europe certainly seemed to welcome it for 150 years or so).

Global markets

Thesis by Fred Harrison: LOCAL ACTIVISM = GRAVEYARD FOR LVT

Mase Gaffney wrote:

The proposition is this: municipal LVT reform is the graveyard of the Georgist philosophy.

I am not ready to BEGIN with that premise. It is dramatic and memorable, but intensely combative and divisive, and, while it might be arrived at after looking at the evidence, it is a highly tendentious as a premise.

Fred Harrison replied:

Cf 100 years empirical evidence from NZ, Australia, South Africa and Denmark. No evidence that, having instituted the policy at the level of towns, it then nurtured (a) public understanding and support, and (b) political endorsement leading to adoption at national levels. Oz a particularly interesting case, for comparison with the US.

Mase Gaffney replied:

That is, indeed, a central puzzlement to discuss. Why no great books, or other literature? Why no recognition in history and economics journals? Why the low level of public, political and intellectual awareness? Why no collegiate clubs or activists? Why no active political sponsor or clientele? What divine spark is lacking? We need to analyze the success of other groups, both Marxist and Libertarian. Georgists, on whole, are intellectual clods. Why? What's our problem?

When it comes to macro, Georgists have simply gone into denial about it, taking themselves out of the action.

Fred Harrison noted:

In November, we don't want to spend much time wrestling with the relative merits of local LVT (cf 2-rate tax) and central government Big Bang strategies. We are taking the latter for granted, for purpose of analysis (refined to take into account the US case).

But we do need to incorporate the "local activism = graveyard" thesis into our discussion, if only to set aside the local LVT option that would otherwise be promoted by policy-makers as a relatively innocuous alternative to the real thing.

On THE GLOBAL CONSEQUENCES, this is one for NIC.

We need a preliminary discourse on the impact of a critical restructuring of public finance in one of the G7 countries (or even G8: Russia) on competitors in world markets.

Nic has disaggregated his national model, to facilitate regional surveys. It is too ambitious to expect him to now conjure up a model of the world, for comparative analysis! Nonetheless, we need to offer governments some indication of the temptations....

· How they would gain a comparative advantage, through lower cost/price structures, in world markets: what are the geo-political, besides the economic, consequences?

Mase Gaffney wrote:

There's an element of Mercantilism in this approach that trouble me. In Mercantilism, one nation only gains what another loses; it's a jungle out there. In a free trade view, a nation with a better tax structure will export more, but that means it will have to import more, too - either that, or export capital to would-be borrowers, of which there are many. Thus, it may crowd out certain foreign producers, but at the same time raise demand for the output of others.

Before exporting capital, chances are it will import a lot, because by untaxing domestic capital, and uptaxing land, it will raise Rates of Return (RORs) domestically, and attract foreign capital.

I think your scenario takes just pieces of the whole phenomenon and converts them into threats to other nations, or perceived threats - thus creating some imaginary problems.

· How firms would increase market shares: e.g., would ailing industries in the Old Countries suddenly revive viz a viz the tiger competitors (ship building, etc)? How would the US steel industry benefit (a burning issue, given that foreigners are swamping the domestic market)?

· What would happen to the price of commodities? Would there be a net gain for Third World raw-materials exporters?

· ...and so on.

No one is smart enough or informed enough to answer all those questions. We would exhaust ourselves - our time and money - by trying.

We know that the leading countries are industriously working to harmonise rates/policies, the better to limit competitive advantages through standardisation. It will require one country to break ranks - a rogue trader, such as Russia? What would be the likely consequences for that economy? Ostracism? Or would it be allowed to get away with it, under the WTO rules?

Historically, the international police have not cracked down on Oz, or NZ, or S.A. (not for its efficiencies, anyway), or Canada, or the U.S.A., or Denmark, or Japan, or HK, or Singapore, but on Russia, China, N. Korea, Viet Nam, Chile, Cuba, Guatemala, Iraq, Libya, Nicaragua, El Salvador, even little Granada -- nations perceived as threats for reasons other than good tax policies. These nations confiscated western property: either lands, or

by repudiating debts, or by harboring Communist parties.

This is a major test for countries that claim to be advocates of free international trade.

It may be a test of their sincerity and consistency, but we already know they have neither, and no one cares, until the shoe pinches. We need to show we can solve problems that they cannot.

Mase Gaffney wrote, in answer to the question:

"there must be Federal taxes in the USA that could be replaced by our more benign system across the whole country without the State problem. What taxes are these?"

Federal payroll taxes; income taxes on everything other than land income; some excise taxes (those that are not green).

"What proportion of total taxation do they represent?"

3/4 or more.

Fred Harrison asked:

What would happen in the US, if the Fed govt announced that it was foregoing (say) federal payroll taxes; and passing a law which requires the States to replace that revenue to the Federal government with revenue generated locally, via charges on land-rents?

Mase Gaffney replied:

1. They would have to allocate the burden among states, probably by population. This would discriminate against states with lower land values per capita, and raise hell.
2. They would probably prefer to levy the tax directly. They could probably do so, constitutionally; but there would be challenges, and a risk of losing the case, especially with the current Rehnquist court with its archaic bent.

"In constitutional terms, is this remotely feasible as a dodge around the perceived constraint on the Federal govt directly introducing rental charges?"

It is more than remotely feasible, constitutionally. A lot depends on the mood of the electorate, as "The Supreme Court follows the election returns." The corporate income tax was passed before there was even a 16th Amendment, and was legally called a tax on the privilege of doing business as a corporation, and was upheld. In the 1920s there was a Federal land tax bill, written by Jackson Ralston, carried first by Cong. Nolan of Calif., later by Oscar Keller of Minn., which would base a land tax on the privilege of owning land. (Congress never passed it, so it was never tested.) One might also base it on the 16th Amendment, defining income of land as a percentage of its value. The presumptions some people make about Federal unconstitutionality are just a form of negative thinking, calculated to neuter us.

If it is not feasible, that does not mean we cannot discuss the virtues of such a switch, for the benefit of enlightening people.

"How do we evaluate the differential economic impact of that switch?"

Very positively, but I am skeptical of efforts to quantify the results with precision. It's nice to have numbers, for those that demand them, and they cannot DISprove them, anyway. Better, in merely TRYING to disprove them, they'll have to discuss the matter.

Taxation: the criterion for "efficiency"

Fred Harrison wrote to Nic Tideman:

What is the *standard routinely used by academic economists against which they measure the efficiency of conventional taxes*?

I raise this question because (a) rental charges are admitted to be the neutral revenue raisers, but (b) **we do not see routine references to this standard of efficiency in the literature,** when economists discuss why they prefer a sales tax to a capital gains tax, or whatever.

This suggests that they escape into what might be called relativism. I.e., they do not recognise an objective, universally employed criterion of efficiency. Instead, they laboriously argue why VAT is more efficient compared to, say, a wage tax deducted at source.

It may be worth clarify this issue, for the purpose of alerting policy-makers that they are not being offered the best advice. They like to talk about the efficiency of their policies, but one strongly suspects they are merely parroting what their economic advisers are telling them.

For us, the challenge is to persuade economists to make explicit the fact that there is one standard of efficiency only: and that is the charge on rents of land and natural resources. One way of doing this is to expose the arbitrary manner in which economists conduct the current discourse on fiscal efficiency.

Nic Tideman replied that some economists shy away from acknowledging rent as the efficiency criterion by using the notion of "**lump sum taxes**". But (some of them) say this is an unachievable ideal; and avoid defining it as the tax on economic rent. Instead, they resort to complaints against LVT by saying there is a need for **broad-based taxes (the Ramsay rule) which encourage people to work more**.

Mase Gaffney writes:

"The" standard used is hedged, and in this case, appropriately so.

A simple criterion would be, an efficient tax is one that causes resources to be all put to their highest and best uses. It contains some ambiguities, though.

- Note **I said "causes," not "lets." Most economists would use "lets," because they implicitly assume that markets work efficiently in the absence of taxes.** Nic has written truly, however, that a land tax is "better-than-neutral," because in its absence, land is not put to its highest use.

- "Efficiency" is output/input, and both of those must be measured in a common yardstick, value.

-- Value of different outputs depends on the distribution of wealth.

-- The cost of different inputs also depends on the distribution of wealth. Example: a heavy poll tax forces labor into the market, cheapening labor; a heavy land tax forces land into the market, cheapening land.

Thus, merely to define "efficiency" embroils us in value judgements. I think we need to bite that bullet and make those judgements, rather than play the Friedman game and pretend we can avoid it.

Curiously, for the last 25 years or so, economists have been redefining efficiency anyway, to get away from allocation of resources. Nowadays, an "efficient" market is one in which no further arbitrage is possible – never mind what is

being traded. Thus, a monopoly is socially efficient so long as the price of its shares adequately reflects its monopoly gains.

