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An Address by a Georgist Sympathizer:

Practical Issues in Georgist Thought

By MICHAEL S. JOHNSON*

ABSTRACT. The *justice* and soundness of the *taxation of land rent* is acknowledged but problems in assessing imply a need to introduce better methods. This is particularly true when attempting to introduce the more saleable idea of *two-rate tax* systems because the allocation of total value of *real estate* parcels between land and buildings is even more arbitrarily done than determining the total *assessment*. The ideas fit best at the local level and there is little chance of replacing income or *sales taxes*. A 100% tax would be impossible since it would lead to an avalanche of tax appeals and the abandonment of some land since a high percentage of assessments are in error. The idea of a *single tax* does not fit modern times when revenue needs determine taxes, rather than the amount of revenue collected determining proper or necessary government expenditure levels. One tax source may be unpopular and regarded as a dangerous concept. Land is probably less important and less relatively valuable than it used to be because of *technological change*. Some advances in *social legislation* may mitigate the need for the drastic reform, *George* who was a moralist deeply concerned about *poverty*, felt reform was needed in his day. He was right about the impacts of various taxes on economic activity and *income distribution*.

DO YOU REMEMBER the tabletops they used to have in Wendy's hamburger restaurants? You know, the ones in beautiful 19th century prose, straight from the pages of the old Sears catalogue, that made all those marvelous claims: World's Best Sheep Shearing Machine—cannot be clogged, cannot cut your sheep, guaranteed to add \$60 to your profits; Dr. Hammond's Nerve and Brain Tablets—a great remedy for weak men; will build up the former strength and endurance

* [Michael S. Johnson, PhD., is professor of economics at Spring Hill College, 4000 Dauphin Street, Mobile, AL 36608-1791.] This address was prepared for the 1994 Council of Georgist Organizations Meeting in Fairhope, Alabama. The Autumn 1994 *Georgist Journal* commented, "[Professor Johnson's] remarks were surprising for a Georgist meeting. He cited Henry George as a visionary, offering a panacea; land is not so important any more—technology has rendered it less important; land rent would not be enough for government expenses, and we must move on from Henry George to modern economics."

"And so Georgist conferees moved on . . . but not necessarily in the direction advised by Prof. Johnson."

Professor Johnson agreed to have his remarks reproduced here as they were delivered in order to stimulate thought and kindly provided a brief addendum to further clarify his position on the scope and broad usefulness of Henry George's writings.

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without having a disturbing effect on the nervous system—strengthen the heart action, and tone up the stomach, liver, and kidneys; Dr. McBain's Blood Pills—enrich the blood and give excellent results with pale complexion, pain in the back, facial eruptions, nervous headaches, and sores; the magic corset—we guarantee that it will take ten inches off your waistline, will add ten inches to your bust line, and will keep your marriage happy.

Follow my plan and it will raise wages, increase the earnings of capital, extirpate pauperism, abolish poverty, give remunerative employment to whoever wishes it, afford free scope to human powers, lessen crime, elevate morals, and taste, and intelligence, purify government and carry civilization to yet nobler heights. (George, *Progress and Poverty* 405-06).

This last is a quotation from *Progress and Poverty* and is absolutely beautiful prose. I could read this over and over. I enjoy the exquisiteness of the writing, the energy, and the emotion underlying Henry George's zeal for his beloved solution to the ills of society. But like the old Sears catalog, he oversold his case—there are *no* panaceas. Now, would the world be a better place if we adopted more of George's ideas? I firmly believe it would.

I have become increasingly convinced of the fundamental justice and soundness of George's attitudes toward the taxation of land rents. As a graduate student majoring in urban economics and public finance, I was introduced to George's ideas, which are still generally favorably received in these subdisciplines of economics. And since 1986, I have had the privilege of teaching an economics course for the Fairhope Single Tax Corporation; this has allowed me to read further and to contemplate the benefits of George's scheme. However, it is probably fair to say that I am not a "Georgist" any more than I am a disciple of any economist. I fully agree with George that:

We must abandon prejudice, and make our reckoning with free minds. The sailor, who, no matter how the wind might change, should persist in keeping his vessel under the same sail and on the same tack, would never reach his haven. (Social Problems 19).

