Henry George News

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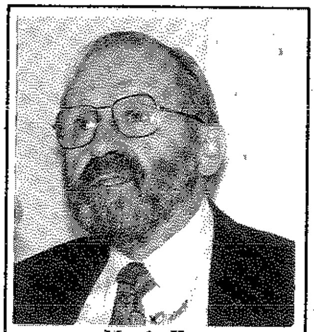
Property Tax Reform in New York City: An Insurmountable Opportunity?

New York City's property tax system, which brings in eight billion dollars of revenue each year, is a mess; there is general consensus about that. In 1993 a commission was appointed by Mayor Dinkins and the City Council to study the problem and recommend reforms. Its report, which was issued in December, discussed the problems in detail but offered no solutions. What makes property tax reform so difficult? That was the question addressed by two experts in a seminar at the New York HGS on January 29th. Martin Karp, the Chairman of the Action Committee for Reasonable Real Estate Taxes, explained the status quo, with all its political pitfalls. Prof. C. Lowell Harriss, Emeritus Professor of Economics at Columbia University, discussed the economic effects of the property tax. The speakers proposed contrasting reforms, argued cogently for them, and left the audience with much to think about.



Martin Karp

According to Martin Karp, "the world's biggest property tax break is in Manhattan brownstones." That is because in the city's four-class scheme, class 1 properties (residential, housing up to three families), are assessed at 8% of market value, yielding an effective tax rate of a mere .73%! Apartment buildings, on the other hand, are in class 2; they are assessed at 45%, and pay an effective rate of almost 3.5%. Co-ops and condominiums, also in class 2, lack the benefit of certain tax breaks for rental buildings and end up paying 4.15%. And if brownstones are a property tax bargain, then undeveloped land is a steal - for most of it is also included in Class 1.

Understandably, the most pressing political issue here is that of equitable distribution of property tax burdens. Demographics, however, is on the side of the small residential owners. They number approximately 1.3 million voters in New York City, while co-op and condo owners (a group that became a political factor only as late as the 80s) make up about 600,000. Mr. Karp stressed that real estate taxes, although they are "inherently regressive," must be made less so, because the revenue is needed, and voter restlessness is growing fast.

While acknowledging the practical difficulties that reformers like Mr. Karp face, Dr. Harriss suggested that it is misguided to focus exclusively on the burden of property taxes to the payers. "We should think seriously about whether we want local taxes to be progressive," he said. Progressive taxation works at the national level, because it is relatively hard to leave the country. Locally, though, businesses tend to flee. Mr. Karp and Dr. Harriss agreed that the "threshold of pain" for commercial real estate is the 4% mark. The tax on commercial properties is already over that; when the commercial rent tax is added in, effective rates climb to over 5%.

Mr. Karp admitted that the point about incentives is well-taken, but he stressed the importance of staying grounded in political reality. Thus, the Action Committee's recommendations aim to simplify the current system and make it more accountable, but not to change its basic shape. It calls for four main points: 1) do away with all fractional assessments and assess all properties at full market value; 2) set the basis for assessment by law, not by appointed officials; 3) have only two classes of property - residential and commercial - rather than four; 4) have a simple rate structure, with commercial properties taxed at twice the rate of residential ones.

Dr. Harriss praised the move toward simplification and better accountability, but he took strong exception to the proposal's underlying economic assumptions. It is more important to consider the property tax's effect on economic activity than to focus on the payers' burdens - because the overall economic climate can affect those burdens far more profoundly than property tax rates. What is missing in the major studies so far, insisted Dr. Harriss, is the vital distinction between **structures**, which can be gainfully used or fall into disrepair according to prevailing incentives, and **land**, which cannot go away.

Prof. C. Lowell Harriss

Dr. Harriss does not suggest that the real estate tax system do away with different classes of property altogether. He calls for a classification based not on the use to which properties are put, but rather on the functions of the economic factors involved. Like Mr. Karp, he proposed two classes: not residential and commercial, but land and buildings. If New York City needs to raise $8 billion in property taxes, he said, then by all means let's do so with a high tax rate on land, which cannot flee, and a lower rate on both residences and businesses, to keep them from leaving town.

Governor Cuomo Affirms Merit of Amsterdam LVT Experiment

Last summer, Gov. Mario Cuomo signed into law a bill allowing the city of Amsterdam, New York to implement a two-rate proterty tax system. The following comments were in the text of his 1994 State of the State Report.

The inequities and limitations of the property tax are pushing some communities to call for replacing it altogether. As a State, the best role we can play is to allow localities room to experiment....

Common sense tells us that a single property tax policy might not work equally well in all parts of the State. Last year, City of Amsterdam officials approached us with a proposal to allow them to establish a "land value" system of taxation, and we agreed. The concept of land value taxation is based on the premise that taxing improvements at a lower level than land will spur economic development. We will monitor the Amsterdam experience carefully to see if it can guide us in rethinking local tax policy throughout the State.

