COUNTDOWN TO DISASTER

SOUTH AFRICA NEEDS AN ECONOMICS OF FREEDOM

BY KRIS FEDER AND FRED HARRISON

APARTHEID South Africa was in turmoil in 1990. Nelson Mandela dreamed of a free country, and his African National Congress was in the throes of the struggle for the right to vote.

In that year two white South Africans published a manifesto for a fair society. The Trial of Chaka Dlamini was constructed in the form of a platonic dialogue by Stephen Meintjes, the managing director of a Johannesburg investment management company, and Michael Jacques, a chartered accountant. They had come to realise that political rights that were not matched by economic rights were of little value. And they had concluded that Henry George's Single Tax strategy was what a multi-racial South Africa needed.

The pre-condition for economic freedom, they explained, was the abolition of the tax burden on production and consumption while treating the rent of land and natural resources as the appropriate source of public revenue.

Four years later, in April 1994, the racist order was swept away and the people received the opportunity of a fresh start. Nelson Mandela became the popular president of a multi-racial government of national unity.

Conflict over the possession of land was the most vexatious problem. The Mandela government determined to tread a difficult path to meet the aspirations of both its black and white citizens. Here, surely, was the laboratory for the Single Tax? This simple-to-understand policy would encourage investment, create jobs, and enable those who possessed land to choose: either use the land properly - and pay the community for the benefits received - or release it to others.

Nelson Mandela needs an economic strategy to match the aspirations of the multi-racial government over which he presides in South Africa. He will not get it if the neo-classical economists are allowed to exercise their malevolent influence, warn Kris Feder and Fred Harrison

Dr. Feder is assistant professor of economics at Bard College, New York. Fred Harrison is Series Editor of a nine-volume study of the Georgist paradigm. This essay is adapted from *The Corruption of Economics*, just published in London by Shepheard-Walwyn/CIT.

THE MANDELA government lost no time in establishing a Tax Commission that would investigate all options.

This time round, one would have thought, the Single Tax strategy would not be patronised and sneered out of the realms of political debate. For one of the first lines of attack on the policy - the claim that there are practical problems of implementation - could not possibly be raised. Nearly all the municipalities of South Africa directly levy a tax on the value of land (i.e., excluding the value of buildings): the principle of treating land different from capital was an established fiscal fact! The bureaucratic infrastructure that is required to assess the taxable value of land and collect the revenue was in place. All that South Africa needed was an imaginative redesign of the architecture of public finance, building a system that would liberate the talents and savings of people while raising revenue from the rental value that was created by the community.

Although the site-value property tax has an established history, in South Africa, the tax rates were so low that the country had not enjoyed the macro-economic benefits that flow from the Single Tax. Nonetheless, a crystal-clear hint of the dynamic benefits of this approach to public finance was visible in the economic record. Godfrey Dunkley, a Cape Town-based advocate of the Single Tax policy, had analysed the evidence.

He found that, between 1951 and 1984, there had been a shift among municipal authorities in favour of raising local revenue from the value of sites alone (the "site value" approach), rather than from the total value of land-plus-buildings (the "flat rate") or the "composite value" (a higher rate of tax on land than on the value of buildings).

Analysis of data in the South

48 South African towns - Value of improvements on land

Tax base	No of towns	Improvement value (Rand: millions) 1974	1984	Growth: %
Flat	2	1412	4080	189
Composite	13	1856	7085	282
Site value	33	5084	26084	413
Total	48	8353	37250	345

Source: Godfrey Dunkley (1990: 124).

African Municipal Year Book revealed that the towns that raised revenue from site value increased from 11% to 38% of the total cities; the flat-rate towns declined from 58% to 24%. The composite rate towns increased from 31% to 38%. The trend was unmistakable. Property owners, through their democratic representatives, favoured the exemption of the value of their improvements on the land; while raising an increasing proportion of municipal revenue from the rental value of the land they occupied. One of the economic consequences of this transformation is traced in the table. This reveals the growth in the value of improvements on land over a 10-year period. The top 48 towns are included, each with a total value of over R200 million.

Among the largest towns of South Africa, only the two ports of Cape Town and Port Elizabeth had failed to adopt the more sophisticated property tax - the one that acknowledges the need to differentiate between land and buildings. They levy a tax at a uniform rate on both components of property. Logically, these two towns - one of them the legislative capital, the other a commercial nerve-centre - ought to have kept pace with the average rate of growth of investment enjoyed by the other major towns. In fact, their percentage growth has been less than half that of the towns that exempt buildings from the tax base.

THE BENEFITS of the Single Tax cannot be fully enjoyed until the policy is adopted as the central feature of national government strategy.

