

WHAT IF HENRY GEORGE WAS WRONG?

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There is no questioning the moral and economic clarity and truth of Henry George's basic insight. Land is a part of the commons, and if everyone is entitled to live, then everyone is entitled to land. The value of land is created by society, and therefore no one is entitled to retain the rent of land or its unearned increase in value (capital gains) for themselves. By allowing individuals to retain what is created by society as a whole, we create a system which fundamentally pumps wealth from the poor to the rich, what George observed as "Progress and Poverty". This is the phenomenon that as society progresses and gets richer, poverty also increases simultaneously. It is inherent in the system. All the tinkering around the edges is to no avail.

George believed it was not necessary to confiscate land from landowners and put it under government ownership, whether at the local, state, or national level. He felt that collection of economic rent was adequate while leaving ownership in private hands. But what if George was wrong? History seems to indicate a stubborn resistance to this reform, that goes beyond the normal back and forth of politics. Other progressive policies have been adopted and remain, such as the New Deal reforms of unemployment insurance, social security, and Medicare for example. What is it about collection of land rent, in the form of land value taxes or resource rents that creates such stubborn resistance?

Property Owners

I believe that the policy of collecting land rent from owners, contains within it the seeds of its own destruction. For one thing, George himself based his understanding of rent on the fact that humans try to get the maximum benefit with the minimum work. This is the basis of rent-seeking where land owners get something for nothing, which is why they are called rentiers. What better way to collect income without working than be a landlord and let other people pay you for the privilege of using the surface of the earth? So immediately there is created a huge constituency against collection of land rent among landlords. Secondly, since around 2/3 of people own their own homes, and 1/3 are renters, 2/3 of the population is against the collection of land rent. In Australia there are 8 million property owners, and only 100,000 people buying property each year. Owners want their property to appreciate as much as possible, while buyers want prices as low as possible. Therefore the constituency for higher prices is eighty times larger than the constituency for lower prices. Georgists always claim that the land value tax will lower prices of land. An 80:1 ratio means that 98.75% of homeowners are against us, while renters are generally clueless about the impact of land taxes on housing prices. It is counterintuitive that a higher tax will result in lower prices.

Property Lobby

The second constituency aligned against us is the property lobby of real estate agents, developers, and building contractors. The higher the prices of real estate, the more money they

all make. What realtor wouldn't prefer the commission on a \$1 million property to a \$100,000 property? Since this lobby is usually in control of local government or sits in local councils, this results in local government opposing Georgist reform also.

Banks

The third major constituency aligned against us are the banks. The higher the price of real estate the more interest income banks can make. Michael Hudson has pointed out that the price of real estate is only limited by the size of loans people can get from banks. Private banks create 97% of the money supply through loans, due to fractional reserves, according to a recent article by the Bank of England. 80% of these loans are mortgage loans. This system generates interest revenue for banks due to the government granted privilege of loaning money they don't have through leverage. They will not give this up easily.

Inflation

Another factor working against us is inflation. Since the economy has become financialized, buying and selling of assets such as real estate has become understood as the road to riches. Anything standing in the way is not going to be looked upon favorably. The average homeowner struggles to pay the mortgage, usually needing two wage earners working full time to afford it. Due to the rising cost of living people are often losing ground against the increasing cost of living. Real estate may be the only asset they have that keeps pace with inflation or exceeds it, and home equity is often the only form of savings that they have. Georgists come along and say that we are going to take away all the appreciation in land value through taxation, but that society will get better. A concentrated individual loss is never outweighed by a vague societal gain, therefore it is not a very convincing argument. Mancur Olsen called this the problem of collective action. So it is not surprising that land tax reform has struggled for over 100 years to make any headway.

