

LAND

the neglected factor

* * * * *

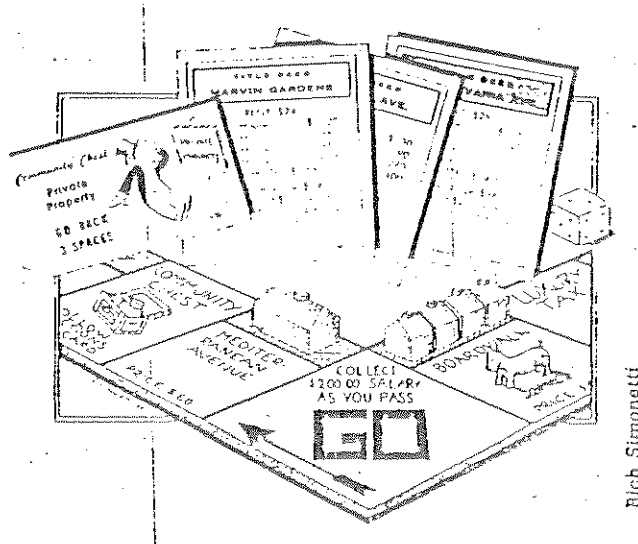
A FORUM REGARDING THE TREATMENT OF LAND AS PROPERTY
IN POLITICAL ECONOMY, IN THE WORLD, AND IN OUR CITIES.

THIS EXCHANGE APPEARED OVER THE COURSE OF SEVERAL MONTHS
DURING 1985 AND 1986 IN THE PHILADELPHIA NEWSPAPER

T H E W E L C O M A T

CONTRIBUTORS:

DAN ROTTENBERG - Editor, The Welcomat
DR. JOEL EICHEN - Dentist
EDWARD J. DODSON - Real Estate Finance Specialist
LEE ALDERTON - Stock Broker
BRIAN HERRIGAN - Economist, Federal Reserve
WILLIAM PHILLIPS - Community Activist



HENRY GEORGE INSTITUTE

5 East 44th Street
New York, N.Y. 10017

Rouse's tower, real wealth and the rest of us

by Joel M. Eichen

Just when you thought it was safe! Just when the Welcomat's resident socialist, Bob Sanders, has ensconced himself among New York City's literati, that's when it began all over again. But this time with a different twist!

Item One: The Widener Building was recently sold for \$24 million. A scant two years ago, it changed hands for \$12 million.

Item Two: Bill Rouse has broken ground for Liberty Place, a reputed \$600 million development project. He anted up an estimated \$1,000 per square foot for 35,000 square feet of land which three years before had sold for \$300 per square foot.

You know the joke: A wealthy businessman became afflicted with sleeping sickness. When he awoke 20 years later, he immediately called his broker.

"How's AT&T doing?"

"Three thousand," his broker replied.

"How's Xerox?"

"Six thousand"

"That's great, that's great. How's . . ." Just then, the operator broke into the conversation.

"I'm sorry sir, but your three minutes is up. Please deposit \$500 if you wish to continue."

Now, the problem is that most of us, if given the choice, definitely wish to continue. But we don't have the \$500. The joke above is a direct result of the first two items. More specifically, we are plagued, piqued and pilloried by poor land management—not in Nicaragua, not in Novosibersk, but right here in Philadelphia. Our wealth and vigor is being dissipated not by the Russians, but by our own fellow citizens, aided and abetted by members of our own local legislatures.

First, a disclaimer. We must certainly indemnify costs of government. Fire, police, sanitation, cultural activities and a strong national defense are all imperatives in our society. From our vast wealth we can also see fit to take care of those unable to care for themselves as well as those who desire and need psychological services,

entertainment outlets, and all other needs which ameliorate the quality of life itself.

Second, those farsighted individuals who can organize those forces which construct and build society must, perforce, be paid handsomely to encourage those activities which are necessary in our society. The construction of Liberty Place is a mammoth undertaking, and the captains of industry have a great responsibility to bring their ships into port. But how does one justify the \$700 profit per square foot which the previous owners of that land already nailed down before the first spadeful of dirt had been shoveled?

Third, the Widener building is, basically, the Widener Building. How else can the new owner justify the \$12 million increase other than passing along increased rents to each of his tenants? All of us who partake of services of those law firms, accounting firms and businesses will surely contribute to that \$12 million in the form of increased costs.

The classical economic arguments heretofore aired in the Welcomat didn't hold much interest for this writer for two reasons. First, most of what was said was simply opinion of the sort which could have been elucidated by a superficial reading of *Das Kapital*. Second, politics and economics are primarily endeavors of self-interest. In that sense, both capitalism and communism are imperialistic, jingoistic self-serving philosophies,

each causing a wake of destruction in its path. The antagonism between them is kept afloat by those parties who hope to gain the most—and, as we shall see, the rewards are great.

Wealth may be acquired in one of three ways: It may be earned, begged, or stolen. The wage earner, whether he works in the mail room at CIGNA, or whether he is the chairman of that firm, each equally earns the salary which has been allocated by society. The wealth that we contribute to churches or to social programs, both in this country and abroad, may be spoken of as being "begged," but increases in

land valuation strike me as theft in the first degree.

All real wealth is earned or "created" in one and only one way: The effort of mankind, working in conjunction and cooperation with others, transforms raw materials into those objects which we all need. Peasants in Vietnam or El Salvador know this well. That is the reason they will fight to the death for land.

The Treaty of Versailles in 1919 stripped Germany of the lucrative industrial Ruhr Valley and led, in part, to World War II. Germany's subsequent occupation of France in 1940 was limited to the northern industrial section, while the southern part of France was left to the designs of Marshall Petain and the Vichy government.