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Land (Like Elvis) Is Everywhere

by Lindy Davies

A few thoughtful Georgists have asked, now and then, "If the land question is as pervasive as we say, then why has our movement remained fixated on classical economics and "mere" fiscal reform? Why are there not Georgist contributions to sociology, criticism, aesthetics?"

Well, there are. Or at least, such a world-view has been quietly evolving for quite some time. Leo Tolstoy may have been right when he said that to know *Progress and Poverty* is to agree with it, but getting people to know it has been our multifarious task for many decades, and our resources have been meager. Nevertheless, a great many people recognize that fiscal reform is but the tip of the Georgist iceberg; they take seriously the notion of a "Georgist Philosophy." Oscar Geiger, the founder of the Henry George School, was among the first to expand on Henry George's worldview; Robert Clancy recorded it, and a course based on his *A Seed Was Sown* draws enthusiastic students today. Many have asked and answered the land question in theological or Biblical terms, including Robert Andelson and James Dawsey, Michael Hudson, and Rev. Archer Torrey. A growing cadre of "Green Georgists" articulate a way toward a sustainable economy based on the moral basis of ownership, *ala* George: a Geonomics. Even the interminable, irksome debate over whether it's a tax displays a broader philosophical sweep: for of course the "single tax" is not a tax; taxes are parasitical confiscations and the land rent belongs to all. That truth can only be denied by the threadbare proposition that there shouldn't be any "shoulds" in economics (which, of course, is itself a "should!")

We have made a start - but there is a whole unbounded savannah of social insights to be gleaned and examined. The land question is closer to our everyday psyches than we would like to think. Think of the last time you rode a crowded Amtrak train. On most trains, tickets are sold without regard to space. Those who get seats are comfortable, and rather smug. They surely expect that seat to be waiting for them when they return from the refreshment car. They also expect the poor wretches in the aisles and doorways to get out of their path - what nerve, lodging hobo-like in a public aisleway! Sure, a seatless train ride is a whole lot less amiable and comfy than a seated one, but that's not my fault! That's my seat. The economy of Amtrak is truly Malthusian.

Fortunately for us, though, the train ride is over eventually, and the analogy doesn't really hold. Riders of our planetary train can simply build more seats - if only they can get on the track.

Here is a grab-bag of notes in the news that engage our expanding paradigm:

(Please turn to page six)

LETTERS to the Henry George News!

Agnes de Mille

When we were about to issue the centennial edition of *Progress and Poverty*, I asked Agnes de Mille if she would write a preface to it. She agreed, and, in a short time, sent me the article. Since she had already written several books on ballet and related subjects, I knew she was an accomplished writer.

However, when I received her article, I foolishly thought it could be improved upon, so I edited it quite extensively, and sent it to her for approval. She was not pleased, to put it mildly, and asked me to come down to her home to discuss the changes.

Although I was sure she was annoyed with me, she very graciously went over her work with me. After a few minor changes, it came out quite well.

That's when I realized that she had inherited the same fiercely independent ideas, which brooked no interference, from her famous grandfather.

- Dr. Oscar Johannsen, Executive Director, Robert Schalkenbach Foundation

Health Care is Up to Us

Dear Folks, I read with great interest the article entitled "To Your Very Good Health." Professor Vickrey recognizes that private insurance companies cannot effectively handle the problem of health care. Any political plans to cope with our health problems would simply intensify the situation. I believe that any government devised and tax-supported plan would be a bureaucratic disaster! I agree with Vickrey that we should not have taxes at all.

I would like to suggest a much more feasible, and much less expensive health care plan that is more in tune with the Henry George philosophy. One of the complaints of Georgists is that the George idea is unexamined but rejected. In the 33 years I have been teaching the science and philosophy of Natural Hygiene (Life Science), I find the same thing is true of this idea!

In a more free society, the best retirement plan is one set up by the working individual - the best health care plan is also one set up by the individual. ☞

Interstudent Grads Launch Economics Review

The *InterStudent Review* is a published by students and alumni of Bret Barker's InterStudent economics program at Schurr High School in Montebello, California. The *Review* provides a forum for student writing on topics in political economy. InterStudent is an economic studies program developed by LA-HGS Director Harry Pollard and teacher Bret Barker. Since 1970, the course has been used by high school teachers around the country as a way of stimulating students to think - and of challenging them to public debate. In one issue of the *Review*, Harry Pollard states: "The philosophy of InterStudent may best be characterized as cooperative individualism. While students work in small groups, they must take full responsibility for their education. They are challenged to learn in Socratic fashion, and are constantly subjected to a barrage of challenging assignments and tests."

That approach has generated far more enthusiasm and clear thinking than one would expect from a high school economics course, as attested by the topics dealt with in the *InterStudent Review.*

All the major articles are written by the participants and graduates of the course and provides a colloquium for the expression of their opinions. Contributions cover a wide range of contemporary topics. The October '93 issue, for example, tackles private charity vs. government welfare, the ability of the executive branch to spend money wisely, and the debate over compulsory education. The *Review* seems to be a welcome addition to the ongoing economic dialogue, from a Georgist perspective. *- D.D.*

To do that, each one must accept responsibility for their own health care. The next step is to acquire knowledge of health principles. The third step is to apply this new understanding to the maintenance of their health and the health of their families.

