



George in the 21st Century Part I

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George in the 21st Century Part 1

Mason Gaffney

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(Note: Owing to the provocative and complex nature of the discussion on labor, capital, and interest, we will devote a complete “Insights” to it in the July/August issue of *GroundSwell*.)

Henry George warned his 1879 readers that mistakes are generally concealed by the respect paid to authority. He urged them to think for themselves, and “to follow truth wherever it may lead”. In ten years or less he rocketed from ground level into the lofty orbit of authority himself, author of several widely-quoted books, beaming down instruction and inspiration to new forces in politics in several nations including his own.

What now of respect paid to authority? He continued to urge people to think for themselves. He did not want you or me to follow him slavishly or cultishly. So it is with George’s advance approval that I venture to suggest how we might improve on his teaching.

Improve? In whose opinion? This could be an opening for sectarianism and schism. I abjure them. What unites us is prior to what divides us, and must always be. We unite in believing, like Moses, that each member of each succeeding generation has an equal right to the earth, and this right should be implemented continuously, practicably, starting now. Beyond that there are matters of explaining our views to others, of keeping up with changes in circumstances, of aligning with this or that party or topical –ism: those have always evoked, and probably always will evoke disputes over different methods of analysis, rival guru’s and ego’s, and incompatible personal preferences. So be it, we must learn to live with the tension, and achieve unity with diversity: let our motto be *e pluribus unum*.

To improve on George, in my opinion, we need two big classes of changes. One is to acknowledge some errors in his original work, errors that have handicapped his missionaries and exegetes from the start. The other big class is to adapt his basic idea to modern conditions.

A.

Some Georgist Errors to Discard

1. Capital and labor. George went too far identifying capital with labor, on the grounds that labor produces capital. He overlooked the role of land, plus preexisting capital, in producing new capital. He neglected the role of saving.

Capital, in a word, is anything produced by mankind, in tandem with land and other capital, that has not yet “returned to dust”, i.e. that retains some value. George’s attempted distinction between capital proper and “other wealth” (i.e. consumer capital like housing) is vain and useless at best, a distraction from his central thesis, an

invitation to aimless hairsplitting, and misleading in that it downgrades both the quantity and productivity of consumer capital.

2. Capital formation. George as a theorist was insouciant about the need for market incentives to create and conserve capital. He wrote (Book I, Chap. 5) that a healthy economy automatically “secretes” its needed capital. In this respect he superficially resembled Marx and Keynes, but only in theory. In practice, he saw the role of taxation in weakening such incentives, and so his policy proposals do recognize the need for incentives for capital. It is his rationale that is twisted – he thought that by untaxing capital he was untaxing labor.

This left a blind spot among some who are not alert to the bias and distortions involved in untaxing capital while taxing payrolls directly (Gaffney, 1995). There was no payroll tax in George’s day, and no withholding from wages (we have Milton Friedman to thank for that). Today the payroll tax alone raises more funds than the corporate income tax, while the money is spent to lower high-bracket income-tax rates while the national debt heads for the moon.

It is income less consumption, i.e. saving, that creates capital. The saving of landowners and capital owners, not just the saving of laborers, creates capital. Actually most saving today derives from property income, mainly corporate income. Once formed, “Capital is kept in existence from age to age by perpetual reproduction” – J.S. Mill. But if this reproduction fails, capital dwindles away.

3. Income-creating spending. To reproduce capital, the owners must reinvest it concurrently as they divest it through sales, in the normal course of business: for the economy as a whole is a great “going concern” with reinvestments anticipating and equaling sales. Net new savings must be invested, too, and normally are – not just concurrently but even in anticipation of future saving. Investing generates incomes and jobs. George needlessly belittled the role of income-creating investing. Again, his policy proposal, to untax capital, would foster such job creation (a conclusion also reached by Keynes), but he went out of his way to deny the relationship, which he regarded as affronting the dignity of labor – a stubborn polemical reflex from his labor union days.

4. Role of interest rates. Interest is paid because without it, demand for capital exceeds supply. Why is there demand? Because capital is productive – not just in biological forms, as George wrote, but in all forms. Why is there no infinite supply? Because without interest, prodigals would waste capital away, as we will illustrate.

George had little concept of the role of interest rates in allocating capital: in saving potential working capital from being sequestered in “pyramid-building” kinds of projects (whether developmental, premature, or megalomaniac). He dismissed his contemporary Austrian economists for what he mistook as merely scientific obscurity, pomp and pretense, while he missed the valid analysis underlying them (Gaffney, 1976). He condemned them not for what they were, but for the attitude of academicians who would quote them to buffalo Americans who, like George, did not read German.

