



George in the 21st Century Part II

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George in the 21st Century Part 2

Mason Gaffney

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In the previous issue of *Groundswell* I wrote of three ways we need to adapt Georgist ideas to modern conditions. These are:

1. To “green up” our ideas by focusing more on intensifying the use of superior lands, and less on the importance of the remote “margin of cultivation” that Ricardo and George used as a help in explaining rent. In addition, greening up entails considering the use of taxes on extracting natural resources, and attending more to fighting payroll taxes, which kill more jobs than taxes on buildings kill.
2. To tax or otherwise constrain the use of kinds of capital, exemplified by oversized trucks and automobiles and ATV’s, that serve their owners to preempt more than their share of common lands.
3. To include the rural landed gentry in the proposed Georgist tax base, and recognize that a Georgist tax will and should raise taxes on many homeowners who play the landed gentry near-in to town.

Here, as promised, we consider more ways to adapt Georgism to the 21st Century.

4. Substituting capital for labor. Some Georgists, misled by George himself, do not perceive the bias in taxes that over-induce substituting capital for labor. What blocks their perception is George’s virtually identifying capital with labor. This leads them to focus their efforts on getting capital exempted from local property taxes, while ignoring the strong biases in income taxation that favor capital over labor.

An irony (or inconsistency) about this is that George had included in *Progress and Poverty* one lurid passage that might have inspired Karel Capek to pen his memorable play *R.U.R.* (Rossum’s Universal Robots). George had raised the specter of the complete elimination of jobs, as labor-saving technology progressed, and landowners substituted machinery for labor. His grim presentiment was premature, as market forces tend to foster “appropriate technology”, meaning that as land becomes dear, and labor cheap, technology bends in the direction of using more labor and less land. However, modern tax biases have brought the specter back in full force, because the tax code is now loaded with biases that favor the use of capital and penalize the use of labor, thus trumping market forces that would do the opposite (Gaffney, 1984).

5. Adapting to the changing nature of inter-urban and inter-regional competition. Georgist policies had a good run at the local level in the days when cities sought to grow by attracting population. New York City, Cleveland, Toledo, Detroit, Pittsburgh, Chicago, Houston, San Diego, San Francisco, Seattle, Vancouver, Edmonton, Calgary, and many smaller cities all had their periods of rapid population growth with Georgist-leaning leadership (Gaffney, 2001, 2006). Federal income tax policies have stifled that. By loading the Federal tax burden on labor, while sparing capital, Congress creates a universal bias for cities and counties to see purely proletarian labor as a “fiscal deficit generator”, a parasite to repel, while capital and housing for the rich generate local

fiscal surpluses. The resulting local biases toward selective growth policies are well known, but most advocates of housing for the poor, including Georgists, are merely hacking at the branches of evil, ignoring the roots in Federal tax policies.

6. Energy-wasting biases. We need to identify and correct tax biases that reward both extracting and consuming energy, and other primary products. The combination raises the total volume of extracting the primary products, and of course of consequent combustion and pollution, and scarcity of untapped petroleum.

The writer has identified many of these biases elsewhere (Gaffney, 1978). It is not just that a commodity like gasoline is subsidized; it is worse than that. Within the stream of production, subsidies go to those activities involved in discovery and extraction, while taxes fall on activities downstream that conserve and economize on the primary product (Gaffney, 1982). The Federal tax code (which the states mimic) consistently rewards rape of our Earth, and penalizes husbandry.

7. Net domestic capital formation. We need to get away from the disregard many radical reformers show for the incentives for capital formation, conservation, and maintenance. George was less insouciant than Marx or Keynes, and he did see the merit of untaxing capital, but he had no concern about the aggregate supply: by inference, importing capital was as good as forming it locally, or domestically.

