Henry George’s Remedy: Is It Right? Will It Work?

1. Common Property in Land

“We must make land common property,” Henry George declared. Some of his followers felt that he had made a tactical mistake with that statement. What did he mean by it? Was he a “commonist”?

Land, by its very nature, is common property — and our laws and traditions already go far toward recognizing it as such. Henry George proposed that the rent of land should be paid to the community. This payment would satisfy the equal rights of all other members of the community — without disturbing individual title to land, fixity of tenure and undisturbed possession. This method of making land “common property” may also be called “conditional private property in land” (payment of rent to the community) as opposed to “absolute private property in land” (private collection of rent).

The concept of “conditional private property in land” is well-known to anyone familiar with modern laws concerning real estate. In legal terms, “selling a piece of land” is a non sequitur. What is transacted is a “bundle of rights” that attaches to a particular site. These rights could include surface rights, subsurface mineral rights, aquifer use rights, air-space rights, etc. Henry George insisted that we allocate the bundle of rights according to the moral basis of ownership. Society must grant secure land tenure, refuse to confiscate the products of labor, and “not sell the land for ever” — by collecting, for society, the socially-created rental value of land.

The principle of eminent domain asserts the superior claim of society to land, as in the original Constitution of New York State: “The people of the State, in their right of sovereignty, possess the original and ultimate property in and to all lands within the jurisdiction of the State.” English and American law generally recognize absolute ownership of goods, but not of land. The law deals with the land “owner” as a land holder; land is held under the sovereignty of the people and is subject to their conditions.

Common vs. Government Property?

Some hold that a distinction should be drawn between Common property (that which all have an equal right to use and enjoy) and Government property (that which belongs to the state and is subject to the direction of the government). If we believe, however, that the purpose of government is to secure equal rights of all people, then there can be no meaningful distinction between common and government property. The government’s role is to administer the common property of the people — who may decide, through the political process, to hold certain areas off the market for public use.

The only non-governmental common property is the unclaimed frontier. No individual, corporation or government can legitimately claim sovereign control over land except in its just role of securing the equal rights of all people.

“Seeing the Cat” has long been a slang term for achieving an understanding of Henry George’s ideas. Where did this expression come from? Louis F. Post, in his book The Prophet of San Francisco, quotes a speech made by Judge James G. Maguire in the 1880s: “I was one day walking along Kearney Street in San Francisco when I noticed a crowd in front of a show window... I took a glance myself, but I saw only a poor picture of an uninteresting landscape. As I was turning away my eye caught these words underneath the picture: ‘Do you see the cat?’...I spoke to the crowd. “Gentlemen, I do not see a cat in the picture; is there a cat there?” Someone in the crowd replied. “Naw, there ain’t no cat there. Here’s a crank who says he sees a cat in it, but none of the rest of us can.” Then the crank spoke up. “I tell you,” he said, “there is a cat there. The picture is all cat. What you fellows take for a landscape is nothing more than a cat’s outlines. And you needn’t call a man a crank either because he can see more with his eyes than you can with yours.” Do you see the cat?
2. Land Reform

In the United States, the largest landholding entities are oil and timber companies, holding many millions of acres. Nevertheless, the US has a large number of individual landholders; some two-thirds of all American families have title to some land. (Of course, many who have long-term mortgages actually own only a small portion of their land’s value.)

In “less developed” countries, especially in Asia and Latin America, land ownership is often extraordinarily concentrated. In these societies the land problem is not masked and diffused as it is in wealthier nations. A small group controls nearly all the land in a nation, and the need for land reform is keenly felt.

This reform — which has often engendered bitter controversy — usually consists of breaking up large estates, often with compensation to landlords, and making small holdings available to tenants on supposedly favorable terms.

Thus several small owners — and private collectors of rent — are substituted for a few large owners. The rights of all are not established. Besides the injustice of paying compensation to landowners, this measure does not take into account the changes in society, such as fluctuating populations, changes from generation to generation or the tendency of rural workers to move into urban areas. In many cases, the tendency to monopolization asserts itself and smaller holdings are taken over and absorbed into large estates.

If, on the other hand, a popular revolution — whose original goal may have been land reform — succeeds in installing a socialist regime, the result has often been the seizing of nearly all the land and capital in the nation. The rights of wealth producers are not upheld when their capital goods are seized and held as government property.

The Alternative: Land Value Taxation

Henry George’s brand of land reform, on the other hand, establishes equal land rights for all. It gives people the freedom to take as much or as little land as they can productively use — provided the obligation to society is paid. Thus, it enables the economy to progress under free conditions.