Now, in an industrial society—much less so in our post-industrial society—it is difficult to see that wealth is transient and must be created anew every day, by the labors of mankind. Wealth is not stored up in bank vaults

and in columns of debentures. Money represents wealth; it can be exchanged for wealth; but it is not in itself wealth. The wealth which is on my dinner plate in the form of a fish fillet was not stored wealth, but (I hope) was newly-created wealth for which I am willing to exchange some of my labor, that exchange taking place through the medium of currency.

Society impacts on how we organize our needs for food, shelter, safety and amenities. One man living alone in the country, if his house catches on fire, simply watches it burn down. Five people living close to each other enter into a mutual fire-fighting pact, and so on until we have the concept of the professional, state-of-the-art modern fire department. This is one of the benefits of living in an integrated society. Society creates that situation, and each of us, as a member of that society, is entitled to its protection and benefit.

Bill Rouse's \$35 million block is only valuable because of society. Our co-operation with one-another has conspired to make 17th and Market streets a very valuable commodity, but it is our creation, not his. Society sees that land not as a commodity, but as a resource to be used by society for whatever purpose is best served by it. Some land is best served as farmland, some as residential lands, while other land is best served as recreational land. I suspect that that parcel is best served by the erection of office space. If Bill Rouse chooses to establish that office space, so be it. The marketplace will compensate him dearly, which he most certainly deserves. But for Bill Rouse to enter into a fiduciary arrangement to pay the previous owners of said property \$25 million more than what it was worth three years ago, is a conspiracy to steal that wealth from society itself.

Three years ago Congress authorized raising the ceiling on the national debt to go above \$1 trillion. Now we are approaching \$2 trillion. All of the previous presidents until Reagan have accumulated a debt of \$1 trillion; Reagan doubled it. In several years, the debt service will wipe out the national budget, with nothing left over for pliers and coffee makers. Young people with no say in the matter are being asked to assume tremendous debt to pay for our financial irresponsibility. High school students see their parents taking out a second mortgage to pay for a college education. Corporate raiders earn millions by legal stock manipulation while tens of thousands are thrown out of work to buoy sagging balance sheets. We are losing countless manufacturing jobs to the Far East while ante goes up on land speculation. No one is immune, not mail room clerks or board chairmen.

We must analyze the nature of wealth and how it is created. I will leave to those interested in the arguments of the capitalists and the communists the matter of how we should distribute that wealth. To me it doesn't much matter. Not, at least, until we understand how wealth is created by society and why society is deprived of the benefit of that wealth.

Land speculation has resulted in farm foreclosures in the Midwest as well as increased rents for commercial space in Philadelphia.

Closer to home—my home, that is—land speculation has encouraged burned-out, undeveloped land. Ten years ago, the Redevelopment Authority sold a property to an individual in the 700 block of Pine Street with the stipulation that the home be used as a single family dwelling. Ten years later it is still vacant. The house next door returns \$3,000 to the city in the form of property taxes, which benefit society each and every year, both monetarily and by increasing the well-being of the neighborhood. The Redevelopment property remains a blight on the neighborhood.

This writer hopes that, through introspection, we can conspire together to discuss the nature of wealth, how it's created and where it goes. This is certainly an issue which affects all of us today as well as affecting our future decisions. Five hundred dollar phone calls may be within the grasp of a Bill Rouse, but certainly not within the grasp of all.

Joel Eichen is a dentist who lives in Society Hill.

The age of begrudgement

by Dan Rottenberg

Willard Rouse is a real estate developer who's putting up a 60-story office tower at 17th and Chestnut. What does he have in common with the Welcomat? Before you say "nothing," consider two opinions which have appeared in these pages over the past few weeks.

- First, Joel Eichen, writing on the front page of this issue: "Bill Rouse's \$35 million block is only valuable because of society. Our cooperation with one another has conspired to make 17th and Market Streets a very valuable commodity, but it is our creation, not his."

- Next, free-lance writer Robert Lasson, in a May 22nd letter to the editor:

"...The ego of the non-professional writer seeks any audience at any price, and the (Welcomat) letter writers will keep babbling until Judgment Day. All of which keeps the (Welcomat) owner's profits soaring at the expense of the very people who really are the Welcomat."

Rouse and the *Welcomat*, in short, are both targets of a naive but persistent mindset which contends that entrepreneurs don't really deserve credit for their successes (although, somehow, they always get blamed for their failures). If Rouse's building succeeds, it will be because society made the location so valuable. And to the extent that the *Welcomat* has succeeded, it is because the writers have made the paper so readable.

From such theorizing, it's an easy inductive leap to the conclusion that any profits made by the Rouse tower or the *Welcomat* represent moneys stolen from, respectively, society and writers. Writes Eichen: "For Bill Rouse to enter into a fiduciary arrangement to pay the previous owners of said property \$25 million more than what it was worth three years ago is a conspiracy to steal that wealth from society itself." Lasson writes that there is no excuse for the *Welcomat*'s \$30 writing fees—"not when you discover, as I did with a single phone call, that a full-page ad in the *Welcomat* costs \$927, and a quarter page \$231. Clearly, something is rotten on Ludlow Street with a differential like that."

Lasson did not, of course, phone our printer to find out our printing costs, nor did he suggest that *Welcomat* writers should share those costs. Nor does Eichen suggest that "society" should buy the land at 17th and Market or pay for the upkeep, real estate taxes and insurance on the property. And that, of course, is precisely what's wrong with this philosophy of "begrudgement." Folks like Ei-

chen and Lasson—and they are not alone, by any means—want none of the risks and all of the rewards.