So, please, be patient with me, while I outline some of the wind changes I believe Georgists need to consider. Imagine that the year is 2004, and national elections have just concluded. Georgist candidates have been swept into office—there is a new Georgist President, and Georgists have captured a majority in Congress, in state houses, and in local city councils. This is your big chance. You've won! How long will it be before you can claim you are able to . . .

raise wages, increase the earnings of capital, extirpate pauperism, abolish poverty, give remunerative employment to whoever wishes it, afford free scope to human powers, lessen crime, elevate morals, and taste, and intelligence, purify government and carry civilization to yet nobler heights?

I honestly do not believe you can do all these things. But you can move us in that direction. Perhaps a good starting point will be to ban Roseanne Arnold from television—. That would undoubtedly help us elevate morals and taste

and intelligence. Whoops—pardon my slip—that would be a very anti-free-market thing to do!

What follows is the advice of a friend, not a true believer. These are my readings of wind shifts and my suggestions for you to consider as you prepare for your electoral landslide.

First, concentrate on the underlying theme of Henry George's work, and that theme is *not* that we all have the right to become filthy rich, as long as we do it through the fruits of our labor and our accumulation of capital. While he clearly has no quarrel with you or me getting rich by such means, George's writing is much more concerned with the theme of *poverty*. At heart, George presents an argument of *morality*, not economics. He is seeking justice. This is clear in *Progress and Poverty*, but it is especially clear in *Social Problems*, where he states:

The intelligence required for the solving of social problems is not a thing of the mere intellect. It must be animated with the religious sentiment and warm with sympathy for human suffering. It must stretch out beyond self-interest, whether it be the self-interest of the few or of the many. It must seek justice. For at the bottom of every social problem we will find a social wrong, (9).

George rails against the hypocrites who are satisfied living in a world surrounded by poverty, or even worse, who are content to view poverty as a natural outcome. He states:

If an architect were to build a theater so that not more than one-tenth of the audience could see and hear, we would call him a bungler and a botch. If a man were to give a feast and provide so little food that nine-tenths of the guests must go away hungry, we would call him a fool, or worse. Yet so accustomed are we to poverty, that even the preachers of what passes for Christianity tell us the great Architect of the Universe, to whose infinite skill all nature testifies, has made such a botch job of this world that the vast majority of the human creatures he has called into it are condemned by the conditions he has imposed to want, suffering, and brutalizing toil . . . (72).

And he continues:

This, and this alone, is what I contend for—that our social institutions be conformed to justice . . . that he who makes should have; and he who saves should enjoy. (86).

There is no question that his was a moral argument. He viewed the ability of a few lucky persons to reap the rewards of land rent to be thievery, nothing less. Because George couched *Progress and Poverty* in the words of political economy, because it reads so much like Smith, or Ricardo, or Mill, we view him as an economist. He used economics, to be sure, but he was writing as a seeker of justice, not merely an observer or predictor of the human scene. My advice is to never forget that fact when reading George. Thus, I believe that Robert Andelson and James Dawsey head in the right direction when they adopt Henry George's theme of justice in their *From Wasteland to Promised Land: Liberation*

Theology for a Post-Marxist World. I urge you to buy the book if you have not already. This is what Henry George is all about.

If the issue of justice and the alleviation of poverty does not permeate discussions of Georgists, I wonder from where the name of the organization comes. For example, consider the motives of those of us who argue in favor of land rent taxation. George makes the case that such taxation is desirable because such taxes are just. It is the right thing to do. It is not primarily because other taxes are bad—although George builds a solid case for that as well. George advocates land taxation because the return to the land belongs to the community, not to the landlord. To allow the landlord to keep the rent is to sanction theft.

Because this theme is often lacking in the debate on popular Georgist topics, I give you my second bit of advice: Why measure or debate whether a tax on land rents would be sufficient to fund all government activity? As much as Henry George really believed in a “Single Tax,” in the United States at least, we have decided to let the expenditure side of the budget drive the need for revenues, not the other way around. In other words, we do not—and we will not—let the revenues obtainable from a single tax source, be it land rents or any other source, decide the level of spending. Like it or not, government activity today is far different from the end of the 19th century. The winds have shifted. I urge you to see how to integrate land rent taxation into a broader system of taxation, and to become less adamant about a Single Tax. Yes, other taxes are onerous, and yes, they are exploitative. But they fund services that many people want to see government provide. In *Progress and Poverty*, George essentially proposes a tax without any spending by government. The tax serves as an equity device, not as a source of revenues for public purposes. This is not particularly a problem if a redistribution scheme exists (e.g., equal dollars per person). However, it is natural to seek to fund public services with the proceeds of taxes—and there is absolutely no reason to expect or presuppose that *land* tax proceeds will match, exceed, or fall under the level of spending. Perhaps because I am not a true believer, I find the idea of land rent taxation much more palatable than the idea of a Single Tax.