Henry George proposes to “abolish all taxation save that upon land values.” (This has been called the “Single Tax.”) Many nations already take some rent in taxation — directly, in the form of the real property tax. They would only have to make some changes in our modes of taxation to take it all. Many less-developed nations, however, lack systems for registering land ownership and assessing values. Establishing these procedures is often touted as the first necessary step to joining the modern world economy. A nation could modernize, while avoiding the modern world’s chronic economic problems, by simply retaining the rent of land for public revenue.

We must realize that the present system of “property taxation” is a tax on real estate, and real estate is comprised of two very different elements: wealth (buildings and improvements) as well as land. The first step toward implementing Henry George’s remedy would be to increase the levy on land and simultaneously decrease the tax on improvements.

Simply removing the tax burden on buildings would be an immense boon to both urban and rural economies — but George’s remedy would not stop there. Its ultimate goal would be to remove all taxation on the production of wealth, substituting the collection of the full rental value of land for public revenue.

Did you know that the game we all know as Monopoly was originally designed to teach Georgist economics? Here Elizabeth Magie Phillips compares her 1904 Landlord’s Game Board to the mass-produced Monopoly, in the Washington Star, Jan. 28, 1936. The Star article states, “A follower of the principles of the famous “single tamer” of the 19th century, she still hold the Henry George School of Social Science classes in her home.” At right is the 1903 Landlord’s Game Board, designed by Lizzie Magie, Robert Woolery, and friends in Arden, Delaware (see p. 30). Elizabeth Magie Phillips first patented her Landlord’s Game in 1904. It was identical in layout and rules to today’s Monopoly — with one significant difference: players could vote to play the game by single tax rules! It was a better teaching tool than a game — for under the single tax rules, no one ever lost!
3. Land Value Taxation Around the World

Here is a brief account of various places in the world today where land value taxation has been partially applied and improvements are partially or fully exempt. Nowhere yet has the principle of the public collection of land rent, with abolition of all other taxes, been applied on a large scale. But partial applications indicate results commensurate with the degree of application.

Denmark — Although Denmark collects much revenue from taxes on incomes and products, she still collects about 50% of the total annual ground rent through various methods. A land valuation is held about every five years. Danish methods are as follows:

1. Rental of government-acquired land to farmers at 4% of its selling value. About 12,000 small farmers rent their land in this way.
2. Local and national taxation of land values, with consequent reduction of taxes on improvements.
3. A national tax on increases in land values.

Results are impressive. Danish farm tenancy dropped from 42.5% in 1850 to less than 5% today. Productivity is high and a high standard of living prevails.

Australia — All six states and a majority of the municipalities in the Commonwealth of Australia tax land values to a certain degree, and some exempt improvements in whole or in part. However, there are many other non-real-estate taxes.

In New South Wales, for example, all local taxing units tax land values only. There is no state land value tax, but the state collects royalties on minerals. The City of Sydney is the largest city in the world to derive all its municipal revenue from land value taxation. Building has been encouraged, slums eliminated and the price of land stabilized.

Hong Kong and Singapore — Both of these Asian city-states are small in area, heavily urbanized and densely populated. Because of the scarcity of land, the majority of land in both cities is publicly owned and distributed to developers via long-term leases. In this way, ground rent provides a sizeable portion of public revenue, and taxes, on both personal and corporate incomes, are relatively low. Also, many people live in public housing in both cities (86% of Singapore’s population, and roughly half of Hong Kong’s). This keeps the cost of housing low, which tends to dampen costs for employers, helping to keep businesses competitive. Hong Kong has now been returned to the jurisdiction of China, but its land-tenure policies have not changed and it remains prosperous.

Norway — Revenues from Norway’s sizable oil exports have been collected and administered by the national government. Some of the oil royalties have been invested in education and public works, but more has been invested in a national fund, whose current value (2005) is roughly three-fourths of the country’s GDP. Norway boasts the world’s highest standard of living.

The Former Soviet States — As the former Soviet states approach a newborn market economy, its people do not forget that all lands and natural resources have been the property of the state. There has been a popular movement to recognize common property in land along with private ownership of capital. Much is uncertain about Russia’s future, but the understanding that land is common property is not lost on Russian citizens. In Estonia, American land assessors provided the means for an effective land value taxation system to be administered, and Estonia’s new public revenue system has contributed to impressive progress there. On the other hand,
Russia has allowed the “oligarchs” to control economic policy. Ignoring the rent-as-revenue policy, Russia embarked on a disastrous sell-off of natural resources. The disposition of land ownership is vital to the shape of the emerging post-Soviet economy.

Canada — Various cities in western Canada tax land values at a higher rate than improvements. In British Columbia, 54 of the 104 municipalities exempt improvements 50%; 13 exempt them more than 50%. In New Westminster, 86% of the householders own their own property and land speculation has disappeared. Alberta requires its 7 cities to exempt improvements 40% from taxation. The province taxes land values to some extent, including a land-transfer tax called an “unearned increment tax”. The province obtains considerable revenues from oil leases, rentals and royalties (a form of land rent, which has made possible a “Heritage Fund.”) In Saskatchewan all but one of the cities and towns exempt improvement values 40%; Regina 70%. In rural municipalities land value taxation is the primary source of revenue. In Manitoba cities and towns exempt improvements one-third.

