WHAT IF HENRY GEORGE WAS WRONG?
By Gary Flomenhoft, Brisbane, Australia and Boston, MA

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 un-
earned 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 eco-
nomic rent was adequate while leaving ownership in private
lands. But what if George was wrong? History seems to indi-
cate 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
during the 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 mini-
imum work. This is the basis of rent-seeking where land own-
ers 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 privi-
lege 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 mil-
lion 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 contrac-
tors. 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 usu-
ally 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 gov-
ernment 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 econ-
omy has become financialized, buying and selling of assets such as
real estate has become understood as the road to riches. Any-
thing standing in the way is not going to be looked upon favor-
ably. The average homeowner struggles to pay the mortgage, usu-
ally 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 out-
weighted by a vague societal gain, therefore it is not a very con-
vincing argument. Manur Olsen called this the problem of col-
lective 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, in-
come taxes at the national and state levels, and resource rents at
the state and national levels. To adopt a “single tax” would re-
quire municipalities to eliminate taxes on buildings, while in-
creasing land taxes to collect the full rental value, estimated at 6-
10% of market prices. States would have to simultaneously elim-
nate sales and income taxes, and national government the in-
come tax. Even states like Alaska or New Hampshire, which
have no state income taxes, are at the mercy of the federal gov-
ernment 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 re-
sources. By contrast, government usually collects some royalty-
ties 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
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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 fails 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>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Land Tax Rate</th>
<th>Land Value 2002</th>
<th>Land Value 2011</th>
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</thead>
<tbody>
<tr>
<td>General</td>
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<td>$10,718,012</td>
<td>$47,849,811</td>
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<tr>
<td>Retail</td>
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<tr>
<td>Residential</td>
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<tr>
<td>State Tax</td>
<td></td>
<td>$3,130,928</td>
<td>$13,950,222</td>
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<tr>
<td>Total</td>
<td></td>
<td>$27,812,154</td>
<td>$133,805,245</td>
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</tbody>
</table>

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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