

Rindge Talk, 1982

Rindge, 7/82
Land, Taxes + Employment.

Endorse prior jobs.

I. The Importance of Thinking Big

H. George. best-selling ecst. writer of all time.

What can we learn from this?

(Journalists write better than ecsts.)

Themes:

Poverty + unemployment

Crises + depression

March of Concentration

→ How to achieve gains of coopn. + freedoms together
Limits to Growth, how to overcome.

Grand, stirring + ambitious themes,
reached + moved + influenced millions of people.

It was fitting that an army of followers
went to work on details of implementation.
Thinking small + specific is also important - bring
the grand design down to human scale, make
it work. I honor the people who did +
are doing this.

But something was lost the grandeur +
inspiration of the original concept. We went
from challenging to safe + respectable; from exciting to dull.

H. G. Brown, 'twenties, thirties. Never says "unemployment". The worst that happens is "slack business". Has nothing to do w. land, caused by incorrect unit of "circulating medium" furnished by F.R.B.

Not much there to stir the juices.
Not much response to Gr. Depression.

Enclaves

City plan.

Housing; urban renewal

Property tax reform, assent reform

Minerals tax; leasing public lands; parks, meters

Unlocking public lands

All good solid issues, but stolid, too.
The crime of Georgists has been to lose that spark, that fire in the belly that made George so exciting.

Also became ~~not~~ mainly middle class.

~~Meanwhile, along came Keynes & Co.~~

H. G. Brown was mainly concerned w. the small saver. Civic reformers are interested in home owners. Lost youth; lost the ethnic

outgroups: lost the Bohemians, intellectual —
theatrical crowd, lost the labor unions.

So along came Keynes + Co., + picked all
that up. They moved onto the Center Court at
Wimbledon, have remained there. We are a
sideshow in the ~~the~~ preliminary rounds.

E.g. today in Cal. $t = 1\%$
 $i = 17\%$

I leave it to you, which is the greater
constraint on bldg.; which is the issue
of higher priority for most people.
Why the fire insurance today is nearly as
high as the prop. tax!

We have complained for yrs. that prop. tax
inhibits bldg. P-13 reduced to 1%.
Bldg. boom? Price boom, yes, but ffd. by
worst bldg. depression in 70 yrs. We are in
a bldg. disaster, + you cannot lay it on
the prop. tax.

II. George Big Thinking

A. Elements of it

1. Take land into use. Shd. be supply side eff. 1-A.

2. Enormous scope to intensify land use.

Ecosts. who like to make assumptions sneak in this one: "Assume factors combine in same propus." (For I/O, Harrod-Domar model, etc.) But they don't.

Col. Standard v. Singer or Matted
Oil leaseholds, 20 have 180 M.a.

Farming. Large differences in labor use
per ^{standard} acre, depending on:

- what you grow. Beans, high; cattle, low.
- how you grow it. Machinery, wtr., ~~the~~ energy, pesticides all sub. for labor
- how big you are. Small farms need more labor-using.

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Veblen, Absentee Ownership. Every farmer who
cd. afford to bought more land than he cd.
farm, spec'g for the rise. Scattered settlements.
Homelessness - - -

B. Problems, missing links

1. Plenty of land. Extended highways &
water, & sewer. No tax on this K. Taps
cheap land. Constitutes an inv. opp. -
just what Dr. Keynes ordered.

Maybe inefficient, but makes jobs,
jobs politicians can take credit for: they love
it.

E.g. (a) Oil. Humble sleeps on King Ranch
lease. 2nd largest field in Tx.

So we go to OCS & Beaufort
Sea. cap. - unit.

Go overseas. Superficially, often
less K-unit, but not so when include high
cost of unit. protection, of fields, ports, sea
lanes, etc.

(b) Agr. Retire land in east,
reclaim land in west.

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Inside Cal., private from existing
funds. subsidize new lands by state wro. policy.
Crisis of avocados; olives.