I used to hear the same sort of thing all the time when I was an editor at *Philadelphia Magazine*. Free-lance writers there complained constantly about how poorly they were paid—especially, they noted, when publisher D. Herbert Lipson was always jetting off to the Caribbean or some such place. "I'm damned if I'm going to subsidize Herb's vacations," the writers would tell me.

I never saw it that way. Lipson—like Willard Rouse and the owners of the *Welcomat*—risked huge amounts of money on a concept that had never succeeded before. Lately Lipson has

spent hundreds of thousands, and possibly millions, of dollars defending his writers against libel suits. If after all that risk and expense he can manage to turn a profit, God bless him—he is amply entitled to it, much more so than a writer or editor who takes no personal risk whatever.

Eichen—again, like so many people nowadays—understands that wealth is something which must be created, but he fails to see that real estate speculation has a part to play in creating society's wealth. Society desperately needs people who are willing to invest in and maintain land, and the incentive we offer is the hope that they will turn a profit when the land is sold. Buying land is always a gamble, which explains why "society" is always skittish about getting into it. But if some private citizen is willing to gamble his own money on a plot of ground, and if Willard Rouse is willing to buy that land for \$25 million more than the previous price, who are we to begrudge the previous owner his profit? Who are we to insist that Willard Rouse spend less than he is freely willing to spend?

Certainly society played a big part in making 17th and Market what it is, and certainly the writers, readers and residents of Center City have played a big part in making the *Welcomat* what it is. But neither of these projects—nor any other endeavor, come to think of it—would come to pass without someone's willingness to risk capital. We ought not to begrudge these capitalists their profits if their risk pays off.

The "begrudgement" mindset reminds me of something NBC's David Brinkley once said when he got fed up with all the rhetoric about the public's ownership of the TV airwaves: "I've often wondered what the public would do with the airwaves if the public had them."

* * *

Real estate wealth

To the Editor:

Re your reply (Editor's Notebook June 12) to my article in the same issue ("Rouse's tower, real wealth and the rest of us"):

Dan, you missed the twist! The moment the *Welcomat* rolls off the presses it's considered wealth.

As soon as the Cabbage Patch Kid has its last stitch put in, it's also wealth. As soon as the workmen finish the last cornice at Liberty Place, it's likewise a contribution of wealth.

Now, let each of you take your product to the marketplace where others will exchange their wealth for it. That's risking capital in the marketplace, and you will be rewarded or not rewarded according to the whims and dictates of society.

Now consider the speculator who for the last 20 years had held 17th and Market Streets away from the market. He has denied others the opportunity to use that valuable property. He has created no wealth except a defunct McDonald's, a pornographic theater, a seedy bar and space for drug addicts to congregate. How much wealth has he created for society?

Joel M. Eichen
Society Hill

(Editor's comment: First of all, you speak of that land at 17th and Market as if it is public property. It's not. You have no right to tell the owner of that lot how to use his land, any more than he has a right to tell you to tear down your house and erect a socially valuable all-night pharmacy in its place. Second, if you believe society should share in the profits of real estate transactions, do you also believe that society should compensate landlords who suffer huge losses, like Jack Wolgin on Rittenhouse Square or owners of devalued properties in North Philadelphia? Third, I would argue that there was indeed social value to the haphazard collection of shops, fast-food joints, theaters and peep shows on the south side of the 1600 block of Market Street: They brought light and human activity to that block at all hours, as a consequence of which that block was much safer to walk through at night than the north side, with its deadly-dark, desolate Penn Center towers.)

Land speculation: A question of monopoly

by Edward Dodson

This essay expands on the recent writing by Joel Eichen published in the June 12th *Welcomat* (as well as the subsequent exchanges between Messrs. Eichen and Rottenberg). The ground covered in those writings reaches into areas of political, social and economic thought in need of thorough re-examination by all citizens. Government, as the arm of the state, plays a major role in dictating the outcome of relations between individual citizens, and one such area is in the discussion of what is or is not legitimate "public" or "private" property.

Dr. Eichen's most important observations fall in the realm of trying to define that which is wealth and that which is something other than wealth. Here, the distinction is between what the individual construes to be wealth and what is wealth from the standpoints of a political economy. From the latter perspective, land (or any element in nature) turns out not to be wealth but to be the source of all wealth.

It should be clear that the economic price of land is—in a post-frontier society—directly related to the fact that laws restrict the access of citizens to land controlled by others as private property. Land, however, has a

zero production cost (i.e., nature existed prior to and independent of man). This is a critical difference that must be recognized when analyzing the positive or negative impact of laws dealing with nature, both in instances where nature is viewed as public (i.e., common) or as private property.

The control of land has throughout most of history been based on the ability to dictate terms: The elite, the nobility or the aristocracy (backed by armed force) confiscated the production of actual "users" as part of the class systems against which later generations of Europeans and Asians rebelled or from which they fled (to North America and elsewhere).

On a larger scale, territorial control has been dependent upon military strength and the ability to defeat would-be conquerors. There is, of course, a "cost" involved in the forceful acquisition of land. Battles involve casualties and destroy much of a society's accumulated wealth (i.e., physical capital).

Another consistent historical thread is that those who gain control of the state apparatus attempt to dictate the distribution of whatever spoils are gained in warfare. Annihilation, enslavement or (less frequently) absorption

are the fates experienced by the vanquished.

This was certainly true of the European settlement of North America and the displacement of the people who had inhabited the territory prior to the European arrival. Opposed by a civilization superior in the technology of warfare and far greater in numbers, the "native" Americans were pushed off the land again and again until (as an economist might say) they were forced to "the margin" (i.e., to parts of the continent minimally able to support their needs).