The Mandela government, before it could contemplate a radical shifting to an entirely new approach to fiscal policy, had to be sure that there would be no loss of desperately-needed revenue. Would a Single Tax strategy meet the fiscal needs of the new South Africa? Meintjes and Jacques had little doubt that it would, and they submitted their proposals to the Tax Commission in July 1994. In proferring figures, they confidently explained the philosophy that underpins the Single Tax - a policy of fairness, and one that just might succeed where others had failed:

"The inability of all developing and developed economies to eliminate poverty is due to the failure to recognise that locational advantage is the natural source of revenue for the community."

Their analysis was starkly simple:

"In South Africa, of all places, where only 15% of the surface area is arable [and] the overwhelming bulk of secondary industry is restricted to a handful of metropolitan areas it is, or should be, an axiom of taxation, that the greater part of the surface area of the country has little or no taxable capacity, i.e. locational advantage. Failure to recognise this leads to under-recovery of natural rent and underutilisation of land and natural resources, on prime sites, and futile attempts to raise revenue from sites at the margin. Such attempts include not only the heavy incident of indirect taxation in outlying areas but also PAYE. Since the latter can only be derived from value added by the enterprise it is in effect a payroll tax which eliminates employment opportunities in these areas by preventing businesses from achieving the necessary minimum returns on capital. Such attempts are therefore directly responsible for the uprooting of rural communities and the flood of squatters to metropolitan areas." (Meintjes & Jacques 1994: 2)

Here, in a nutshell, was the exposition that the neo-classical economists had sought to shroud in metaphysics. It exposed the destructive dynamics of taxation on wages and profits, which destroyed jobs and reduced living standards; taxation that inhibited investment and fostered social conflict.

For generations the people of South Africa had been denied the full benefits of the rational system of public revenue. Added to the tax burden were the other economic weapons against freedom - monopolies, subsidies, tariffs - which, as Meintjes and Jacques put it, had been "giving rise to substantial artificial rents". A switch to the Single Tax strategy would channel the "artificial rents" into the public purse. Meintjes and Jacques listed some of the dynamic benefits for the benefit of the Tax Commission:

- Economic activity on sites of marginal value, including less valuable sites in metropolitan areas, would become viable.
- The development and efficient use of natural resources would be encouraged, and the hoarding of land by those who were enriched by systemic inefficiency would be deterred.
- Land reform would be facilitated on an equitable basis.
- Capital cost of access to land - one of the major obstacles to starting new businesses and creating jobs - would be eliminated.
- Site values would no longer serve as collateral, because the bulk of natural rent would be treated as public revenue. Banks would therefore be deterred from fuelling speculation: they would become more concerned about the viability of projects and management rather than mechanically counting on collateral to rescue them from poor lending decisions.

In the course of phasing in the Single Tax policy over (say) 10 years, explained Meintjes and Jacques, people in the metropolitan areas would become richer and the profitability of enterprises would increase. This would result from

- creation of additional markets for output;
- reduction of problems that result from the inward flood of impoverished squatters; and
- stimulation of the whole economy on a win-win basis for all.

This, surely, was a prospectus that would appeal to the Mandela government as it deliberated on the need for revisions to the South Africa constitution in 1994? The alternative - retaining the core institutions of the western market economy - was surely not a serious option? For those core institutions had escorted the world economy into the greatest depression since the 1930s.

ENTER the Free Market Foundation of Southern Africa. This organisation, headquartered in Johannesburg, is patronised by some of the leading entrepreneurs in the diamond cartel. It advocates "economic freedom". That philosophy of freedom, however, does not have universal application. The freedom championed by the well-fi-

nanced Foundation is the freedom of those who already control the property of South Africa. And they were determined to nail the ghost of Henry George before anyone started talking about the need to depart from the tax policies of the neo-classical economists!

Henry George had suspected that the emerging neo-classical school of economics was designed to silence the single tax movement by crippling the language of the land question. [George, 1898: 200-209] As Mason Gaffney has documented in *The Corruption of Economics*, George was at least partly correct. Moreover, the "neo-classical stratagem" of suppression continued to be pursued many years after George's death. (Feder 1994)

Lest it be supposed that Prof. Gaffney has rewritten history to boost Henry George - or, that economists today have finally put aside politically-motivated resentments, and are prepared to confront Georgists with unassailable logic - the attack by The Free Market Foundation bears witness to the current state of debate in economics.

Its study was prepared by Richard Grant, the Foundation's former Director of Research who received his doctorate from George Mason University in the United States before moving to South Africa where he was to lecture on economics at the University of the Witwatersrand. [Grant, 1994] Referring to the current dialogue in South Africa regarding the use of taxation as a tool of land reform (Franzsen and Heyns 1992), Grant disparages the Georgist proposal as merely another dangerous scheme to nationalize land.