If the objective be to wound establishment economists, there are several chinks in their armor.

a. They tell us about Ramsey taxes, in theory - but proceed to ignore them, and make a fetish of "uniformity."

b. They tell us the ideal tax is a "lump-sum" tax - but then say there aren't any, except poll taxes, and they are politically unacceptable.

c. They tell us about human capital, and the importance of capital formation - and proceed to advocate taxing human capital formation and maintenance by calling it "consumption."

d. They tell us to tax consumption, but leave out the consumption of land in vast manors.

One could go on; but first, is that the objective of this dialogue?

Chances are that Burton, like most, sees the "underground" economy mostly in terms of tax evasion, overlooking tax avoidance. (Tax evasion is the poor man's tax avoidance.) As noted previously, tax avoidance in the form of imputed income and unrealized gains acts to raise the demand for land.

Abstract theorists, OTOH, are more likely to zero in on tax avoidance. (Evasion and criminality are so messy.)

The two together, however, are a massive sum.

Add, though, that the drug trade may be the biggest underground item. Here, tax evasion is less a factor than outright illegality (although they reinforce one another). One could argue, though, that the persecution of druggies is, in some cases, a smokescreen for getting after offshore tax havens. (Ironically, though, govts. could raise much more revenue by legalizing drugs and taxing them, as they do with alcohol and tobacco.)

Fred Harrison wrote:

Public rent-charges at a critically high enough level constitutes a powerful force for restoring ORDER in the present chaotic system of market production.

The business cycle is the most visible manifestation of instability. This needs to be straightened out; and we argue that fiscal reform is the major tool for achieving this.

But in addition, the level of illegal activity in western economies is frightening. And it not only undermines sound public finance and private sector production; it corrodes civil society, in terms of institutions and morals.

According to John Burton, a professor of business at Birmingham (UK) University, the underground economy is equivalent to a quarter of GDP (£838 bn, in money terms).

Now, much of that activity is driven by the desire to avoid taxes. Under the public rent-charging strategy, crooks would not be able to get away with it. So the underground economy begins to surface into daylight, deepening the order in the structure of the system.

But here's a question for Nic: how much of that avoided tax would be translated into higher land rents? Is this an area worth exploring, for the implications of public revenue (which determines the size of the public sector) as well as for the size of the productive economy, in the post-reform era?

Mase Gaffney noted:

A related effect of taxing labour is to incite the substitution of capital for labour. Here there is wide divergence, not just between Austrians and Keynesians, but also within each group. There is also a minor difference of opinion between me and Nic - let me limit my remarks to that, and Nic may want to comment.

Nic, if I understand his position, sees the substitution of capital for labour as generally a good thing, and would give priority to untaxing capital rather than labour. I see it as a bad thing, lowering the demand for labour, lowering wage rates, and slowing down the rate of turnover of capital generally. This is where I mesh with the Austrians, although their emphasis is different. They see slow capital turnover mainly as the product of artificially low interest rates, rates kept low by inflationary bank expansion. I see it as the product of that plus tax bias plus several other factors I spelled out in my chapter on "Toward Full Employment with Limited Land and Capital," in a TRED volume that Art Lynn edited ca.1973..

Fred Harrison noted:

....raises and interesting question about the relative emphasis of proposals for tax restructuring; which we shall have to explore in detail, to determine priorities.

According to Mervyn King, deputy governor of the Bank of England (and co-author of The British Tax System), the effective rate of tax on capital is, or is about to become, zero. This was in a 1996 speech (the text of which is on the way to me, even as I write).

Well, if so, it seems we don't have to concern ourselves too much about untaxing capital (at least, in the UK): no point in picking a fight over the detail of untaxing capital, when previous governments and economic realities have already done the job for us?

On the other hand: we MUST spell out the routes by which the returns to capital may be unwittingly but inexorably increased as a result of reducing other taxes.

In the US, the row over the capital gains tax was on the political agenda (10?) years ago. But if the effective tax rate is anything like the UK's, do we have much to say on the debate about untaxing a factor of production whose tax contributions are effectively voluntary anyway?

Mase Gaffney noted:

I assume by "taxes on consumption" you mean something like a retail sales tax (the conventional meaning). IMHO it is misnamed a tax on "consumption," for reasons given in my chapter in Nic's book.

The usual answer is that a retail sales tax is less damaging (distorting) because it taxes the (cash) income from property, as well as wages and salaries. OTOH, to tax payrolls, but exempt property income, fosters the substitution of capital and land for labor.

In practice, the difference is not so great, because a retail sales tax fails to tax the consumption of land-time, as well as much of the imputed income from durable consumer capital. It also misses all kinds of "invisible" items like insurance,

advertising, professional services, etc. It misses exported goods, much interstate commerce (in the U.S.A.), electronic commerce, etc.

Would you rather be shot or hanged?

As to "macro-economic" impact, please be clear that "excess burden" is a MICRO-economic concept initially. MACRO-economic implies effects on aggregate demand or supply, usually in a Keynesian model, but possibly in an Austrian model (which I favor). This raises another whole set of issues, which I assume are not what you have in mind.

On Excess Burden & Losses of Nations, Nic Tideman writes:

The delay [in the follow-up study] is caused mainly by our desire to have a result that cannot be easily dismissed by economists. One of the most serious limitations of the result that we published in *The Losses of Nations* is that people are assumed to make their saving and spending decisions in a framework that does not look forward at all. We knew about this problem at the time, but we did not have the theoretical background or the data to do better. Since that time, Florenz has become an expert in the construction of applied general equilibrium models, and I have learned quite a bit.

When Florenz was deciding how to design the computer program that he developed over the last couple of years, he had the knowledge to implement a framework in which people look forward when deciding how much saving is optimal, but he believed that it would not be practical to have them look forward more than one period, because of the time it would take to make computations. Therefore he built a program in which the number of periods of forward vision is fixed at one. Since then he has found ways to make the program run enough faster that it is practical to increase the number of periods of forward vision. It is important to do so, to give our model credibility. But this requires that he rebuild the program very substantially. It is months of work.

There is a second improvement that we need to make as well. The procedure that is used to allocate investment among activities, for complex reasons, is approximate rather than exact. In early August I developed the insight that was needed to make it exact. This requires some significant redevelopment, but not as much as increasing the number of periods of forward vision.

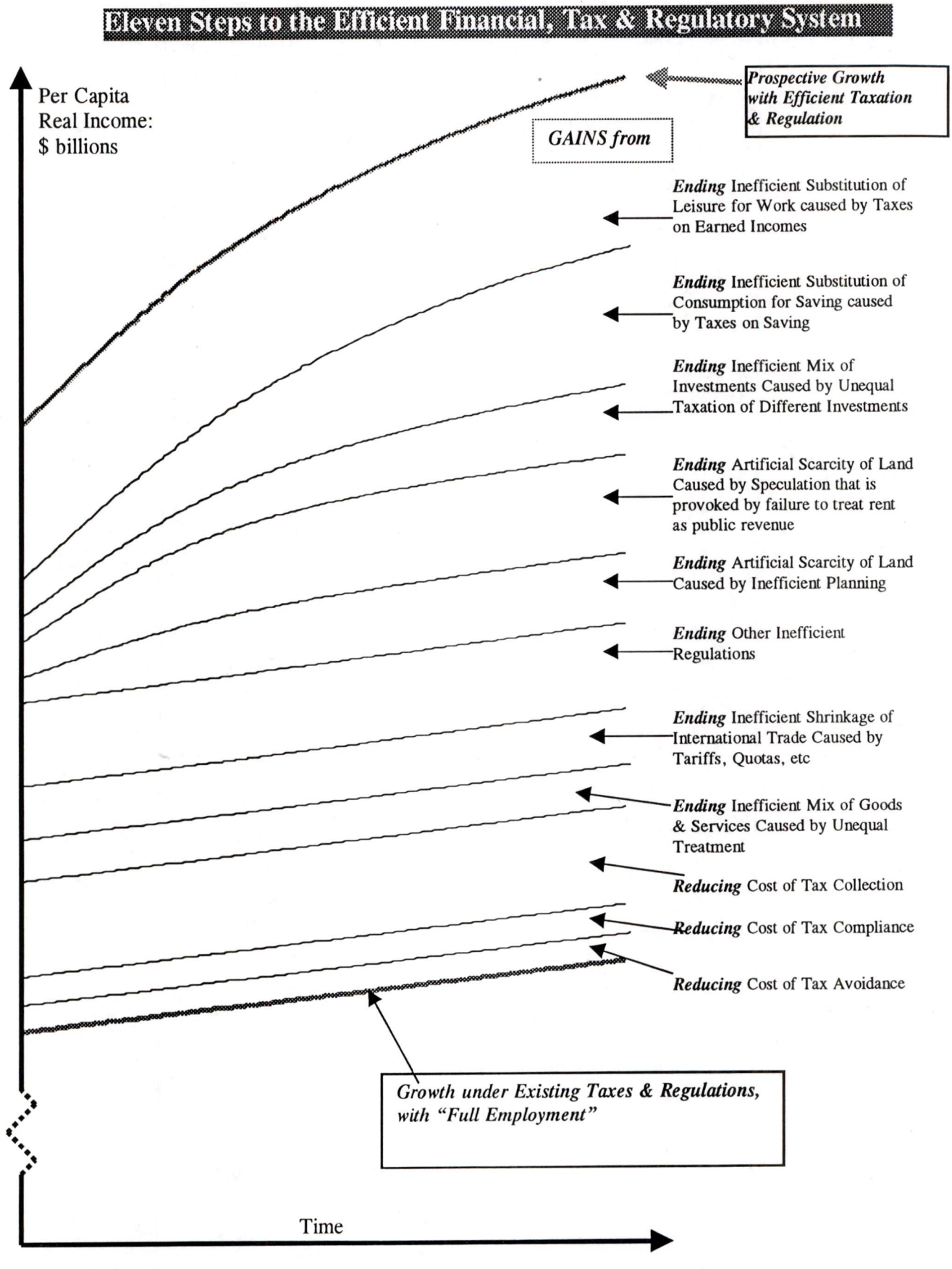
Ramsey rides?