The thousands of people who follow this way of life have little need for drugs, doctors, treatments or health care plans. They have learned that good, vigorous health is as normal and natural for man as it is for all other living organisms on earth.

- Benjamin Russell, Mountain Home, Arkansas

The Assassination of New York

Review by Pauline Juckes

When we think of Henry George, we are inspired by his passion for social justice. Reading Robert Fitch's work, *The Assassination of New York,* I was similarly inspired, sensing that he had pursued his goal of sharing his findings with us in a flurry of feverish haste, as if having unlocked the forbidden casket and discovered an answer to the unanswerable, no time could be lost in bringing the news to us.

Many of us have arrived in New York, fresh from another coast or community. Have we not asked ourselves the age-old questions: why are the streets potholed and garbage-strewn? Why are the subways tired and decrepit? Why poverty, crime and homelessness in a land of wealth and plenty?

Henry George, walking the streets of Manhattan in 1870, asked himself these questions, and answered them in the treatise we know as *Progress and Poverty.* More recently a string of books is again questioning the status quo in New York City and attempting to isolate, once and for all, the ultimate cause of our modern-day woes. Robert Caro's exposition of Robert Moses in *The Power Broker* accused him of grandiose manipulation of physical structures and merciless indifference to a helpless populace; Jane Jacob's *Life and Death of American Cities* brought new visions of neighborhood and interactive community life, showing how over-reaching plans could be thwarted at the grass-roots level. Robert Fitch has taken a step further, drawing back a curtain to reveal those who made the original sweeping blueprints, and why.

> ***The Assassination of New York*** by Robert Fitch, New York, Verso Press, 1993
>
> ***Pauline Juckes, C.S.W.*** is a psychoanalyst/social worker, and a writer. She is currently at work on a book, *Twenty-two Square Miles of the Most Valuable Real Estate on Earth,* charting the growth of New York City from its earliest beginnings to the present day, and the impact of land speculation throughout the city's history.

Robert Fitch has executed a masterful treatise, painstakingly going behind the scenes to examine original documents, and expanding our vision by bringing to life the players in the grand scheme of shaping our metropolis. Have you ever wondered, for instance, why 6th Avenue, or the Avenue of the Americas, has become a canyon faced with towering blocks of offices and hotels, between 49th and 57th Streets? Or why the Port of New York now resides in Elizabeth, New Jersey - and the many small manufacturers have disappeared? Why there is little left of the flower market area on lower 6th Avenue, and its music district has been all but destroyed? Why actors and dancers no longer have space to rehearse? Why once-vibrant neighborhoods are now prime examples of urban blight? Why subway riders cannot ride a convenient loop from borough to borough, as in most of the coherently-planned cities of the world? Why the waterfront, despite all efforts and entreaties, belongs to automobiles and proposed office blocks and is not available for public recreation?

Answers to all these questions spring from Robert Fitch's book in surprised indignation, as if he were asking us how this could possibly have been allowed to happen. At one point he compares this city to Babylon, noting caustically that it too was a remarkable city in its day. Readers who seek clarity in unravelling the power structure behind New York's ineffectual city bureaucracy need only to read this book.

Fitch quotes Saul D. Alinsky, who wrote in the 1950s: "New York... has the least citizen participation, the least effective local democracy, and the individual has the least degree of... self-determination that is to be found in any major city in the United States."

Interestingly, although he lays much blame for New York's distorted growth at the feet of the Rockefeller family, one senses the hand of the landowner when he illuminates the control held by Columbia University, owners of the land beneath Rockefeller Center, and their refusal to hand over title or even negotiate a manageable lease.

This dilemma forced the Rockefeller family to scheme and manoeuver incessantly during their almost 70 years of owning Rockefeller Center, in order to maintain land values under, and in the immediate vicinity of the structures - even to the extent of controlling mass transit. In the tortured course of this saga, one begins to glimpse the answers to the irrational growth in this area.

Joshua B. Freeman reviewed this book in the Nov. 22 issue of *The Nation,* stating:

> *All but ignoring the issues that have dominated recent New York elections - race, crime, corruption and administrative incompetence - Fitch insists that the main problem the city faces is a disastrous lack of jobs. With an unemployment rate stuck near the double digits, New York has one of the lowest labor force participation rates of any city in the country. The cause, Fitch argues, is not the national recession, economic globalization, high taxes or any of the usual explanations.* *(continued on back page)*