The "single tax on land rent," he pronounces in *Nationalisation: How Governments Control You* (1994: 51) is unjust and confiscatory; it flagrantly disregards legitimate property rights; it compels arbitrariness in assessments, inviting collusion and corruption in government. Worst of all, it is inconsistent with the operation of a market system, and leads inevitably to socialism. Grant reinforces his position with frequent appeals to the authority of Frank Knight, the Chicago School economist who, according to Gaffney, "probably produced more neo-classical economists and NCEism than anyone in history." As Gaffney observes, Knight's treatment of the land question "reads like a caricature of Chicago." Grant's assault, in turn, reads like a caricature of Frank Knight - like a silly spoof of the neo-classical paradigm. Grant has assembled two dozen of the most transparent single-tax fallacies, throwing in a couple more of his own devising. What is frightening is that uninformed readers, concluding that the single tax is a hoax, may give it no further consideration.

SOME, though not all, of the efficiency advantages of taxes on rent or land value are widely recognized by mainstream economists. According to Grant, however, the single tax is as inefficient as it is as inequitable.

A tax on rent, he believes, is just like any other tax: all have unfortunate consequences for economic incentives; they should be applied at low rates, and only as necessary to raise revenue. There is nothing "magical" about a special tax collecting all of land rent. On the contrary, if applied at rates approaching 100%, as single-tax advocates insist, it would cripple land markets, paralyzing their inherent tendency to allocate land to its most productive uses. Grant opens with the assertion that "the distinction between man made and natural factors of production - that is, between capital and land...is irrelevant when discussing intervention and taxation: the consequences will be the same for any asset."

Nothing could be further from the truth. Taxes are, or ought to be, predictable long-term arrangements; so the long-run supply conditions of productive factors are critical to the effects of taxes upon them. A tax on the ownership of capital will, in the long run, discourage the production of new capital. A tax on the ownership of nonproduced land has no such disincentive effect. Grant does not consider this, however; he takes a different angle. "Rent," he writes, "is a general phenomonon that applies to all assets, not only land." The implicit suggestion is that one can refute George by redefining terms - the standard neo-classical stratagem.

Henry George followed Ricardo in defining rent as the amount by which the product of a land parcel exceeds that of the best available no-rent land. Rent, in other words, is the minimum amount which a prospective user would have to pay, in a competitive market, to outbid all others for the use of land. As we now say, rent is the opportunity cost of land use.

Grant, however, defines "economic rent" as "the difference between the return to one asset and the return to the poorest asset being used for the same purpose." Thus, presumably, the rent of a car used in transportation is equal to the difference between its return and that of the least efficient bicycle, or pair of feet, used for the "same purpose" - however narrowly or broadly that phrase may be interpreted.

The definition given any term is neither right nor wrong; it is simply more or less useful in facilitating thought. Now, George's classical definition of rent is intelligible and eminently useful, particularly for analysis of the issue at hand. Grant's definition, by contrast, is plagued by ambiguity, and serves little function in economic inquiry. It matters not that Grant's definition of "economic rent" differs subtly from the usual, equally problematic, neo-classical definition, because he takes it nowhere. It is as though economists have redefined "rent" in a manner calculated to dispose of the term altogether.

GRANT argues that a 100% tax on rent would, through tax capitalization, "make the price of land the same everywhere, regardless of location or quality." True enough - the selling price of all unimproved land will be zero. But Grant draws the surprising conclusion that "this artificial levelling of relative prices" would "leave no differential rent for purposes of economic calculation," "blinding" the land market "with respect to quality."

Grant seems to mean that, since all land bears the same (zero) price, users are indifferent among land parcels of different qualities. Plainly, however, if all items of a kind are priced equally, buyers will hardly be blinded to quality; quite the contrary, they will choose among them on the basis of qualitative and locational differences alone. Just as obviously, a uniform (zero) price for title to land

does not mean that the cost of land to buyers is the same for all land. The high or low purchase prices paid for good or poor land are simply commuted into high or low annual rent payments. Rents continue to perform their function of allocating scarce land to its highest-yielding uses. If bidders for land have different preferences for land consumption and/or different comparative advantages in production, land subject to rent taxation will also be allocated efficiently among users.

In fact, as Georgists have shown, a high tax on rent causes land markets to operate more fluidly, competitively, and efficiently. By slashing start-up costs, the tax makes it easier for productive users to acquire land. It improves efficiency by bypassing the distortions introduced by inherently imperfect capital markets. The annual tax also functions far better than once-for-all prices to signal landowners information on the current opportunity cost of holding possession. (Gaffney 1992)

The source of Grant's confusion emerges with his claim that the Georgist position is that "any benefit that a landowner derives from land that is better than the worst land in use is to be taxed away." He asks: "What good are title deeds if the government takes all the net income...? How long would you want to hold an asset from which the income is expropriated?" Grant evidently supposes that the tax assessment on a particular parcel of land would depend upon how productively the current owner is putting it to use - so that the harder and smarter he works, the higher go his taxes, leaving him no reward for superior effort.