Fred Harrison wrote:
Why should we be concerned with Mr Ramsey's rules?

Nic Tideman replied:
As Mase has said, a proper application of Mr Ramsey's rules leads to a formal proof that for maximum efficiency, we should tax the bejesus out of land before we levy any tax on work, saving or spending.

Mase Gaffney notes on his calculations of excess burden:
My method implies a much bigger excess burden than the method used by Nic and Florenz. Basically it is because my method allows for quantum leaps of

intensity, from one type of land use to another (from barley to staked tomatoes, for example); where theirs is mainly incremental, dealing with changes in the intensity of given kinds of land use (same barley crop, more fertilizer, for example).


Eleven Steps to the Efficient Financial, Tax & Regulatory System
Per Capita
Real Income:
$ billions
Prospective Growth with Efficient Taxation & Regulation
GAINS from
Ending Inefficient Substitution of Leisure for Work caused by Taxes on Earned Incomes
Ending Inefficient Substitution of Consumption for Saving caused by Taxes on Saving
Ending Inefficient Mix of Investments Caused by Unequal Taxation of Different Investments
Ending Artificial Scarcity of Land Caused by Speculation that is provoked by failure to treat rent as public revenue
Ending Artificial Scarcity of Land Caused by Inefficient Planning
Ending Other Inefficient Regulations
Ending Inefficient Shrinkage of International Trade Caused by Tariffs, Quotas, etc
Ending Inefficient Mix of Goods & Services Caused by Unequal Treatment
Reducing Cost of Tax Collection
Reducing Cost of Tax Compliance
Reducing Cost of Tax Avoidance
Growth under Existing Taxes & Regulations, with "Full Employment"
Time

Rates of land-rent taxes/charges

Fred Harrison asked Mase Gaffney about the rate of a tax on land income.
The degree of dampening down corresponds to the size of the charge on the rental income. At what level has the charge got to be pitched, such that at least some prospective speculators decide it's not worth the game - i.e., there is a significant smoothing out of the amplitudes? At what point does land market instability cease to be a social menace?

Mase Gaffney replied:
There is no sharp line here between black and white. Also, a lot depends on values of associated parameters. Thus, if the real i.r. = 15%, a tax rate of 2% is trivial; but if the real i.r. = 2%, a tax rate of 2% is a big matter. Also, delinquency policy may vary a lot. If the collector lets arrears pile up for 8 years before foreclosing, you'll get a lot of gamblers planning to cash out if prices rise, but to walk away if they fall.

A lot depends, too, on how the tax revenues are to be used. A. Marshall drew a useful distinction between what he called "onerous" and "beneficial" taxes on property: the former are exported; the latter are expended in the locale where collected. Given reasonably efficient local government, and a real need for public facilities or services otherwise lacking, beneficial taxes will raise land prices. It is useful to look at the local government as a kind of land development firm, whose equity owners are the landowners. From this view, raising local land taxes is PART OF the land speculation process.

Too much of our theorizing about capitalization of land taxes into lower land prices has been based on the silent premise that the taxes are all "Onerous" (like reparations levied on a nation that lost a war).

The dynamic growth of the western U.S. in the 19th and early 20th Centuries was largely financed by "beneficial development" land taxes. Local governments were no better forecasters than private landowners, and often got caught up in speculative booms. Come the bust, and these beneficial taxes switched to being onerous.

Mase Gaffney further wrote:

Catastrophes of boom and bust have resulted, historically, from lags in govt. reaction to market trends. Specifically, lagging tax valuations create problems when land values rise, or fall. OTOH, keeping assessments strictly current tempers the extremes. When land prices shoot up, if land taxes shoot right up with them, that damps the amplitude of the upswing - and shortens its period. When land prices drop, if land taxes drop right with them, that damps the downswing, and shortens its period.

The market economy is inherently resilient and adaptable. Statists can always hypothesize panics, and so justify price controls, etc. Monopolists are good at it, too, and they often work together with Statists. In the current Zeitgeist, however, we need not take on the burden of rationalizing the market mechanism - millions of others are doing that, and even overdoing it. Rather, we need to show that the market works best without taxes on exchange, etc.; and that presupposes an alternative source of public revenue."

Mase Gaffney further argued that government does not have to go straight to a national single-rate tax. There are additional strategies:

There are several things the U.S. Fed. Gov. can do, at its level, to change the incentives and hence the policies of local govts., all at once.

1. A Nat. Board of Equalization, to prevent underassessment of land.
Rationale: to stop real estate owners from depreciating land for income tax (by pretending it is building value).

2. A nat. social dividend, to make localities more eager to compete to attract people.

3-10. Put together a list of those ideas, you have a program.

Mase Gaffney wrote to Ron Banks:
I would only add that we should consider the possibility of basing the land tax **on net equity** of the landowner ("net" meaning net of recorded liens on land) and adding the value of the liens to the tax base.

Immediately, though, I see a problem with my suggestion. A lien on land may be, and often is, mostly covered by the value of the building.

Nic Tideman (?) added:
We would need to divide that value of property between land and buildings for a new reason. If the selling price of the property is P and the selling price of the land, if unimproved is T (for Terra), then the value of the improvements is P - T = I. If there is a lien of L on the property then we levy a tax on borrowers on the smaller of T and P - L, and a tax on lenders on the larger of 0 and L - I (that is, on L + T - P). A reasonably stiff tax, maybe 50% per year. The lenders would make sure that future liens did not exceed the value of improvements.

Mase Gaffney notes:

1. Mervyn King is speaking of INCOME TAXATION, not local rates or property taxes. It's a good bet, too, he is fusing land with capital.
2. Local tax reformers (2-raters et al.) are just putting frosting on the cake, from a national viewpoint. As capital is already largely exempt from national taxes, while labour is double- or triple-taxed, the additional national benefit of relieving capital from local taxes is small. This is part of the curse of 2-ratism, it will always keep us thinking small. (It does, however, render the local govt. that does it more competitive with other localities that do not.)
3. Both national income taxes, and local property taxes, treat different kinds of capital unevenly, thus creating major distortions.

Example. Local Georgists have considered it a great coup to get "personal" (mobile) capital exempt from property taxes, a growing trend. Ditto for standing timber. This, however, simply distorts the allocation of capital, so long as capital affixed to the land remains taxable. It is also generally regressive (breeding cattle and industrial machinery and timber being owned more closely than residences, for example).

It also leads to silly avoidances: e.g. you convert real property to personal property by unbolting it from the floor and putting it on heavy casters.
4. Politically, the emphasis on untaxing capital draws Georgists closer to capitalists, and away from labour and liberal groups. This is tempting, too, because capitalists have more discretionary money for us. However, it effectively neuters us in fighting for the original Georgist cause, labour;

and turns off all the labour and intellectual support we might otherwise get, and George originally got.

To be sure, George himself encouraged that in his many passages where he identifies labour with capital, and virtually fuses them. We boast of our "3-factor economics," but many Georgists regress to dualism of their own, where it's all labour vs. land, with capital conflated with labour. I believe we need to correct that (and Austrianism, which George foolishly spurned, can help).