THE SOUTH SEA BUBBLE

by David Domke Part I

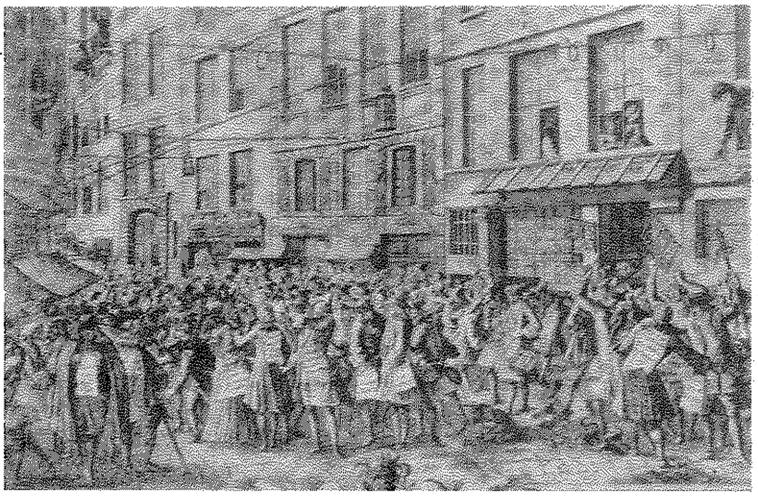
At length Corruption, like a general Flood
Did deluge all, and Avarice creeping on
Spread like a low-born mist and hid the Sun.
Statesmen and patriots plied alike their Stocks,
Peeress and butler alike shared the Box,
And mighty Dukes packed cards for half-a-crown-
Britain was sunk in Lucre's sordid charms.

- Alexander Pope

As mercantilist practices spread in the latter part of the 17th and the early 18th century in Britain, so did schemes to enhance credit and maximize profit. Men of trade sought - and expected - the protection of the State. All economic expansion was considered in the general national interest, and therefore something the State should be intimately involved with. Those in government were all too willing to comply - as they sought ways to consolidate administrative authority over a steadily growing and intertwining complex of military and commercial interests. Economic expansion and colonialism were almost synonymous - and so was personal gain; many government ministers lined their pockets. One such scheme, which came to be known as the "South Sea Bubble," was to have disastrous effects for many people.

South America was considered the choicest area for exploitation - much more so than India, which was considered less accessible and more highly civilized, and therefore more resistant to colonization. South America, with its rich natural resources, was a ripe market for African slaves (a "commodity" in which the British traded quite profitably) to work its mines. At the time, South America was for the most part a wholly owned subsidiary of the country of Spain, which had already granted slaving concessions to the Dutch and Portuguese. Britain, however, had the competitive edge - it could deliver more slaves at cheaper prices and therefore the special privileges were transferred to British slave traders.

Slavery was the key to South Sea trade. The indigenous peoples, who at the time were undergoing the process of "Christianization," had been granted protection by the Catholic Church and could not be used as slaves. What was needed was a British corporation to consolidate Britain's commerce with that part of the globe - along with the necessary military protection. In 1708 the British governor of Jamaica summed up the situation by saying "If we can find a method to prevent the French from trading with Peru and the South Seas, trade around here will soon be in a flourishing condition."


Rue Quincampoix, the "Exchange Alley" of Paris

In early 18th century Britain, the idea of competition among two or more corporations was considered unorthodox, against the best interests of both business and the State. The monopoly form of capital was considered the most natural, and the most easily subject to government oversight and control. Government and business were united on many levels. Had competition been encouraged, the State would essentially have been competing with itself.

The usual procedure was to create a joint stock company after the issuance of a patent by Parliament, which gave monopoly right to whomever held the patent. This was made law in 1624 under what was called the Monopolies Act. The East India Company, one of the earliest joint stock companies founded to take advantage of trade with British colonies in India, was created in this way. In 1660 the East India Company found its monopoly threatened and Oliver Cromwell stepped in to protect the Company - "the Company stood for England in the East as no casual, free-trading... group of merchants could."[1] To exploit the enormous benefits to be accrued from South Sea trading, Parliament decided in 1711 to pass a bill incorporating all trade with the South Sea colonies under the auspices of an entity to be called the South Sea Company.

To pave the way for the passage of the bill, the Whigs (the majority party in parliament, for whom the global expansion of British mercantile power was an urgent priority) worked in secret to make sure that no monies were allocated to service the national debt that year, which totalled 9.5 million pounds (an enormous sum in those days). A plan was then announced to form a company that would take on the entire national debt from the profits of the company's monopoly on South Sea trade. Furthermore, public shares in the company would be sold. One provision of the bill was that the 9.5 million pounds of unfunded government securities would be exchanged for an equal amount of shares in the Company. The South Sea Company was guaranteed a kick-back of £568,279, or six percent of the debt, plus management fees. This annual payment was to be funded by indirect taxation, in the form of import duties. Of course, those government ministers and members of Parliament with inside knowledge were able to reap rewards immediately, since many of them got their hands on securities before the bill was even put forward. However, despite government guarantees, the Company was slow in getting off the ground. Since the Company was founded on the assumption of debt, it needed a large influx of credit to actually get moving. The Exchequer was slow to provide the promised six percent to the corporation and the whole idea did not as yet catch on with the public at large. Stock in the company stayed below par for a long time and the Spanish government had its own tariffs and import duties to impose on British trading ships. Not until 1715 did the stock actually reach par and trading was, to say the least, far below expectations. Perhaps what was needed was more government intervention.