This does not describe the Georgist tax on land rent, which is a market-determined measure of the annual opportunity cost of land possession, i.e., of its potential productivity as estimated by market participants. The true Georgist tax is a fixed charge from the point of view of the individual title-holder; it leaves to the owner the full wages and interest of the labour and capital which he contributes to production, plus any entrepreneurial profit or loss. Economic incentives are channeled in the right direction. Ironically, Grant's criticism correctly applies, not to the Georgist proposal, but instead to traditional taxes based on income or production. A second error is operative here. "How long would you want to hold an asset from which the income is expropriated?" The answer is: for as long as the value of the asset to you continues to meet or exceed the value of the asset to others. The point holds no mystery for anyone who has ever leased a car, rented an apartment, or borrowed money at interest.

TURNING to land speculation, Grant objects to the single tax on ethical and efficiency grounds. He fumes: By what standard do the Georgists and other interventionists label someone an "idle hoarder" or "speculator"? And by what right would they penalise these people? Doing so would require some standard superior to the market, but they cannot demonstrate what that is.

Quoting Frank Knight, Grant observes that in competitive markets, buyers pay, in the purchase price of land, the entire present value of expected potential future net land income. Land speculation is risky and expensive; speculators do not, on average earn undue profits. Moreover, if society proposes to confiscate the gains of the winners, it ought to compensate the losses of the losers - not only to meet the demands of justice, but also to preserve entrepreneurial incentives. Yes, it ought! And it does, automatically, under the single tax. When land values rise, so do payments to the community - and symmetrically, when land values fall, payments fall proportionately. The risk of appreciation or depreciation caused by events outside the landowners's control are borne by society as a whole, not by individual landowners. Pooled, the risks decline. Gains and losses resulting from private entrepreneurial activity, on the other hand, are untaxed.

On economic efficiency, Grant works both sides of the street. He argues inconsistently that it is undesirable to use rent taxation to discourage speculation since speculators "provide a valuable service" - but that, anyway, the tax will not succeed in forcing marginal land into use.

The Georgist position on land speculation may be summarized as follows. When neighbourhood land uses are changing, it is occasionally efficient to postpone land development or redevelopment until a new use becomes remunerative. This occurs when no potential interim use can be expected to yield revenues sufficient to amortize sunk capital before the optimal time of redevelopment. A tax on land rent or land value does not disturb such efficient land speculation, since the owner can reduce only his net income - not his fixed tax burden - by developing the land prematurely. Thus, insofar as speculators do "provide a valuable service," rent taxation will not disturb their choices. Marginal land bears no tax, so it will not be forced into use, just as Grant says. With respect to efficient land use, rent taxation is neutral.

On the other hand, there are a host of reasons why inefficient land speculation frequently occurs. Rent taxation corrects inefficiencies arising from capital market imperfections, and the annual charge reminds inattentive owners of the income forgone when land is underused. Georgists have shown that rent taxation systematically penalizes at least some forms of inefficient speculation, thus intensifying market pressures to use land productively. (Brown 1927; Gaffney 1992; Feder 1994) One writer calls this characteristic of rent taxation "superneutrality." (Dwyer 1981: 128ff)

THE standard to which Georgists hold the speculator is social efficiency. The single tax does not necessitate "some standard superior to the market": it makes the market operate better, closer to the competitive ideal. Nor is the single tax motivated by envy, a scheme to strip successful businessmen of their hard-earned wealth. The aim of the single tax is to distribute the value of natural and social resources fairly among all, while leaving producers the full earnings of their labour and capital, untaxed.

Henry George wrote: "We must make land common property" (1879: 328) and erected a lightning rod which has attracted unending criticism. Few terms have engendered more confusion in economics than the phrase "common property." It is no surprise that Grant manages to muddle the

issues as thoroughly here as elsewhere.

"The Georgists have apparently forgotten that we are no longer a hunter-gatherer society...Even though all land may once have been common "property," this does not give to every newborn today a share in everyone else's property. The whole meaning, and practical virtue, of private property is that it is privately owned and controlled...The collective farms of the old Soviet Union prove this...A drive through the tribal land of (the now former) Lebowa is very instructive on the issue of common property...The grass has been overgrazed and the trees are steadily disappearing...It is in those regions where property rights are suppressed or undeveloped that no one laughs at Malthus."