5. Under some circumstances, effective income tax rates on some kinds of capital can be high. The combination of inflation with high nominal tax rates has that effect. (Economists have fumbled this matter completely, in their mercenary efforts to focus on this as an excuse for treating capital gains more favourably - see #6.)
6. Please do not think of the capital gains tax as a tax on capital. It is mainly a tax on land gains: the name was chosen in order to obscure that fact.
7. Do not think of "the capital gains tax" as a separate tax, at least not in the U.S.A. It is a part of the income tax: gains are taxed because they are income. By referring to it always as though it were a separate tax, its enemies give the impression it is some kind of special or punitive tax. That's a big lie, sedulously cultivated (like so many).

Fred Harrison wrote:

Ron raised a query about my point about land prices being driven up, catastrophically, if the land charges fell short of "mopping up" the revenue that was left in private hands, as a result of decreases in taxes on labour and capital. I realise that the outcome would not be a clean one. One effect might be to shove up land prices: not just because landowners would capitalise the difference, but because by withdrawing their land from the market, those sites that were offered for sale would command even higher prices.

But there again, the reverse is possible, and even more likely, isn't it? For:

- If government did announce rental charges as part of a serious intention to restructure the fiscal system, no matter how inefficient it was - in offering greater tax reductions than rent charge increases – then
- landowners would panic, and begin to offload sites fast, thus driving land prices down.

Either way, we end up with a mini catastrophe?

Nic Tideman asked:

You say that a 50% rate of land rent charges would smooth out the amplitude, but would it?

Certainly, the marginal sites would go out of the frame. During the speculative periods, people are looking for Big Gains. Cheap sites are pushed out of contention, if there is a 50% rental charge – because capitalisation of the other half does not represent a big capital gain.

Mase Gaffney replied:

Sorry, but have to disagree with above. Historically, the greatest % swings in land value are at the fringes of growth, not at the cores. Of course, there are fringes and fringes. A fringe of growth is land currently marginal, but with great expectations. A backwoods fringe is another animal, and less dynamic. In all case, though, what attracts buyers is the gain as a fraction of the purchase price, so lands of low value may make very attractive speculations.

But the real damage is done by the relatively few well-located sites, which are symbolically important. 50% of the expected income stream of those sites (reaped in the form of capital gains) remain VERY attractive. And this raises everyone's expectations, including those with the near-marginal sites. So rather than turn over the cheap sites, owners hang on to these, as well - just hoping that something will come along, to give them a windfall, as well.

If I am correct, a 50% tax-take, IF IT IS LEVIED AS A CAPITAL GAINS TAX, will cause seizure in the land market: catastrophe.

The Taiwan experience seems to show that they raised lots of $$$ from their tax on land gains, and prospered anyway, because it worked in conjunction (at first) with a high annual tax on land value. The LVT chased the quarry into selling, where the Gov. sprung the tax trap.

Remember: What is available as a capital gain is not 50% of the expected income from these sites, but rather 50% of the future income that is not already capitalized into the selling price. The capital gain comes from what the speculators see coming before others see it.

The 50% tax means a very substantial holding cost for what will generally be a much lower return relative to investment. Land speculation will need to become more sophisticated. Instead of simply "buy and hold," it will need to be "Find something that others don't realize will be rising in value. Find a good interim use of it so that you can afford the taxes. And then if all goes well, you get a rise in selling price when others realize its value."

Fred Harrison wrote:

I did not have a capital gains tax in mind. I agree that a capital gains tax that was not accompanied by a substantial annual tax on the selling price or the rental value of land could cause a "seizure" in the land market.

It is a different story, of course, if the charge was levied annually, on the unimproved value of the site, whether it is used or not. Then the idle land comes sluicing onto the market, and we might even see a levelling down of rental values in many areas, to the point of equilibrium.

Timing the Transition

Nic Tideman

THERE IS no reason why a move to a system of public revenue that promotes efficiency and justice has to cause an economic slump.

The taxation that we propose would redistribute assets from the mature to the young and to the unborn. That makes it hard to sell to selfish voters. And there are serious questions of administration that need to be worked out. But I believe there are approaches that will deal adequately with the issues that will arise.

Who is going to lose? In the first instance, those who have titles to land. But those individuals will also benefit to the extent that they have labour and capital on which taxes are removed. Older people benefit less from the removal of taxes on labour, but those with children also receive a gain in the form of a world for their children where labour is not taxed.

People with title to land have often received loans based on the income from land or its sale value. With the income now going to taxes and selling prices down, land no longer serves as collateral. Still, people with such loans may be able to pay them easily enough, since their labour and capital will now be untaxed.

To reduce the number of bankruptcies among those who borrowed to buy land, there could be a transition period in which the share of rent that was collected was gradually increased, and the deficit from not collecting all rent was made up by a very high tax (perhaps 80%) on interest income secured by liens on property in excess of the value of improvements.

This shifts a substantial part of the burden to banks. I think this is alright. I would say to them, "You should have know better than to suppose that the public would refrain indefinitely from collecting the rent of land. When you made loans available based on this presumption, you caused land prices to be bid up, making land less and less attainable for the young. It is appropriate that you should pay for this behaviour."

It might also be possible to have a rule that permitted land purchasers to seek compensation from the persons from whom they bought land.

Having the banks bear a significant part of the loss of asset values carries the problem that the banks may fail. I don't mind too much if the owners of bank equity lose, but it will be important to keep banks open. We might say that banks that are unable to meet their capital requirements will be required to issue new shares to the government, constituting 9 times previous equity, in exchange for being bailed out.

In the U.S. anyway, we are not able to have the loss borne by ordinary depositors (if we would want it), because of deposit insurance. For this reason, it would be very good if we could introduce a rule that banks are not allowed to accept land as collateral, as one of our first political objectives. Our chances of this are slim. This means that we need to put this loss somewhere else. I would much rather have a capital levy than a continuing income tax. If we have not distinguished adequately between capital and land in the past, then the owners of capital could just as easily have been owners of land titles. I believe we have an obligation to respect the full right of each person to his or her productive efforts, just as soon as we can.

I believe that a big bang can be managed without closing banks and without any significant disruption to production. But it will require lots of planning.

Another issue is what happens while the big bang is under discussion. The asset value of land titles becomes highly uncertain, and this uncertainty carries a cost in raising the rate of return that investors will require to undertake complementary investments in capital. Output may be

lower in this period of uncertainty than if there were no prospect of reform. People will seek to block reform in the name of promoting investment. We need to reply that this cost of uncertainty is a reason to adopt the reform fully, just as soon as we can.

Mase Gaffney replied

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Who is going to lose? In the first instance, those who have titles to land. But those individuals will also benefit to the extent that they have labour and capital on which taxes are removed.

Ironically, the landowners who stand to lose least are those with vacant land, because they are now in a position immediately to take full advantage of the exemption of buildings from tax.

Older people benefit less from the removal of taxes on labour.

Retired people do not benefit at all; but OTOH they gain from the removal of taxes on retail sales (whose champions often point out how they force retired folks to contribute to public revenues).

But those with children also receive a gain in the form of a world for their children where labour is not taxed. People with title to land have often received loans based on the income from land or its sale value. With the income now going to taxes and selling prices down, land no longer serves as collateral. Still, people with such loans may be able to pay them easily enough, since their labour and capital will now be untaxed.

They also have the option of walking away, and not paying at all. This is the most common outcome of falling land prices.

To reduce the number of bankruptcies among those who borrowed to buy land,

They needn't use bankruptcy - just move out and leave the keys for the bank. It's the bank that faces bankruptcy.

there could be a transition period in which the share of rent that was collected was gradually increased, and the deficit from not collecting all rent was made up by a very high tax (perhaps 80%) on interest income secured by leins on property in excess of the value of improvements.

A pregnant thought. It could also be based on the value of the lien, rather than its income, thus making it an adjunct to the property tax.

This shifts a substantial part of the burden to banks. I think this is alright. I would say to them, "You should have know better than to suppose that the public would refrain indefinitely from collecting the rent of land. When you made loans available based on this presumption, you caused land prices to be bid up, making land less and less attainable for the young. It is appropriate that you should pay for this behavior."

Having the banks bear a significant part of the loss of asset values carries the problem that the banks may fail. I don't mind too much if the owners of bank equity lose, but it will be important to keep banks open.

Not all lenders are banks. It is important to keep commercial banking alive. OTOH such lenders as REITs, and S&Ls, supply no media of exchange, so we might let them rearrange their own affairs.

We might say that banks that are unable to meet their capital requirements will be required to issue new shares to the government, constituting 9 times previous equity, in exchange for being bailed out.

Or something. We might study how FDR kept the banks open after the bank holiday, 1933.

