

A Neo-Geoist Manifesto

by David Smiley

If land includes all the bounty of the earth, for which the single tax is not only inappropriate but sometimes destructive, then we have a problem. The purpose of this article is to argue for a less rhetorical and more scientific approach to the Georgist paradigm, and to highlight some Georgist successes in this direction.

BACKGROUND

Some 25 years ago I felt that Georgists were targeting the rather narrow Western world in which relative poverty accompanied some material progress. But beyond this lay a much wider world of absolute poverty with, for the majority, absolutely no progress, a world where 90 percent of land and natural resources was owned by perhaps as little as one percent of their populations, and a world in which Western intervention was failing (see Appendix 1, Institutional failures)

Accordingly, I began writing about third world land reform. This led naturally to a global view of world problems and to a deeper analysis of the failure of global reforms, adding to the problems of poverty and inequality those of the environment, sustainability, human rights and conflict resolution. I re-entered academia, enrolling in economics. Here, I found little argument about terminology, economic science, though incomplete as we know, had become broader, its energy being efficiently directed to emerging social problems.

I learned from this that professional acceptance of Georgism will depend on scientific argument couched in the language of the institutions we seek to influence. Accordingly, I wrote and demonstrated to the economics department a simple computer model containing functions I called Smith, Malthus, Ricardo and George, and received encouragement to publish related papers. But I also found some problems with the Single Tax, and a possible conflict with democracy. Will Georgism adapt, as any science does, to new evidence and ideas or, in the political sense, perish? (see Appendix 2, Georgist failures). However, I believe Georgists have already begun to adapt and to follow relevant developments in economic science (see Appendix 3, Georgist successes.)

THE CASE FOR SCIENCE

All science depends on defined terms for which we collect arithmetic data and then generalise into logical models. First, let us start with definitions. The tutor in the first Georgist class I attended asked our opinion on some contemporary hot issue, then sat back and listened to our furious arguments. He then asked us what we meant by, in that particular case, capital. More argument. He then suggested we all go home unless we define our terms. We decided to stay and he suggested definitions commonly used in the social sciences. Today, some Georgists still argue like medieval philosophers about terms that have now been expanded, changed or even dropped by the social sciences. Economics, being a science, has moved on. Next, let us look at the arithmetic and the logic. We can find early examples in the Physiocrats' astonishing *Tableau Economique*, a kind of 18th century spreadsheet, and the models of Smith, Malthus and Ricardo. The arithmetic is not hard to follow and the logic simply generalises it. We line up rectangles with numbers in them and there we have Ricardo's law of extensive rent. Since rent varies with population we can call them R and P and, in the simplest model, $R = AP$ where A is some constant found empirically.

There is room for robust philosophical debate in any movement. I make no value judgements here, since science itself does not. My concern is that, without the kind of evolution that is occurring in economics, Georgism may never see the light of day. I worry that, without Georgist redevelopment, we remain a closed, old-fashioned club presiding over the slow death of a great idea. Accordingly I offer the following manifesto:

A NEO-GEORGIST MANIFESTO

That, recognising those problems collected in appendix 2, we adopt professionally accepted terminology. In other disciplines this gets quickly to the root of the problem being debated. It could save Georgists years of futile circular arguments. For example, the terms value in use and value in exchange have largely disappeared (See the Oxford Dictionary of Economics or any modern textbook). More importantly, this would allow economists, other social scientists, and political decision-makers to understand Georgism. This may be vital if Georgism is ever to reach the light of day.

That, recognising that George's "land" included natural resources lying above and below that surface, a surface that is the object of the single tax on surface values, we refrain from taxing land associated with these resources, which may greatly hasten their depletion and degradation in order to meet the land tax, and instead seek to understand and support that range of taxes and regulations developed by environmental and natural resource economists. It is possible that Georgist economists will one day achieve an integration of land, environmental and natural resource economics.

That, recognising the contradiction between the single tax, democratic and other process in the world's diverse polities, we advocate land value taxation along with environmental and natural resource taxation, while accepting the variety of altruistic and religious preferences in the public's choice over merit goods.

APPENDIX 1. INSTITUTIONAL FAILURES.

The following quotes illustrate some of the unintended outcomes of Western interventions.

'Over the past 50 years rich nations have given \$1 trillion in aid to poor ones. This stupendous sum has failed spectacularly to improve the lot of its intended beneficiaries.' (Economist, June 26, 1999:22)

"Rich country farm subsidies prevent the poorest countries from selling some of the only goods, other than illegal drugs, that they are able to export, keeping millions of people miserable. Consumers in rich countries pay over the odds for food. And for what? So that a tiny number of farmers and a few large agricultural firms in rich countries can continue to benefit at the expense of the world's poor." (Economist, April 17, 2004).