This historical view is even more clearly supported by events in Europe, where both the land and the productive capacities of its societies came under the control of a small number of aristocratic families, lasting even to the present day in parts of Europe. Severe poverty and oppression of our European (and Asian) ancestors culminated in the mass migrations to North America, where there were two great advantages: (1) abundant free land and (2) the absence of a strong, centralized state whose laws and police powers could be used as an instrument of class oppression.

While European societies grew more and more despotic (causes of both the French and Russian revolutions), the condi-

tions in North America favored the evolution of a society based on self-reliance and individualism. Included was the fundamental right to property, so completely denied in the Old World. A universally propertied citizenry was recognized as necessary for the nurturing of cooperative society and the protection of democracy.

Immigration and population growth combined to bring about a rapid disappearance of the frontier and to destroy Jefferson's vision of a nation peopled by yeoman farmers. Private property in land held out the promise of a democratic state characterized by universal property ownership only so long as the frontier existed and our population remained relatively small. But by the third quarter of the 19th Century, the entire territory of the nation was either in the hands of private owners or under the control of government agencies. Jefferson's concerns for the nation's stewardship proved to be well-founded.

Our laws dealing with property in land can be directly traced to those of a despotic 18th Century Europe, creating the potential for the same social conditions that drove Europeans from their homelands. The common

denominator between the two worlds is both the state sanctioning of concentrated ownership of land and (even more important) the protection of land value as a private form of wealth.

Economists like to say that the supply of land is inelastic; its supply is finite and cannot be readily increased in response to market demand. Consequently, those who control the supply of land have a monopoly position in terms of that particular tract of land, because it is unique in both location and quality. Exercise of this monopoly position rests in turn on acknowledgment by others in society, or (which is more normally the case) on the strength of police powers to enforce its acceptance.

The morality is complicated and not readily apparent, but, in effect, our system of land tenure theoretically creates a society where the newly-born or newly arrived have no rights to access commodities necessary for survival. Without direct access to nature, sustenance must be obtained through the exchange of labor for money wages; if economic conditions do not provide such opportunities, the individual must either depend upon charity, the state or crime in order to survive.

The granting of private ownership of land to individuals can be viewed as the granting of a license to monopolize; the economic value of such a license is dependent once again on the strength of the state (or, in a democratic society, on the general agreement that the laws governing the society are just). Such a license has a certain ever-changing value in the marketplace which increases or decreases, depending on such factors as social stability and ex-

penditures by government for the development of physical infrastructure.

Here, in a very real sense, is the support for the argument that the economic price of land is societally-created. Broad-based taxes are used to make improvements that do not equally benefit all; landowners normally benefit the most when highways, mass transit, airports and other such endeavors make their land more accessible and centrally located. The landowner, as landowner, did nothing to "produce" this economic value.

What Dr. Eichen attempts to convey is that the private appropriation of that economic price (either as a payment from sale or as an income stream generated by leasing land) is at odds both with the tenets of capitalism and of justice. For the private owner, the increase in the economic price of land becomes a reward totally unrelated to production.

Looked at in this manner, it becomes ludicrous to describe such income as a "capital gain." Our tax laws actually reward the landowner for holding land out of production by taxing its sale at a lower rate of taxation if held for a longer period.

In truth, it is the capital of others which has generated the increased economic price of land. Speculative investment in land is based on an appreciation of this fact.

If our economic system is to be based on free markets and capitalism, there is no place for tax or property laws that support private (or state) monopolies. Yet, because of such measures, we have become a society where less than 3% of our citizens own over 95% of the privately-held land and natural resources

(either individually or as shareholders in major landholding corporations), and where the concentration of wealth and income is increasing each year.

What has been different in America is that this concentration required two centuries to evolve into a major problem. During that time, we established very decentralized systems of government (each with its own taxing powers), built thousands of schools to provide educational opportunities for our citizens and, utilizing tremendous advances in science and technology, achieved a level of production that gave a majority of American rising incomes and a constantly improving standard of well-being.

Under these circumstances, our society seemed able to advance despite the flaws that permitted vast fortunes to be built on monopoly (such as those of Rockefeller, J.P. Morgan, Astor, Vanderbilt and others). Moreover, taxing the earned income generated by true investment in physical capital and expenditure of labor seemed sufficient to provide for the needs of government.

Taxes are a cost of doing business. High taxes are also one factor in the decisions made by producers to relocate elsewhere. To compete with foreign producers (who may pay much lower wages, fewer taxes and—with some important exceptions—lower land acquisition costs), American entrepreneurs cannot be burdened with heavy taxes on what they produce.

They do, of course, try to pass on these costs to the consumer; however, absent tariffs or other protectionist measures to drive up the prices of

foreign goods, they must absorb these taxes.

Lower profits result. Investment resources are driven away. And people eventually lose employment.

The entire society suffers because the loss of jobs in an industry is not the result of a corresponding success of competitors in the national market. Unionism, protectionism and the welfare state are all reactionary efforts to counter the effects of a market characterized by land monopoly.

The problem began when the authors of the United States Constitution of 1787 deleted a clause from the Articles of Confederation of 1777 that dictated that all tax revenues were to be collected by the states, based on an assessment of the market value of land.

In making this change, our Founding Fathers were simply looking after their personal interests; many of them were large landowners and speculators themselves. This change and other concerns disturbed Tom Paine and a few others so greatly that they refused to support the Constitution.

Two hundred years later, the nation's economy is suffering the consequences of permitting landownership to escape significant taxation and thereby become concentrated: high interest rates, government deficits, high unemployment and a rising tension between economic classes. The tax system is to blame.