In the U.S. anyway, we are not able to have the loss borne by ordinary depositors (if we would want it), because of deposit insurance. For this reason, it would be very good if we could introduce a rule that banks are not allowed to accept land as collateral, as one of our first political objectives. Our chances of this are slim.

Chances are pretty good, I suggest. There is ample precedent, going back at least to the English Bubble Act, 1720. It's been a cyclical thing: after every great bust, banks revived the

commercial loan theory (or some equivalent), where lending on land was suppressed. Even today in Calif., banks cannot lend on raw land.

This means that we need to put this loss somewhere else. I would much rather have a capital levy than a continuing income tax.

Politically, the obstacles to this are overwhelming. Taxing the poor widder's cottage to bail out the big banks? I don't think it would fly. If we have not distinguished adequately between capital and land in the past, then the owners of capital could just as easily have been owners of land titles. I believe we have an obligation to respect the full right of each person to his or her productive efforts, just as soon as we can.

I believe that a big bang can be managed without closing banks and without any significant disruption to production. But it will require lots of planning.

Another issue is what happens while the big bang is under discussion. The asset value of land titles becomes highly uncertain, and this uncertainty carries a cost in raising the rate of return that investors will require to undertake complementary investments in capital. Output may be lower in this period of uncertainty than if there were no prospect of reform.

I doubt this: people will build more, optimistically expecting that the buildings will soon be tax free.

The Black economy

Fred Harrison writes:

Public rent-charging at a critically high enough level constitutes a powerful force for ORDER in the present chaotic system of market production.

The business cycle is the most visible manifestation of instability, which needs to be straightened out; and we argue that fiscal reform is the major tool for achieving this.

But in addition, the level of illegal activity in western economies is frightening. And it not only undermines sound public finance and private sector production; it corrodes civil society, in terms of institutions and morals. According to John Burton, a professor of business at Birmingham (UK) University, the underground economy is equivalent to a quarter of GDP (£838 bn, in money terms).

Now, much of that activity is driven by the desire to avoid taxes. Under the public rent-charging strategy, crooks would not be able to get away with it. So the underground economy begins to surface into daylight, deepening the order in the structure of the system.

But here's a question for Nic: how much of that avoided tax would be translated into higher land rents? Is this an area worth exploring, for the implications of public revenue (which determines the size of the public sector) as well as for the size of the productive economy, in the post-reform era?

The final two decades of the 20th century experienced one hotspot after another, of financial and bank crises:

Colombia	1982-87
US s-w	1986-92
US n-e	1991-92
California`	1992-93
Nordic	1992
Mexico	1994-95
Asia	1997-98

In surveying this history of contagion, analysts at the International Monetary Fund in Washington DC were frank in their admissions; which, cumulatively, amounted to a confession that economics was so primitive that the theory was not available to predict the onset of these crises.

The empirical findings of IMF studies were pathetic in the character of their informativeness. One study included this conclusion: "Problem banks had significantly higher exposures than non-problem banks to sectors that had initially been booming but had gone bust shortly before banking crises hit".[1] In other words, the banks at risk had lent to borrowers who subsequently defaulted. But this tells us nothing of help to reforming policy-makers. Politicians need to know whether the fault lay with

ñ the skills of the bankers themselves; or

[1] Brenda Gonzalez-Hermosillo, "Developing Indicators to Provide Early Warnings of Banking Crises", *Finance & Development*, Vol. 36(2), June 1999, p.39.

ñ a systemic propensity to collapse into a bust phase of the economic cycle.

Western governments, when they peered down on the Asian crisis that rounded off the disastrous century of banking mismanagement, assume a high-horse posture. They censured Thailand, Korea and the Philippines for lack of "transparency" in their financial systems, which had prevented the international financiers from anticipating the crisis that struck down the Asian "tigers". And yet, they were silent about the conflagration in the United States. Despite the most intricate federal regulation, based on 50 years of diligent scrutiny of banking practices, in which banks were required to administer open-handed procedures in its dealings with the public, the US was struck by a series of regional crises – in the south-west (1986-92), followed by the north-east (1991-92) and back across to California (1992-93). Each of these was as momentous in scale as the banking crises in countries like Mexico and Colombia. And yet, the US government was not censured for slovenly administration of that country's banking system.

The international financial institutions sought to understand the causes, but they failed. In trying to develop indicators that afforded an early warning of banking crises, the best they could offer was generalisations about the phenomenon which classified the evidence *after the onset of the crisis*. The investigations merely provided governments with some tools for financial fire-fighting: the analysis failed to identify the sources of the problem, so there was no prospect of formulating remedial action.

We are entitled to suspect that economic comprehension of the processes involved are prejudiced by some missing links. My hypothesis is that there is just one gap in knowledge: everything to do with the role of land in the dynamics of the industrial economy.

Economists do not treat land as a distinct category. They readily acknowledge that data on real estate other asset price information is hard to come by, but such strictures tend to be directed at developing and the former socialist bloc countries.[2] They ought to say as much about European and North American countries, particularly with respect to the value and supply of land (with the notable exception of Japan). Not surprisingly, therefore, the rigorous models that are supposed to offer some warning of the onset of crises "do not as yet provide much improvement over informed guesses".[3]

One IMF economist who responded to the challenge of predicting economic crises admitted that part of the problem, at least, may lie with economics as a social science. Economic theory mayu be relatively good at characterizing stable conditions, but it "tends to be less informative about the dynamics that could lead from one equilibrium to another"[4] – i.e., economic theory does not have much to say about the way in which production of goods and services is periodically attacked and displaced from one level of activity to another.

What to do about it? By the end of the 20th century, despair had settled into the science of economics. The logic of that psychology of failure was neatly summarised by IMF analyst Sunil Sharma, who concluded:

> In the end, the holy grail of crisis prediction may be intrinsically unattainable. Indeed, the very success of such models in predicting crises would eliminate the phenomenon they were trying to predict if

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[2] Sunil Sharma, "Th Challenge of Predicting Economic Crises", *Finance & Development*, Washington DC: IMF, Vol. 36, No.2, June 1999, p.41.
[3] Ibid.
[4] Ibid.

> policymakers took appropriate action in response to early warning signals. Furthermore, given that foreknowledge of crises would typically allow trading profits to be made, a successful prediction model is unlikely to exist in efficient markets[5]

The economic profession, as a whole, has given up. After two centuries of theory, and armed with the most sophisticated mathematical formulae and powerful computers, the most visible manifestation of inefficiency, the one that has gone global on a ballistic scale – financial crises – is beyond the grasp of analysts and the correction of governments. The holy grail of prediction, we are told, is elusive – but so what? Why bother? According to this creed, if we could predict a crisis, government would forestall it with appropriate action – in which case, there would be no crisis!

Are we missing something in this logic? Why concern ourselves with hypothetical conditions in a perfect world, when the record of consistent failure is transparently clear?

Efficient prediction models are not part of the toolbox of today's economists, which means that the global economy will continue to be torn by crises in the 21st century. Aren't governments entitled to a fair chance of forestalling those crises? How can they do so if they are not warning in time?

It is true to say that efficient prediction models would be surplus to requirements in efficient markets (which would not be dislocated by the booms and busts that herald banking crises). But efficient markets are exactly what we do not have. The scale of losses inflicted on that segment of the world's population that spends its life working is beyond comprehension. It is only in the unreal world into which economic theory has been driven that we find senior analysts at the IMF concluding that the development of models that can predict crises is a fruitless exercise.

In the real world, people know that markets do not work efficiently. The professionals whose judgements they are supposed to respect – for are they not paid highly for their skills? – are seriously accident prone. When it comes to balance sheets of banks, the numbers do not add up anywhere nearly as accurately as we might expect. Miscalculation is the name of the game, and the outcome is intolerable.

Bankers exercise enormous influence over our lives. They do so at the micro-economic level (in the High Street, where they decide whether to extend credit to a small business). They do so at the macro-economic level (where they influence central bankers over policies such as interest rates, changes in which can drive firms to bankruptcy and families into homelessness).

But the failures are not just with the bankers themselves. A whole industry exists that is paid lavishly by clients to monitor and rate the credit-worthiness of countries and of industries down to individual enterprises. While they might be forgiven for not spotting a few bad apples in a big barrel, how was it possible that they "did not foresee the vulnerable situation of many Asian economies and were surprised by the timing and depth of the crisis"? (Sharma 1999: 41-42). If they were not sufficiently well equipped to send out Red Alerts on a looming crisis of those proportions, what is their value to the investor who wants to minimise his exposure to risks?

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[5] Ibid., p.42.

What are these professionals missing? So consistent is the boom/bust and associated banking crises; so overwhelming are these events, in their capacity to destroy people's lives and retard the material gains accumulated over decades, that the nature of the problem could not be featherweight. Nor could it be far from the tip of our noses – we are not living in an extraterrestrial world full of unknowns.