United States — The general property tax and the real property tax, insofar as they fall on land values, take for local or state purposes part of the ground rent in the US. In many cities the cost of streets, water mains, lights, etc., is charged to adjoining properties through special assessments. Government collection of royalties on mineral land, oil fields, etc., as well as public lands, recoup some ground rent. Even though the property tax is seen as merely one of many “broad-based” taxes (see p. 37), various levels of government in the US do succeed in capturing some ground rent for public revenue.

Two-Rate Property Tax Reform — Nineteen cities in Pennsylvania now apply what is termed the “graded tax plan” whereby land is taxed at a higher rate than improvements. This was an important factor in Pittsburgh’s “Renaissance II” in the 1980s. Unfortunately, however, after a reassessment in 2003 inaccurately penalized many small homeowners, Pittsburgh abandoned the two-rate tax. Nevertheless, other Pennsylvania cities, most notably the capital city of Harrisburg, have undertaken the two-rate shift with great success. Efforts are active on other states, notably New York, New Jersey, Maryland and Oregon, to establish this highly effective local tax reform.

California — In 1909 the California legislature required new irrigation districts (and gave the option to established ones) to tax land values only, exempting improvements, crops, etc. Today over 100 districts, serving four million acres of the best farmland in the state and raising about 75% of its crops, follow this system. Speculation was eliminated, and California’s pre-eminent role in US agriculture began during that period.

Alaska — The state owns much of the oil land around Prudhoe Bay, and collects a 12% royalty. This has resulted in abundant revenues beyond public expenses, and has made possible a per capita dividend and a cancellation of the income tax.

Fairhope, Alabama — This is a colony operated by the Fairhope Single Tax Corporation which owns much of the land in Fairhope and leases it to its residents. With the economic rent it collected, the corporation paid property taxes levied by the state, county and city, and used the remainder is used for public improvements. Fairhope far outstripped its neighboring towns in growth. Unfortunately, internal political pressure has led the Corporation to discontinue this effective rent-collection policy.

The Three Ardens, Delaware — In Arden, Ardentown, and Ardencroft, the land is leased to its users, and no taxes are collected on improvements. Local taxes are paid out of Arden’s land rent fund, and the balance of the rent is used for public improvements. These towns are well-known as beautiful residential communities.

The “Dover Jail Single Tax Club”, part of a group of “depraved and irresponsible vagabonds” who traveled up and down the state of Delaware in the 1890s trying to convince the citizens to adopt the Single Tax statewide. Although these “pests of society” failed in their great goal, they apparently had a great time — and one part of their legacy, Delaware’s “single tax colony” of Arden, thrives to this day. Frank Stephens, Arden’s founder, is shown at the upper right.
4. Frequently Asked Questions

Should 100 percent of the rent be collected? Henry George suggested leaving a percentage of rent to landowners, enough to induce them to continue holding their land. They would, then, collect the rent from tenants and turn over all but their percentage to the public treasury. Between 5% and 10% would be a reasonable commission for their services; thus there would be a 90%-95% tax on rent. This method, said George, would save the government the function of letting out lands.

Would rent be a sufficient source of public revenue? The total rent of land in the United States has never been calculated. (Irregular assessment practices do not give the true value of land. Rent is also disguised in numerous ways: for instance, it figures largely in returns to stocks and bonds.) Some say that rent would be insufficient for total budgets, federal, state and local. But it is to be expected that the Single Tax would on the one hand produce great economies in government, and on the other hand result in greatly increased production of wealth, with an increase in all returns — rent, wages and interest. And so — if it does fall short at present — within a short time rent should meet all legitimate needs of government. Some contend that rent would exceed the needs of government. If it did, the surplus could be used to wipe out the public debt, and the balance distributed as a dividend to all citizens. In any case, even if the rent fund were not sufficient to cover the cost of all public services, if it is the most appropriate source of public funding it should be fully exhausted before any other taxes are resorted to.

How would rent be apportioned? With only one tax, how would it be divided between local, state and federal governments? One proposal is to collect all rent at the local level: the local governments would pass a percentage to the state governments, which in turn would pass a percentage on to the federal government. This is the method usually used between state and local governments when property taxes are levied by the state. It was also used by the federal government when it levied property taxes between 1789 and 1861, apportioned among the states according to population, as specified by the US Constitution.

Another proposal is for each level of government to impose the tax directly on respective types of land — municipalities on land within their areas; states on land within their areas outside the municipalities, such as farm land; and the federal government on such natural resources as oil fields, mines, forests and waterways. In practice, this method is also partially observed.