Incentives are needed, not just to import capital, but to form our own capital, before we become debt-slaves ourselves. Besides simply forming new capital, we need incentives NOT to squander existing capital, in the manner of the Prince of Brunei who indulges himself with a traveling harem, retinue, yachts, aircraft, racehorses, and other toys and pets; or worse, in the manner of the personally abstemious Osama bin Laden who indulges his passions with the jihad that not only consumes his own capital, but destroys ours by padding the Pentagon budget. Marxists and early Keynesians seem to see the rich as automatically creating more capital than can be used. They underrate the capacity of the rich for self-indulgence, and the tendency of social standards of consumption to rise with wealth. Many a person today borrows on the rising equity in his home in order to consume more than he or she produces.

Marxists and Keynesians also overrate the automaticity of domestic American capital formation. Many of them still see the U.S.A. as the overflowing fount of loans for the world. It is a reflex from their ideology that is 30 years obsolete, for the U.S.A. is now the world's leading debtor nation -- a lead that Presidents Reagan, Bush I and Bush II have extended beyond all prudence. Those who still see the forgiveness of international debts as a means of transferring wealth FROM the U.S.A. should give that fact some prayerful thought.

Modern conservative champions of incentives for capital formation err also in failing to note that it is important to use any given aggregate of capital efficiently -- as important as to create more capital. When we speak of "any given aggregate of capital" we are constructing a temporary mental model in which capital is fixed in supply, like land. Here, the function of price and the market is to get that fixed supply allocated optimally, i.e. put to the best use. "Price", in this case, means the rate of interest.

They err even more egregiously, and tendentiously, in making their favorite cause the exemption of "capital gains" from taxation. I put "capital gains" in quotes because most capital gains are land value gains (Gaffney, 1990). "Capital gains" is one of those slippery euphemisms that P.R. people come up with, and the trained dogs of media circulate, to camouflage unearned increments as functional incentives and rewards for creating capital, and investing it in income-creating ways. It's a way of controlling us by corrupting the language.

A tragedy of modern Georgism is how easily its Philadelphia convention, during the First Bush Administration, was hijacked and stampeded into memorializing Congress to repeal the capital gains tax (this repeal was the centerpiece of Bush's domestic program). A convention of land speculators could have done no worse -- it was pathetic. Most modern Georgists simply did not understand, or care to understand, how the income tax works. There has been some progress since then; but still, they need to

wake up and smell the coffee. If we are going to ask Congress to repeal a tax let us begin with the payroll tax.

8. Corporations. George wrote little about the corporate form of organization. His modern allies are aware that corporations are our major landholders. That is a most important truth, one neglected by most other economists and reformers. However, Georgists so far are mostly content to let it go at that. They do not see the corporate form itself as a menacing kind of special privilege. In this they are somewhat behind other reform groups, and are contributing little to the current stirring of awareness on this matter. They are unaware of the seminal old work by Georgist lecturer John Z. White on the meaning of the Dartmouth College Case decision of 1819 upholding the sanctity of contracts no matter how obtained or how they may damage the public interest.

9. Subsidized Territorial Expansion. A big problem is subeconomic extension of public works and services, subsidized by overcharging or overtaxing people in central areas. It's called regional cross-subsidy. George's critique of land speculation came to be focused on "Speculator Type #1", who withholds good lands from timely use. Georgists have neglected to condemn the counterpart "Speculator Type #2", who acquires marginal lands cheaply, and then lobbies public agencies to extend roads, utilities, military and police protection, and other public services to them, below cost. Urban sprawl is the joint product of the two kinds of speculation.

Some Georgists may even see Type #2 speculation as a legitimate way, and an easier way, to combat the artificial scarcity of land that Speculator Type #1 causes -- a way of perpetuating the "frontier safety-valve". However, it unbalances development severely: too much roading, piping, and wiring, with too little use of the land thus "opened up". Some taxpayer must pay for the roading et al. If the taxes are activity-based or improvement-based (i.e. anything but land taxes) they will sterilize marginal land, and lower the intensity of use of all land.

