George, Keynes, Reagan, Rabbit And Hat

By William G. Tucker

In the 1870's, a young newspaper editor named Henry George walked the streets of San Francisco lamenting the paradoxical economic mayhem that lay all around him. Why should people starve for lack of work in the very shadow of industries that were closing because people didn't have enough money to buy their goods? In 1879, he published his classic, "Progress and Poverty," to try to supply an answer.

George argued that panics occurred because the wealthy withdrew their money from productive enterprise to invest in a nonproductive good — specifically, land. Whenever rich investors started worrying about the future of the economy, he argued, they withdrew their business investments and started chasing speculative land ventures. Panic and poverty resulted. The solution, he argued, was for government to tax away all the economic "rent" earned from land ownership in order to channel investment back into more-productive business enterprises.

The system has worked occasionally in revitalizing cities. Pittsburgh's downtown renaissance is partly attributable to a Georgian taxing policy, whereby land is assessed at five times the rate of buildings on it. But as an overall strategy to stimulate the economy, it probably wouldn't work. Without land to speculate in, worried investors would just turn to something else. Art, antiques, yachts — anything would do as long as it promised to increase in value while the returns from business enterprises stagnated.

John Maynard Keynes attacked the same dilemma in the midst of the Depression and came up with another original answer. People couldn't invest, he argued, because there wasn't enough money. In a time of falling enterprises — technically called a "deflation" — money becomes *more* valuable, while goods become cheaper. Therefore, people want to hang onto money. But, as with land, there is only so much money available in the system. If people won't part with it, Keynes argued, business can't function. "Unemployment develops," he wrote, "because people want the moon." His solution was even more novel. If people want the moon, he argued, then give it to them. The Government should print more money and pump it into the economy to give people the illusion, at least, that they are again prosperous. They will start spending, and the economy will begin to hum. By the time the inflation is felt, the economy will be producing fast enough to absorb its effects.

For better or for worse, the gimmick worked. Keynesian "demand-side" economics became a double-barreled approach to altruistic social policies. Congress ran up even-larger deficits on programs to help the poor. But, it was argued, these programs benefited *everyone* by keeping employment and production high. It all seemed too good to be true.

It was. The problem, as Milton Friedman has expressed it, lay in the maxim "You can't fool all of the people all of the time." Gradually, people began to anticipate that money would continue losing its value, and to look for safer havens. Like 19th century plutocrats, they began to speculate in art, antiques, gold — anything that promised not to lose its value. In the 1970's, suburban homeowners' property often appreciated $3,000 to $4,000 a month. But when was the last time you heard of someone getting rich on the stock market?

The solution, then, should be to stabilize the currency, restore people's faith in the value of money, and try to nurse them back into investing in productive enterprise.

But what has the business-oriented Reagan Administration decided to do? Instead, it is going to try a new way of fooling people. The gimmick is now called "supply-side" economics. This time, we will give people newly printed money in the form of tax reductions. Thinking they are rich, they will go out and invest (but not spend) the money to get the economy rolling again. As Keynes proposed, by the time the inflationary effects have caught up, the economy will be running fast enough to absorb all the new currency. That way stagflation will end.

It may work. Keynes's plan, arguably, kept people fooled for almost 40 years. Perhaps this new suit of clothes for the emperor will wear for another 40. But the difficulty will be that once it succeeds it will be tried again and again until once more people catch on. Then it will be up to another new economic theorist to pull the same rabbit out of a different hat.

The one thing that would work in the long run — stabilizing the currency and controlling inflation so that business investment will once again become attractive — apparently isn't on the agenda.

After 40 years of being fooled by Keynes's demand-side inflation, how long will the public be fooled by the new supply-side inflation? On that question hinges the fate of the entire Republican economic program.

William G. Tucker, a contributing editor of Harper's magazine, is author of the forthcoming book "The Age of Environmentalism."

Henry George's Idea on Land Tax

To the Editor:

William G. Tucker's May 27 Op-Ed article, "George, Keynes, Reagan, Rabbit and Hat," gave an interesting synopsis of various schools of economic thought, and we were glad to see attention paid to Henry George, who has been unjustly neglected.

After disposing of various theories, Mr. Tucker proposes a stable currency as the real solution to today's economic woes. But we had a stable currency until 1935 and still had terrific booms and busts.

Mr. Tucker gives a fairly good interpretation of George's proposal, with one exception: He supposes that the main purpose of the tax on land rent is to lure rich investors away from speculation in land and into productive enterprises. It is evidently for this reason that he thinks "it probably wouldn't work," because rich people would then turn to "art, antiques, yachts."

The argument about luring big money back to business is borrowed from some of the supply-siders (see George Gilder). Henry George was concerned about all who work (or should work) to earn a living — which is just about all of us.

The speculative price of land stands in the way of productive enterprise, and taxes on production discourage same. If these two obstacles were removed via the single tax on land values, all of us — rich and poor alike — would be able to get at land for farming, building, manufacturing or what you will (maybe even constructing yachts).

Why shouldn't this work?

ROBERT CLANCY
President, Henry George Institute
New York, May 27, 1981

Plan works

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To the editor:

It is with regret that I read, in Comment on May 30th, the column by William G. Tucker, listed as a contributing editor for Harpers. He gave a garbled and uninformed column. He cited the renewal of downtown Pittsburg under the Henry George Tax Plan and said "it probably would not work." The fact is it does work and other Pennsylvania cities like Harrisburg, Scranton, etc., are following suit.

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