Interest rates also prevent people from dissipating capital in profligate consumption. That is because if loans were free of interest, one could borrow infinitely to build and operate a yacht longer than a battleship a la Larry Ellison, a private golf course a la Walter Annenberg, a stable of race horses, residences all over the world, a few monuments to one’s self a la Saddam Hussein or W.A.C. Bennett of B.C. (his monuments doubled as dams), a million-acre ranch or two a la Ted Turner, a holy war against the infidels a la Osama bin Laden, a crusade to control the holy warriors’ oil fields a la George W. Bush, ... all the things we see prodigals and politicians actually doing today when they have unlimited funds and no constraints. If the loans ever came due, one could simply borrow again at zero interest – until there was no more capital to borrow, which would be soon.

George was apparently unaware that his academic nemesis, Professor J.B. Clark of Columbia University, disliked the Austrians even more than he did. Ironically, Clark disputed the Austrians as part of his anti-Georgist campaign: they analyzed how capital

turns over (is formed and dies), distinguishing it clearly from land, which does neither. Clark was engaged in recasting theory to fuse land with capital to cleanse theory of ideas basic to understanding Georgist tax reform; so he had to discredit the Austrians.

In a word, Austrians stressed that a function of interest rates is to direct capital away from too much “hard path” technology, reserving it for the “soft-path”. The way they saw it, higher interest rates discourage what we now call “upstream” production (mining, primary products) in favor of more downstream production (processing, storing, packaging, distributing, recycling, etc.), nearer the ultimate consumer. They didn’t use those terms. Rather, they called them “higher” and “lower” stages of production, but a rose by any other name

Thus, interest rates are friendly to the environment, and the popular panacea of lower rates leads us from soft to hard technology. (George in his first book, *Our Land and Land Policy* (1871) criticizes the waste of capital in premature railroad building, but he mutes this in later works.)

B.

Needed modern adaptations

Like any great writer’s ideas, some of George’s are timeless. Others need adapting to later insights, perceived problems, technologies, and social organizations.

1. Green economics. George’s paeans to compact settlement, both rural and urban, comport well with the modern need to discourage invasion of wilderness areas, wetlands, etc. George would satisfy the demand for land on the lands best suited for human use, leaving most of the earth for nature (Gaffney, 1976). It is true that he understated the high capacity of good lands to meet all human needs (Gaffney, 1999). In some colorful oratory he overstated frontier virtues, anticipating Frederick J. Turner. His work on the marginal productivity theory of wage determination puts too much emphasis on the farming “margin of cultivation,” following Ricardo. In practice, however, George (like Ricardo) was an urbanist: at times a seaman, at times a miner, a typesetter and journalist, ever a union man, he never claimed to be a farmer. He understood full well that the “margin of production” refers to the last measure of output one can afford to squeeze from the best land, and not just to toiling on “that strip of herbage strown, that just divides the desert from the sown”.

In other respects, fully to “green up” Georgism we need to free it from its exclusive focus on the virtues of a land tax levied in the form of a property tax (Gaffney, 1998). George himself stated his central thesis in a more general form: “We must make land common property”. To him, the property tax was simply the most convenient and practical tool to that end, one directly at hand. It was also in his day the major source of public revenues.

Now, we need at least two changes. One is to recognize the occasional virtues of taxes on extracting or withdrawing natural resources from the earth. (Gaffney, 1967, 1977, 1981, 1982, 1983, 1998). This has become the most common meaning of “green taxes”. An example is withdrawing water from rivers and aquifers (Gaffney, 1992). A second example is levying effluent charges on polluters, where that is feasible (Gaffney, 1965). This proposal harks back at least to A.C. Pigou (1928), and often bears his name.

Obvious as may be the virtues of such green taxes, polluters have successfully rallied behind an alternative, the tradable pollution permit. This idea entered academia through J.H. Dales and Ronald Coase, who challenged the “polluter pays” principle. It entails in practice, when nobody is looking, a massive validation of pollution, making it a kind of property right, based on “ancient and honorable histories” of pollution. With tragic predictability, most academic economists favor the Coasian giveaway system. This is not the place to skewer it as it deserves, but obviously Georgists should prefer a “polluter pays” system.

A less obvious, but more challenging case is dealing with “non-point” pollution. Here, simple market-oriented policies are impossible to apply. Some problems call for

systemic changes that make us think outside the box of the market and its logic. I have offered up a package of such changes elsewhere (Gaffney, 1987). It is too big a topic to open here.

