



Auri Sacra Fames

By Dr. Mason Gaffney

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AURI SACRA FAMES

by Dr. Mason Gaffney, Riverside, CA

Virgil wrote of *Auri sacra fames*, the "holy lust for gold," and the troubles it causes mankind. *Sacra* can mean either "holy" or "accursed," and Virgil meant that to make gold holy is a curse because the lust knows no limit. Gold lasts with no spoilage or maintenance, serving as an infinite store of value and symbol of greed triumphant. Thus it rather resembles land, as Thorstein Veblen brought out in his last book, *Absentee Ownership* (1923), which seems to owe a large debt to Henry George.

Economists write of "diminishing marginal utility" when one acquires more goods, as though it were a universal rule. So it is, for most people, with respect to goods that spoil. A little consuming satiates one, and a little more fattens and spoils you. Providing for the future, however, and parading riches, and outshining rivals - these "utilities" grow by what they feed on. Jesus urged people to "store up treasures in Heaven, where moth and rust do not corrupt, and thieves do not break through and steal." Unfortunately, many people seek their Heaven on earth by storing up treasures in land. Amassing capital need not deprive others, one may do it by creating new capital. Amassing land, however, necessitates evicting others, as Isaiah observed, "until there be no place, that (one) may be alone in the midst of the earth."

Economists also write of "superior goods." These are goods on which you spend a higher fraction of your income, as your income rises. Economists are trained and conditioned to ignore land, so they cite other examples of superior goods, but clearly land is the archetype. Boone Pickens, Wm. Randolph Hearst, Ted Turner, Richard King and his Kleberg descendants, the Bass brothers, the Koch brothers, James G. Boswell, Walter Shorenstein and son, the Whitneys, and others come to mind ... these are merely samples from a large genus that would be even larger, if only there were more land to hog.

Henry George in *P&P* gives three main reasons why land-hogging drives labor off the land. Land speculation is only one of them. A second one is the progress of labor-saving technology. A third, found mainly in later works, is increased demand for land, and land-using products, due to increased incomes. He expressed it in other terms than "superior good," but that is the idea. He hints, too, at a fourth reason, somewhat overlapping the third: "Take those miserable men who go on striving to add riches to riches. What urges them still is not merely habit, but the subtler gratifications which riches give -- power and influence, being respected, being men of mark in the community". George is reading those "miserable men" charitably. Today they exert power by contributing to Tory pols, media windbags, and foundation intellectuals. Here, the motivations are less grandiose, but defensive and greedy as ever, to avoid being targeted and taxed.

Let us look at George's third reason for land-hogging: increased demand for land, and land-using products, resulting from higher incomes. George doesn't say it, but we should note that

these higher incomes come in part from land itself, and are to that extent self-generated, spiraling upwards with their own momentum. Most home purchases, for example, are financed with the help of the sale of a previously owned home. Thus the demand for homes can keep rising, even though the hourly wages of ordinary labor have been falling, in constant dollars, since about 1975.

Land-generated incomes include two kinds of "invisible incomes" that do not even appear in most data, even though they are huge. One kind is capital gains, so-called. These are mostly untaxed, thanks to dozens of loopholes, and even those few that are taxed do not appear in the national income accounts. Scriveners in the Department of Commerce carefully snip them out. Washington pols are fully aware of them, nonetheless. They brag on them, and join the banks in urging homeowners to borrow on them, and spend, to do their patriotic duty to stimulate the economy. They just keep them out of the official numbers. The amounts are so large they might give people ideas about taxing them.

Many "capital" gains are simple land gains, from the unearned increment to land values. Georgists are sensitized to such gains, and should be on the warpath to keep them from getting preferential tax privileges. There is another kind of land income that the law calls a capital gain that is less obvious and less well-known, but very large. That is the excess of sales price over "tax basis," when one sells "income property." It works like this. "B" buys an income property from "A". The cash-flow (revenues less current expenses) is taxable income, except that B, each year, can write off a fraction of the price from taxable income, calling it "Depreciation." The part not yet written off is called the "Basis." B generally manages to write off part of the land value, too, because the IRS is totally lax in guarding against that - never mind that the land is actually Appreciating, not Depreciating. After a few years, at her convenience, B sells to C, at a price much greater than the remaining tax "basis," after all the depreciation, of the income property.

Enter the tax on capital gains. There is now a tax due on the excess of what C pays over the remaining basis. This is called "recapture" of the excess depreciation. That sounds comforting and fair, but it isn't. A) recapture comes several years after the depreciation was written off; B) with tax rates falling, recapture comes at a lower tax rate; C) recapture is in dollars of lesser value than the earlier excess depreciation; and D) recapture is defined as a capital gain. By this legerdemain, the ordinary rents of commercial property show up, if at all, as capital gains. Thus they get a still lower tax rate, plus all the other loopholes available to defer or avoid all taxes on capital gains.