This leads to my third point. Your chance of having a major impact on public policy is better in city councils, county commissions, school boards, and statehouses than in the nation's Capitol. We have a federal system, with major yet different roles for federal, state, and local governments. In the 19th century, customs and excise duties were the principal source of revenue for the federal government, and property taxation was virtually the only revenue source for states and localities. All levels of governments have moved toward tax bases never considered in the 19th century, the federal government moving to broad-based income and wage taxes, the states to broad-based indirect sales taxes and income taxes.

The only tax currently widely used that resembles a land rent tax is the local property tax. The similarity of land-rent taxation to property taxation is why the successes to date in applying George's ideas have come at the local level (and the state level, in terms of enabling legislation to change the nature of local property taxes). There is no doubt in my mind that the two-rate tax concept is the most "saleable" of the current Georgist ideas, at least within the United States. My advice is to push even harder on this idea, but to view replacement of the income tax—and perhaps even the state sales tax—as a dream at best. The winds have shifted, and the scale of government makes single-source taxation both an unpopular and a dangerous concept. To my mind, the Single Tax emphasis is a side issue to George's main point of justice in the distribution of unearned income.

But—and this is my next main point—current property tax practices would make widespread adoption of a land-heavy tax a travesty. My advice is to spend more time and energy trying to clean up the property tax before advocating a wholesale shift to a land-only base. Alabama is perhaps the worst offender, but many states have systems of "current use" preferences for agricultural lands, classified tax codes with different rates based on land use, and severe assessment problems.

The granting of lower land tax bills to agricultural users flies in the face of every point George was trying to make about land speculation, land use, and justice. Such tax treatment slows the conversion of land to better uses, and generates unearned capital gains to individuals. If the goal is to preserve desirable green space in the urban periphery, there are better tools—for example, tax deferral and recapture schemes, or subsidies to green space producers.

Tax classification systems and exemption schemes represent a similar error. Certain land users become unworthy because they use properties for commercial or public utility purposes, while residential users receive a tax break. For example, in Alabama, residential homeowners have their land and improvements assessed at 10% of market value, while commercial users face assessment rates of 20% and public utility properties face assessment ratios of 30%. More than sixteen other states do similarly [ACIR]. Favorable tax concessions are common ploys to attract businesses, as states and localities play a negative-sum game in the name of economic development. Similarly, we may like the homestead exemptions as homeowners, but as advocates of land rent taxation, can we justify supporting such systems? Once again, alternate systems exist, such as circuit breakers. It would be good to see more analysis of property tax systems by Georgists.

Next, consider the severe problems in tax assessment practices. How can you expect to garner support—in the name of justice and fairness no less—for a tax administered in an extremely arbitrary way? What would happen if you ap-

proached 100% land rent taxation given current assessments? My guess is the system would collapse entirely under the weight of appeals caused by the poor quality of tax assessing. Even worse, land would be abandoned—used for absolutely nothing—in those 30% or so cases where the rents would exceed true economic rents because the assessments are so close to being random. The economic damage could be lessened by less-than-100% tax collection of land rents, but the fairness issue would remain.

In his book *Who Pays the Property Tax?* Henry Aaron quotes an anonymous ditty about tax assessment. (56) It goes:

To find a value good and true,
 Here are three things for you to do;
 Consider your replacement cost,
 Determine the value that is lost,
 Analyze your sales to see
 What market value should be.
 Now if these suggestions are not clear,
 Copy the figures you used last year.

His observations about assessment made in 1975 have seen very little correction since then. I would think there is an important role for Georgist organizations to work toward improvement in assessment practices. I see the Lincoln Land Institute working on this, but much more needs to be done. You cannot have faith in the equity of a tax system if people [correctly] see the results as arbitrary. As unfair a penalty on effort as the income tax may be, or as poor of a benefit tax as the sales tax may be, most people view them as less arbitrary than the property tax. Further, the potential problems with a land-only tax are much worse than the current system of taxing based on a combined land-improvements assessment. This is because assessment practices are more concerned with achieving accuracy in the measuring of value for the total land-improvement bundle than for each individual item. Our pure land assessment techniques are weak and very inaccurate. In the otherwise excellent film on tax reform in Pennsylvania, *A Tale of Five Cities*, a local assessor (I believe from Philadelphia), exclaims how easy it would be to switch to a two-rate tax, since he already has separate numbers for both land value and improvement value. What he does not say is that he has wrong numbers for each! Georgist organizations should be at the forefront of offering state-of-the-art help on using Geographical Information Systems and mass appraisal techniques to improve land assessment.