A second big change needed is to adapt to the unhappy fact that the property tax is no longer the mainstay of our tax system. It was when George wrote. It should be, but it isn't, so sweating bullets to reform the property tax can be love's labor lost, in those states where other taxes dwarf it. There was no point in racing our pulses over the one-time reform in Hawaii, as once we did, for the property tax rate there was and is too low to matter.

Property tax reform is perilous even in Pennsylvania, where the legislature any afternoon could cap the rate statewide, as it has threatened. In Michigan under Gov. John Engler the State in 1995 did outlaw the local property tax for public schools, replacing it with a sales tax. (Tragically and predictably, Michigan quickly developed the second highest unemployment rate in the U.S., after Mississippi, as hundreds of thousands of jobs leave the State, and thank you, Gov. Engler.) Even in New Hampshire, where the property tax is substantial, Federal taxes swamp the effects of local taxes. We need to look into reforming Federal taxation, even if that means proceeding without instructions from our great helmsman, Henry George.

2. Taxing “preemptive” capital. Some capital serves its owner to preempt common lands. An example is a large, fast, noisy, dangerous, oil-slicking, air-fouling motorboat on a small lake. By taxing or banning such resource-hogs we would instantly make thousands of small lakes larger, in terms of satisfying human wants.

More generally, there are one million registered recreational boats in Florida alone, from dinghies to superyachts. Their moorings and canals observably preempt prime waterfront space where they compete with condo's and mansions. Inland Michigan has even more boats than Florida, while all the coastal states have hundreds of thousands.

Size per boat keeps growing, in waves of sterile emulation, where money is burned to prove one can afford it without blinking. (Veblen might be chortling up on his cloud, thinking “I told you so!”) A 40' yacht was once the “ultimate”; then came “superyachts” of 80'; next, “megayachts”, 150'; and now “gigayachts”, up to 525' for the Prince of Dubai, with Larry Ellison in hot pursuit to be ichiban. 525' is as long as a battleship of the dreadnought class of W.W. I. It is nearly half as long as the QE II or an oil supertanker, but it is all for just one owner and his toys. Worldwide, 651 more mega and gigayachts were under construction in 2005. As the average boat lengthens, Marina's are having to consolidate smaller slips into longer, wider, deeper ones. Bear in mind that the beam of a boat rises roughly in step with its length, and draft and height in significant steps, while maneuverability falls.

A more everyday example is the preemption of space on streets and highways by vehicles. Georgists for years have recognized parking meters as applied Georgism. Professor Donald Shoup of UCLA has won great acclaim with excellent recent works on the rich revenue potential of such meters, if priced properly. Now we need to grasp that moving vehicles, too, occupy scarce, valuable public space, and should pay for it. The moving vehicle actually preempts more space than the parked one, and needs to be constrained.

How do you catch a moving vehicle to pay a tax or rental? Several methods are already in place, actually: tax the fuel; tax the car as personal property; tax the sale of cars; fit cars with transponders, paid in advance, that register their passing key checkpoints. In choosing and improving methods, we can do no better than think of ourselves as applying George's principle that land – space on the surface of the earth – is common property.

The political nut is tougher to crack. Only a few states (California is one) tax cars at all as property. In Virginia, Jim Gilmore (R) ran for Governor in 1997 on a platform plank of taking the property tax off cars. Voter reaction was so favorable he is now seeking his Party's nomination for President of the U.S., citing that “success”. You can imagine what his victory would mean for national policies.

Think what that means. In Virginia, the capital in a business building is taxed, but the capital in the cars on the parking lots around it is untaxed, creating an obvious bias for parking lots over buildings. Then when those cars hit the public road and preempt more space, they are untaxed, even at rush hours when they are jammed for miles.

To beat the ground traffic we fly the friendly skies. Then we find that the possession of a small plane, for business or hobby, lets one person preempt a scarce landing slot ahead of a jumbo jet with 300 passengers packed like sardines inside it, who may get stacked up for hours.

Offroad vehicles are another obvious example. Part of our great secular superstition about property is the notion that a piece of capital equipment is as sacred as, or more sacred than persons themselves: that the vehicle endows its owner with more rights to public space than the simple possession of two legs. It makes sense that everyone has an equal right to a public sidewalk. It does not make sense that they may bring their Urban Assault Vehicles and 18-wheelers with them. The idea that they can may hark back to centuries of deference to mounted warriors, but is also encouraged today by merchants who see motorists as bearing more cash than pedestrians do. Above all, those who foster this attitude are the makers and sellers of vehicles, fuels, and paving materials.