This is a pervasive, immanent bias in most of our institutions, from city departments of public works up through state and provincial public utilities commissions and highway departments, clear to the Pentagon, World Bank, and CIA. Types #1 and #2, in tandem, create our form of Imperialism, that perpetual quest for Lebensraum that is our curse. It is also the curse of the victims from whom we take the Lebensraum as we "purify" their thinking with our Bible and the Washington Consensus.

In my political experiences, one collects more cuts and bruises combating Speculators Type #2 than Type #1. I was, for example, able to lead the local countywide campaign against Howard Jarvis' "Proposition 13" without being seriously penalized, at least at the time. However, a few years later when I led the local campaign against southern California's favorite public water-works boondoggle, the "Peripheral Canal", the water imperialists reached clear into the University. Agents of the Metropolitan Water District of Southern California attended and reported on my lectures. Working through complaisant administrators, they nearly succeeded in eliminating the whole economics department (that's the legal way to be rid of a tenured professor). Earlier, when I had joined the furor against American imperialism in Viet Nam (Gaffney, 1971) and the myth of infinite natural resources (Gaffney, 1972), I became persona non grata at Resources for the Future, Inc., where I then worked.

In British Columbia, 1975, I learned that the self-styled "socialist" government under Premier David Barrett was unwilling even to consider withdrawing any of its expensive cross-subsidies to speculators Type #2, and resented me for raising the issue. The moose-pastures of northern B.C. "are a mighty empire", they told me, and the rich retirees on the Gulf Islands are important constituents who should have both their subsidized ferry service and their exclusionary zoning to keep hoi polloi from sharing it. I have war stories, but the objective point is that the socio-political bias for territorial expansion is even stronger than the bias against cultivating, intensifying and renewing our internal frontiers.

The Georgist dream of taxing central rents to finance public services becomes a nightmare when the public money is dissipated in enriching Speculators Type #2. This

kind of spending not only dissipates rents, and wastes capital, at the same time it despoils the environment. Worst of all, as the subeconomic land development proceeds, each new settlement makes a platform for the next, so there is no end to it short of the limits of capital and of Earth. It is perhaps fortunate for Earth that, historically, the limits of capital have been reached first, at the ends of bursts of territorial overexpansion.

10. Renewal as intensification. George observed land speculation in California when it was young and raw. Today, an equally or more baneful aspect of underusing land is found in older blighted slums, where underuse takes the form of non-renewal. Thus, land of high capacity is providing only minimal service and employment.

Why do we not get timely renewal? The most obvious reason is that the sites under old buildings bear low tax valuations, because assessors mistake the building for the site and overlook its reuse value, or opportunity cost. Let the owner renew the site, and taxes shoot up: not only on the new building, but often on the site as well. Result: nonrenewal. So capital that should go to renew these sites of high potential migrates outward instead, to where tax rates are lower and subsidies are higher, wasting capital in duplicating the infrastructure, and of course also wasting land.

Georgists need to see that a major part of the problem is underassessment of the land. Land is underassessed when tax-valuers lapse into using the “building-first, land-residual” method of separating land from building values. This results in land valuations so absurdly low that one observes, in many cities and neighborhoods, most of the joint value of land/building being assigned to the building in the very year that the owner chooses to demolish the building, i.e. when the building really no longer has any value at all. Then the assessor raises the land valuation under the new, or replacement building -- making the land tax in effect an additional tax on the new building.

The correct method is the “land-first, building-residual” method: value the land as though vacant, and give the old building the excess, if any, of the joint value over the land value. Then the land value remains fixed when a new building arises, and the land tax serves, as it should, as a stimulus to rebuilding (Gaffney, 2001).

11. Weight of excess burden of most taxes. Some analysts tend to trivialize the power of tax bias to keep land from its best use. They have seized upon a conventional micro-economic device, now generally called the “Harberger Triangle”, in recognition of one Chicago-School expositor. It is based on supply and demand curves, with no reference to land markets at all. Perhaps these Georgists are hoping this will help them get through to ordinary economists; but this device has the effect of minimizing estimates of the economic losses, or “excess burdens”, that bad taxes cause.