(c.) Urban sprawl.

Also leads to decline in land price.
Instead of artif. scarcity of land, artif.
abundance. Sometimes, collapse. Land abandoned
for tens, vast scale. 1940, half lots in Cook
City.

How, then, explain unempl. as caused
by high land prices?

There is a missing link. Spec. & sprawl
cause massive o' commitment of K stock to
infrastructure. This cap. is immobilized,
frozen, sterilized, stalled -- a revolving fund
that stops revolving. Is as though lost,
pushed over the edge of the world.

If we eat
~~Is like eating~~ the seed corn to ~~say~~
suburb while bldg. roads to tap new land
~~which then we cannot plant~~ how then
shall we plant the new land?

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Thus the artificial scarcity of land gets transformed into cap. shortage. This brings another problem: sharp fall of land prices hits banks.

Land prices are doubly sensitive to i.o.
a. Hi i.o. lowers rent
b. " " caps. rent at ~~low~~ lower p/e.

Banks have extended selves on r.e., both directly — mortgages — & indirectly, via mun. bonds, & many ind. bonds.

Friedman &c. monetarists manage to ignore that great banking collapse 1929-33 was mainly a r.e. collapse.

Today, again, collapse of S+Bs & banks we are beginning to experience is a r.e. collapse.

If we are to have great long waves of rising & crashing r.e.; & banks that lend on r.e.; we must have unstable money supply.

To cope w. this, we need some tools to analyze K; + M + B. Here the great works of H.G. leaves nothing hidden, or worse. Here we must fill in, prepare ~~to~~ even to question the Perfect Master himself.

III, Circ. of K.

There is a simple, basic idea about K that is found in all the classical + Austrian ^{+ Swedish} ecsts. K is a revolving fund. Each cycle (or rotation, course, lap, turnover, etc.) employs workers at the front end, by advancing them the ripe fruits of the prior cycle. The capst. then carries on faces the green K thru to the end. ~~AM~~

At the end he does 2 things, more or less simul., to initiate the 2nd cycle. He sells ripe goods; + he invests money to replace them. This "sets labor in motion".

The speed of these cycles is highly variable. Adam Smith had 12:1, but he was a piker.

$$\$100 K \times 365 = \$36,500 / \text{yr.}$$

\$100 in timber, 100 yr. cycle, \$1/yr. ave. pd. to labor (higher output, but accum. int. + rent.)

Thus can combine K + labor in diff. props.

Thus, classical ecsts. had a way for basic Macro, a solution for unemployment.

Lower wages + higher i.v. lead to shorter cycles, soak up unemployed.

Why do higher i. lead to shorter cycles?
If 99% of yr. costs are labor, like the baker, can pay much higher i. easy.

If 99% are int., like timber, a big drop of wage bill has no effect on int. ($2^{10} = 1,024$)

So hi i. cuts off int. in timber, housing, etc. as it should. Reduces int. to Δ payroll prints. flow, soak up unemployed.

Thus there was a classical macro. Essentially correct, goes back to F. Qummay who, like Bill Fildes, was a physician.

H. George isn't much help here. Attacks thy. as insulting to labor. Says labor produces K.

But labor as such creates no K. It replaces cap. it consumes. To create K must save. This is a long, slow process.

But real villain is J. B. Clark. To undercut George, to force K + land, denied that K turned over at all. Idea of K turnover was taken from neo-classical ecc. Wandering in outer darkness ever since.

$$\text{But } K \cdot T = NI$$

$$T \cong \frac{1}{3} \quad \text{-- until we drag it}$$

down by inflating infrastructure needs. So bear w. me thru next step. Assuming the classical macro was right, how does land spec. affect T? (+ also K).

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IV. Land Spec. + Circ. of K.