"Count up the results of 50 years of human rights mechanisms, 30 years of multi-billion dollar development programmes and endless high level rhetoric and the general impact is quite underwhelming...this is a failure

of implementation on a scale that shames us all." (Mary Robinson, when UN Human Rights Commissioner)

Part one of a solution to these problems occurred when Mancur Olson turned neoclassical economics on its head, demonstrating that differences in the growth of countries actually had nothing to do with differences in physical, human and natural capital, but were almost entirely due to differences in institutions.

Part two occurred when the Economist linked these institutions with land monopoly. "In all three of Asia's biggest successes - Japan, South Korea and Taiwan [and China post 1976] - the groundwork for both fast growth and the income equality that eased the social strains of development was laid by a radical land reform." (Economist, 29 June, 1991, p. 16.). Part three of the solution, fair trade, monopoly control and land value taxation, though powerfully if incompletely argued by Henry George, still wait in the wings.

APPENDIX 2. GEORGIST FAILURES.

Though most of the prose I read in the Georgist literature is positive and thought-provoking, with some I feel like a small child stepping backwards through a bed of nettles, and I am reminded of a visit to Salamanca's ancient university where the famous school of rhetoric held back science for hundreds of years. The Georgist philosophy, though built on economic science, is often posited as an unchanging, ubiquitous remedy. The Single Tax may take centuries to arrive but will achieve a behavioural evolution that will solve, inter alia, environmental problems. This leap of faith is out of step with modern neuroscience research and with long term trends, for example of increasingly depleted and damaged resources, and conflict over these, all of which demand quite different taxation incentives. To equate Georgism with religion is to diminish both science and the great religions of the world. Is economics best advanced by rhetoric or science? In this article I have put the general case for science. The unique power of science is based on doubt and the willingness to rebuild itself in the light of new evidence. Science, including economic science, is always redeveloping itself.

Philosophical problems with the single tax.

Some directions within Georgism, for the five decades I have known it, like Islam for its last five centuries of stagnation, appears to have ignored scientific advances, preferring futile argument about what the Prophet meant by certain words. Economics, meanwhile, has avoided this stagnation, responding to new ideas such as economic rent (though this term goes back to J S Mill its scope has been greatly expanded, see Mason Gaffney in appendix three) and rent seeking (a term due to Anne Krueger, who estimated that lobbying the Indian government for import licences, a form of economic rent, cost the equivalent of 14% of Indian GDP. In the US

the entire defence budget is thought to be not much bigger than the lobbying and rent seek expenditures it generates), and to new concerns about what lies above and below the surface we call land. Economics, like science, is self-doubting and adaptive. Thus economics has created and seamlessly absorbed new branches responding to advances in the sciences concerning the environment, global warming, sustainability, and natural resource depletion. The Georgist manifesto sometimes appears static and unproductively contested.

Environmental problems with the single tax.

It is possible that monopolistic control over the flows and stocks of oil, gas, coal, minerals, surface water, ground water, agriculture, fisheries, stock and fund pollutants and contaminants such as carbon have, collectively, an effect on poverty as great as that of monopolistic control of land sites the value of which is the target of the single tax. But a single tax on sites associated with any of these natural resources would produce incentives to pay the tax by hastening their depletion, which may not be what society wants. If land is equated with all the gifts of nature then we need to think again about how we combine land taxation with regulatory and financial incentives to achieve social objectives such as the reduction of poverty, armed conflict, the depletion and pollution of our planet, and the rights of humans who occupy it. Furthermore, the social costs of armed conflict over natural resources could even, by itself, exceed the social benefits of the single tax.

Stewardship and the single tax.

Perhaps the greatest paradigm shift in economics is that from the view of nature as a gift to man to be exploited, to concerns for its stewardship on behalf of all species. This requires all of us to study new and complex forms of negative externalities, such as resource depletion and environmental damage, and to be aware of the consequences of various taxation and regulatory responses.

APPENDIX 3. GEORGIST SUCCESSES.

The following examples show some of many Georgist uses of scientific method in reaching towards the professional acceptance of Georgism. The list is illustrative and far from complete.

USES OF THE GEORGIST PARADIGM IN ECONOMIC THEORY

Rent can be defined as its opportunity cost, regardless of use (Mason Gaffney in *Land and Taxation*)

Rent-yielding resources. Mason Gaffney, in *The Losses of Nations*, has assembled a huge inventory of rent-yielding resources. "Many natural resources of great value are not comprehended in the simple colloquial concept of land as platted or surveyed land surfaces."