There has been increasing debate in recent years over the disposition of transboundary resources. Debate is going on over nations' rights to claim minerals on the ocean floor. The control of rivers that flow through the territories of many nations is a deeply sensitive issue. The advent of global atmospheric pollution has forced people to see the earth's atmosphere as a resource that is shared by all. Extending the concept of the public collection of land rent to the international sphere can provide a peaceful and progressive way of resolving intensifying conflicts over resource access and use. Treaties concerning common property in Antarctica, outer space, and the world's oceans...
have taken the first halting steps in this direction. Today’s concern over global warming will undoubtedly focus more attention on this alternative.

**Under the Single Tax, how would land values be estimated?** How could you separate the value of the land from the value of the improvements? In much the same way as it is done today by real estate appraisers (See page 24). The value of land is customarily estimated simply by knowing its size and location. When a building is destroyed, land value remains. Frequently, the owner of the land and the owner of the building are two different parties.

It should be noted that building values and land values are influenced by different forces. Buildings tend to depreciate, while land increases in value with population growth. Therefore, an accurate assessment of real estate values necessitates that land be assessed separately from improvements.

If a person owns a city lot with a building on it, what would prevent another from bidding a higher tax than the first could pay, thus ousting him or her from the building? The Single Tax is not a method of nationalizing land and renting it to the highest bidder. It is a method of taxation. It would not only hinder, it would prevent the unjust ousting of another from his building. The tax falls upon landowners in proportion to the value of their land. This value is determined by the real estate market — by the demands of the whole community — and not by occasional and arbitrary bids.

A rich woman has a large mansion; a poor man has a small house on an adjoining lot with the same value. Is it right that they both pay the same tax? There is no reason in justice why the community should not charge poor landholders as much for hoarding valuable land as it charges rich ones. In either case it is a special privilege which should be paid for. In our sympathy for the cash-poor landholder in this situation, let us not forget the hosts of people who not only do not live next to mansions but have no place to live but by some landlord’s consent. They would find it much easier to get a place to live under the Single Tax than now.

Though some people have made money by owning land, haven’t others lost? Do not the losses offset the gains? Possibly; but what the land speculator loses, the community does not gain. What the land speculator gains, however, the community does lose. As between land speculation and the community, losses cannot be justly charged against gains. The taxation of land values, incidentally, will put an end to these “unearned losses” as well as to unearned gains.

Why single out landowners for taxation? Are there not other unearned incomes (such as a work of art which increases in value)? All incomes come from only two sources — land or labor (remember, capital is a product of labor). Land is not a thing of human production. People cannot live without access to land. In these two respects it is unique. No other “unearned income” compares with rent in importance. All other increases in value may be traced to a labor product as its source. A work of art may be unique, but unless it is stolen, its transfer from hand to hand is morally justifiable. Its ownership does not deprive anyone of the means of life — or even of the means of creating a new work of art.

If someone buys land in good faith, under the laws by which we live, would that person not be entitled to compensation for individual loss if we taxed away the value of his land? Even at present, if a landowner does not pay taxes, his or her land is confiscated by the government without compensation. Land grants and taxation are clearly matters of the general public policy; they are legislative and not contractual in character. Titles to land values and privileges of exemption from taxation are voidable at the pleasure of the people. The reserved right of the people to terminate grants of land value is as truly a part of every grant of land as if it were written expressly in the body of the instrument. Since Progress and Poverty was written, there has been a considerable body of public opinion in favor of land value taxation, and the proposal has been put into application in several parts of the world. Notice, therefore, has been served that there is an effort in this direction. Today’s concern over global warming will undoubtedly focus more attention on this alternative.
5. Solving the “Urban Dilemma”

American cities are in dire financial trouble; in fact, they are taxing themselves out of existence. Their tax bases are shrinking; their obligations are increasing. Every time they raise tax rates, they risk alienating business owners or individuals. Some head for other cities, taking their productive contributions (and the taxes they would pay) with them. At some point, an increase in tax rates will actually drive away so many businesses and taxpayers that the city will receive less revenue.

Every city has, within its borders, sufficient values to finance its municipal operations without driving away businesses and taxpayers. The most important consideration is not the amount of revenue, but the source: instead of taxing wages and sales, cities need to collect the rent that is currently going into the hands of landholders.

The value of urban land is a precise measure of the success of local government in providing the services that attract people and business to that city. Taxes on sales and on wages lower the rents on urban land — by making the city a less profitable place to do business. But a city that meets its revenue needs by collecting the rental value of the land can eliminate land speculation. Getting rid of land speculation would increase employment and production while simultaneously increasing the tax base. No other revenue source has this effect.

