

Review by FRED FOLDVARY

Re-Solving the Economic Puzzle could just as well be called "solving" the puzzle because today's economic problems are not being resolved. What is called the "fiscal cliff," the huge budget cuts and tax increases to deal with the U.S. budget deficit, threatens to plunge the economy into recession again, and does not provide a lasting solution. The deficits of Europe too are being treated rather than cured—continuing deficits generate risk premiums that inflict an unbearable debt service. Tax increases hurt employment and enterprise, while budget cuts hurt the lower-income folks who depend on government pensions, education, and medical care.

While the media, politicians, and even economists claim that we must choose among these painful trade-off alternatives, Walter Rybeck shows that there is indeed a way to solve the puzzle. The solution is a tax shift that replace taxes that hamper the economy with public revenues that do not hurt and may even benefit the economy. The tax we need is a levy on land values.

Walter Rybeck's book is not a dry economics tome, but a personal story, an autobiography of the author's life and his discovery of the optimal economic solution. Rybeck relates his involvement with organizations and policymakers in seeking to implement land value taxation and other reforms. It is a rare book that integrates a life story with economic theory, history, and policy applications. The book is divided into topical sections of short chapters, like a satisfying multi-course meal.

Re-Solving is a book for all categories of readers. Those who know no economics (or "know" concepts that are mistaken) will get a good introduction, while economic savants will benefit from a perspective that they usually would not learn in graduate school. I cannot imagine that any reader would be disappointed. This book is truly one of the best introductions to real-world economics that I have come across.

The three outcomes people want from the economy are efficiency, equity, and sustainability. Rybeck confronts all three. Taxes that generate the waste that economists call the "deadweight loss" also create instability and social injustice. Rybeck emphasizes that it is unjust for the law to let some people obtain values created by others.

His book is an ethical as well as economic inquiry. Rybeck provides an analogy with slavery: the main argument against slavery was moral, beyond any economic analysis. For land issues, the Georgist message is one of harmony, as the policy that provides the greatest justice is also the policy that promotes maximum prosperity.

Usually, people think of redistribution as transferring wealth from the rich to the poor, but Rybeck shows that the tax system also, and more so, operates in the opposite way, transferring wealth from the poor to the rich. That is because the landowners tend to be the rich, and government's public goods get capitalized into greater rent and higher land value, kept by the rich, because the taxes are mostly on labor.

Rybeck recognizes that this "legalized theft" also generates the boom and bust cycles, including the Great Recession of 2008. The distress following the recession shows the need for economic reforms, but the leaders of both establishment political parties have either drawn the wrong lessons or else continue to cater to the special interests that finance their campaigns. Rybeck mentions the boom-bust cycle in several places; it would have made the book better if he had a chapter that explains the cycle, with both the real estate and the financial aspects.

Land is central to the economy and to history, yet modern economists ignore it. While growing inequality is much discussed, there is little mention of the concentration of land ownership. As noted by Rybeck, 3 percent of Americans own 95 percent of the privately held territory. The concentration of land value in a few hands is a global phenomenon. This inequality is unjust by Rybeck's land ethic as derived from the American economist and social reformer, Henry George. That ethic prescribes that land values "belong to the community as a whole" (p. 5).

Rybeck then explains the "Remedy that Works." Rybeck is familiar with the actual applications of tax reforms, including the two-rate property taxes in Pennsylvania, where cities may choose to raise their property tax on land value and lower it on building value. This policy has had beneficial results.

Rybeck, however, may not be quite clear on the meaning of a "free market." He criticizes the anti-tax advocates who think that "the free market will make everything turn out fine," claiming that the "almost

totally unregulated economy of the 1800s" did not prevent bank panics and depressions (p. 11). But a pure free market is not only free of imposed tax costs but also of subsidies. A government subsidy is just as much an intervention as an imposed tax cost. There were in the 1800s massive subsidies to land value in grants such as to the railroads, and also in selling land at low prices. The biggest subsidy to land value is public works paid for by taxing wages and goods. Aside from the subsidy to land value, the federal government supported slavery and the forcible expulsion and killing of the native Indians; there was no freedom for those victims.