Grant nowhere explains what Soviet collectives and Lebowan tribal commons have to do with the single tax; he trusts the reader to thoughtlessly accept the implicit analogy. It is false. The subterfuge relies on the merging of three distinct concepts. Soviet collectives were state-owned and state-controlled government property, not common property. With no exclusive rights of tenure, workers had little incentive to concern themselves with productivity. Lands (also air, water, or biological species) that are freely accessible to all comers, with no regulatory mechanism to ration their use, are not common property (res communis) but "nobody's property" (res nullius). When human populations are relatively large, such a resource is characterized by overexploitation and depletion. Users have no direct stake, individually, in maintaining the asset value of the resource, since they possess only rights of extraction and use, not exclusive rights of ownership.

All of this was recognized by Henry George. The function of the single tax is to strengthen, not weaken, the legitimate property claims of labour and capital - while guaranteeing the equal right of every person to the use of the primary, non-produced resources necessary for all production. Without access to natural opportunities, after all, the celebrated right to enjoy the product of one's labour, thrift and ingenuity becomes a cruel joke.

We have never heard anyone openly reject the ethical proposition that all human beings ought to be accorded equal opportunity to avail themselves of what nature provides. Even Grant falls short of this; he twists away by pretending that the Georgist ethical premise implies a free-for-all. This, indeed, is the puzzle: how can equal rights to land be assured in an industrial and service economy, where an equal physical division of land among individuals would be hopelessly inefficient?

Those unfamiliar with Georgist thought typically accept the existing system of fee simple land tenure despite its evident inequities, presuming that land cannot be made common property without creating economic and political chaos. The core contribution of Henry George lies here: in a monetary market economy with democratic political institutions, natural resources can be fairly shared by the device of collecting rent - all of it - through the tax system, using the revenue (along with that from other user charges and taxes) for the support of government.

The genius of the single tax is that it allows rents to be shared without disturbing the system of private, exclusive land use which is indispensable for harnessing productive incentives and exploiting the advantages of specialization and scale economies. Society need not alienate the common property to individual ownership in fee simple to enjoy the benefits of a market system. Equity need not be compromised in the name of efficiency, nor efficiency compromised for the sake of equity. We can have both.

Under the Georgist system, everyone willing to pay its opportunity cost to society can get title to as much land as he likes; and he may, within reasonable bounds, do with it what he will. If government expenditures are optimal, an individual who happens to take title to his equal value-share of land will receive, in the value of public goods and transfers enjoyed, an amount exactly equal to the rent he pays to the community for his land title. An individual who takes more than his equal share of land will, on balance, just compensate the community for encroaching upon others' shares.

An individual who chooses not to own any land still receives his equal share of rent, in consideration of the fact that his abstention leaves all the more land for others to use. Under the single tax, everyone is a rent-taker. Ultimately, of course, everyone also pays for the productive contribution of natural resources in proportion to his consumption, since the prices of consumer goods and services reflect land, as well as labour and capital, costs.

The value of a plot of land reflects not only the value of the natural resources it contains, but also its location with respect to markets, people, jobs, schools, recreational areas, and all manner of public goods and services, such as police and fire protection, schools, and infrastructure.

GEORGISTS have said the single tax is best conceived as a "user charge." Grant disparages the phrase, but its rationale is easy to see.

Taxes proper are involuntary payments, owed by virtue of residence in a given geographically-defined political jurisdiction. The taxpayer enjoys the benefits of public expenditure, of course, but he has no choice (except as one voter among many) about the level of taxes; anyway, there is little correlation between the amount of his tax and the value to him of the benefits he receives. User charges, by contrast, are prices, paid voluntarily in exchange for benefits received. There can be little doubt, then, that taxes on the rents arising from government expenditure are equivalent to user charges. If the Georgist ethical principle is accepted, and natural resources and privately-generated (but unattributed) externalities are treated as common property, then all rent taxes (in a society with just and democratic political institutions) may be conceived as user charges.

GRANT offers his readers several additional remarkable complaints. He claims that a tax on land rent "lower[s] returns to all capital and labour used on that property." Surely taxes on capital and labour, which Georgists yearn to abolish, are considerably more likely than land taxes to lower the returns to labour and capital? The fact is, tax capitalization implies that a tax on pure rent does not lower the re-

turns to labour and capital.

Incredibly, Grant uses the notion of spatial externality to argue that a rent tax is really a tax on labour and capital - since "whenever they tax one person's property, they are in fact taxing everyone else's labour and capital that have contributed to its value." It does not take an economist to see that the persons responsible for emitting externalities which affect a given property do not pay the land tax on that property, directly or indirectly. The person who benefits from their activities, by virtue of his possession of well-situated land, pays the tax, ensuring that private individuals do not receive windfall gains or suffer windfall losses merely by virtue of their location with respect to external influences out of their control.