When the rental value of land is the tax base, revenue is based on the value of opportunities and services rendered to each site. Because it makes each parcel of land profitable only when put to productive use, the land tax delivers a compelling incentive for the redevelopment of cities.

Many cities have sought to resolve their urban tax dilemma by implementing various kinds of “enterprise zones” — attempting to bring development into depressed areas by temporarily abating some of the taxes on business within those areas. The proposals recognize the burdensome nature of taxation in cities today, but do little to solve our urban problems. If an enterprise zone plan succeeds, the main beneficiaries are the collectors of vastly appreciated land values within the zones. Because land values are not sufficiently taxed, enterprise zones tend to become public subsidies for real estate speculators — and create few new jobs. In addition, enterprise zones have seldom stimulated any significant new construction outside of the specific tax-abated areas. Cities that have utilized a higher tax on land values, on the other hand, have experienced citywide surges in building.

Readers of Henry George’s “Story of the Savannah” will note George’s observation that cities are, by their very nature, enterprise zones — and only our backwards taxation policies rob them of their potential.

Would you invest in One Building?

Let’s say that we can purchase this townhouse for $150,000 — $120K for the building and $30K for the lot beneath it. Or, we could buy five vacant lots at $30K apiece. Which would be the better investment?

We’ll use the following ground rules: The building’s replacement cost increases annually at the general rate of inflation, which is 3%. The building’s rental income is $1,000 per month. Property taxes amount to 2.5% of the total real estate value, and maintenance/management costs another 5% per year. And land values? Ah, land values: they have been increasing by 10% per year.

<table>
<thead>
<tr>
<th>One Building:</th>
<th>Five Vacant Lots:</th>
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<tbody>
<tr>
<td><strong>Annual rental income</strong></td>
<td><strong>Total Land Value:</strong> $150,000</td>
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<tr>
<td>$12,000</td>
<td><strong>Total Annual Increase</strong></td>
</tr>
<tr>
<td><strong>Building Repl. cost increase (3% of $120K)</strong></td>
<td>$15,000</td>
</tr>
<tr>
<td>3,600</td>
<td><strong>Expenses</strong></td>
</tr>
<tr>
<td><strong>Land value increase (10% of $30K)</strong></td>
<td>Property tax (2% of $150K)</td>
</tr>
<tr>
<td>3,000</td>
<td>3,000</td>
</tr>
<tr>
<td><strong>Total Annual Increase</strong></td>
<td><strong>Net Profit (Return on investment: 8%)</strong></td>
</tr>
<tr>
<td>$18,800</td>
<td>$12,000</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
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<tr>
<td>Maintenance/management (5% of $120K)</td>
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<tr>
<td>$6,000</td>
<td></td>
</tr>
<tr>
<td>Property tax (2.5% of $150K)</td>
<td></td>
</tr>
<tr>
<td>3,750</td>
<td></td>
</tr>
<tr>
<td><strong>Net Profit</strong></td>
<td></td>
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<tr>
<td>$9,050</td>
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<tr>
<td>Dividing net increase by total investment ($150K) = 6% return on investment</td>
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To yield the same revenue from a tax on only land value, the rate would be 10%. The building owner would save $750, while the community would recover the entire gain in the value of the vacant lots.
TODAY THERE IS GREAT CONCERN over the environment — pollution of land, air and water, industrial wastes, over-development, destruction of nature. With the advent of global environmental problems, environmentalism is no longer a local concern. “NIMBY” (not in my back yard) is no longer possible in many cases. There is widespread fear that the earth couldn't stand the strain, if the developing nations were to create a comparable level of pollution, per capita, to that of the Northern industrial nations.

Much environmental devastation is caused by our system of land tenure. As a community grows, large areas are held for speculation. This results in “leap-frog” development, with people moving further out to find affordable land. Thus all the facilities needed for a growing population are stretched out and made more expensive — transportation, utilities, water supply, garbage disposal, markets and other requirements.

If this condition were corrected, people and industries could move out from the centers of population at a more normal pace, making unnecessary the waste and expense, and a premature invasion of nature.

The transportation sector now accounts for about 70% of the oil use in the United States. Tremendous amounts of energy conservation that would result from “infill development”, reversing the march of suburban sprawl. Efficient public transportation could be funded by the very land rents that it would help to create.

Land value taxation would make this condition possible, as people could then acquire sites closer to the centers more cheaply. Furthermore, people could enjoy both the advantages of urban culture as well as proximity to nature, instead of, as now, either being crowded in the city or settled so far away that urban amenities are not conveniently available.

Environmental problems are exacerbated where land monopoly is at its worst. In Brazil, the destruction of the rain forest is deplored. People crowded in urban slums go to farm these areas, not well suited for agriculture, because prime agricultural land is owned by a few latifundistas. An application of land value taxation would improve this situation. Better land would become available without having to resort to the rain forest.