Rybeck also blames the "pro-business administrations of the 1920s" and the "deregulation" of the latter decades of the 20th century for the cyclical instabilities that followed, again not accounting for the subsidies of those eras. However, Rybeck also recognizes that "America's market system has never been fully free" (p. 11). Rybeck also cites anti-tax guru Milton Friedman as stating that "the least bad tax" is "the property tax on the unimproved value of land" (p. 11), just as prescribed by Henry George. But most anti-tax as well as pro-tax advocates ignored the tax shift that would serve their goals.

"Land" means everything provided by nature. Rybeck states that because nobody produced the land, it should be common property. It would be helpful if Rybeck went more deeply into the social ethics of land, the foundation being the moral equality of all human beings. Also, for Georgism, what is properly common is not land as such, but only the rent of land. As recognized by Rybeck, Georgist policy would leave the possession of land and titles empowering control with individuals. Rybeck discusses land values as derived from location, the present-day usefulness of a site, and also from speculation about future rents, speculation that can carry the price of land beyond that warranted for present-day use.

The autobiographical aspects make the book interesting as history told in the first person. Rybeck relates his introduction to the economics of Henry George in his early career as a journalist. Religious teaching had helped to imbue Rybeck with a sense of social justice. A request came to him in 1951 for an announcement of an economics class sponsored by the Henry George School. He decided to attend the class, and then continued studying Georgist economics in contact

with several Georgist activists and teachers. Rybeck became convinced that the Georgist remedy would "resolve problems that otherwise seemed insoluble" (p. 30).

Rybeck's life became a "journey of economic discovery" (p. 31). As Rybeck learns more about the issues of land and taxation, the reader too learns alongside of him. His home town is Wheeling, West Virginia, where he became interested in conservation and wildlife, especially birds. His grandfather, Raymond Rybeck, had emigrated from the pogrom-ridden Polish-Russian border region. In those days, what enabled immigrants to succeed was not just hard work but also affordable land.

"War or Peace?" asks Rybeck in Chapter 9. He believes that the drive for survival can prevail over the predilection for conflict. Having served in the army during World War II, Rybeck notes Germany's transition to a peaceful member of the European community, and finds the struggle for natural resources as a source of conflict that could be resolved by greater equity in the ownership of land.

That thought segues to Chapter 10, "A Glimpse of Utopia." This glimpse was Antioch College in Yellow Springs, Ohio. The engineer-educator Arthur Morgan designed a series of dams in the area, financed by a land value tax, which protected the region from floods. One of the professors there was George Geiger, author of *The Philosophy of Henry George*.

In Chapter 11, "Dreams of a Castle," Rybeck describes his first newspaper job and a castle built by a coal baron. Chapter 12, "A Far Cry from Home," relates his year as a foreign correspondent in Latin America, where land issues are more explicit. The chapter title was also that of his columns. Reflecting on his trip to the Galapagos Islands, Rybeck decries Social Darwinism, the survival of the fittest, mis-applied to human beings, a distortion of Darwin's theory, since Darwin's explanations also encompassed cooperation and symbiotic relationships.

These experiences helped Walter Rybeck to better comprehend land tenure and taxation. As he says, once one understands land issues, one is able to grasp the cause of many of the economic woes suffered world-wide. Rybeck invokes the Georgist saying, "seeing the cat," from a drawing that has a jumble of lines within which there is a cat, but once it is seen, it is impossible to not see it.

Rybeck then tells us how he got a job at the *Columbus Citizen* newspaper. Seeing the cat, Rybeck keenly observed the real estate situation in Columbia, Ohio, with its slums, landlords, and speculators. Rybeck then went to work as an editorial writer at the *Dayton Daily News*. In Dayton, Rybeck learned more about real-world real estate economics and politics.

Rybeck then became the Washington Bureau Chief for Cox Newspapers. He observed debates in Congress, spoke with White House staff, and participated in presidential press conferences. He learned that land issues were "not even on the back burner" (p. 86). He noted that President Ronald Reagan, allegedly a foe of federal power, abolished the Advisory Commission on Intergovernmental Relations, which had been a source of information on local governance, including private communities. Rybeck relates how Martin Luther King, Jr., had cited Henry George's main work *Progress and Poverty* on the immorality of poverty amidst great wealth. Rybeck calls policies that only treat the symptoms and effects of poverty "the treadmill effect."

Chapter 17 is on "The Douglass Commission." Rybeck became the assistant to Senator and economist Paul Douglas after President Johnson appointed him to head the National Commission on Urban Problems. Rybeck learned about the "land banking" that developers profit from. He writes of the failures of urban renewal. The Commission studied the escalation of land values after World War II, while city officials were complaining of declining tax bases. Property taxes were too high on buildings but low on land value. The final Commission report, *Building the American City*, included a section by Douglas on taxing land.