Grant goes on to accuse Georgists - targetting Meintjes and Jacques - of "methodological collectivism...They fail to see that their `community' is an abstraction, not an acting entity that can create value." In fact, the community is not a vacant abstraction but a collection of real individuals, institutions, and capital. Though he is shooting blanks, Grant has no shortage of ammunition. His next angle is to argue that rent takers receive no unearned income because they pay for the land which yields them rent! Again he quotes Frank Knight: "[T]he value alleged to be socially created is always paid for before it is received - as far as the parties most interested are able to predict its arising." (Knight 1953: 809) There is no denial, only neglect, of the fact that market expectations of the future are frequently and understandably wrong, so windfall gains and losses accrue to landowners. The benefits of government projects are particularly difficult to foresee many years in advance. The question is: should the land gains resulting from proximity to government services and other community activities accrue to private landowners individually, or should they be pooled, and used for the support of the government and the citizenry?

Grant's confusion, inherited from Knight, runs deeper than the convenient fiction of perfect foresight. Because land has an opportunity cost to the firm or household, they deny that rent constitutes a social dividend.

Wages are the earnings of human effort in production. Interest is the reward for thrift and foresight in accumulating and employing capital. Rent is the payment for the use of land, with consideration for the value of natural resources, government services, and net private externalities (insofar as these cannot be internalized in markets or quasi-markets). For economic efficiency, rent must be paid by users to allocate scarce land among competing demands. But there is no efficiency requirement for rent to be paid to landowners; they do not produce land. Efficiency is achieved as well - better - when rent is collected by the community.

GRANT claims that the separate values of land and improvements cannot be measured, since "economic rent is an abstract concept that does not appear separately in the market." It is true enough that rent seldom "appears separately." Neither do wages: most products result from the commingled input of several factors of production. Yet markets do value factors separately, according to the familiar principle of marginal productivity. Tax assessments follow the market (assisted by computer-generated cadastral maps, which plot sales and interpolate surrounding values). Land values are easier to assess than incomes, which can be concealed, and also easier to assess than building values, which require on-site inspection.

But Grant has a further, and novel, reason for insisting that land rents cannot be measured. The very imposition of the single tax itself, he says, destabilizes the land market: "Any buyer knows that the more he pays for any property, the more rent he will be forced to pay." Since the present value of his future taxes rises in lockstep with the price he pays for the land, a potential land buyer is indifferent about the price agreed upon.

However, the Georgist tax on rent is assessed on the basis of current market valuation, not the historical price of the parcel under consideration. An individual's bid for land influences future assessed land values only indirectly and marginally, as one bit of market data among many. Unless regional land markets are characterized by significant monopoly power (which Grant would surely deny), an individual would ignore, as negligible, the influence of his own revealed demand upon his future land taxes. There is neither evidence nor theoretical justification for Grant's startling claim that "[t]he formal land market would largely break down."

CAN IT BE that, of Dr. Grant's many objections to the use of rent as the primary source of public revenue, not one withstands inspection? After all, plenty of genuinely unsettled questions and difficulties do remain in the economic theory of land and rent. If he truly wished to educate himself and others on the issue, Grant could have found them. One of his comments does carry weight: the puzzling thing is that he makes little of it. He notes:

"At the time of its imposition, there is no escape from the tax. The owner at that time will suffer a once-off capital loss on the property value and there is unlikely to be much shifting of ownership."

We suspect that the reason he has not emphasized the point is that Grant believes, erroneously, that only part of the burden of the rent tax falls on current owners, and that future workers, capitalists, and landowners also bear a large part. In truth, the theory of tax capitalization suggests that all of a rent tax (or tax increase) on land rent falls directly on those who own land at the moment the tax (increase) is announced: other things equal, the selling price of a plot of land falls by the full present value of all future taxes on that land. Afterward, a new buyer of the plot gets a reduced stream of after-tax rent, but pays a proportionately reduced land price, so that the rate of return is unchanged, and equal to the unchanged rate of return on other assets.

This is the property responsible for the celebrated neutrality of land taxation. It is precisely because landowners can do nothing to escape it that the rent tax does not "distort" markets. Ironically, the very efficiency of the land tax raises the problems of distributive equity and political accept-

ability - though only during the period of transition to the new tax structure. Inefficient taxes are popular in part because, through tax shifting, their burden is spread around in invisible and untraceable ways. Why should current landowners, whether they inherited their holdings or bought them yesterday at premium prices, be forced to bear the whole burden of the single tax? There are good answers, answers which do not depend upon painting innocent investors as sociopathic criminals.

First, not even the most impatient of Georgists suggests that the single tax system should be imposed all at once. Tax rates should be altered gradually, according to an agreed schedule. This allows individuals time to adjust their land holdings and their investment plans in order to take best advantage of the reform. In addition, the more gradually a rent tax increase is introduced after it is announced (the further in the future is the anticipated tax increase), the lower is the present value of future land taxes at the date of announcement, so the smaller is the decline in after-tax rents, and the smaller is the burden on current landowners. In effect, the burden of tax reform is shared among all taxpayers, who are compelled to endure the pre-existing system of distortionary taxation so much longer.