A. Scattered settlement, inflates infrastructure needs.

- Prov. K needs also higher, irregl. land.
- pads on steep slopes; or post + pile
 - levelling new desert land, farming
 - deep wells

B. Premature abandonment of old cities

We delay running old cities. The schools + wtr. pipes etc. are then abandoned. We then require K to replace them functionally in new places:

- suburbs
- suburbs
- offshore (mily. spending as a cap. invt.)

C. New infrastructure is built prematurely, to validate spec. values.

This is what wtr. supply battles are all about. Always 30 yrs. ahead of need, to validate spec. l.v., allow land rules or stock

sales by land corpus, etc.

Granite Reef Aqueduct

Support for P-9

"Entitlements" wanted, long before wtr.
needed. MUD.

New recr. lakes in Ts. + Ozarks.
Moreline owners don't use, they want the
option, for their future delectation,
at leisure.

Mily. spending -- maintains options to
gain from v.e. in foreign countries.

Effect on K? Freeze up; slow circ.

V. Solutions?

Compact settlement, close husbandry of
the land we already have.
Vital tool for this is LVT.

Outline, Rindge

I. The Importance of Thinking Big

A. Thinking small is also important. But we have stopped trying to think Big. Have left this to others. Demand side failed. Now supply side are failing. A vacuum to fill.

II. ~~Elements~~ ^{18, 11+B, 1} ~~Inadequacy~~ of Georgist Big Thinking

~~C. Problems & Missing Links~~

A. Elements of it

~~17A~~
E

B. Problems & Missing Links

7, 9(5, 8), 12, ~~17~~⁵, 19

III. Circ. of K

21, 22, 23, 28, 29, 2

IV. Land Cycle & Circ. of K.

18, 25, 26

V. Solutions

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p-1

1 dear, Rindge

- ✓ 1. Lower prices mean more spending.
Crime of Keynes was to refute this obvious truth.
- ✓ 2. Supply-side econ. ~~was~~ rediscovered great truths. — but
immediately, perverted. a. Output labor more. b.
- ~~3. H.A. Brown never mentioned unemployment~~
- ✓ 4. Crime of Georgists has bn. to be diverted from
big issues to little ones.
From exciting to dull.
From challenging to safe.
5. Jesus was a carpenter. Made him fully
independent. Nothing better!
Is what we need today.
George was indep. No one controlled him.
6. "Effect of res. dev. on host region." "Impact".
This is usual approach.
Depends on gross flows of input + output into ~~dev.~~
the subject indy; + stability.

✓ 7. Artificial abundance of land.

Recurrent land busts show there can be plenty of ec. land.

So, our explanation of boom-bust must be more "intricate": ‡ Loss or immobilizing of K caused by sprawled Territ. expansion (mildy, waste also part of Territ. exp.)

✓ 8. H. F. Brown never used "unemployment".

"Mark business" was as far as he went.

✓ 9. George's concern w. labor mellowed in his followers to concern w. capt. lost youth.

✓ 9. Can people handle prosperity? Some obviously can't. Grounded thought. But unempl. + stress shown to impair health

10. Approp. tech. - use SB + albs

11. H. F. Brown Talk

✓ 12. George vs. w-f thy

✓ 13. i.e. at 1790, t.x. at 190, I leave it to you, which is greater constraint on bldg.
‡ -- must add a link now missing

14. P-13 brought down prop. tax on bldgs to 1%.
A. 7% by boom of prices, bust of bldg. + now bust of prices.

✓ B. Some Georges were saying benefit of l.v. is to exempt bldgs. But Cal. did so, no benefit.

1. Must also tax land

2. Must also get cap.

3. Must also force govt. -- + direct spending, to real needs.

15. George on the class. bond that stretches, then snaps. In our times it was lenders who stretched, then snapped. Now we wait for l.v. to come down; or exploitation of investors to resume. But investors will no longer take it. They will disintermediate.