The commons. Gaffney has analysed the privileged use of congested commons via, for example, road and parking use, beaches and recreational parks. See also Commons, the tragedy of, in the *Oxford Dictionary of Economics*. If the resources are in unlimited supply free use is efficient. But if each user reduces the supply available to others then common ownership is inefficient, for example leading to over-grazing, over-fishing, or traffic and amenity congestion, each requiring usage charges.

Land value taxation has been advanced by many Georgists, for example in *Land and Taxation*, Nicolaus Tideman, Ed. An analysis of LVT in the context of taxation theory and taxation practice can be found in *Land Value Taxation*, Neil Gilchrist, 1998, NSW Henry George Foundation.

Land values and business cycles have been analysed by many Georgists, for example Fred Harrison, and Bryan Kavanagh's Land Values Research Group.

The tax shift. Tideman and Plassmann, "Taxed out of work and wealth" in *The Losses of Nations*, Fred Harrison, Editor, have constructed perhaps the first general equilibrium model of the potential gain in output per capita from a switch to the public collection of rent. The analysis covered the G7 economies of U.S.A, Canada, France, Germany, Italy, Japan and the U.K.

USES OF THE GEORGIST PARADIGM IN PUBLIC POLICY

Charity. Grants to first-home buyers are usually taken up to purchase existing buildings. But these grants simply increase effective demand, driving up prices. This leaves existing home owners better off, first home buyers no better off, and those who have to rent worse off. There may be other forms of charity that also have similar unintended consequences.

Conflict resolution. Neuroscience is rolling back the psychology of human behaviour and game theory has been applied to conflict studies. Apart from some articles on revolutions there have been few contributions from Georgists, which is surprising since most armed conflict is over land and natural resources, even if disguised as ideology, religion, or reactions to both.

Human rights. Nicolaus Tideman has reduced a massive and contested literature on human rights to two fundamental economic axioms. The first I have adapted, the second taken unchanged, from Tideman ("Global Economic Justice" in *Geophilos*, Autumn 2000, and "Creating Global Economic Justice" in *Geophilos* Spring 2001).

1. "Each person has an absolute right to himself or herself." This proposition encapsulates the four articles: 3, 4, 5 and 6 of the UDHR, which are the only articles that are neither culturally nor economically contingent, and hence universal.
2. "The equal right of every human being to the use of all that nature offers is natural, inalienable and limited only by the equal rights of others." Here, Tideman's axiom satisfies J S Mill's right to common ownership of the raw material of the globe by combining land value taxation with the work of environmental and natural resource economists (green taxes).

Single tax versus democratic and other processes.

If Georgist social justice insists on the single tax on land, the democracies insist on other taxes and subsidies, e.g. on carbon, merit goods and demerit goods, and the polities of Islam and Asia suspect cultural imperialism in both, which imperative should trump the others? I put the following to Nic Tideman:

"It seems to me that the single tax faces two sets of problems. First that LVT by itself fails to address inter-generational justice, and also contemporary justice in that it can encourage socially undesirable production and externalities.

Second that at a practical level of world-wide acceptance, the libertarian policy implied by the single tax may never be acceptable to the plurality of existing polities. In the democracies these stretch from (almost non-existent) libertarianism

to communitarianism and Nordic welfare states and, in authoritarian polities, well beyond. There may also be incompatibilities between the single tax and the polities of Islam, representing a large and increasing proportion of the world's population.

It seems to me that both these problems could be overcome, and the equality of rights to natural opportunities you advocate be achieved, by a combination of LVT, some of the taxes, permits and regulations used to deliver environmental goods, and some of the taxes, permits and regulations used to deliver merit goods. The libertarian state would accept the first two, all other states would accept all three."

Nic Tideman replied that he was in substantial agreement, but added several riders: the obligations of polities that have above-average population growth, and obligations regarding cross-border externalities. Within a nation, policies regarding externalities and merit goods can be whatever a nation wishes, provided that any person who wishes to emigrate and any group that wishes to secede may do so. If people can easily move or secede, then any group that wants to live in a society that taxes labour or capital should be free to form that society.

A political initiative. When the soviet empire collapsed and public property faced privatisation Nic Tideman collected 30 professorial signatures to a letter to Nicolai Gorbachev, advocating the collection of land rent by land value taxation, perhaps the only significant Georgist political initiative since Henry George stood for mayor of New York.