Split Jurisdictions

To achieve the promise of a Georgist paradigm requires a "single tax" on all forms of economic rent. Property taxes are administered at the local level, sales taxes at the state level, income taxes at the national and state levels, and resource rents at the state and national levels. To adopt a "single tax would require municipalities to eliminate taxes on buildings, while increasing land taxes to collect the full rental value, estimated at 6-10% of market prices. States would have to simultaneously eliminate sales and income taxes, and national government the income tax. Even states like Alaska or New Hampshire, which have no state income taxes, are at the mercy of the federal government and its 35% marginal income tax. National and state governments would then have to increase economic rent for use of resources and the commons to the full rental value of all resources. By contrast, government usually collects some royalties and severance taxes on oil and natural gas, but often gives away many other resources such as minerals, broadcast spectrum, water rights, etc. To implement a true single tax (continued on page 14)

WHAT IF (from page 4)

would require a coordinated tax reform effort at all levels of government simultaneously. Short of revolution, this is impossible. As a result, many Georgists have been reduced to promoting only the split rate property tax, which has some benefits but falls far short of a "single tax".

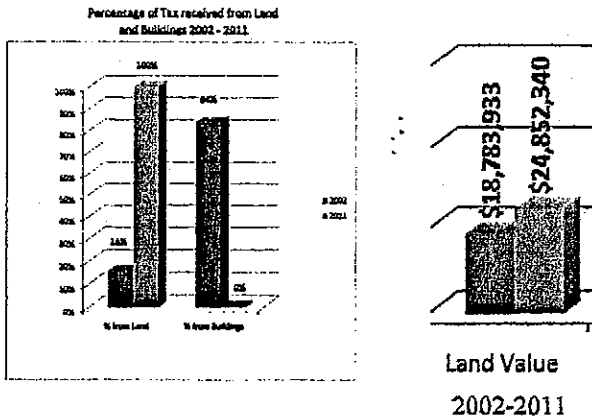
False Dogmas

Georgists often claim that higher land taxes will reduce the price of land. This may be true in theory, but is not true in practice. From 2002 to 2011 the city of Altoona, Pennsylvania increased the land tax percentage from 4.78% to 36.9% of land value (Table 1), collecting 100% of property taxes from land in 2011, and land values have continued to rise (Figure 1). Even though property assessments in Altoona are far undervalued, the results are still valid, since the same method of assessment was used before and after the tax shift.

Table 1: 2011 Land Tax rate in Altoona

Rate Category	Rate	Value	Amount	Percentage	Total
General	0.0000%	23,448,274	\$0	0%	100%
Debt	0.0000%	9,600,304	\$0	0%	100%
Recreation	0.0000%	6,163,424	\$0	0%	100%
Shade Tree	0.0000%	0,077,144	\$0	0%	100%
Total	0.0000%	39,289,146	\$0	0%	100%

Figure 1: Percentage of tax received from land and land values 2002-2011



Georgists claim that the majority of homeowners will save money with a split rate property tax having a higher tax on land. Studies have shown this to be true in cities like Philadelphia, but in 3 Vermont cities where this was studied it was not true. The biggest winners in a proposed shift to land taxes were big corporations and banks with high valued buildings and facilities on low valued land. These beneficiaries do not generate much sympathy from the public. Typical homeowners in Vermont have low value houses on inflated land values, so the majority would pay more with a split rate tax. It is only if people's income taxes were simultaneously reduced, that a land tax would reduce their overall tax bill. A split rate tax alone won't do it for most people. Since this requires legislation in multiple jurisdictions simultaneously it is difficult or impossible (see above).

Choices

What is the alternative? As long as land is a market commodity, it will be subject to speculation, and the price will be driven up in repeating bubbles. Perhaps George was wrong that removing economic rent through taxation is the only viable strategy? Another approach is to remove land from the market altogether. Perhaps communities or government need to reclaim ownership of all land, and eliminate it as a market commodity? Singapore and Hong Kong have taken this approach with great success. Community land trusts have removed land from markets and prevented private appropriation of land rent, without needing any legislation. Up to now they have been limited to low income residents, but this could be expanded.

The creation of a "single tax" on the economic rent of land, broadly conceived as rent for use of "the commons" has proven to be a strategy that is nearly impossible to implement in practice. It is time for Georgists to diversify their strategy in more effective ways to implement their vision which is absolutely right.

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