16. FMT shows effect of Δi , ΔC , on fuel. maturity. Δi has less effect than otherwise, b/c. lowers rents. Thus, distrib. effect is high -- acct'g for big pol. pressure to allocate K our way.

✓ 17. A. Hi variation in coeff. of land/job.
Cal Standard v. Singer or Metrol
Spec. in leaseholds.

Vebber on Am. fur.

i.e., much of the excess land is held spec-ly.

✓ B. George served us well & ill here. He attrib. much of concn. to Tech. factors, ~~so~~ mainly — missing the role of spec.

✓ C. What harm does spec. do, if there is always more land? Takes more K to dev. the ungr. land.

E.g. King Ranch, sat on by Humble.

This drives to OCS + Beaufort Sea; deep wells, long lines, etc.

Re agric., drives us to Reclam. highly K-intensive.

Re cities, drives us to sprawl. Uses K; also energy, + energy uses K.

Result: shortage of K'.

✓ 18. Short K will bring down l.v. Lower rent; raise cap. rate. ~~But~~ Land a surplus.

Disaster for ^{inst.} lenders. Collateral shrinks. Cost of funds rises — old loans frozen. Today, Sth; tomorrow, banks?

Credit lines shrink:

- less K in trade
- loss of confidence

Is aspect of reduced circ. K.

18 (cont.) Depositors disintermediate. Lowers V

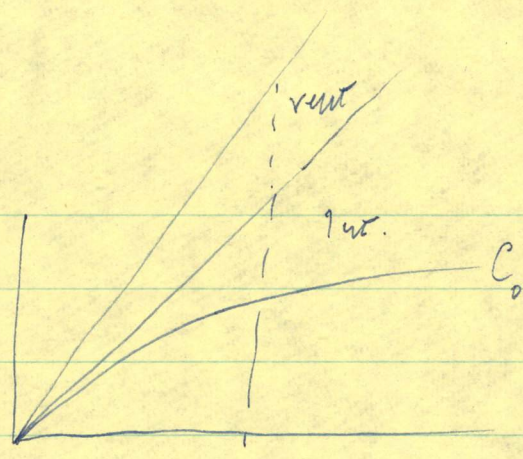
✓ 19. Thus, to analyze role of land in cycles, get into a) K
+ b) Banking. There is little in George that prepares us
for this.

✓ 20. To adjust to show K , use less per job.
a. Use less land per job, b/c K needs Δ w. land.
b. Use less K / land, overall
This includes public K , infrastructure
Must comprehend paradox: to use less
public K use more priv.,
- on better land
- use pub. cap. there under

✓ 21. If labor produces cap., ~~how~~
- how does labor gain by using less?
- why can't labor produce all it needs?

Producing K not same as creating it. Savings
required -- long, slow process.
Labor as such creates no K .