We also find that in African countries whole communities of people are forced onto poor land not suitable for habitation by the dominant ruling cliques. The plight of the dispossessed people is often attributed to overpopulation or overuse of land, but the real cause is land monopoly.

Often, measures advanced by environmentalists to improve the situation would require much regulation and restriction of individual liberty, along with a degree of monitoring that would become increasingly difficult to attain. Under land value taxation, and relief from other taxes, good environmental standards would be easier to attain. A greater sense of community and voluntary observance could be relied on, instead of increasing regulations imposed by government.

People are deeply concerned about the consequences of reliance upon fossil fuels, and hope to shift to renewable, less-polluting energy sources. Land value taxation would provide a significant incentive in this direction. At the current state of technology, resources such as solar power are not yet cost-competitive with fossil fuels. However, the energy industries receive various indirect subsidies, and the techniques for utilizing coal and oil have been refined for over a hundred years. A major cause of this has been the capacity to own the potential energy resources themselves, in the ground. It is not possible to own the sun! Profits from oil and coal come largely from land, whereas profits from various forms of solar energy come almost exclusively from capital. An economic system that collected ground rent, and removed the tax burden from labor and capital, would put solar energy on a more equal footing with entrenched — but environmentally destructive — fossil fuels.

A public revenue system which captures resource rents and does not penalize capital equipment would provide incentives for the development of “micropower” — equipment which would allow individual households to utilize the most appropriate renewable energy sources in their particular location.

Environmentalists need to learn the remedy of the collection of land rent for public revenue as a way to create the economic incentives that will allow us to tackle our environmental problems.
HENRY GEORGE’S THESIS is that the public collection of
the rent of land leads to vigorous, sustainable prosperity — all the benefits of “association in equality”. We can find evidence for its validity in the negative as well as the positive. What about those communities that fail to collect the rent of land, leaving it in private hands? Do they become worse off?

We have noted with pride the good effects achieved by many Pennsylvania cities by increasing property tax rates on land and lowering them on buildings (see page 30). That was the good news — the bad news, though, is that for many years the political trend in the United States has been great antipathy toward the property tax, and many regional “tax revolts” have aimed at getting it reduced. The most famous of these was California’s Proposition 13, which was enacted by referendum in 1978. Tax rates were capped at 1% of property assessments as of 1978, until properties were sold. The result was a huge increase in California’s land prices, and a decline in every other index of economic health.

In the 1998 book The Losses of Nations, Mason Gaffney and Richard Noyes documented a consistent correlation between greater reliance on property taxes (as opposed to sales and/or income taxes) and higher income levels. The property tax was once the principal source of money to fund state and local governments. It provided some 80% of all state-local revenue until the early 1920s, but by the start of the 1980s it had dwindled to only about 30%. Some states shifted later, or less, than others, however. New Hampshire actually never made the shift; it still relies on the property tax for almost two-thirds of its state and local revenue. New Hampshire is the only state in the Union where more than half of all government revenue comes from the property tax — and its economy has been growing twice as fast as its neighbors, Maine and Vermont.

The table below shows the five highest and five lowest states in terms of the portion of each taxpayer’s state/local taxes made up by the property tax:

The states with higher incomes have higher taxes overall, but the important fact here is the ratio: higher-income states collect a higher proportion of state and local tax revenue from property taxes.

Gaffney and Noyes conclude their book by saying

There is a correlation between the relatively heavy use of property taxes, as a part of the state/local tax mix, and high per capita incomes. This invites one final question: How much larger would these differences be, and how much better the results, if one end of the fiscal spectrum were socially-created land rents alone, clearly distinguished from the other end — the labor and industry of individuals?

Rent in Developing Nations

The world’s industrial nations do manage to capture some of their aggregate rent through various means, such as “capital gains” taxes, estate taxes or progressive income taxes (although these have been considerably eroded in the United States). Developed nations also use governmental resources to apply macroeconomic “fixes” to mitigate the disastrous swings of the boom/bust cycle.

To see the results of not collecting any land rent for public revenue, we need to look at the Third World. Many Less Developed Countries (LDCs) bear heavy foreign debt burdens, and are drawn to compete for foreign investment. A vicious cycle ensues, which erodes their tax base. In order to “stay in the game” (and possibly secure debt relief), these nations must present a more attractive tax- and regulatory climate than their competitors, who are in similar straits. The result is a starvation of public services such as education, roads, communications and medical care: all the things a community needs for economic development.