That is exactly what happened. By the end of 1715 both the Duke of Argyll and the Prince of Wales were elected to the governing board of the Company. The Duke was made director and the Prince became Governor. The Prince was always looking for new ways to increase his income, for the most part to decrease his dependence on his father (The first ship launched by the Company was christened

The Royal Prince). The Duke was well known for his avarice, having even gone so far as to marry below his rank for money. It was also a sign of the times that men of business and men of birth had begun to associate for their mutual advantage. And both classes sought out newly fashionable London neighborhoods in which to live.

As owning property in the rapidly expanding urban areas became more necessary and therefore more valuable, many water and textile companies expanded into insurance and real estate investment trusts. Grants of privilege were given to real estate and insurance companies for large parts of major cities (such as the York Buildings Company,) making them government-backed landholding powers. These "public works" companies were in turn insured by government-backed companies (for example the Royal Exchange Assurance company) and this system was quickly expanded into the northern coal mining regions, where both real estate and insurance interests were charted to exploit the mineral wealth of a region. The growing merchant class longed for the prestige and aura of power of nobility. Much of the nobility needed capital. Feudalism was giving way to mercantile capitalism and the predominance of finance capital, leading to a decrease in rental income. The Scottish nobility, for example, was developing a reputation for dabbling in finance of all kinds. Indeed, for all European countries with access to foreign and colonial trade, an Age of Speculation was dawning.

France was a country with colonial holdings similar to Britain and Spain, which were mostly in North America. Its main territory was called Louisiana, which at that time stretched from the Gulf of Mexico to the Great Lakes. It had also set up a government-sponsored joint stock company called the Mississippi Company which had been incorporated to exploit trade with its own and other nations' colonial holdings throughout the world. Around the time of the death of Louis XIV the French court and the government were near bankruptcy. To counter the downward spiral, a new system of paper money was quickly introduced. A private bank, with the backing of the government, was set up in Paris to distribute and regulate the new paper currency. To ensure the use and circulation of the new money, the government put a limit on the amount of silver that could be redeemed at the bank.

A founding Director of the South Sea Company

In Britain as well as France, the influx of paper currency catalyzed all sorts of financial exchanges, from capital investments to commercial transactions, leading in part to a greater Gross National Product for France. This influx also led to a great increase in speculative schemes. As knowledge and science were progressively put to practical uses, new technologies were being invested in as companies received patents and monopoly privilege for inventions such as Savey's steam pump, a burglar alarm invented by a man named Tyzack, a 'musket-proof chariot,' tin-plating and a rather dubious process designed to desalinate sea water (the English Parliament had even passed the 'Act to Make Salt Water Fresh' some years earlier in the hopes of creating incentive for the invention of such a procedure). Under the umbrella of Royal and or Parliamentary sponsorship, the entrepreneur and government minister more often than not walked into the market hand in hand.

The investment and speculative boom in France catalyzed a similar boom in England, as "the energy of the boom was now dancing to and fro across the Channel like a series of electric sparks."[2] France's Mississippi Company stock soared to 2,000 and the word millionaire was invented to account for the new class of persons with tremendous capital resources. "Everybody speaks in millions," wrote the Duchess of Orleans. "I don't understand it at all, but I see clearly that the god Mammon reigns an absolute monarch in Paris."[3]

Meanwhile in anticipation of a similar boom in England, King George himself was made Governor of the South Sea Company. This was done to symbolize the "happy union," as it was called, of government and commerce. The King was, as head of the company, compensated with £100,000 of stock. Suddenly, a lot of people were in a position to make a lot of money. Within a week of the King's being made Governor, the value of a £100 share of Company stock rose to £375; by the beginning of the following week the same stock was trading at £495. As this was going on, well-placed stories in newspapers were already telling of huge gains being made by investors. This led to a credit boom, as would be investors were being allowed to mortgage property to obtain shares. On paper, at least, the Company was looking enormously profitable. In reality, though, the Company was not actually increasing its colonial trade - and relatively little new wealth was being created. The Company Directors, however, were making a bundle. Several of them went on spending sprees, paying several thousand Pounds cash for country estates with hundreds of surrounding acres.

The expanding South Sea Bubble created and fed smaller bubbles in its wake in what was known as Exchange Alley, the newly expanding stock exchange. There were insurance schemes sprouting everywhere - a Company to Insure Seaman's wages quickly sold 2,000 shares of stock, and everything from the Sail Cloth Company to Wyersdale's Turnpike Concern were issuing stock quickly and in large quantity. Newspapers expanded, sometimes doubling in size, just to carry Exchange Alley stock quotations. A number of South Sea Company directors were also profiting from trading in the Alley. Meanwhile, the South Sea Company decided to issue more stock - it was now trading at 610 - to take advantage of the trading fever. The stock market became ecstatic and the value shot up to 870 in two days. The Royal African Company, which had monopoly privilege in the procurement of African slaves, saw its stock doubled in consequence.