Second, the accompanying reduction or elimination of taxes on labour, capital, and exchange offsets the increase in the rent tax, in the aggregate - more than offsets it, in fact, since the excess burden of taxation is reduced as the overall efficiency of the tax system is improved. The average household is better off, on balance. The significance of this is not merely that most landowners are also capitalists and wage earners too, and thus enjoy direct tax cuts. It is a fundamental point of tax theory that taxes on production and wealth are generally shifted forward to consumers insofar as demand is relatively inelastic, and/or shifted backward to owners of resources insofar as factor supplies are relatively inelastic. In an economy like that of South Africa, where real wages approach subsistence and can be forced no lower, both labour and capital are highly elastically supplied - so, most kinds of taxes on production are ultimately shifted largely to immobile land, which can neither starve nor flee. The converse of this is that when these taxes are reduced, the primary result of tax un-shifting is an increase in the gross rent of land. A moderate dose of single tax therapy will, in all likelihood, actually increase net (after-tax) rents received by landowners. As the rent tax rate approaches 100%, the effect of the increase in the rent tax must eventually overtake the contrary effect of the decrease in other taxes; land prices will approach zero. Still, if the single tax program is installed gradually, there is no undue burden on current landowners.

Third, some degree of shifting of the rent tax onto capital may occur after all, although only as the result of healthy, growth-producing wealth and liquidity effects, not from any distortionary tax "wedge." As Henry George emphasized and as Mason Gaffney has rigorously shown (for a review, see Gaffney 1992), by reducing land prices and bypassing credit markets, the single tax makes it easier for cash-poor new producers to acquire land.

At the same time, by raising holding costs, the tax makes it harder for unproductive hoarders to hold their savings in idle land, anticipating so-called "capital" gains and confident that any reversal in the upward trend of land prices can only be temporary. The consequence is an increase in the intensity with which land is used, which necessarily raises the demand for labour and capital. Even if credit markets were perfect, the single tax would stimulate capital formation. A rent tax reduces or eliminates private savers' option of holding land as an asset: the asset value of land (or some proportion of it) is now public property. Savings are thus redirected from land into produced capital, stimulating investment and (depending on the supply elasticity of capital) possibly lowering the marginal rate of return to capital. Furthermore, wages again tend to rise, not fall, as workers are employed to produce and use the new capital. All this, of course, is to the good. (Feldstein 1977; Gaffney 1992)

GRANT'S foremost charge against the single tax is his most desperate and far-fetched, but also the one that promises the greatest shock to conservative readers. This is the charge that Georgism is really a dangerous formula for repressive socialism, masquerading as benign free-market economics. "In adopting the term 'user charge', [Georgists] seem to have been...taken in by the Marxist approach, which holds that the state is the true owner of the land."

As we have noted, Grant confuses the concepts of government property, res communis, and res nullius. In the Georgist approach, natural resources are owned, not by the State, but by all the people in common. True, some public authority - a government - must collect and distribute the rent. But land is held in private title; markets operate freely; individuals manage their own affairs. "Society would thus approach the ideal of Jeffersonian democracy,...the abolition of government...as a directing and repressive power...We should reach the [egalitarian] ideal of the socialist, but not through government repression. Government would change its character, and would become the administration of a great co-operative society. It would become merely the agency by which the common property was administered for the common benefit." (George 1879: 455-457)

But Grant's accusation of single-tax socialism is more than a matter of philosophical language. "Professor Knight," he writes, "puts it bluntly:"

"To collect such rent, the government would in practice have to compel the owner actually to use the land in the best way, hence to prescribe its use in some detail." (Knight, 1953: 809)

In a single-tax world, rational individuals who bid successfully for title to land are generally able to pay the 100% rent tax and still earn a market rate of return on their labour and capital. If no one volunteers to take a certain land parcel and pay the assessed tax, this constitutes direct and publicly-available evidence that the assessment on that parcel is too high; it overestimates the value of the land. Why, then, would a tax on rent entail central planning? Knight's only explanation is that "some official, some

`bureaucrat' with power, would have to appraise it", an observation that does not set rent taxation apart from many other, apparently unobjectionable taxes. Grant's marvelous rationale cannot fairly be credited to Knight: "Georgists are aware of the 'supply side' effects on all the other tax bases, but why would the famous Laffer Curve not also apply to their single tax? As a tax rate approaches 100% of any tax base, revenues will approach zero in the long run. This tax on rent is not compatible with a market economy because it would eliminate any incentive for landlords to charge rent that would be captured by the government...To obtain revenue, government assessors would have to set the level of tax arbitrarily, thereby placing virtual control of the land in the hands of the state."