Power of MNCs to fend-off land/tax reform

Fred Harrison (?) writes:

There is a need to analyse the power of corporations to negotiate favourable terms for (a) land acquisition, and (b) tax breaks. These identify the weaknesses of civil society. The MNCs would not be able to exploit their size – many of them would not have achieved such size - if it was not for the flaws in the philosophy of land, and of public finance. Cf the recent row in Argentina; and the involvement of a world trade (?) body, as indicator that the underlying philosophical capitalist system doesn't like this; but doesn't yet know what to do about it.

Globalisation is the convenient scapegoat for tensions in the Western economy. But the source of the problem is closer to home, as Daniel Cohen has explained. European countries, in particular, blame the fiscal and unemployment problems on the competition from low-wage workers in developing countries; the remedy for which is perceived as protectionism.

At the same time, the availability of credit from foreign lenders is imposing a stress on national politics. This is the outcome of governments resorting to foreign borrowing to shore-up fiscal deficits, and their inability to meet the coming needs of an ageing population. In the face of international competition, governments find that they are driven to modify their social commitments to their citizens; thereby weakening the Welfare State.

In the face of this, we need to be cautious about the treatment of globalisation as the source of problems. After all, trade between the West and developing countries represents less than 3% of the wealth produced each year by the richest countries.

But the footloose MNCs can exploit the deepening anxieties in the system of governance, to their private benefit and at the social expense of everyone else....

...so *national policy-making is in a state of chaos*, and scapegoats were being sought. The financial treadmill left not scope for hope, with the cost of interest on the public debt as the main item of government spending in most OECD countries.

But Cohen's conclusion is too superficial to help. He says that macroeconomic regulation and the fight against inequality in the rich countries cannot be undertaken until governments regain control of public spending. But that is precisely what they cannot do, given the fundamentals....and the philosophy of public finance. But Cohen is correct in emphasising that the priority is not economic reform, but a democratic debate about the political foundations.

The Money Question

James Robertson writes:

Among related reforms I include the recovery of the 'seignorage' value of credit creation - i.e. additions to the money supply which governments now allow the commercial banking system to create and profit from in the form of interest-bearing loans to their customers. Recent estimates of the public revenue potentially recoverable by the UK government (and therefore taxpayer) from this source are of the order of £50 billion a year. Even if the estimates are considerably exaggerated, the actual sum would be very significant. As you would expect, the seignorage revenue now accruing to the UK government from increases in the CASH (banknotes and coins), as opposed to the credit, in circulation is very much less - of the order of £1 billion a year. (I recently put written evidence to a House of Commons and a House of Lords Select Committee on this topic, and I am pursuing it further - more details in our next TP2000 newsletter, due out in a couple of weeks.)

I am sure we need to concentrate people's minds, including our own,

(1) on the logic and commonsense - ethical/political/philosophical – of channelling into public revenue the monetary values derived from the creation and use of common resources, and
(2) on the many practical bonuses - social, environmental and economic – to be gained by shifting the structure of public revenue, including tax, in this direction.

Mase Gaffney replies:

I assume he means that private banks should not be allowed to create demand deposits (unless, perhaps, they are backed with 100% reserves). His assumption is that they collect interest in return for no real service. It's a recurrent theme that commends itself to radical reformers, from time to time. Silvio Gesell, Major Douglas (Social Credit), et al. Curiously, some of these radicals are of the left; others of the right.

It's a whole new topic, hard to relate to resource issues directly, except through the use of land values as collateral for the basis of credit creation. It is also complex, and calls for a lot of background to evaluate.

James Robertson replies:

1. We aren't talking about nationalising the banking and financial system, any more than Georgists are talking about nationalising the land.

2. We are proposing that the (Georgist, I think) principle that the profit arising from the process of making additions under government policy to the money supply (in the form of the NATIONAL currency in circulation) should apply to increases made by credit creation, and not just to increases made by increasing the amount of cash (banknotes and coin) in circulation.

3. The profit arising from the latter is called seignorage. It is a contribution to public revenue, but it is NOT a tax. (It reflects the non-existence of a subsidy.) [There is an interesting parallel here with the argument whether a "site-value tax" should be called a tax or not. In that case, I admit, I have taken the view that for credibility's sake it SHOULD be called a tax. But that is because it would be levied as if it were a tax, whereas seignorage on the creation of cash is not so levied, and seignorage on the creation of credit would not be.]

4. I accept, of course, that we are living increasingly in a world of multiple, parallel currencies, including most obviously the way the US dollar is used in countries like Russia, but also including many quasi-currencies like Air Miles, LETS, Ithaca Hours, etc, which are issued by commercial and community organisations, and which circulate as means of payment. I think people and organisations (eg local authorities) should be able to issue their own currencies, and for some years I have been helping to promote this as desirable (though I also think it must be regulated to discourage scams and rip-offs by fraudulent issuers). But these are not NATIONAL currencies (or other government-backed currencies like the Euro), the provision of which should be recognised as a societal creation, from which the value directly arising should be treated as a source of public revenue.

Appendix 1

The reconstruction of economics

The neglected dimension of neo-classical analysis

A Note by Michael Hudson

(NOT for re-circulation)

Neoclassical theory seeks to explain the economy simply in terms of the factors of production and the returns they earn - wages and profits (which are defined so as to include the rental income of land and land-like natural resources and monopolies, which are all conflated with capital).

This misses a great part of how the economy operates. It neglects, for instance, the lion's share of the economy's real estate, insurance and finance (FIRE) sectors. One could not use this line of analysis to discover how the Forbes' 400 list of the richest men in America (or Japan or Russia, for that matter) obtained their fortunes.

If we view the topic of how the top of the economic pyramid got into its favored position as being a proper subject for economic analysis, then neoclassical economics

At issue is the idea of what is "earned." Classical economics implied that most wealth was not earned economically. From Ricardo to Henry George (and one might also cite Buchanan in his edition of The Wealth of Nations), the wealthiest classes got a free ride off nature (rent and the asset-price gains from natural resources). Ricardo implied that this free ride came from diminishing marginal fertility, but the American anti-Ricardians (from Henry Carey's followers through Thorstein Veblen) pointed out that increasing returns, and especially the rising value of urban land provided a free ride for landlords who, in Adam Smith's words, liked to reap where they did not sow.

Marx pushed the classical analysis in another direction. To the extent that the owners of capital earned profits, it was by socially organizing means of exploitation that were extraneous to the production process and indeed, limited its horizons. This was the essence of Marx's theory of surplus value, in which all gains were produced by wage-labor. It was the political system, Marx said, that squeezed out profits for the employer, by keeping labor down.

In reacting against these analyses of land and capital respectively, neoclassical economics became non-political economy. It turned away from institutionalism, and became a narrow-minded reaction against classical analysis. It became "technocratic," looking only at that portion of the economic process in which all wealth was indeed earned, and in which every way of obtaining income was deemed just as productive as any other way. Classical political economy had been traumatized by Marxian socialism and georgist populism, and represented a reaction.

Neoclassical economics stripped away from classical economics the analysis of land (traumatized by Henry George, who defined rent as produced by nature, not human efforts, and hence being "unearned") and capital (traumatized by Karl Marx, who attributed its profits to the exploitation of labor - by means of social organization - rather than to nature, which would have at least been a form of technological innovation).

The early U.S. income tax defined capital gains as including gains in the price of land, natural resources and indeed, any asset, and taxed these gains at the same rate schedule as "earned" income, that is, wages, profits and rents.

For purposes of taxation, it did not matter how returns were made or what form they took. They were taxed as income whether they were the result of doing business by hiring labor, renting out land or buildings, or buying and selling assets. The more philosophical issues of whether these returns were earned or not earned, or whether they were earned productively or in socially parasitic ways at the expense of the rest of society, was not of concern.

That is to say, as broad a picture of the economy's revenue flows as possible was drawn up. Any increase in the market value of wealth was treated as income, at least to the extent that gains were taken (or losses actually suffered).

The objective was to trace how people got wealthy, and what they did with their increase in assets. The normal way to gain wealth was to earn wages, profits or rents and only consume part of this revenue. It was possible to gain wealth without actively participating in the production process at all, simply by collecting interest income, or rental income.

It also was possible to gain wealth without earning any revenue at all, simply by waiting for the value of an asset to appreciate. The asset might rise in price as a result of its rising income stream (in which case the price rise simply was a means of valuing this income stream at the existing rate of interest).

But assets might rise in value for autonomous reasons. Fine art works were an example. Real estate has become the largest example in modern times. Although most of it does generate rents, of course, the entire income stream is absorbed in expenditures by the landlord. After meeting the direct operating costs, landlords pay interest on the money they have borrowed to acquire their property, and also property taxes.

