

The reconciler and problem-solver

Let us itemize the several constructive reconciliations in George's reform proposal. This will explain its wide potential appeal and hence its ongoing threat to embedded rent-takers with a stake in unearned wealth. It will explain why they deployed neo-classical economists to work so hard to put this genie back in the bottle.

(1) George reconciled common land rights with private tenure, free markets and modern capitalism. He would compensate those dispossessed and made landless by the spread and strengthening of what is now called "European" land tenure, whose benefits he took as given and obvious. He would also compensate those driven out of business by the triumph of economies of scale, whose power he acknowledged and even overestimated. He proposed doing so through the tax system, by focusing taxes on the economic rent of land. This would compensate the dispossessed in three ways.

- Those who got the upper hand by securing land tenures would support public services, so wages and commerce and capital formation could go untaxed.

- To pay the taxes, landowners would have to use the land by hiring workers (or selling to owner-operators and owner-residents). This would raise demand for labor; labor, through consumption, would raise demand for final products.

- To pay the workers, landowners would have to produce and sell goods, thereby raising supply and precluding inflation. Needed capital would come to their aid by virtue of its being untaxed.

Thus, George would cut the Gordian knot of modern dilemma-bound economics by raising demand, raising supply, raising incentives, improving

equity, freeing up the market, supporting government, fostering capital formation, and paying public debts, all in one simple stroke. It is quite a stroke, enough to leave one breathless.

In practice, landowners faced with high land taxes often choose another, even better, course than hiring more workers: they sell the land to the workers, creating an economy and society of small entrepreneurs. This writer has documented a strong relationship between high property tax rates, deconcentration of farmland and intensity of land use (Gaffney, 1992).

(2) George's proposal enables us to lower taxes on labor without raising taxes on capital. Indeed, it lets us lower taxes on both labor and capital at once, and without reducing public revenues.

(3) Georgist tax policy reconciles equity and efficiency. Taxing land is progressive because the ownership of land is so highly concentrated among the most wealthy,¹⁸ and because the tax may not be shifted. It is efficient because it is neutral among rival land-use options: the tax is fixed, regardless of land use. This is one favourable point on which many modern economists actually agree, although they keep struggling against it, as we will see.

George showed that a tax can be progressive and pro-incentive at the same time. Think of it! An army of neo-classicalists preach dourly that we must sacrifice equity and social justice on the altar of "efficiency". They need that thought to stifle the demand for social justice that runs like a thread through The Bible, The Koran and other great religious works. George cut that Gordian knot, and so he had to be put down.

The only shifting of a land tax is negative. By negative shifting I mean that the supply-side effects of taxing the rent of land will raise supplies of goods and services, and raise the demand for labor, thus raising the bargaining power of median people in the marketplace, both as consumers and workers. This effect makes the tax doubly progressive: it undercuts the holdout power and bargaining power of landowners *vis-a-vis* workers, and also *vis-a-vis* new investors in real capital. This effect also makes the land-rent tax doubly efficient.¹⁹

(4) A state, provincial or local government can finance generous public services without driving away business or population. The formula is simple: tax the rent of land, which cannot migrate, instead of the incomes

of capital and people, which can. By eliminating the destructive "Wedge Effect", the land tax lets us support schools and parks and libraries and water purification and police and fire protection, etc., as generously as you please, without suppressing or distorting useful work, and without taxing investors in real capital.

(5) Georgist tax policy contains urban sprawl, and its heavy associated costs, without overriding market decisions or consumer preferences, simply by making the market work better. Land values are the product of demand for location; they are marked by continuity in space. That shows quite simply that people demand compact settlement and centrality. A well-oiled land market will give it to them.

(6) Georgist tax policy creates jobs without inflation, and without deficits. "Fiscal stimulus," in the shallow modern usage, is a euphemism for running deficits, often with funny money. George's proposed land tax might be called, rather, "true fiscal stimulus". It stimulates demand for labor by promoting employment; it precludes inflation as the labor produces goods to match the new demand. It precludes deficits because it raises revenue. That is its peculiar reconciliatory genius: it stimulates private work and investment in the very process of raising revenue. It is the only tax of any serious revenue potential that does not bear down on and suppress production and exchange. As I have noted, George's fiscal policy takes two problems and composes them into one solution.

(7) George's land tax lets a polity attract people and capital *en masse*, without diluting its resource base. This is by virtue of synergy, the ultimate rationale for Chamber-of-Commerce boosterism. Urban economists like William Alonso have illustrated the power of such synergy by showing that bigger cities have more land value *per head* than smaller ones. (Land value *is* the resource base of a city.) Urbanists like Jane Jacobs and Holly Whyte have written on the intimate details of how this works on the streets. Julian Simon (*The Ultimate Resource*) philosophizes on the power of creative thought generated when people associate freely and closely in large numbers. Henry George made the same points in 1879.²⁰

(8) Georgist policies encourage the conservation of ecology and environment while also making jobs, by abating sprawl. It is a matter of focusing human activity on the good lands, thus meeting demands there and relieving the pressure to invade lands that are now wild and marginal for

human needs. Sprawl in the urban environment is the kind most publicized, but there is analogous sprawl in agriculture, forestry, mining, recreation and other land uses and industries.

(9) Georgist policies strengthen public revenues while in the same process promoting economy in government.

Anti-governmentalists often identify any tax policy with public extravagance. Georgist tax policy, on the contrary, saves public funds in many ways. By facilitating the creation of jobs it lowers welfare costs, unemployment compensation, doles, aid to families with dependent children and all that. It lowers jail and police costs, and all the enormous private expenditures, precautions, and deprivations now taken to guard against theft and other crime. Idle hands are not just wasted, they steal and destroy.

Ultimately, Georgist policy saves the cost of civil disturbances and insurrections, and/or the cost of putting them down. In 1992 large parts of Los Angeles were torched, for the second time in a generation, pretty much as foreboded by Henry George in *Progress and Poverty*, Book X.²¹ Forestalling such colossal waste and barbarism is much more than merely a "free lunch".

George's program would abort other, less obvious wastes in government. It obviates much of the huge public cost now incurred to reach, develop and safeguard lands that should be left in their natural submarginal condition. Today, people occupy flood plains and they require levees, flood control dams and periodic expenditure on rescue and recovery. Others scatter their homes through highly flammable steep brushlands, which call for expensive fire-fighting equipment and personnel, and raising everyone's fire insurance premiums. Others build on fault lines; still others in the deserts, calling for expensive water imports. Generically, people now scatter their homes and industries over hundreds of square miles in the "exurbs", or urban sprawl areas, imposing huge public costs for linking the scattered pieces with the centre, and with each other.

This wasteful, extravagant territorial overexpansion results from two pressures working together. One force is that of land speculators. They manipulate politics by seeking public funds to upgrade their low-grade lands so that they may peddle them at higher prices. The other force is that of landless people, who seek land for homes and jobs, and public funds for "make-work" projects.

Both these forces wither away when we tax the rent of land and downtax the incomes of labour and capital. This moves good land into full use, meeting the demand for land by using land that is good by Nature, without high development costs. It also creates legitimate jobs, which abates the pressure for "make-work" spending. Above all, it takes the private gain out of raising the value of marginal land at public cost. Such lands, if upvalued by public spending, would then pay for their own development through higher public revenues.

These nine compelling features of George's program should be enough to persuade one that it had the potential to become very popular. Its premise was socializing land rents. Its very strengths were its undoing, however, for they evoke a powerful, intransigent, wealthy counterforce.