Financial resources that should be used to create new plant and equipment or to construct office buildings is channeled into land speculation, which produces nothing but higher land costs to those who are

attempting to engage in production. And, in the process, the costs are passed on to the American consumer, reducing purchasing power and our standard of well-being. At the same time, our industries become less and less competitive in world markets.

The example of the new Rouse development in Philadelphia is an appropriate one to convey the nature of the above underlying problems of our political economy. What Joel Eichen tried to tell us is that Rouse is just as much a victim. His competitor in the bidding war for the Market Street properties walked away with a tremendous payment without ever turning a shovel. Faced with a land acquisition cost in the neighborhood of \$1,000 per square foot, Willard Rouse has no alternative but to build a structure twice as high as any other in the city; it is a risky venture indeed.

Much will depend on events over which he has no control: the level of interest rates, the growth in the city's economy and demand for office space, and the ability of the project's tenants to pass on the increased cost of leasing space to their clients and customers. We have, in fact, identified one of the two primary causes of price inflation (the printing of money by government being the other).

Those who accept the status quo but say they are concerned for the future of democracy should examine these questions more thoroughly. Those who call for socialism or communism ought to think about the consequences such state monopolies have on the liberties we enjoy as individuals. Those of us who seek the truth have an obligation and responsibility to our fellow citizens to expand this dialogue.

As the Welcomat's editor, Dan Rottenberg has made a decision that this is an issue his readership wanted to discuss. If that turned out to be true, he would benefit from an expanded readership and from the ability to increase the fees charged to advertisers. Those are market-directed results.

But the land market is unique; it does not function in the same way, because people cannot survive without access to land. The land market is a natural monopoly.

Finally, we should not forget our recent history. Those in this world who are propertied have the means to survive; those who are propertyless do not survive, except on charity or as wards of the state. The numbers of propertyless are growing every day. I ask, what does that say about the state of democracy in America?

Edward Dodson works in real estate finance in Center City. He has been involved in the Philadelphia Mortgage Plan and other public interest housing movements. He lives in Cherry Hill, N.J.

LETTERS

TO THE EDITOR

Land speculation

To the Editor:

Rarely have I read a piece as well-researched and lucid as that by Ed Dodson on land speculation and its effect on our society (July 17).

It might be a revelation in social justice if the government were to tax only unimproved property. The squalor of the slums would disappear and the large tracts of vacant acreage would be developed to their maximum social potential.

The owner who simply denies its use would be taxed at a higher rate than his neighbors who bother to improve their lots.

To hold land off the market while its nominal price appreciates through the adjoining owners' effort to develop his interest is a form of economic theft. When I put in a pool, my taxes go up, but my neighbor's don't, yet he gets a higher price at resale because of the pool next door.

Willard Rouse pays a higher market price for land because of the increased development, both social and economic, of the surrounding ten miles in the last ten years, not because raw diamonds are in the ground at 17th and Market. The wealth is in the form of people proximate to the location.

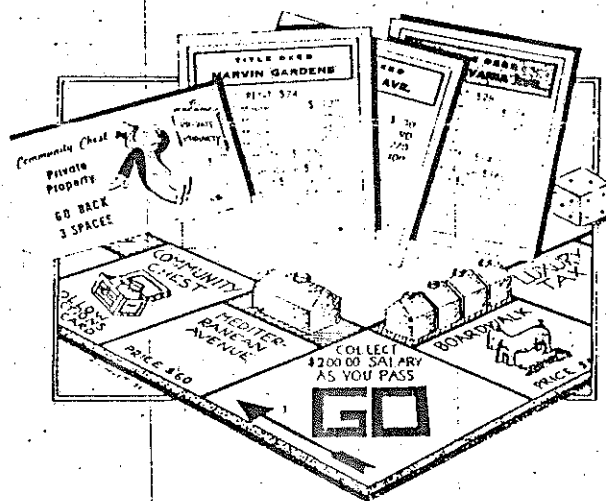
The government should rebalance the tax ratio between vacant and well-developed, so that in 10 to 20 years, 100% of the property tax comes from unimproved acreage within its domain. Mr. Rouse would pay no tax in 2005, thus lowering rent and enabling him to stay competitive with his tax-free neighbors offering the

same improvements to society.

Contemporaneously, the taxes would rise on vacant and slum land, encouraging their owners to develop to the highest economic use—or sell to someone who will.

Lee Alderton
Fairmount

Editor's comment: If you want your neighbor to be taxed for your pool, will you allow your neighbor to swim in it? If you want slums removed, are you willing to help subsidize the housing costs of displaced slum dwellers who can't afford the new housing that rises on former slum lots?



Rich Simonetti

LETTERS

TO THE EDITOR

Land speculation

To the Editor:

The Welcomat has recently become a forum for the age-old question of land ownership and land taxation, questions brought to public attention in the last century by David Ricardo and Henry George. Edward Dodson's recent article—"Land Speculation: A Question of Monopoly"—echoes those issues and combines some sound observations with some common economic fallacies (July 17).

Dodson points out that land is fixed in quantity. (There are exceptions: The Dutch have reclaimed land from the sea, and San Francisco has filled in part of its bay, but the exceptions are too few to matter much.)

Dodson also points out that the value of land depends on general social and economic circumstances. He then jumps to ill-founded conclusions that the "granting of private ownership of land to individuals can be viewed as the granting of a license to monopolize..." and that the "land market is a natural monopoly."

The fallacy Dodson commits is to equate fixity in supply with monopoly. A product or asset is monopolized when one person or one organization controls the entire supply of that product or asset, and that control has nothing to do with the fixity of the supply of a product or asset.