In Chapter 18, "A Capital Idea," Rybeck tells how he testified on property taxes at hearings on Washington, DC's tax system on achieving home rule. Opposition from parking lot owners and other real estate interests blocked the adoption of LVT there.

Chapter 19 tells how Rybeck became employed at the Urban Institute. Since the benefits of civic improvements raise land rent and land value, higher property values are a good proxy for such benefits, and a tax on land value is thus what Rybeck calls a "super-user charge." Rybeck later became an assistant on urban issues for Representative Henry Reuss, who sought information on urban sprawl. His

staffers conducted research showing that the Washington, DC metro system had increased land values in the area by at least as much as the cost of the Metro. Rybeck led a team to create a national Land Price Index, LPI. The Census of Governments had already provided data on real estate assessment to sales price ratios.

When President Reagan took office, his administration shut down the work on the LPI being done by the Bureau of Labor Statistics, ended the Census of Governments housing reports, and closed the Advisory Commission on Intergovernmental Relations, despite the declarations of conservatives that they sought to shift power from the federal to state and local governments.

Walter Rybeck founded the Center for Public Dialogue to help state and local governments in their fiscal policies. The Center focused on land policies due to a lack of such focus by others. It produced the documentary, *A Tale of Five Cities: Tax Revolt Pennsylvania*, on how five and then later over a dozen cities in that state enacted two-rate property taxes, higher taxes on land, lower taxes on buildings, with beneficial effects.

The book then turns to America's economic history. In Rybeck's view, the big attraction of the United States for immigrants was good but cheap land. America's work ethic developed from the relative high wages of American labor. The ability to prosper from one's own efforts generated the optimistic and confident American individualist character. It also fostered liberty, not just the freedom to engage in enterprise, but freedom from excessive debt, and a share of the natural resources. But with the land tenure system based on legal rights from purchase, the benefits of America's land became increasingly concentrated, and with American labor now highly taxed and households in deep debt, that American spirit has eroded.

Chapter 24 is on land grabbing and land abuse, whereby much of U.S. land was given to speculators and interests such as the railroads. In the 1800s much of public revenue was from real estate, especially land value, whereas in Latin America, large estates went untaxed. U.S. democracy thrived on land taxes, an open frontier, and relatively free markets—elements now greatly diminished.

In his discussion of Henry George, Rybeck explains how the landed interests fought back when followers of George were promoting a

land value tax. As Mason Gaffney has written, the opponents of Georgism changed economic theory to take land out. Two-factor neoclassical theory replaced the three-factor classical theory. Rybeck shows places in the United States that obtained public revenue from land rent, including among others the Central Valley in California under the Wright Act of 1887, the communities of Fairhope and Arden, and the two-rate cities of Pennsylvania. Rybeck also explains the success of public revenue from rent around the world, including Hong Kong, New Zealand, Denmark, South Africa, and Taiwan. It would have been good to mention the thousands of condominiums and homeowners' associations that in effect collect the rent generated by their services to pay the cost.

Rybeck also contrasts the treatment of material resources in Alaska versus Appalachia. Alaska taps revenue from its oil production, providing a dividend to the residents, while in Appalachia, little of the natural resource value is taxed.

Closing out the book, Rybeck lists 10 ways to implement land value taxation as "vital paths" to prosperity. These are various ways to shift taxation to land value, and an explanation of the social problems that would be diminished. The last chapter is on "Recover, Jobs, and Social Harmony." Land value taxation can bridge over our political differences, strengthening the market economy while providing greater equity and both economic and environmental sustainability.

The appendixes include the Douglas Commission testimony, a sermon by Viggo Starcke, leader of Denmark's Justice Party, and a property tax primer.

Now when someone asks me for a good introductory book on economics, I will be sure to suggest *Re-Solving the Economic Puzzle* by Walter Rybeck. He does not merely tell us about the economic history of land issues, he lived in this history and helped shape it. He knew the players, and their successes and setbacks. This is indeed a book that should be read by every economist, every student, and every person who has been puzzled and troubled by our economic woes. It would be wonderful if a policymaker happens to read this book and actually implements its solution, but otherwise, the people should know that there are economic solutions, and that it is politics, not economics, that blocks universal prosperity.