These interest charges are extraneous to the technical process of constructing buildings and renting them out. Taxes also are imposed on this system from without. Not only have many economies in the past operated without interest charges (Mycenean Greece, Egypt under the early Pharaohs, the Hittite Empire), but also modern socialist economies such as Russia and Cuba have organized production processes without paying interest (or rent, for that matter), and no site-inherent taxes as wel Interest was also absent from the production processes in classical Greece and Rome. (These economies were driven by usury, to be sure, but that was something extraneous to the production process itself.)

Ironically, neoclassical economics applies only to these socialist economies and to the archaic pre-capitalist (or perhaps we should say indeed, pre-Mesopotamian) economies. Yet today's economists would (with good reason) criticize the socialist economies precisely for not imposing a charge on the allocation of scarce capital. Their failure to charge site-value rent meanwhile leads to an under-utilization of well-situated land.

If these two criticisms of Soviet and other socialist planning are valid, then something is missing from neoclassical economics itself.

What is missing is partly the issue of ownership: how does a proprietor come into control of an asset? (Presumably, a broad economic answer would deal with the "primitive accumulation" of kleptocratic economies such as Russia and American client-dictatorships throughout Latin America and Asia.) A thorough theory of the economy also would deal with crime, military seizure, fraud and coercion both of the market-variety (public monopolies or "white collar crime") and non-market variety ("blue-collar crime").

So economic theory has to be generalized, or re-broadened to become political economy. In doing so, it must deal with the ways of accumulating wealth in all ways, not just by earning income and refraining from consuming it.

It must go beyond reductionism that perceives the only way of getting rich to save (refrain from consuming) the income earned by "factors of production."

It must acknowledge the value of asset-price gains.

To date, neoclassical economics has done this only by treating such gains as a "monetary" phenomenon. It is "deflated" asset prices by index numbers based on goods-and-service prices (the

GDP deflator reflecting wholesale and consumer prices). This seems to leave to monetary analysis the task of tracing the (market) value of wealth relative to income. The process is conflated with "inflation" and "deflation" pressures.

In reality, savings includes a "non-monetary" phenomenon, to the extent that the money supply is created by savings and mediated by the institutions through which savings occur. One can see, for instance, that savings accrue not as a result of the production process itself producing more than needs to be consumed (in Keynesian-type macroeconomics), but by the purely mathematical laws of compound interest.

One furthermore can see that shifts in asset prices belong conceptually to a different sphere from shifts in the prices of raw materials and consumer goods. Assets are what savings are invested in. Alongside the production sphere exists a savings/asset-price sphere, in which the rate of interest and related flow-of-funds patterns are the major determining factors. Also needing to be analyzed is the debt/equity dimension.

This line of analysis goes beyond classical economics as well as beyond neoclassical economics concentrating merely on "factors of production" and their "factor returns."

What complicates matters is the phenomenon of interest, which has become "pasted onto" the economic system from outside it. (In my view, this was done by the Sumerian temples, whose practices were adopted by the palaces and then "privatized" over the course of classical antiquity.)

Interest cannot be explained as a "factor return," any more than taxes or tribute can be explained as a "factor return" for, say, government "services."

One sees here the nonsense of the georgist/gaffneyesque "three factor" theory of labor, land and capital earning wages, rent and profits. Where is "interest" here? Where, for that matter, are taxes? Where is government bailout money for the savers?

Output can be viewed in terms of the labor force multiplied by labor productivity. One could make an even better model factoring in "capital productivity." But there is an entire economic ionosphere that is growing without any inherent link to "factor productivity." It may expand over and above the "productive" sector, or it may begin to encroach into it, stripping away "capital" and downsizing the labor force by withdrawing income to turn into interest or taxes (and I am including "socialist" economies in the latter "tax-to-death" category).

What seems clear is that economics needs to be reconstructed, in a way that will break free of the limits placed by neoclassical economics in its anti-Marxian and anti-georgist modes, and which goes beyond classical economics to incorporate the phenomena of asset-price gains (wealth without production), interest and debt phenomena. This will re-introduce "institutionalist" considerations, and also the "historical school" of economics.

In that respect, I am trying to create a General Theory of economics, to juxtapose to the neoclassical Special Theory (which applies only to socialist economies lacking in interest or rent) and non-financial classical economics.

Appendix 2

Land value taxation in Australia and its potential for reforming a chaotic tax system

The Walsh Memorial Bequest Address
delivered at Macquarie University School of Economics
27 May 1988 by MD Herps, FAIV, DipLaw (BAB), FSLE

Doug Herps
[The author was Deputy Valuer-General, New South Wales, and consultant to the Commonwealth Grants Commission in connection with Australia's land values]

From the earliest days of white settlement in Australia revenue from dealings in land was an important part of the consolidated revenues of colonial governments. As the English Crown, following Cook's discoveries in 1770, had assumed ownership of all 'wastelands' in the eastern half of the continent and of New Zealand (then a part of `New South Wales') it was able to charge rents for lands leased to settlers and lump sums or instalments of purchase money when land was disposed of under what became known as 'conditional purchase'. But as more and more land came into private hands, both legally and illegally, it became clear that the diminishing Crown estate could not be relied upon to provide a worthwhile revenue from rents and sales alone as this source would eventually dry up.

In the second half of the nineteenth century, therefore, the colonial governments began to look for alternative revenues from land. In time they tapped this source at three points. First, they continued to collect rent from unalienated Crown lands leased for private occupation for terms of years or in perpetuity. Secondly, they began to impose taxes on the selling value of land and thirdly they provided legislation for the new cities, towns and shires to levy rates on land on the English model. Of these three sources we shall see that it was from rates on land that by far the largest revenues were collected.

By the late nineteenth century the rents of Crown lands had become the least important in revenue terms but enabled the various Lands departments to recover at least the expenses of managing what remained of the Crown estate. The rents of most tenures were periodically re-appraised and were based on the productive value of the land in its virgin or site-improved condition depending on its state when leased. In New South Wales, Queensland, South Australia, Western Australia and the Northern Territory the Crown estate included areas of arid or semi-arid land of enormous extent but of low value on which only open-range cattle and sheep grazing was possible; in Victoria and Tasmania there was little remaining Crown land, most of it having been taken us during the first generation of white settlement.

As a second source of the Colonies' consolidated revenue funds, land taxes were introduced: first in Victoria in 1877 (1); and then in Tasmania 1880 (2); South Australia 1884 (3); New South Wales 1895 (4); Western Australia 1907 (5) and Queensland in 1915 (6).

The newly created Federal Government, whose original source of revenue was principally from customs and excise, enacted a land tax under the Land Tax Act, 1911 (Commonwealth). This measure imposed a graduated tax beginning at one penny in the pound of the total Unimproved Capital Value of an owner's holdings with an initial exemption of five thousand pounds. This Federal tax remained in operation until 1952 when it was repealed by the government of Sir Robert Menzies who invited the States to augment their revenues from land tax as a partial substitute for the States' income taxes which they had surrendered to the Federal government during WW II.

It is of interest to note that New Zealand, which had become a separate colony in 1841, adopted the land tax principle much earlier than Australia. In fact, between 1849 and 1855, at a time when that country was divided into provinces, the citizens of the town of Wellington and the provinces of Marlborough and New Plymouth passed ordinances which provided for rates to be levied on the `fair value of land exclusive of the value of improvements'.

It is now known that in 1855 the province of New Plymouth gave effect to this principle, this being probably the first instance in modern times of the practical adoption by ratepayers of the system which became known as rating on the Unimproved Capital Value of land. In so doing it is claimed that:

> *this handful of settlers, in this most remote of European settlements ...*
> *made a contribution to social theory and practical administration which was to prove of immense importance in the development of Australia and New Zealand.* (7)

It is all the more intriguing to reflect that these early New Zealand settlers adopted this concept a generation before Henry George advocated the same system.

Later, in 1878, after provincial government was abolished in New Zealand, a national land tax was introduced which required that:

> *all land shall be valued at the capital value thereof to sell, after deducting therefrom the value of all improvements thereon.* (8)

Undoubtedly these early efforts of our New Zealand cousins greatly influenced the subsequent land tax and land rating legislation of the Australian colonies, particularly in the official valuation of land, for the determination of which New Zealand established the first Australasian centralised valuing authority. (9)

By far the most significant way in which Australian Governments, first as Colonies and later as States, drew upon the value of land for revenue was in the development of a system to finance the needs of local government.

In the beginning the revenue base they adopted was borrowed from the law of England where it had operated since the beginning of the seventeenth century. (10) This was the system of rating on Annual Rental Value of land including improvements. However, as the early settlers found that this heavily penalised and discouraged the making of improvements, they quickly discarded it for a rate based not on total property income but on the market or selling price of raw land which became known as the system of rating on the `Unimproved Capital Value' of land which was also the base the central governments adopted for their land taxes.