The power of tax bias to keep land from its best use is more obvious by analyzing the economics of using marginal land. Any tax at all will sterilize such land completely, unless the taxes are so universal that the mobile factors, labor and capital, cannot escape them by moving. “Who cares about marginal land?”, some may say. The distorting power of taxes has been demonstrated inadvertently by Chicago-School economists Gale Johnson and Stephen Cheung. They have shown that sharecropping, as a private arrangement, creates a bias on the part of tenants to substitute land for labor and equipment, almost without limit. This is because extra land costs the cropper nothing, unless it adds to output, so the cropper’s interest is to substitute land, which is free to him, for his labor and capital, which he pays for.

Taxes based on gross output affect all landowners the same way the cropshare lease affects croppers. They make every landowner a cropper of the state, giving every landowner a motive to substitute land for labor and capital indefinitely. Private landlords overcome this by limiting how much land to allow each cropper; but the state has no such offsetting control. Thus, each landowner’s motive to acquire excess land runs wild. Of course there is no more land, so expanding landowners run into each other, just raising land prices. This in turn excludes many potential entrepreneurs from ownership. In conjunction, consider that taxes (other than property taxes) are based solely on cash flows, thus entirely exempting all the imputed income from and imputed

consumption of the service flows of land -- the “amenities”. Government tells the landed gentry, “Hold land as a totem, an heirloom, a private hunting and riding park, a dream of future retirement, a speculation, a hedge against inflation, an entry into high society, a beach access, a protection against future neighbors, a shooting range, a golf course, a ski hideaway, a drinking club, a private landing strip ... anything private and narcissistic or exclusionary or snobbish ... and your pleasures are tax exempt. Produce goods and services for others, though, and we will treat you like a sharecropper -- and tax your employees, too”.

Now hark back to George’s second force holding labor off the better lands: holding land as a totem. He noted that tendency in an age before we even had an income tax, or state sales taxes. Our present tax system magnifies the tendency beyond all reason, resulting in the relegation of much of our best land to the indulgences of the landed gentry, old and new.

12. Small is beautiful. George was impressed by economies of scale. His attitude was “Let them happen, but let them pay taxes for it on the vast lands they require”. George, on this point, underestimated the power of his own reform. Today we have abundant evidence that land taxation, where applied, opens up lands to small producers by fostering subdivision. The settlement of the east side of the San Joaquin Valley of California, 1900-30, is a graphic case study (Rhodes). American Graffiti, Yosemite serial killer Cary Stayner, errant Congressman Gary Condit, and wife-slayer Scott Peterson may have done little for the reputation of Modesto, CA, but without Georgism there would be nothing there but a few vaqueros working minimum wage for absentee cattle barons. In more subtle and complex ways, the urban development of the “Jane Jacobs economy” of lower Manhattan (what’s left of it after the Rockefellers and their Port Authority impaired it) makes another example.

13. City and country. Few studies ever hit such a sensitive nerve as Walter Goldschmidt’s (1947) demonstration of the greater sociological health and wholesomeness of Dinuba, CA, compared with nearby Arvin. Dinuba is surrounded by small farms in the Alta Irrigation District, which taxes land values both on the farms and also inside the City itself. Arvin, on the other hand, is surrounded by giant industrial-type farms, “factories in the fields”, without such taxes. The result is sociological health in Dinuba, and squalor in Arvin.

Goldschmidt’s prose was tedious, melding acadamese and bureaucratese -- anything but rabble-rousing. The values he celebrated were square and middle-class -- nothing of Greenwich Village or *la rive gauche*. Yet the substance resonated radically. The big owners sensed a vital threat. They roared and threatened and reared up with their political power, and “terminated with extreme prejudice” the Bureau of Agricultural Economics, the agency that sponsored the study. That tells us something about its deep significance and its threat to the landed establishment. Goldschmidt identified a viable, market-oriented, indigenous American alternative to gigantic, absentee-owned industrial agriculture exploiting cheap migrant labor.