The Laffer Curve, which reflects the excess burden of taxation caused by substitution effects, does indeed apply to all taxes conditioned on productive activity. It applies, for example, to a tax on land income, just as it does to a tax on labour income (wages), or interest, or exports, or beer purchases. However, neither the market-estimated potential income of land, i.e., rent, nor its capitalized value (based on discounted future rents) is subject to the discretion of the title-holder. From his viewpoint, these taxes are lump-sum charges; the landowner cannot reduce his tax burden by decreasing output and income, by selling land, or by any other means. Without the Laffer Curve, however, Grant's dire prediction of market collapse, land nationalization and Socialist tyranny has no foundation whatsoever.

IT IS HARD to imagine how anyone sufficiently familiar with both mainstream and Georgist economics to put his opinions into print can have analyzed the case for the single tax so perfectly incorrectly - unless his intent is to pre-empt debate by portraying the Georgist proposal as dangerous nonsense, discouraging readers from ever investigating the question for themselves.

We have to conclude that Dr. Grant aims to deprive the people of South Africa of an informed choice. Though he laughs at the Georgists' suspicion "of some conspiracy of silence" he, by his example, confirms that the shadow of Knight still obscures the fundamental issue of resource rights.

"Economists," Grant tells us, "have utterly refuted much of what George had to say about the `single tax'." The proposal enjoys a wave of popularity every generation or so, but economists time and again "expose its faults." Today, boasts Grant, Georgists are "in retreat," as evidenced by the fact that they will now accept a tax rate somewhat less than 100% - say, 80% - in quiet and partial recognition of the distortions which a high rent tax would cause. If a rate of 80% is acceptable, he reasons, why not 50%, or 12%, or 2%? "[O]nce the mystical character of the tax is broken, a tax on land rent becomes a tax like any other."

In truth, Georgists are on the advance, as evidenced not only by an explosion of theoretical developments within academia (Feder 1993) but also by political developments in Russia, the United States and elsewhere. And despite the impressive success of the neo-classical stratagem, a not inconsiderable number of well-known and distinguished economists, Nobel Prize winners among them, eagerly support the principle of public collection of resource rents. (Tideman 1991; 1994) As alternative solutions fade like enticing mirages in the desert, the world is discovering anew that the Georgist paradigm offers a sober, peaceful, and civilized path to genuine reform.

AND YET, for South Africa, the current debate is sadly restricted to the parameters of welfare capitalism.

The instability and the trends in the market economies of the West are hardly worth retaining in a society that has the chance of a fresh start. Why retain a system that built impoverishment into its approach? In Britain, for example - echoing the trends elsewhere in Europe and North America - the wealthiest 10% of the population increased their real income by 62% over the period 1979 to 1992 (after taking account of housing costs). The income of the poorest 10%, on the other hand, declined by 17%.

Was this the freedom about which Nelson Mandela had dreamed in his prison cell? So shameful has the record of poverty in Britain become that Oxfam, one of the leading charities that supplies aid to the poor citizens of the Third World, was moved to review the possibility of supplying aid to Britain. (Meikle 1994) But such a strategy - of private charity to supplement the failures of welfare capitalism - would not succeed. This was the explanation offered by the head of public policy of a rival aid agency, the Catholic Fund for Overseas development:

"Everyone, even the World Bank, agrees that land reform is an urgent necessity in Brazil. The Catholic Church's Pastoral Land Commission grapples daily with the consequences of the skewed patterns of land ownership. But British charity laws make it impossible for a British agency to support a campaign for land reform." (Gelber 1994)

If South Africa does not want to perpetuate an unjust economic system, it must depart from the well-tried failures of the European model.

The political rights of black citizens were recognised in the elections of April 1994, but they were not granted the constitutional right to an equal claim on the value of the land and natural resources of their country. On the basis of the present approach to taxation and tenure, Nelson Mandela will one day realise that his victory was an empty one: his country is in a countdown to social and economic disaster. For with the best will in the world, it will prove impossible to satisfy the aspirations of the poor people (black and white) of his resource-rich country. And the fundamental obstacle to prosperity-for-all is the system of public finance that flows like ectoplasm from the mouths of the neo-classical economists.

BIBLIOGRAPHY

Brown, Harry Gunnison (1927), "Land Speculation and Land Value Taxation." *Journal of Political Economy* 35: 390-402.

Dunkley, Godfrey (1990), *That All May Live*, Roosevelt Park: A. Whyte Publishers.

Dwyer, Terence Michael (1981), A History of the Theory of Land Value Taxation. Ph.D.dissertation, Harvard University.