The “Resource Curse”

Some LDCs have received windfalls in the form of the discovery of valuable mineral resources, particularly oil. Would not the rents from these

### States Ranked by Property Tax per Capita ($)

<table>
<thead>
<tr>
<th>TOP FIVE</th>
<th>Property Tax</th>
<th>AFTx</th>
<th>Reto</th>
<th>PI per cap</th>
<th>PI Rank</th>
</tr>
</thead>
<tbody>
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*Personal Income per capita, in $000s**
resources, which accrue to national governments, allow
them to invest in their own development and climb out
of poverty? Yet, sadly, in many nations this has not hap-
pened. Instead, resource royalties have been squandered
in un-economic public works, cronyism, and military
spending. This phenomenon has happened often enough
to have been given a name: economists refer to the re-
lated pathological syndromes of the “Resource Curse”
and the “Dutch Disease”. In the
former, windfall profits from
easily attainable natural re-
sources tempt corrupt politicians
to simply spend on consump-
tion; industrial decline follows.
The Dutch Disease is named
after the problem faced by the
Netherlands after its discovery
of natural gas in the 1970s. A
big increase in gas exports led to
a rising value of Dutch currency.
This led to a decline in other
exports. Then, more capital re-
sources went into the more-profitable gas industry, which
further heightened the decline in other industries. This
process has been seen in other petroleum exporting coun-
tries such as Venezuela, Mexico and Nigeria.

Is there a remedy for the Resource Curse? The
experience of Norway shows that there can be. Nor-
way is a large exporter of oil, and currently enjoys the
highest per-capita standard of living in the world.
Wages in other industries were kept relatively high
by the use of a centralized bargaining
system, rather than leaving workers to
bargain with each individual firm. Oil
revenues were invested in public edu-
cation, and were used for macroeco-
nomic stimulus during downturns.
Also, oil revenues were released into
the economy sparingly, so as not to
encourage inflation. Most of the rev-
enues were invested in a national fund,
whose worth is currently nearly 75%
of Norway’s gross domestic product.

It is interesting to note that in re-
cent years the existence of this large fund
has tempted Norwegian politicians to
release the funds into the economy more
rapidly than had previously been
thought prudent. The result has been
increased inflation and economic vola-
tility. The Norwegians had managed
to avoid the “Resource Curse” in the
special case of oil, but had not been able to stop the un-
derlying boom/bust cycle. Henry George’s analysis shows
why: the injection of oil revenues into the economy must
serve, in time, to increase land values. If those rents are
not collected for public revenue, the boom/bust cycle is
the natural result.

Indeed, the “Resource Curse” does not apply just to
oil, or to extractable resources, or to any particular kind
of resource, but to all land. This is
implied (though not followed up on) in the literature about this
phenomenon. Economist Dou-
glas Yates, for example, describes
the phenomenon of the “rentier
state”, in which the Resource
Curse “embodies a break in the
work-reward causation... rewards
of income and wealth for the
rentier do not come as the result
of work but rather are the result
of chance or situation.” (An over-
reliance on un-earned rental in-
come, as George explains, is the basic force that pushes
an economy into recession.) Similarly, Norwegian econo-
mist Erling Røed Larsen observes that “dealing with the
Dutch Disease involves mostly macroeconomic policy
instruments, [while] avoiding the Resource Curse may
include more fundamental elements of society.... Avoid-
ing the curse, the literature says, reduces to preventing
rent seeking.” Henry George provided that recommen-
dation as early as 1879.

Watching gas flares in the Niger Delta

This is the illustration inside the original “Henry George Cigar” box. It became a popular
brand during the days of George’s fame. His masterwork is shown on the right; on the left
is a rooster, the symbol of George’s Mayoral campaign.
Although people usually do not like taxes, and governments can become so corrupt and misdirected that people revolt against paying taxes at all, most recognize the basic need for some public services, funded by some sort of taxation.

The free market is good at allocating goods and services that producers compete with each other to supply. Things are not allocated well when monopoly disrupts the process. But there are some things, real benefits to the entire community, which cannot be had without monopoly; they are monopolies by their very nature. Consider roads, for example. A highway is generally built along the most direct route available — what incentive is there to build another road to compete with it? If the highway were privately owned, the owner could charge “whatever the traffic would bear” for its use. Rather than award individuals such a huge privilege, most communities build roads collectively, financing them through taxation.

Henry George believed that businesses that are monopolies by nature should be run by the government, not left in private hands. It was George’s conviction that the primary function of government is to secure the rights of its citizens — including labor’s right to the wealth it produces.

The Canons of Taxation

The classical economists, with their powerful common sense, outlined four criteria of a good tax. Their skill is evident in the simplicity and comprehensiveness of the following provisions:

1) Taxation should bear as lightly as possible on production. The very word “tax” suggests a burdensome load. Taxation is an allocation of wealth, which is produced by labor, to the needs of the community; nobody benefits if taxation inhibits production!