The totemic attitude toward polluting vehicles is frozen into law and public attitudes. Thus, the law condemns the person who takes direct action against polluting vehicles by “monkeywrenching”. This is vandalism, a crime against property, a felony. But the law condones the vehicles themselves, and turns the greater felons free, who vandalize other men and the earth, recklessly.

Surfboards make another example, but once one gets the basic idea, one can furnish scores of additional examples of preemptive capital. To tax such capital is, in effect, to tax the grabbing of common lands by the owners of the capital. Sometimes regulation or banning is the better choice, depending on particulars, but the principle is Georgist: recognize land as common property, and take measures to assert that common ownership.

3. The rural landed gentry.

Georgists have focused on urban land, stressing its towering value p.s.f., and also its high value per capita. Well and good, those are important points. However, some go on to favor ignoring rural areas completely, to placate the rural vote, and the putative empathy of urban Americans with their rural roots, and the supposed rural preservation of old cultural values.

If those notions ever had merit, they do not today. George himself did not think they had merit in his day, either: his first book, *Our Land and Land Policy* (1871) went into great detail about the villainies (his word) involved in monopolizing rural land from the public domain. He later exposed how General Francis A. Walker, Professor of Economics at M.I.T. and Director of the U.S. Census, was concealing the growing concentration of ownership of rural land – an early example of “How to Lie with Statistics”. When General Walker counterattacked, George demolished him. In the process, George invented what today economists call the Lorenz Curve (did you think they’d call anything “the George curve”?) George’s work influenced the U.S. Census to begin arranging farm data in a template based on that curve, and to report on farmland separate from buildings (which it did until 1940).

Today, more than ever, persons of great wealth have fled the cities and amassed vast and valuable lands in rustic retreats. To name but a few, there are San Juan County, Washington; Pitkin County (Aspen), CO; Vilas and Walworth Counties, WI; Napa and Sonoma and northern Sta. Barbara Counties, CA; Kenedy County, TX; Barrington, IL; the Hudson Valley and much of The Adirondacks, NY; Berkshire County, MA; Nantucket Island, MA; Manchester and Woodstock, VT; Fauquier County, VA; Bourbon County, KY; and much of the whole State of NM. In addition there are individual spreads so vast they constitute regions unto themselves: San Simeon, the Newhall empire, the Bosworth and Chandler and Tenneco ranches, the King Ranch,

Sta. Catalina Island, the Irvine Company and the O'Neill holdings in Orange County, CA, the McIlhenny lands in LA, Gardiner's Island, NY, the Georgia-Pacific and Weyerhaeuser timber holdings, the Scully farms in IL, the timber empires of northern ME, and so on.

Once known for blood sports, and politically aligned with shooting, hunting, and fishing associations, owners in these areas now also wrap themselves in the mantle of environmentalism – a major challenge for those seeking to reconcile fair taxation with ecological values.

In such regions, land values per capita run high. Vilas County, for example, an abandoned old “cutover” county centered on Eagle River, now has the highest land value per capita in Wisconsin, thanks to its many little lakes, and the high social status of summering there.

Where farmland is valued for its cash crops, absentee owners hold much of Iowa and central Illinois, with rents going to Chicago lawyers and European investors. It is likewise in the oven-like Imperial and San Joaquin Valleys of California, whose absentee owners are more likely to live in coastal California, but also have addresses all over the world – some real, and some in tax havens (Gaffney, 1982).

There is no reason, in equity or efficiency, to exempt all this personal wealth from taxation. The challenge is to implement policies to sift out the legitimate contributions to the environment from the country club and boating and beachy and “trophy” and “privacy” and “hunt club” and “fin and feather” and “snow-bunny” qualities that give these lands most of their market value.

Those rustic retreats are only the leading edge of manorial suburbanization. Inside them we find low-density, high-valued suburbs like Atherton, Belvedere, Rolling Hills, CA; Sag Harbor, Scarsdale, NY; Lake Forest, IL; River Hills, WI; North Vancouver and Point Grey, B.C.; West Palm Beach, FL; and so on. These are communities that fuel today's booming demand for landscape architects, and turn so many retired golf professionals into country club designers and real estate developers.