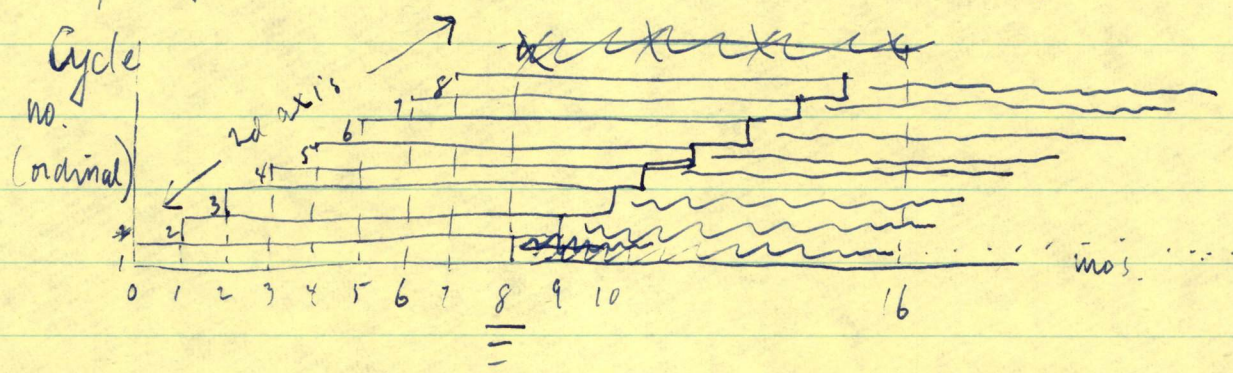
/ 22,



✓ 23,

Staggering; normalizing, going concern, even-flow

Build model
of wood &
cardboard!
3-d



a. $pd = p = 8$ mos.

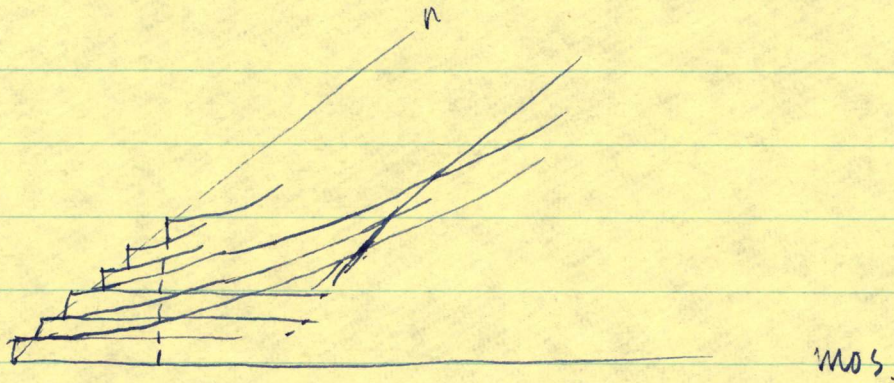
b. $Input = 1$ per mo., regardless of pd .
 $Output =$ " " " " "

c. $K = pd = 8$

$K =$ no of rotas = $pd = 8$

Visually, this is a 2-D chart, seen at an angle, from above, right. 2d axis shows no of "concurrent" cycles or rotas. going.

Note how simple. Depth = length, so $K = pd$.
 = area of row. Will see can do same ~~in~~ ~~com~~
 when add in comp. int.



Here, $K = \sum_{n=1}^{p-1} (1+i)^{(p-n)}$

$p = p_d$

$n = \text{no. of cycles}$

Can sum from $n=1$ to p

or $n=0$ to $p-1$

Again, sum in depth, same as area under one curve.

24. "Preemptive inputs" - inputs that reduce yields.

Can be OK, but not where the input is dear.

Water for pasture, aff. rice etc. Laying land on land

K for timber, cattle

Energy where machines displace labor
+ lower yields

✓ 25. Land spec. needs p.w. to validate spec. value

E.g. Apple Valley "entitlements". To get
entitlement, get public to inv. K decades before need.

Mildy. spending is part of securing entitlement.

E.g. new recr. lakes in Ts, or Ozarks. Machine owners
value the option, but are unwilling to use it.

✓ 26. We delay replacing old K in situ -- i.e., we
delay re-entring land, -- but we replace functionally
in other ~~regio~~ places:

suburbs

sun belt

off shore

To secure new lands, at least in part.

(Ely, et al., Alvin ~~Johnson~~ ^{Johnson}, called this advantage of spec.)

What if we do it by using expensive K to displace cheap labor? Then we are trapped in a bad acctg system.

- ✓ 22. Labor does not even produce all cap. (Labor as such creates no K.) Land produces much: feed-grain, timber, oil, coal.

- ✓ 29. The Russian Disease

Sit at a \$5 B airport waiting for a \$25 spare part. This is becoming the Am. disease.