2) It should be easy and cheap to collect, and fall directly on the ultimate payer. If great resources must be devoted to the collection of taxes, they are simply wasted! Indirect taxes (such as sales taxes, and tariffs) are imposed on sellers and importers, yet ultimately paid by consumers. Not only are such taxes unwieldy and cumbersome; they also tend to be regressive — weighing heavier on those with lower incomes.

3) It should be certain. The more complex the rules of taxation are, the more they can be subverted and evaded.

4) It should bear equally, so as to give no individual an advantage. We have seen how regressive sales taxes fail in this regard. The conventional standard of tax fairness is “ability to pay.” People with higher incomes are able to pay a greater part of the tax burden. The progressive income tax, for example, is based on ability to pay; in fact taxes are called “progressive” if they bear more heavily on those with higher incomes. But is the “ability to pay” principle really fair? No — because it makes no distinction between earned and unearned income. If individuals are more wealthy because they are efficient and honest producers, then taxing them according to their ability to pay burdens production, violating rule number one! A truly equitable public revenue system will not confiscate the legitimately produced wealth of some while allowing others to collect unearned incomes. The alternative principle of “benefits received” achieves fairness by levying taxes according to the value of the advantages people have been given.

Broad-Based Taxation vs. the Single Tax

The favored public revenue strategy today is to make taxation as “broad-based” as possible — that is, to spread it out over as many different sources as possible. The reasons for this are political as well as theoretical. The more different tax sources there are, the more they can be played against each other to favor special interests.
Local taxes can be played against federal subsidies, property taxes against sales taxes, taxes on consumption against taxes on production; an endless variety of deductions, abatements, tariffs or subsidies can be applied to reward particular constituents.

The theoretical reason is that taxation is considered to be a burden on all economic activity. When such things as wages, sales, interest, etc. are taxed, it makes goods and services cost more, thus lowering demand — and demand is what stimulates production.

So if all taxes are a burden on production, then they should be spread over as wide an area as possible to minimize the load on individual producers.

But there is one thing in the economy that can be taxed very heavily — to the full extent of its value, in fact — without decreasing the demand for goods and services. A tax on the rental value of land cannot diminish production, because land is not produced. A land value tax cannot increase the price of goods because those prices include the cost of land in any case, whether the rent is paid to a landowner or to the community.

The “broad-based” tax idea, failing to recognize the distinctive character of land as a factor of production, seeks to spread out the tax burden. In so doing, broad-based taxes — whether by accident or by design — provide all manner of opportunities for special interests to influence tax policies in their favor, at the expense of fairness and accountability. Land value taxation, on the other hand, is merely the collection by the community of the very fund that the community has created.

Can a tax on land values be shifted?

Taxes on commodities are usually passed on to the consumer in higher prices. What is to stop landowners from doing the same thing? Why can’t a landowner increase the rent charged to tenants, to pay the land value tax and still collect the same net rent as before?

Remember: land is not produced by labor. It is fixed in quantity and its price is a monopoly price (all the traffic will bear). A tax on labor products increases the cost of those products and this is reflected in their price. If the new price meets consumer resistance, the supply of that product is checked.

But a tax on land value does not affect either its cost of production (it is not produced) or its supply (which is fixed). Thus its price is not increased (for it is already all the traffic will bear), and the tax falls directly on the owner. The rent of land is determined by the margin of production and it is a certain amount whether taxed or untaxed. A tax on land value is simply a division of the rent between the owner and the community.
Suggestions for Further Reading

(all books listed here are available from the Robert Schalkenbach Foundation: www.schalkenbach.org)

Other Books by Henry George:

Social Problems — A series of prophetic essays on the social questions of George’s day, and ours.

Protection or Free Trade — Which best serves the interests of working people, and what is the true cause of falling wages?

The Science of Political Economy — George's last, and some say his greatest book: a systematic exploration of the science of economics.

The Land Question — Includes the Encyclical Rerum Novarum by Pope Leo XIII, and George’s open letter in response.

Further Reading on Topics Raised in this Course:


Costing The Earth, Ronald Banks, Editor, 1989, Shepheard-Walwyn — A series of documented studies on the real extent of land monopoly in today’s economy.

The Corruption of Economics, by Mason Gaffney, Fred Harrison & Kris Feder 1994, Shepheard-Walwyn — Ground-breaking study showing how the initial development of neo-classical economics was motivated by an attempt to deflect support from George’s proposals.

The Losses of Nations: Deadweight Politics versus Public Rent Dividends, Fred Harrison, Editor, Othila Press, 1998 — Research and analysis on the folly of failing to collect the rent of land for public revenue.


Additional Courses

Offered by the Henry George Institute:


Liberation Theology and Land Reform, www.landreform.org

Tuition-free courses in political economy are also offered by the Henry George School of Social Science in New York, Chicago, Philadelphia and San Francisco. For more information, see www.henrygeorgeschool.org