The pioneering work in local government rating was done by Queensland which, although the last to adopt a statewide land tax, was the first colony to abandon the English system and to embrace the principle of raising revenue from the capital value of land excluding improvements. This was introduced for local government purposes by legislation in 1879 (11) and made compulsory for all Queensland's local authorities in 1890. Although the concept of rating on the unimproved capital value of land did not finally emerge in the colony until 1890, Queensland's early local government legislation required every local authority to make a valuation of the `annual value ' of each parcel of rateable land and to levy its rates on that basis. Moreover, the 1879 Act provided for a separate valuation of 'buildings and houses' and allowed for the deduction of one-half of the annual value in respect of those improvements. In 1887 country land was assessed on its annual value with the values of improvements specifically excluded. In 1890 Sir Samuel Griffiths Liberal-Conservative Coalition Government introduced the Valuation and Rating Act (Qld.), a measure which excluded improvements from local authority rating in both urban and rural areas and was the first legislation in Australia to impose rater (as opposed to land tax) on the

unimproved capital value of land. A Queensland Royal Commission of 1896 endorsed this concept and prompted a consolidating Act, the Local Authorities Act, 1902 which drew no distinction between rural and urban local authorities and confirmed the previously established principle of valuing land, excluding improvements, for local rating.

Queensland's pioneering work in the field of local government finance was undoubtedly greatly influenced by its Premier and later Chief Justice, Sir Samuel Griffith. This outstanding legislator and jurist was motivated by a philosophy closely resembling that of Henry George as evidenced by his remarkable Law of Property Bill which he introduced into the Queensland parliament in 1880. It is unlikely, however, that he was influenced by George but rather by his great scholarship and acute sense of social justice.

Following Queensland, South Australia (1893) [12]; Western Australia (1902) [13]; New South Wales (1905-06) [14] and Victoria (1915) [15], each legislated to enable their local authorities to raise their finances by rates on the unimproved capital value of land, either as a compulsory alternative to or local option for the English system of Annual Value Rating. Tasmania alone retained the English system in toto and has continued with it to the present day.

In summary, by 1915 all the Australian States as well as the Federal Government and New Zealand were raising a significant part of their public revenues from land values. For land taxes the revenue bases were the Unimproved Capital Value of land, whereas for local government it was either the unimproved value base or the inherited English Annual Value system which included the value of improvements.

With the possible exception of the Queensland legislation, the laws enacting this system of raising revenue were not initially based on any political, social or economic theory although by the end of the nineteenth century legislators were pointing to Henry George's philosophy to justify and amend it. It was certainly not directly inspired by him but was rather the response of settlers coming to terms with an alien environment. As Sir Edmund Barton said of Canberra's leasehold system, it was a system chosen `as a matter
of business'. (16)

NOTES

1. Landed Estates Act, 1877 (Vic.)
2. Assessment Act, 1880 (Tas.)
3. Taxation Act, 1884 (SA)
4. Land and Income Tax Assessment Act, 1895 (NSW)
5. Land and Income Tax Assessment Act, 1907 (WA)
6. Land Tax Act, 1915 (Qld.)
7. Rating in New Zealand, Rolland O'Regan (1973, p21)
8. Land Tax Act, 1878 (NZ)
9. Government Valuation of Land Act, 1896 (NZ)
10. Poor Law Act, 1601 (UK)
11. Divisional Boards' Act, 1879 (Qld.)
12. Land Value Assessment Act, 1893 (SA)
13. The Roads Act, 1902 (WA)
14. Local Government Shires Act, 1905 (NSW.) and
Local Government Extension Act, 1906 (NSW.)
15. Local Government Act, 1915 (Vic.)
16. Sydney Morning Herald, 18 January, 1901.

Mase Gaffney writes:

The strong impression here is that Oz and NZ lacked for poets and novelists and musicians with romance in their souls, to dramatize and inspire. The U.S. produced Hamlin Garland, author of the s.t. novel, *Jason Edwards*. There was *Shore Acres*, a s.t. play. There was Brand Whitlock, the Mayor of Toledo, a single tax author. It later produced Anya Seton, whose novel *Dragonwyck* shows strong leveling sympathies to overcome concentration of landownership. However, it is hard to tell to what extent it is Herps, the author, whose prosaic approach makes it all seem so pedestrian. Banjo Patterson, of "Waltzing, Matilda" fame, was the Aussie equivalent of Woody Guthrie, but Herps never gets into that. Billy Hughes wrote of rallies with Georgists singing "Onward, Christian Soldiers," and persuading people this was a religious movement. Indeed, its critics have faulted it for that, and perhaps succeeded in intimidating Georgists like Herps into appearing nothing but sober, practical, hardheaded "realists."

Erasing Georgism from history - yes, that has occurred, and yet it has left a vacuum for us to fill. The relative success of COE seems to tell us there is a hunger for refreshing the political memories. As for the fiscal records, they are still there in the archives, we just need to pull 'em out and publish 'em - and persuade others it is worth their while.

Applied Georgism in the frontier U.S. and Canada was a symbiosis of idealists and opportunists. It was something like the American Civil War, where cannon fodder marched into the guns with "The Battle Hymn of the Republic," while Jay Cooke the banker was raking in the big bucks, and r.r. land-grabbers were positioning themselves for the big swindles of the Grant Administration. Likewise, at the local level, the campaign for the Modesto and Turlock Irrigation Districts was conducted along single tax lines, but a lot of little landowners were fixing themselves up with perpetual entitlements to free water, to which their descendants now cling like the ancient rent-drones they displaced.

As for western Canada, the fairly extensive literature on its s.t. movement establishes that the real estate brokers of the period supported it, to develop the country - for their gain.

It is easy enough to say, "the party ended, so that approach is wrong." It is harder to say, what approach is right. My own leanings are at least five:

1, Intergovernmental competition is good; competition tempers tyranny.

2, Leveling policies are more effective at the national level. Thus, a combo of national and local lvt is best.

3, National policy can bend local policy. Specifically, a national social dividend will make all localities more disposed to attract population, changing their attitudes and institutions, thus raising the aggregate demand for labour.

4, All systems break down and turn corrupt or complacent after a while, so periodic review, renewal, and perhaps revolution are necessary and desirable. (Jefferson figured every 25 years, but that seems too fast.)

5, Many revolutions led by idealists have given way to tyrannies like those of Cromwell, The Directory, Thad Stevens, Lenin, and Castro.

The biggest problem of all is that landowners dominate politics, owing to their greater wealth, stability, and motivation. Even Jefferson had to play footsie with great landowners in every state, to build his machine and get elected. Solutions are welcomed!

Appendix 3

On Loss of Property Rights &Compensation: the case of Slavery

Mason Gaffney writes:
Reconstruction in the old C.S.A. (Confederate States of America):

1. There was a strong movement afoot to compensate former slaveowners for taking their property, ca. 1867. It was anticipated that when C.S.A. reps were readmitted to Congress, they would join with northern Democrats to put this over. To preclude it, Radical Republicans (yes, they were Radicals once!) forbade it in the 14th Amendment.

2. Radical Republican leaders wanted to confiscate much of the former slaveowners' lands and divide them among the freedmen. Pres. Andrew Johnson blocked this. They tried to remove him, but narrowly failed. By then, the window of opportunity was gone - their own backers shuddered at the awful prospect of actually confiscating LAND!! The idea might spread northwards.

3. Abram Hewitt was leader of the Democrats in the House, after 1876. He led a successful movement to repeal most of the Reconstruction measures passed in the previous 10 years. He was not just anybody: he had managed Tilden's Presidential campaign in 1876. Tilden, you may recall, appeared to win, but the election was "stolen" by the other side, by recounting some ballots from southern states. What the books glide over is that if blacks had been allowed to vote in the first place, Tilden (a Democrat) would not have even appeared to win. Hewitt's party was the beneficiary of disenfranchising southern blacks - it is why they controlled the House from then on.

Again, recall, Hewitt is the man who blocked H.G.'s bid to become Mayor of NY. Hewitt was not just anyone: he was the First Team! He was also a very wealthy man who funded the early Am. Ec. Assn. Later he became Trustee of Columbia Univ.

Columbia was not just the matrix of J.B. Clark and E.R.A. Seligman, the economists, but also of History Profs. Dunning and Burgess, who cast the mold of historiography condemning the whole Reconstruction effort in the south, including the effort to provide the freemen with land. This is the intellectual substructure for *The Birth of a Nation*, the blatantly racist cinema by Griffith, and two generations of racist historiography.