All this circulating stock and money had another consequence. Land in and around London was shooting up in price. Some choice parcels increased in value by as much as 45 times in a single year. In fact, property prices and South Sea stock prices were running almost parallel and quotations for both were often given side by side in the newspapers. One speculator, who reportedly died of the sheer overexertion of making money, claimed he was dying happy: "for though I have lost my life, I have got an estate."[4] In fact, a new square was being planned for one of the newly fashionable London neighborhoods - it was to have had the fitting name of South Sea Square.

Next time: The South Sea Bubble finally bursts... but inspires arguments for free trade.

NOTES

1. Clapham, Sir John, *A Concise Economic History of England*, 1949, Cambridge University Press, pg. 267.
2. Carswell, John, *The South Sea Bubble*, 1960, Stanford University Press, pg. 91.
3. Ibid., pg. 101.
4. Ibid., pg. 159.

Land (Like Elvis) Is Everywhere

(continued from page two)

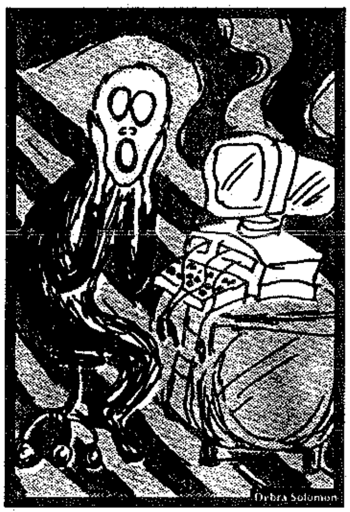
From Serbia, where nothing good seems to be happening, we have the odd and wonderful news of the ***Zitzer Spiritual Republic***. Last spring in the village of Oromhegyes, 200 men received draft orders from the Serbian army. After a protest demonstration, tanks massed around the village. The draft resisters and their supporters holed up in a rustic village bar, the Zitzer, for two months. During that time, they claimed an unorthodox kind of sovereignty: they established a **Spiritual** Republic. A constitution was adopted; a national anthem was chosen (Ravel's *Bolero,* the only record on hand in the bar,) and a flag (a pizza flanked by three billiard balls) was sewn. The Zitzers' Constitution offers citizenship to all applicants who "participate... in the realization of the Objectives of the Republic." Thus, the republic has all the customary attributes of a nation, save one: it has no territory.

Their protest was successful; most of the men avoided being drafted. Some chose the alternative of civil service. Five men, however, were captured by the police and forced into uniform. Since then, perhaps a thousand people from many countries have joined the republic.

Have the Zitzers seen the cat? It could be argued that the main point behind their "spiritual republic" was simply to avoid being drafted. But the way they chose to express their opposition to war - the notion of a nation without territory, in the midst of a disastrous war of "nationalism" - sends a Georgist message. Nations exist, according to Thomas Jefferson, to secure the rights of their citizens, including the rights of ownership and land use. Nations don't exist, according to the Zitzers, to engage in genocidal land-grabs.

The autumn issue of *The Geonomist* reprints an op-ed piece by Jeffery Smith, published on October 14th in the Santa Barbara *Independent.* Titled "Profit for Our Planet," Jeff's essay serves as a terse manifesto for radical eco-Georgism, and it deserves a look, especially from those who feel the danger of diluting our message in the attempt to link it with other causes. Jeff Smith's message here is not diluted. Some of his points may be debatable, but his logic comes in true line from *Progress and Poverty,* and he makes the connections that Henry George would very probably be making were he writing *Social Problems* today. He decries all taxes of all kinds as unnecessary, inefficient and immoral, leading to bloated bureaucracies - and subsidies for environmentally destructive industries. If, he suggests, instead of taxes, we were to collect the full rental value of natural opportunities, we could tremendously streamline our government - and have some of the rent left over to distribute to the citizens. This dividend is what Jeff calls the "Natural Heritage Share."

Note that his word is "Natural," not "National." For the plan cannot achieve its goal of a just and sustainable prosperity unless some of the rent fund is shared internationally. This idea is not unique to Jeff. A variant of it - the idea of international marketing of pollution credits - has been articulated in detail by the United Nations Council on Trade and Development (see our reports in May - June and Nov. - Dec. '92). Georgists have always held that those who benefit from natural opportunities must satisfy the community's equal right to them: they must pay rent, internationally, in our truly international economic community.



Utopian, yes - but that doesn't make it wrong. Jeff comes down to earth at last, reminding us to "get clear on the need to own land. Our territorial imperative strives not for absentee ownership, the speculator's road to riches, but for owner occupancy, the Jeffersonian ideal." Jeff Smith's conception of "Geonomics" insists that no amount of tree-hugging or whale-saving will save our planet, without Henry George's remedy.

Between 1910 and 1920, there were about 32 million farmers in the United States - about one of every three people. But the 1990 U.S. Census, according to a *New York Times* story of October 10th, found so few farmers that "the cost of collecting and publishing statistics on farm residents and farmers... could no longer be justified." Their estimate of the farm population is 4.6 million, or about 2% of the population - even though just over 25% of the nation's people live in rural areas. Nor is the trend toward fewer farmers, which has gone inexorably on for eighty years, about to reverse itself. The median age for farm residents in 1991 was 39.1 years, compared to a median age of 33.1 for the rest of the population.