For example, if all of the vendors in the city were to form a cartel that set prices and production quotas on soft pretzels, the pretzel market would be monopolized, even though pretzels are easy to produce in large quantities. And to take another

example, the supply of authentic Victorian antique furniture is completely fixed, yet no one describes that antique market as monopolized because there are many buyers and sellers in that market.

Only if the entire Philadelphia (or national) land supply were controlled by a single individual would it be accurate to call the Philadelphia (or national) land market a monopoly. And without doubt, the local and national land market is highly competitive, since it has very many buyers and sellers.

Of course, one particular tract of land (say, at the southeast corner of Market and 17th Street) has one owner, and thus that one tract could be described as monopolized in a narrow definition of the land market, but that is like describing the medical market as monopolized because, say, Dr. John Doe—and no one else—can produce the personal medical services of Dr. John Doe.

Even though a tract of land on Market Street and Dr. John Doe each have their uniqueness, they also participate in a larger, competitive market, and their ability to extract monopoly profits is severely limited by the competition in that market. Philadelphia and the nation have nothing to fear from the private ownership of land as long as the land market remains competitive.

Another fallacy Dodson commits is to confuse disapproval of the distribution of private property with disapproval of the institution of private property, a fallacy analogous to disapproving of all religion because one disapproves of, say, the Unitarian Church.

Dodson correctly points out that white settlers in North America stole land from the Indians. Plenty of other examples abound, such as the theft of land from the Irish Catholics by invading British Protestants. These injustices were violations of people's rights to own property unmolested.

The existence of such historical injustices does not imply private ownership of land is evil. Quite the contrary, such injustices should strengthen our resolve never to let anyone be arbitrarily deprived of property.

Dodson points out—correctly, in my opinion—that the American tax system is inequitable and inefficient, that taxation and tariffs reduce our national income. And he also points out that landowners benefit from public services, such as highways, fire and police protection, schools and airports. (Arguably, the low quality of public services in Philadelphia has depressed land values from what they otherwise could be, but that is another story.)

But he incorrectly concludes that the remedy for inefficient taxation is to finance the government entirely with land taxes, a proposal considered and rejected by the authors of the American constitution.

The government takes from property owners as it gives services to them. At the local level, virtually all taxes are already extracted from property owners. In 1982, local governments collected \$104 billion in taxes, \$79 billion of which came from the property tax.

It is by no means true that land ownership escapes "significant taxation." Homeowners in states such as California

and Massachusetts have rebelled against ever-increasing property tax burdens, as well they should. There is no reason that investment in land should be singled out to support government activities such as welfare, social security, payments on the public debt, and national defense that presumably benefit everyone regardless of whether he owns real estate.

Indeed, it would be impossible to finance the entire American government with a tax on land; the government collects close to half of national income in taxation, and annual land taxes could only finance a small percentage of that.

Finally, Dodson claims that current patterns of land ownership and land taxation are responsible for "high interest rates, government deficits, high unemployment, and a rising tension between economic classes." Space does not permit a detailed examination of these charges, but most economists blame erratic monetary policy, fiscal paralysis, rising tax rates, and international events for these problems, not land ownership.

This is not to say that land taxes cannot be improved (or reduced) to improve the utilization of our land resources. I hope Dodson will contribute to the effort. But sloppy analysis and exaggerated claims for land reform do not promote the cause of better land taxation.

Brian R. Horrigan
Spring Garden

Editor's note: The writer is an economist at the Federal Reserve Bank of Philadelphia, but stresses that his views are solely his own and not necessarily those of the bank.

LETTERS

TO THE EDITOR

Land speculation

To the Editor:

Lee Alderton's July 24th letter responding to my article ("Land speculation: A question of monopoly," July 17) was encouraging but misses part of the analysis presented. He writes that "it might be a revelation in social justice if the government were to tax only unimproved property." This is not what I propose.

That policy would also leave to the owners of improved parcels of land the economic value attributable to both land and improvements. The first (generally in the form of locational value) is societally-created and should be collected by government to support public expenditures; the second (improvements and what we normally term personal property) is derived from private production. The income therefrom being private property, it should be exempted from taxation.

The most important element in this argument is that all land—independent of whatever improvements might or might not be present—has an annual rental value, the source of which has nothing to do with "service" performed by the landowner as steward of that parcel.

In an environment of increasing population, of large expenditures of tax revenues by government on public works and the availability of credit, the cost to lease or purchase land has historically far outpaced other "inputs."

Land has, therefore, attracted investors who acquired sites not for development but for speculative holding. This makes the market for land even more contracted and drives prices to users up even farther and faster.

Aside from the historical and philosophical discussion presented, there are fundamental economic laws we need to understand if the tax system is to be successful in accomplishing the goals of raising needed revenue without discouraging productive investment and simultaneously thwarting nonproductive speculative investment activities. Shifting the real estate tax off of improvements (production) and onto land values (nonproduced values) is the first step.

Here is something to think about: Higher taxes on land values are capitalized into lower land prices.

How so? If I pay \$100,000 for a parcel of land today and the market is pushing up land prices at 15% per year, at the end of one year my land will be worth \$115,000. Under the current tax structure, that land might be assessed at \$25,000 (but probably less) and pay a tax of \$7.75/\$100, or \$1,900. The unrealized gain is around \$13,100.

The best I can do with other investments might be 8 to 10%. So land speculation is attractive for me as an individual, even though it creates problems for the community by holding land out of uses that would create employment

opportunities for others.

All government has to do is apply a tax rate to the assessed value of land that results in a carrying cost (in the form of taxes) large enough to reduce the unrealized gain on the holding of land. Ideally, since the entire gain is a function of activities outside the landowner, I would like to see the community take all of the gain. Less would still work.