No one to my knowledge has yet drawn the Georgist morals from this great study. Goldschmidt himself was only dimly aware of the role of land taxation in his story. The facts are there, the documents are there, sociologists and moralists are there, McCarthyists were there ... only the Georgist scholars, so far, are missing.

An important by-product is to show how small landholdings around cities have helped some of them flourish by expanding. San Jose is a modern example, as it gobbled up prune orchards and evolved into the present Silicon Valley. In the transition it presented a bad example of urban sprawl, but kept filling in the holes with creative entrepreneurs, their employees and their homes. The prune orchards were subject to land taxes imposed by the Santa Clara Valley Water Conservation District, a tailor-made Irrigation District under another name. One wonders if Boston’s beltway highway #128, the “other” silicon valley, would have kept up with the western one had it been blessed with a similar institution. A full-dress study of this phenomenon presents a wonderful opportunity for some ambitious graduate student.

While he or she is at it, this wished-for researcher might contrast the small Santa Clara Valley with the vast Tennessee Valley. Blessed with abundant rainfall and cheap TVA power and a central location in the U.S.A., the Tennessee Valley remains notable for its lack of creative cities, as Jane Jacobs documented in her *Cities and the Wealth of Nations*. Once it was slavery and the plantation system, but what is missing today? Could it be the lack of challenges to overcome by local effort?

Equally important is to show how healthy cities promote farming in their hinterlands. Writers from Adam Smith to Jane Jacobs have pointed the way, but more evidence and insight are needed.

14. Owner-occupancy and operation. There is considerable evidence that the result of heavy land-value taxation is to discourage absentee owners, and induce sales to residents, and operators. Rural Denmark is one case in point. Urban New Westminster, B.C., is another -- it long boasted the highest rate of resident-ownership in Canada, at a time when it was the only city in B.C. exempting buildings 100%. On the east side of the San Joaquin Valley, small farms and small businesses are related to resident-ownership and owner-operation, both urban and rural. Another Goldschmidt-type study or two are needed to establish the relationship definitively, for skeptical scholars. A future *Insights* will look at this matter.

Summary

In this Part II we have considered eleven more ways (numbered 4-14) to adapt Georgist thinking to the 21st Century.

- 4. Promote tax reforms that abate the present bias to substitute capital for labor
- 5. Restore the natural incentives of cities to compete to attract labor, incentives now stifled or reversed by Federal tax and other policies
- 6. Correct biases now present in Federal policies to waste energy while cutting tax revenues from natural resources
- 7. Play up the value of Georgist reform in stimulating domestic saving and capital formation, as opposed to borrowing from the world and courting national peonage
- 8. Recognize that the corporate form of organization is a special privilege per se, one that we need to rein in
- 9. Identify and abate present subsidies to territorial expansion, from urban sprawl to world empire
- 10. Focus on de facto assessment reform, not just on de jure legislated reform, to shift local taxes from buildings to land values
- 11. Produce more compelling demonstrations of the "excess burden" of taxes on bases other than land. This is best done by showing the effects on landowners' choices among alternative uses, e.g. on the choice between parking lots and parking structures.
- 12. Marshal the historical evidence that applied land taxation has induced big landowners to give way to smaller ones
- 13. Marshal and publicize historical evidence showing that small farms promote healthy farm towns and cities in their midst, and latifundia turn healthy cities into sick ones, before destroying them completely. Small farms in their respective hinterlands have also helped some vigorous cities like San Jose expand to get land for new enterprises and homes.
- 14. There is abundant historical evidence showing that high rates of land taxation, even when accompanied by high rates on buildings, discourage absentee ownership and thus promote owner-occupancy, and healthy communities.

With those fourteen ideas we can do a better job of adapting Georgism to the present times.

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