30. At lower i , value of timber builds up slower. Cq. gets smaller share.

J. Robinson et al. o'look this part. They say value of K is from disc; future. But that is only strictly true of land. Value of $K > C_0 \rightarrow$ more cap.
" " " " " " less "

Thus $DCE \rightarrow C_0$, is related to labor cost

3/. In nation, say $K = 3Y$
 $Y = \frac{K}{3}$

where $3 = p$

$$Y = \frac{K}{p} = TK$$

$$\frac{dY}{dK} = \frac{1}{p} = T = \frac{1}{3}$$

$$\frac{dY}{dT} = K$$

$$dY = \frac{1}{3} dK$$

$$dY = dT \cdot K = dT \cdot 3Y$$

$$Y = T \cdot K$$

$$\frac{\frac{dY}{dT}}{Y} = K \dots ?$$

To ΔY by 10%;

a. ΔT from .333 to .366

b. ΔK by 10%, = 30% of N.I.

31 (cont.)

30% of N.I. needs 6 yrs. if save 5%.

.366 can happen earlier. Reduce p from 3 to 2.7 yrs.

Is better to Δ both $K + T$, get dual effect.

$$Y = K \cdot T$$

$$\frac{dY}{dK} = T$$

$$y = x^2$$

$$\frac{dy}{dx} = 2x$$

$$\frac{dy}{dx} \cdot \frac{1}{y} = \frac{2x}{x^2} = \frac{2}{x}$$

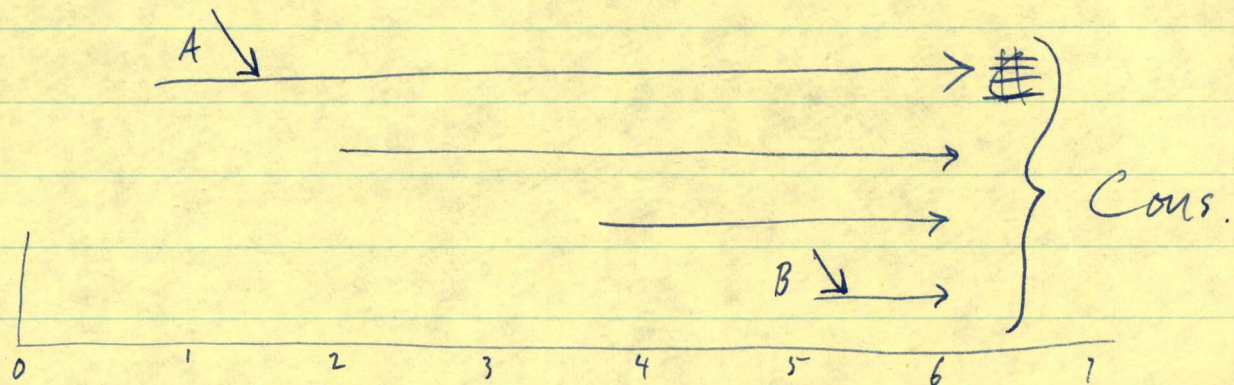
$$\frac{\frac{dY}{dK}}{Y} = \frac{T}{KT} = \frac{1}{K} = \frac{\frac{1}{T}}{Y}$$

$$\frac{dY}{dT} = K$$

$$\frac{\frac{dY}{dT}}{Y} = \frac{K}{KT} = \frac{1}{T} = p$$

$$\frac{dY}{Y} = dT \cdot p$$

1.



2. "Don't confuse wealth w. ec. activity" - Curtis.
 CEA measures only activity, not wealth.
 Balance of payments data fail to distinguish cap. flows from current.

1. Urban sprawl etc. move us from B to A.
Inflate cap. requirements.

Don Barrow, for G. Wundtlich
 Shift away from share leases to cash
 leases. Less participation in K, too.
 Makes the landlord more "absentee".

Big A in vision.

These changes are esp. in old n.e. + midwest.
 (Meanwhile, suburbs, absentees are building up
 new farms. So the old land is used as
 cash cow, while new land is dead.)

Expanding K is only allowed to ops. —
 not absentees.