The investor would weigh the returns on various investment alternatives and decide against land. More land would come onto the market, increasing the supply and resulting in lower prices to developers. The lower land costs are, in this way, passed along throughout the economy.

In all market areas—local, regional, national and international—a community with this tax structure finds it has a competitive advantage over those which do not discourage investment in landholding.

Drop the tax rates on wages, corporate and other business income and you further stimulate productive investment. This creates a truly win-win situation, since even the ex-land speculator will profit by general economic growth and other investment opportunities which arise.

Edward J. Dodson
Cherry Hill, N.J.

Reprise: Land reform and the coming global disaster

by Edward J. Dodson

In his recent letter to the *Welcomat* (July 31), economist Brian Horrigan takes me to task for what he feels is "sloppy analysis and exaggerated claims" in my article on land speculation (July 17). Part of the problem is that Mr. Horrigan and I attach different meanings to the same terms. As an economist, his frame of reference is the language taught in university programs in economics. Others, myself included, argue that the language of the economists is often inconsistent and misleading.

A clear definition of the term "land" is critical to the discussion of my original essay. When I use the term land, I am referring not just to the surface soil or a location, but to all of nature, with the exception of man and



Susan McAninley

political economists, who were careful to refer to this factor as the source of material wealth (wealth being the end product of man applying mental and physical effort—i.e., labor—to nature).

What is produced by labor from land constitutes a society's stock of physical wealth, some of

control over a specific part of nature as being a monopoly license. In this case I admit to erring by not defining "monopoly."

Absolute control over a half-acre suburban plot will generally not give its owner the ability to dictate price. This is because the prices of such sites are determined at the margin (where land can essentially be acquired free of cost). In most periods, there is also a sufficient number of sellers in the market to assure buyers a choice between sites of equal locational advantage.

The other way of looking at such ownership, however, is that the landholder is legally permitted to control access and use over that specific part of nature to the exclusion of all others.

The same principle can be extended to a situation where one individual or corporation controls millions of acres of timber lands, mineral deposits, agricultural lands or a centrally-located city block. Here is where Horrigan and I seem to be in significant disagreement.

Under his definition of monopoly, an individual or group must control all the land in a particular

'There is every reason why investment in land should be singled out to support governmental activities.'

man's products.

Few economists make such a distinction between nature and products made from nature; in the language of today's economists, the three distinct factors of production (land, labor and capital) identified by classical political economists metaphorically become "inputs" and "scarce resources."

Under my analysis, each factor plays a unique role in the process of the production and distribution of wealth. The term "land" owes its scientific definition to the

which is stored, exchanged and combined in ways that make such wealth sufficiently unique to warrant its own term: capital. Thus when Mr. Horrigan speaks of the Dutch reclaiming "land from the sea," that process should be described as changing the form of nature—adding value through the use of labor and physical capital—to produce more wealth. While one result is more dry soil above the sea, there has been no addition to the mass of the earth.

Horrigan also questions my reference to the con-

market. I counter that the land market is inherently monopolistic because, unlike labor and capital, the return for the use of land involves no expenditure of effort on the part of the landowner in the capacity of owner. The income stream to the landowner is an extraction from the production by labor and capital in return for granting access.

Viewed in this perspective, the example he poses of a cartel being formed to control the price and supply of pretzels is not applicable to the land market. As soon as a cartel forms among Philadelphia pretzel makers, a black market (i.e., an underground economy for pretzels) will arise to short-circuit the cartel. Other producers outside Philadelphia will see an opportunity to gain market share and move in.

If all owners of developable sites in Philadelphia form a similar cartel, those searching for such sites will look outside the city market. That, in a way, is a market-based decision; land less centrally located and less subject to demand pressures is much less costly to acquire.

However, if the land market functioned competitively, the shift in demand would result in a lowering of the asking price of city sites. Such is not the case, because land values have no relation to a production cost. Labor can generate an income stream only when labor is engaged. The same is true of almost all forms of capital (the case of antiques is an exception which Horrigan brings up in an attempt to prove a principle).

Writing on this subject several years ago, an English colleague of mine responded with the following to the very same challenge:

"A collectible is a consumable that offers greater benefit from collection than use. Collectibles slay away from the market, for tomorrow the price

may be higher. If the collectible phenomenon adversely affected us, the activity might promote our concentrated attention, but as Winston Churchill said in addressing this question, 'Paintings don't get in anybody's way.' However, a vital part of the economic system, a part crucial to all production, acts like a collectible. This is land."

As we continually experience, the concentrated control over central sites within a city does get in the way of development.

Another instance of applicable comparison is Horrigan's attempt to use the uniqueness of "Dr. John Doe's" surgical talents to dispute my statement that individual tracts of land are unique.

In point of fact, all individuals are unique in terms of talent, knowledge and skills. Physicians possess specialized capabilities for which they are compensated, based on their ability to attract patients. Yet the

market for physician services is far less competitive than it might be, because of artificial restrictions. Practicing medicine requires government licensing and acceptance by an association of licensed practitioners. Such practices are in themselves monopolistic.

Labor unions represent another attempt to limit competition for available employment opportunities by putting pressure on employers to hire only individuals who are members of the labor unions; the labor union goal is to protect the employment security and money wages of members by preventing competition from other non-member workers.

Foreign goods, produced in a non-union environment, and the willingness of domestic non-union workers to perform the same jobs for less compensation are constant threats to monopolistic labor practices. For this reason, both the unions and professional associations continuously seek protective legislation and other restrictive government regulations.