Finally, let me proceed to a different point that has bearing on land rent taxation. My reading of recent trends in the functional distribution of income is that there has been a fall in relative importance of land as a determinant of value and as a maker of fortunes. Mind-power and technological change in capital now drive the world more than location does. Because of changes in

technology, especially in the realms of communication and transportation, we are in an era of globally “footloose” industries and massive economies of scale. A recent column in *The Wall Street Journal* discusses the current problems of California in comparison to nearby states. It is worth quoting at length:

New efficient factories producing high-technology products are a key to inland industrial growth. Computer and electronic equipment are valuable products, easily shipped from remote locations. Micron Technologies Inc. of Boise, Idaho, notes that an entire month of production of its tiny electronic chips can be contained in three truckloads and shipped anywhere cheaply.

For bulkier goods, trucking costs have fallen with deregulation. And air transport allows runways far from the sea to compete with Pacific Coast ports for overseas business. (“The Outlook: A New Growth Source in the Western U.S.” *WSJ*, Mon., Oct. 3, 1994: A1, c5).

Also consider the coming of cellular telephones which break the linkage of communication to a land-based grid. This is affecting the relationship of production to land throughout the world. In the terminology of urban economics, the “rent gradients” are flattening out significantly, lowering rents compared with other factor payments. The implication for followers of Henry George is that technology is helping to break the “land monopoly.” You may recall Henry George’s famous line about his settler, who happens to stop somewhere and around whom a city grows:

Our settler, or whoever has succeeded to his right to the land, is now a millionaire. Like another Rip Van Winkle, he may have lain down and slept; still he is rich—not from anything he has done, but from the increase of population. Read (*Progress and Poverty*, 41).

In many American cities, a land investor now finds that “Like another Rip Van Winkle, he may have lain down and slept; still he” has lost a fortune “not from anything he has done, but from the increase of” technology! If my speculation is correct, then there is a reduced likelihood of land rents funding all government activity. However, the justice of George’s ideas is totally unaffected—as long as our omniscient land tax assessor changes the assessments to reflect the changes in the winds of the market!

Yes, as Henry George suggests,

We must abandon prejudice, and make our reckoning with free minds. The sailor, who, no matter how the wind might change, should persist in keeping his vessel under the same sail and on the same tack, would never reach his haven. (*Social Problems*, 19).

Since 1879, the winds have changed at several times. Perhaps you think we are steering in the wrong direction, but we nonetheless cannot ignore the shifts in wind. Since 1879, for example, we have seen the bankruptcy of many of George’s hated railroads: victims of technological change, shifts in political power, and perhaps their own greed. We have introduced extensive antitrust laws, we have seen landmark changes in civil rights and voting rights, we have established massive systems of social security and income support, and we have established broad-based taxes on income, sales, and in other countries, value-

added, which George never dreamed of considering because the tax bases had not even been proposed. We have passed landmark labor legislation in the Wagner Act, we have a National Labor Relations Board, and we have moved in the direction of social regulation of workplace and environmental hazards. Our economic, political, and social analyses cannot overlook these changes, even if we disagree with them. Since Henry George did not address all these issues, we must do as he recommends, and learn to think for ourselves.

Addendum for Publication

THE STRONG REACTION to my address by many of those present has been interesting, to say the least. Speaking to an audience of Georgists is always a challenge, for almost by definition, a Georgist is a free thinker. When making the address, I took as given George's place as an important, albeit often overlooked, economist. It is for this reason that I concentrated on George's emphasis on justice and fairness, a topic often avoided by economists.

I certainly did not mean to imply that we should move past George to "modern economics." George has much to contribute to our understanding of the economy today. The modern concept of "land" can easily be broadened to include other sources of value that arise from community activity. For example, rights to broadcast television signals or to use a frequency band for cellular telephones have characteristics very similar to George's "land," and it seems reasonable that were George with us today, he would argue strongly that the rents from these property rights should belong to the community. In fact, all economists interested in rent-seeking behavior have much to learn from a reading of George. There still remains the issue of how society chooses to use the proceeds of its *just* taxation of socially-derived rents.

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