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A Reply to Georgist Criticisms

Overall, it seems that one of the main Georgist fallacies is a confusion of economic and moral arguments for their program. Both types of arguments have their place, we can all agree, but the Georgists persist in using moral arguments in places where technical economic arguments are called for. In the strictly economic sense, land is *not* a unique asset in two main ways: (1) in the nature of "rent" and (2) in its being *capitalized* on the market.

Rent, as Frank A. Fetter brilliantly pointed out, is the hire-price of a unit of a durable asset. (We might even go further and say that rent is any unit-price of a good.) The selling-price of an asset on the market will be the capitalized value of its expected future rents: the capitalization to take place at the going rate of interest. The rate of interest is the price of "time," and hence future earnings are discounted back to the present at this rate. A piece of land sells now at the discounted sum of its future rents. Similarly, *any* asset will sell at the capitalized value of its future earnings; and where these earnings accrue from hiring out, the rent selling-price relation will be the same. If Rembrandts are habitually rented out to museums, they will earn, say, per monthly rents; tuxedos will earn nightly rents, and so on. Admittedly, land differs from improvable capital because land is not replaceable, and therefore land earns ultimate rents. Or, to phrase it differently, a machine may earn rents (usually in self-imputed earnings, but sometimes as being "hired out") but they are *gross*

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rents, since it in turn must be produced by land and labor. Over the whole economy, then, the prices of capital goods are imputed backward to land and labor, until finally, the *net* incomes are earned by: land, time, labor (including entrepreneurship). However, *land* is also capitalized on the market and any increase in its prospective earnings raises its capital value. Hence, land's net rents are also capitalized, and we have as ultimate net incomes only: labor (earning wages), time (earning interest) and profits (for entrepreneurial foresight) minus losses (for poor entrepreneurial judgment).

Rembrandts are similar to land because both are fixed in quantity (Rembrandts even more so) and because the same question arises as to markets and productivity. In short, does the Georgist believe that the rental value of Rembrandts (assume that all Rembrandts are rented out to museums) will continue to be the same, because the "market" will take care of things, even if the rental earnings from Rembrandts are taxed 100 percent? The Georgist has a curious conception of the market; he considers that the market is independent of the actions of an important part of its constituent individuals: the suppliers. On the contrary, there is no entity "market" which will take care of finding correct rents. If the shell of ownership is left and its contents confiscated by the State, there will be no incentive for owners (whether of land or Rembrandts) to allocate the assets to the highest bidders and most productive uses. There is no inconsistency when I point out that everyone will rush to grab the best locations if land were free; it would be the same if Rembrandts were suddenly declared free by the government (or if there were a 100 percent tax on their value). The point is that the *owners* will have no incentive to allocate. Rembrandts, which also earn net rents, are the same as land; the difference of course being that chaos in land sites is a far more serious thing than chaos in the price of Rembrandts.

The Georgist rejects the analogy of the Rembrandts because, he says, land value is created by the community. But what of Rembrandt values? Does not the increase in population, the development of the community, account for the increase in Rembrandt values? Will anyone pay much for Rembrandts in a primitive society? The Georgist rejects the application of the same "community" argument to the Reverend Pentecost because he served the community by his labor; the theatrical costumer also is said to earn "wages." The entrepreneur earns some wages for his labor, but he also earns profits for his foresight, and particularly interest for his advancement of capital, or time. In fact, many investors earn interest and profit without doing any "work" at all. Would Georgists then join the Marxists and confiscate such "unearned" interest? Why not?

It seems to me that Georgists give away their entire case when they graciously allow the landowners to keep 5–10 percent of their rent. This concedes that the landowner does perform *some* service, and if one concedes that he should keep some rent, where are we to draw the line? Why not let him keep 25 percent, or 50 percent, or 99 percent? Apparently, some Georgists would let the landowner keep the equivalent of a broker's commission for distributing sites. But this again puts a very narrow "labor theory of value" on the owner's service. The Rembrandt owner, for example, may hire a broker for 5–10 percent to sell or rent his paintings. Would Georgists then confiscate 90 percent of Rembrandt values?

The fact remains that just as the costumer earns interest plus managerial wages plus profit, so will a landowner earn interest plus managerial wages plus profit (and "wages" can include wages of "decision-making"). The profit goes to better forecasters, and poorer ones will suffer losses.

Assessment may be done every day, but this does not make it any less arbitrary. Assessment where the entire rent market is abolished, as the single tax will effectively do, will be all the more impossible and arbitrary. Further, we learn that improvements which last beyond the owner's life are considered part of the land by the Georgists and would be taxed accordingly. Things get worse and worse. This means that long-range improvements will be penalized by the single tax and will not be made. Thus, the single tax will tax long-range improvements as well as original site value.

Georgists may deny that they wish to force all land into production, but they imply this when they keep referring to currently idle land that should be used, and "idling" land that should be used for more valuable things. Nowhere have I seen Georgists say that any currently-used land should be rendered idle. Actually, there is no reason for speculators to abstain from earning rents on their land unless it were too poor to earn rents; earning rents does not prevent land values from rising. Further, if idle land earns no rents, then it has no "rental value" to be taxed. The "rental value" is only the discounted sum of expected *future* rents, and is unrelated to current rents. Taxing them, therefore, will tax land *more* than 100 percent of its rental value.

I will not deal with what I consider grave fallacies in capital and production theory because they take us too far afield from the main problem. I will simply state that production takes place in many stages, and involves an ever-greater structure of capital—and that we would not be able to replace depreciating capital were it not for the growing structure of capital invested by our ancestors, improving our living standards. The "contemporaneous pipeline" is not only inventory; it is the gradual wearing down of fixed equipment and plant—which must be built ahead of time for use in advancing future consumption. Governments err in backward countries in not allowing security of private property and therefore the accumulation of savings.

Finally, if wages are OK because earned in the market place, then so are rents, and interest, and profits.

So much for the economical rebuttal. On the strictly ethical problem, I am willing to refer again to my essay. What I am advocating is appropriation of unused land by the first user—the "pioneer"—and I did not at all consider the problem of feudal land, which America fortunately escaped. I am no friend to feudal landownership based on conquest—but a discussion of this would have gotten us far afield. What I am arguing for in this essay is the ethical validity of absolute ownership by the pioneer and his heirs and assigns.

Some Georgists lay great emphasis on the *fixity* of land: the supply of land sites is fixed and so increased population raises land values; again, horses are not fixed in supply but land is. Rebuttal to this is in two parts: (a) land sites may be fixed, but so are Rembrandts. Why not confiscate Rembrandt value? (b) *physical* land may be fixed, but the *service* of supplying the land is *not*; it is the productive service by the site-owner that generates value, and it will be gravely discouraged by taxes on land values. A 100 percent tax on land values will generate chaos in land and therefore in production generally; a lesser degree of taxes will inflict lesser damage, but damage there most certainly will be.

Finally, many Georgists have, by inference, accused me of wishing to levy taxes on production, and have expounded on the beneficial effects that would flow once such taxes were lifted from the economy. I have great respect for many aspects of Henry George; and none more than for his passages on the benefits that would ensue once taxes were removed from production. Our difference is that I believe that land value taxation would also blight production, and, further, be unjust rather than the contrary. If we wish to establish justice and remove taxes from production, some other means than land value taxation will have to be found.