Is there a connection between these statistics and the pervasive sense of creepiness about the food we eat these days? We're constantly admonished to wash the pesticides off our vegetables, to scrupulously cook the salmonella out of our meat and eggs. If land were easier to acquire, and taxes were lower, wouldn't organic and free-range farming would become more competitive, and our diet become more wholesome?

The "Information Superhighway" may have some toll booths. Between the lines of two articles in the *New York Times'* Jan. 3rd supplement, "Outlook '94," we may read something very much like the old railroad land grants. The coming great global hook-up, which will integrate telephones, television and computers, may have as great an impact upon society as the railroads did. Certainly great sums are being invested, and great risks being taken. Not surprisingly, then, there is intense jockeying to create rent-collecting opportunities for the private firms willing to invest the billions needed to get it going.

To the horror of many in the computer-software business, a patent was awarded in December to Compton's New Media, a small San Diego-based software company, a subsidiary of Chicago's Tribune Publishing company, for software that runs a multimedia database. Although it has not yet become a big-ticket item, multimedia software, which seamlessly combines text, video and sound, is a key element in the communication networks that will soon be established. What has heads spinning in this case is that Compton's has not simply been given a copyright on a computer program, but a monopoly over the very idea of multimedia software.

Patent Commissioner Bruce Lehman has responded to the outcry and scheduled hearings to review this patent. But this is not the first time that overwhelmingly generous patents have been granted in the computer field. In two celebrated cases, patents were issued for ideas which other companies later developed and brought to market. Later, the patent-holders, without having taken the risk or done the engineering to market their ideas, sued the companies who did. This sort of "land-mine" patent is precisely what the industry fears in the Compton's Multimedia case. A number of companies, notably California's Oracle, Inc., oppose all patents for software, and it's easy to see why. According to John Kurtz, Vice President of Oracle, "Filing a single patent can cost $20,000 or more.... Companies like Apple, which grew from two guys in a garage, would never have happened if they had to spend a bunch of money on patents."

Microsoft's fabulously successful DOS program was not patented; nor was Ford's Model T. It could be that the rapid pace of innovation in this field merely serves to reveal a problem inherent to patents *per se.* In *Progress and Poverty* Henry George made a clear moral distinction between patents and copyrights. Patents, he said, are grants of monopoly rights in a discovery or a fact, which was not created by the discoverer but is the rightful property of all. Copyrights, on the other hand, apply to a specific, unique piece of work. A copyright for, say, a particular multimedia system does nothing to stop developers from devising other competing systems.

"Few things are really certain about building the fabled electronic superhighway," writes Edmund Andrews in 'Outlook '94,' "except this: it will cost a staggering amount of money."

Well, so would the railroads. And the ones putting up the money are the giant communications companies: Bell Atlantic, $15 billion over five years; Pacific Telesis, $16 billion over seven years; U.S. West, $500 million a year for 25 years to install fiber-optic cables. Such big spending by the normally staid phone companies tends to worry investors. In late November, Moody's Investment Service warned of "serious questions" about the quality of telecommunications companies' credit.

The Clinton Administration has stated its desire for access to the coming digital smorgasbord to be as comprehensive and affordable as possible - ultimately, for the souerhighway to be as ubiquitous as telephone lines. That would greatly increase the providers' costs. Their preference would be to install the new networks only in profitable areas. If federal regulators object, a great deal of money could be lost. So, considering the lobbying powers of telecommunications firms, and the general lack of popular understanding of the issues, it seems likely that the regulators will hearken less to the public's interests than to those of the monopolists. So, not only will tolls on the information superhighway be high, but the open, democratic, two-way nature of the network may be just a dream.

There is an alternative. It was never really necessary, after all, to let private interests amass huge fortunes by subsidizing the construction of railroad tracks. Like those tracks, the infrastucture of the information superhighway is a powerful monopoly. Henry George believed that any business that is a monopoly by its nature should be operated by the government. That is what should happen in this case - if we want more from the information revolution than 500 channels of home shopping network.

TEACHERS' CORNER

by Lindy Davies

"The rent of land is determined by the excess of its produce over that which the same application [of labor and capital] can secure from the least productive land in use."

Words that rocked the world? Not quite. We know how important a relationship it is, how much it illuminates. But state that principle straight out, and watch the students' eyes glaze over. Or, if the idea does go in, many will understand it today - but lose all touch with it by next week. Fellow stalwarts, we have, in no less vital a place than the central relationship governing the distribution of wealth, a **major** pedagogical stumbling block. Consider this unhappy dialogue:

"The least productive land in use" - where's that? Why, it's at the **margin of production**, of course. The margin of - the **what**? Oh, the margin, you mean the free land, right? Well, yeah. Sort of. But there **is** no free land anymore, except maybe in the desert. So, you mean the rent for my apartment is the difference between the rent in Brooklyn and the rent for the same apartment in the Arizona desert? And anyway, what is this "same application" bit? If I'm using my labor and capital in Brooklyn, I can't very well apply the same labor and capital in the desert, can I? Besides, I don't apply my labor where I live, I apply it where I work, and then pay my rent (which is too high) out of my wages (which are too low). I think they oughta just lower taxes.