Exposed: missing link in land theory

THE "missing link" in the theory that attributes unemployment to land speculation has been identified by Californian professor Mason Gaffney. The theory was originally developed by American economist Henry George in *Progress & Poverty*.¹

In Prof. Gaffney's view, the theoretical gap between land speculation and recessions is filled by the theory of circulating capital.

Speaking at an Engineering Foundation conference at Rindge, New Hampshire, Prof. Gaffney declared that we need new tools to analyse the role of capital in macro-economics, and money in banking.

"Labour as such doesn't create capital, it replaces capital which is advanced to labour as it works," he said.

"To create capital, someone has to save, which is more likely to be the property owner than the worker. It is a long, slow process."

Dr. Gaffney, who is professor of economics at the Graduate School of Administration, University of California at Riverside, said that the "villain" among economic theorists was John Bates Clark, the founder of neo-classical economics.

"Partly for the purposes of under-cutting Henry George, he eliminated the distinction between land and capital, and denied that capital turned over. He succeeded in putting this over as neo-classical economics, which differs from classical economics in eliminating the concept of capital turnover, and we have been wandering in the outer darkness ever since."²

ACCORDING to Prof. Gaffney, the nation's capital makes one complete rotation every three years. This circulation, however, is impeded by a wasteful expenditure of capital, which slows down growth and causes unemployment. "This is where land speculation comes in," he said.

"Speculation and sprawl cause massive over-commitment of our limited capital stock to infrastructure. This capital is then immobilised, frozen, sterilized, its rotation is stalled.

"When properly invested and re-invested, capital is a revolving fund

By Paula James

that animates activity with each revolution. But when it is frozen it might as well have been pushed off the edge of the world.

"If we eat the seed corn, to subsist while we are building roads to tap new land, how will we plant the new land? That is the strange sort of problem that land speculation leads us to. And initially it gets transformed into a capital shortage, and a sharp fall of land prices then gets the banking system."

Prof. Gaffney noted three relationships between land speculation and the circulation of capital.

- Scattered settlements increase infrastructural needs.

- Premature abandonment of old buildings – for example schools in old cities – results in the gross under-utilisation of capital.

- New infrastructure is built prematurely to validate speculative values.

"This is what water battles in California are all about. The pattern is one of investing public money, freezing it up for decades, so that landowners can have the option – for their future delectation – of using it some day, if they feel like it. But they are under no pressure, because no-one is taxing them."

A TAX on the value of land was a key solution, said Prof. Gaffney. This would deter speculators from wasting land and forcing people to invest in new urban centres on peripheral locations.

"The result, in addition to an improved use of land, would be a reduction in the enormous waste of capital, which would remain mobile and available for use in the private sector.



● Prof. Mason Gaffney thumps home his message

Henry George's vision, said Prof. Gaffney, was to tax land into use. "This should be supply side economics, but I don't see any sign of it in the policies of the present administration," he said in an attack on the shortcomings of President Reagan's economic strategy.

America, he noted, had plenty of surplus land. Historically, however, people bought it up and went to "sleep" on it. This, in turn, encouraged a wasteful over-commitment of capital.

In agriculture, for example, "we retire land in the east, which is favoured with abundant rainfall. So we reclaim land in the west with public money."

The paradox was that "this ultimately leads to a decline in the price of land. The long term result is an artificial abundance of land, caused by massive substitution as a result of the development of marginal lands. Sometimes this leads to a collapse of land values."

REFERENCES

- 1 Centenary edn 1979 published by Robert Schalkenbach Foundation, New York.
- 2 Prof. Gaffney's full critique of J.B. Clark appears in a new book, *Land Value Taxation*, editors: R.W. Lindholm and A.D. Lynn, Jr., Madison: The University of Wisconsin Press, 1982, which will be reviewed in the Jan.-Feb. 1983 issue of *Land & Liberty*.

U.S. professor builds on Henry George theory