Here we meet the “homeowner” problem. Georgist campaigners at the local level often make a campaign issue of how the tax burden on “homeowners” will fall if the voters will just downtax buildings and uptax land. Carried to an extreme, this ignores all differences among “homeowners”, melding the landed gentry on huge lots or vast acreages with the poor in modest hovels on tiny crowded lots, or parts of lots. It ignores renters in apartment units. We must prepare for cases where taxing those vast acreages will make the taxes of richer homeowners rise – and explain why that is a good thing. The “homeowner” orientation of some Georgist campaigners can play into the hands of those who favor income taxation and sales taxation over property taxation. If the goal is indeed to favor “homeowners” per se, then we should abandon the property tax altogether in favor of income and sales taxes. Why? Because the income-tax base exempts non-cash income, most notably the imputed income of owner-occupied lands, including homesites, plus lands held for sport and recreation. The imputed consumption of these lands is also exempt from sales taxes. So is their purchase and sale, because sales tax laws everywhere exempt sales of real property.

Alternatively, if we accept the income and sales taxes as “givens”, we must allow that they are both outrageously favorable to owner-occupants, so there is no overall merit in jiggering the local property tax the same way. On the contrary, owner-occupied housing is an unpreempted tax base that localities should seize, to redress the balance. Georgist campaigners who focus on gains to “homeowners” are understating the revolutionary side of their reform, and confusing their audiences. The original George was more like Johnny Cash's “singer dressed in black”: he sang for those who have nothing, the landless, the tenants, the young, orphans with nothing to inherit (as opposed to the mythical orphans who own all the land), the ex-cons trying to go straight, the damaged vets trying to get clean, the exploited workers, for everyone the homeowners were before they became owners. He also sang for the upwardly mobile, the students and trainees, the innovators and entrepreneurs and adventurers who turn their capital and turn the wheels of capitalism. He was not so thrilled by retirees with empty nests they

won't let go. Their buildings, yes, he would exempt. But if those buildings rest on land of high social utility, they are backing into the role of land speculators. Call them the "passive-aggressive" type.

It is not that George or his allies are against homeownership. Georgist tax reform makes it easier for first-time buyers to enter the market, and tends to raise the number of owner-occupants. However that sometimes entails inducing passive-aggressive speculators, melded in among existing homeowners, to let go of excess land they do not need. That basic point gets lost when campaigners pitch their message solely to existing homeowners, lumping them all as a class. Folklore and commercial drama make sympathetic figures of passive-aggressive speculators. Environmentalists cozy up to landed gentry as soon as these set aside some land for wildlife, and abate the bloodlust of their foxhunting. The challenge for educators and economists is to explain that their role in the land market can be just as anti-social as those who are more transparently aggressive and greedy. It is a mighty challenge, I allow; but it is what's out there, and we must face it, or settle for tokenism that absorbs our lives and resources while papering over the major issues.

Summary to this point.

George would have approved of our seeking to improve on his work, excellent though it was and is, provided we do so in a constructive spirit. I have suggested four errors in George, all dealing with capital, that lead us into blind alleys.

- One is identifying capital with labor;
- two is thinking that untaxing capital achieves the goal of untaxing labor;
- three is to deny the useful role of investing in employing labor; and
- four is to dismiss the Austrian and other economists who analyzed the positive role of interest rates in allocating scarce capital to the best uses, and in encouraging capital formation by domestic saving.

Next I have discussed how best to adapt traditional Georgism to bring it to bear on some leading issues of the 21st Century. First is to "green it up". One is to shift its emphasis from beating back remote frontiers to intensifying our use of our internal frontiers. These are what economists call "the intensive margin of production", as opposed to the "extensive" margin. A graphic example is the top story of a high-rise building. In terms of extractive resources we need to recognize the occasional useful role of taxes or royalties based on units of production, as opposed to property taxes alone. When it comes to pollution control, or aquifer regulation, such taxes are essential.

We need to adjust to the fact that the property tax has shrunk down to a minor part of the whole tax system, as other taxes have replaced it. So focusing our efforts on reforming the property tax, while ignoring new taxes that are even worse than taxes on capital, is not the best use of our time.

We must grow conscious of how some people use "preemptive capital" to hog more than their share of open-access resources like lakes and highways, and to see such capital as a means of establishing de facto ownership of common land. It is a short step from that to see the virtue of taxing such capital in various ways, varying with particulars.

It is time to recognize that great wealth no longer limits itself to owning land in cities. Our landed gentry has gone rural and sylvan and holds vast swaths of the countryside for rustic pleasures we used to associate with obsolete English squires. Many of these owners double as "homeowners". It is time to drop the idea that LVT is a boon to homeowners as a class, and raise consciousness of the differences among homeowners.

In a sequel we will consider more ways to adapt Georgism to the 21st Century.

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