Make your blood boil? If not, you must have missed something. Yet, the story gets worse. "A" has already done this once, before selling to B; (continued on p. 10)

B sells to C who now does it again, then sells to D who does it again, and so on, until the building collapses.

The net result is that the income properties of the U.S.A., worth trillions of dollars on the market, are yielding almost no net income at all, according to the keepers of the national income and product accounts (NIPA). They borrow their numbers on this matter from the IRS, and then excise the capital gains. As Michael Hudson writes, NIPA scribes evidently believe that commercial property is being run as a great charity. That should help us understand why so many powerful pols are so eager to untax capital gains. It is the only tax that is paid on the ordinary income from real estate, the great source of campaign contributions.

Are our leading economists wise to this? Remember, the NIPA accounts omit all items that Congress has defined as "capital gains," and most commercial rents are converted to that form. It would appear the economists are not aware, because many of them, when asked whether land can yield significant revenue, look at these same NIPA accounts, note the small share of income from rents, stop looking, stop analyzing, stop questioning, and declare *ex cathedra* that land rents, and therefore values, are trivially small. I could name names, but just look at the donors behind the prominent think tanks and universities whose staff pontificate on economic issues. Meantime, this untaxed land income is a major source of demand for more land. That's why they can afford it, and bid it up, while you cannot.

Now for the second kind of invisible land income. This is the imputed value of owner-occupied land. Congress does not include this in taxable income, but lets owners deduct the interest and property taxes paid to acquire and hold such land. The NIPA scribes do, however, make a stab at including it in national income. The stab is weak for several reasons:

* NIPA includes only one residence to a family. Many middle-class Americans own at least one vacation home; many rich ones own several, each in a prime location. In Pitkin County, CO (Aspen), most of the property tax bills are sent to out of state addresses (like that of Ken Lay in Houston); likewise in the San Juan Islands of Puget Sound, and hundreds of other prime resort areas. Rich aliens, with primary residences offshore, own many of the condos and coops on and near Park Avenue, Manhattan.

* NIPA calls it "housing." That betrays the fact that they make little effort to include land, separate from buildings.

* NIPA omits the vast and growing areas used for hobby farming, riding to the hounds, breeding race horses, blood sports, sport fishing, winter sports, water sports and sailing and joyriding, country clubs with golf

and tennis, parking, polo, cemeteries, parks, habitat, ATVs and snowmobiles, hiking, privacy, protecting views, excluding unwanted neighbors, breeding show cattle, shoreline and marina access, private ponds, ... it goes on and on, longer than catalogues from L.L. Bean and Eddie Bauer and Troybilt Brushcutters, which serve this constituency.

* NIPA almost certainly undervalues even the primary residence that it does count. Everyone else does, why shouldn't NIPA?

When an owner dies, the capital gain is declared untaxable forever (aka "the angel of death provision"). If the owner sells before dying, the first \$500,000 of gain is untaxed, for a married couple. Nice folks, those IRS people - if you're a landowner, and married

It's not just examples like those above. Let us look at how affluence affects consumer choices. We substitute golf for billiards and pool and cards; motoring for biking; ATVs for hiking and jogging; travel to luxury resorts for tending our own gardens at home; jet and private aircraft for passenger trains; private one-passenger cars for buses and trolleys and ferries; skiing and snowmobiles for skating and snowshoeing; powerboats and yachts and jet-skis for swimming, canoes, and sailboats; irrigation for natural rainfall, and lavish careless flood irrigation for conservationist drip irrigation; soil depletion for contour farming, terraces and laborious husbandry; chemicals and mines for organic fertilizers, which then become pollutants; pesticides for biological and integrated pest management; herbicides and polluted runoff for cultivating and weeding; upstream mining and land-raping for downstream processing and recycling of materials into products; urban sprawl for renewal and recycling of central sites; air conditioning for wider eaves and double glazing; and so on.

Then we feel crowded, pressing on the limits of the earth, a la Malthus. Looking to place blame, we hit upon the poorest immigrants, huddled six to a room in crowded shacks in Santa Ana and Arvin, commuting by foot or bicycle or farm labor bus, and we beef up our border patrols. Is this balanced thinking and judgment?

It is not just affluence that drives such waste, it is public policy that, with remarkable wrongheaded consistency, subsidizes the wasteful while taxing the thrifty and conservationist choices. It's not just the lust for gold, it's the gold that feeds the pols who feed the lust. What can break into this vicious circle of lust and greed? If you can think of something better than a strong Georgist movement, wake the town and tell the people!

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