No wonder their eyes glaze over! The student is being asked to process an abstract statement about a relationship among categories described by words that suddenly do not mean what they have always meant. This problem inspired the first great Law O' Rent innovation: the wealth distribution chart, developed in the 1890s by Louis F. Post and used (with modifications) ever since. (For a nifty new look at the old warhorse, see the *Teacher's Corner* of Nov. - Dec. '92). The chart makes it easier to keep the concept in mind - but it is still abstract. It would be much easier if there were signs outside the downtown district:

YOU ARE NOW LEAVING 8 LAND
AND ENTERING 9 LAND
Please drive carefully

We must find ways to make the idea concrete. In the May - June '93 *HGN*, for example, we took an egregiously common example of land speculation - a surface parking lot in midtown Manhattan - and examined it in terms of assessment figures, compared to nearly identical surrounding properties with large buildings on them. We determined that the parking lot, in order to pay its property tax burden and its one employee, needed only to fill half its spaces, on the average. Facts like that go a ways toward bringing home the real costs of land speculation.

To examine different grades of land, we could gather rental figures for the same type of accommodation in different places. Suppose we compare prices for, say, 700 square foot one-bedroom apartments in twenty-year old buildings. In Manhattan such an apartment rents for $1200 (and up) per month. What does one go for in your town? The main difference in its cost in different locations would be due to land rents, would it not?

A simulation may help to bring home the ethical dimension of the land question. Let's say you have a class of twenty students. Normally they come and chose their favorite from among twenty-five chairs in your classroom. What if one week you place the chairs in five stacks (assuming you have stackable chairs) of five chairs apiece. You announce that the first five students to arrive may claim a stack of chairs, and any who arrive after them are perfectly free to rent a chair if they wish to sit.

This basic idea has been turned into a full-fledged simulation game here at the New York HGS. *The Monopoly Experience* turns a classroom into a mini-macro economy, complete with agricultural and industrial resources, natural monopolies, money, corporations and free-market mayhem. While the game requires some careful administration, it can provide strong insights into the factors of production and their dynamic interactions.

Perhaps the easiest and most telling way to make the Law of Rent concrete for students is to comb the newspapers and other media for stories of poverty and crime, deforestation, homelessness, crises in public finance, urban sprawl, farm crises...the list goes on and on, and land speculation plays a vital role in every one. With all these object lessons coming at us from every direction, all the time, we should never need to take refuge in abstraction.

Assassination of New York

(Continued from page three)

Rather, it is the way large landowners have shaped the destiny of the city to serve their own interests."

Although Freeman hails Fitch for his moral zeal, "...in the tradition of George," in bringing planners, politicians, foundation officials and landowners to task for serving themselves in the name of the public, he finds elements in both George and Fitch to criticize. According to Freeman, George's greatness was not his analysis of landownership, or his remedy, but merely his articulation of the "popular moral revulsion" of gross inequality.

As far as Fitch's contention that the RPA (Regional Plan Association) was responsible for the transfer of the Port to New Jersey, Freeman contends that this only happened when air travel and containership weakened the Port's viability - which could just as easily illustrate the impotence of real estate interests. In response I would direct Mr. Freeman's attention to the fact that planners and real estate magnates bide their time and choose their moment to strike, and what better time than when their quarry is in a weakened condition?

Mr. Fitch points out that the Port had become prey to organized crime, that there was no reason why it could not have been refurbished, renewed and cleansed of criminal tendencies - and continued to play a vital role in the life of New York, providing jobs, and bringing all-important "mixed usage" to the neighborhood.

In other instances, Mr. Freeman is equally mis-informed. For instance, he attacks Fitch for maintaining that "a lack of space is contributing to the ongoing decline of industrial employment," asking that this point be proved. Fitch points out that changing FARs, or floor-to-area rations, manipulated at whim by the RPA, transform areas allotted to manufacturing into highrises and office blocks, in order to maximize land values.

Robert Fitch's final chapter is devoted to a number of suggested solutions. One suggestion is to allow the government to take over the land, a system which operates in Hong Kong and Singapore. Although Georgists would prefer to see a simple shift of taxes onto the land, Freeman's castigation of this proposal as producing an "authoritarian state" can hardly be reconciled with the reality of these thriving cities.

As Fitch argues:

When free enterprise conservative economists point out how low the personal and corporate income taxes are in Hong Kong, they somehow ignore the reason - the government owns the land and leases it to business for its use. More than a third of all government revenue is earned in this way.

It would be equally hard to find fault with Robert Fitch's overall vision for a rejuvenated city. He would like to see an end to the cycles of "boom and bust real estate values" and their hand-maiden, corruption. He would like to open the gates of opportunity and allow the "gritty ingenuity" of New Yorkers full expression. Finally:

The challenge of New York is to play out for the twenty-first century - as it did in the nineteenth and twentieth - the full meaning of diversity. That is not nostalgia; it is destiny."

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