Recent plant closings and permanent dismissal of unionized workers in

Recent plant closings and dismissals of unionized workers indicate that labor markets cannot be monopolized as easily as land markets.

other industries are indications that the markets for labor (even those as specialized as air traffic controllers and airplane pilots) cannot be easily monopolized. Even where such efforts are initially successful, the strength of the monopoly is subject to threat by powerful external forces.

At the same time, land banking, land hoarding and land speculation have expanded because the global land market becomes more monopolistic with time and population growth. In Marxist-dominated societies, the people are faced with state monopoly of land; where non-communist military dictatorships rule, the concentration is in the hands of a few families; and in the democracies, the control is held by government agencies (ostensibly as stewards), large corporations and by a dwindling number of wealthy families and individuals.

The consequences of such a concentrated control of the earth is something economists have historically glossed over. Why, I am not sure. Yet, it is clear that those who labor for a living (as opposed to those who simply collect income from land control), are forced to attempt to act collectively in order to achieve higher wages than they would receive under conditions of a highly competitive global labor market and a minimally competitive land market.

The problem is a problem of distribution. Wealth and income have become concentrated because the source of wealth and income is concentrated. Horrigan believes that I "confuse disapproval of the distribution of private property with disapproval of the institution of private property." My libertarian friends would

be very surprised to hear that I have attacked private property. The right to one's legitimate private property is, in my view, a sacred right.

My argument is that there is a distinction between individually-produced and societally-produced wealth that is not addressed under our system of political economy, the essence of which is found in the following principle:

"What the individual produces belongs to the individual as legitimate private property; the wealth which arises purely as a result of our need to access nature must be distributed equally among all members of society, not captured by a few who have gained control over portions of nature they had no part in producing individually."

A moral justification for this principle rests on the fact that land has no production cost; the price obtainable in the marketplace is dependent upon factors outside anything the landowner does as landowner. (If he builds, then he has acted as a "capitalist" by employing capital to produce new wealth—and, in the process, he has probably enabled his neighboring landowner to benefit by an unearned increment in the price obtainable for use of whatever land that landowner controls.)

Private ownership of land is not evil, but it is inherently monopolistic. Legal title to land is necessary to secure ownership of any improvements the landowner might make. The social and political question is:

"How much land should any one person or family or corporation be permitted to control and so deny access to that land by others in need?"

Most Americans do not need to control much land because we have

become a nation of office and factory workers. Some corporations must control large amounts of land to achieve economies in production. And, certainly, profitability in agriculture may likewise necessitate large holdings.

My concern is that our current land tenure system has made the concentration of land control inevitable—3% of the population controls 95% of the nation's privately-held land (the control of land value suffers an even greater concentration).

This, in turn, has resulted in a similar concentration of capital ownership and income. My view is that something should be done about this. Others—Mr. Horrigan apparently among them—see nothing wrong with such a distributional outcome and prefer to use the income, sales and improvement taxes to effect a transfer of wealth from those who produce to those who do not (rather than creating an opportunity for the propertyless to participate in the process of producing wealth). It is in real reform of the tax system, however, that the brightest hope is to be found.

Horrigan is not quite correct when he states that my "remedy for inefficient taxation is to finance the government entirely with land taxes." To the extent that our system of taxation discourages the production of goods and services while encouraging land hoarding and speculation, the result is inefficient and, more important, destructive. That troubles me a good deal.

What scares me even more is that I perceive our tax system as a direct threat to our democracy and to our political economy. This is because we have failed to recognize by law that what

users are willing to pay for access to nature is a surplus value—a value created not by the individual but by society in the aggregate.

Almost all qualities of land have some such value in the marketplace (a value which may change dramatically with changes in technology or the discovery/depletion of minerals below the surface). That value, determined on the basis of what the user will pay annually, has come to be called "economic rent." Collecting economic rent from the landowner does not tax, and therefore does not discourage, production. It has just the opposite effect: the more the user produces, the lower the economic rent paid as public revenue becomes as a proportion of the value of total production.

Correspondingly, the lower the amount of tax assessed against production, the greater would be the incentives to produce (this latter part of the equation has been understood by most economists, although credit for making this argument part of the political debate must go to the supply-side theorists).

What most economists, with a few notable exceptions, have discarded is the classical notion that "land" and "capital" are unique and separate factors of production. As I mentioned earlier, today's economists view these simply as inputs. Changing the way you tax one kind of input is going to bring about the same result as taxing another kind of input. Right? Wrong!

Arthur Laffer has been telling us for the last decade that higher tax rates on production discourage production. Increase the tax on labor and you get tax avoid-

'Most economists have discarded the classical notion that land and capital are unique and separate factors of production. Wrong!'

ance, underreporting of income, a proliferation of tax shelter schemes and a shifting to a cash economy. As Sweden found out, you can even lose a star tennis player as a citizen if you tax income at too high a rate.

Corporations move "off shore" to escape domestic taxes, they pay lawyers and accountants large fees to find loopholes in the tax laws, and they have been known to conduct business in ways the Internal Revenue Service frowns upon. As taxes in the United States have risen, the number of businesses moving to low-tax havens elsewhere has grown.

Other dynamics also play their role. Workers will attempt to pass on increased income taxes to their employers by negotiating for higher gross wages, which employers then try to pass on to their customers, who (when protective measures have not been used) will abandon domestic products for less costly foreign goods—a process which reduces sales, leading to layoffs and consequently to expanded needs for welfare expenditures . . . and back again to higher taxes on those who remain employed.

Taxing of land value has the exact opposite effect, because taxes applied to land value are capitalized into lower selling prices for land.

And in this we find the solution to one of the important variables in the spiral of price inflation. I will not repeat the example offered in my earlier essay, but will simply refer those who might be interested to the most recent edition of Paul Samuelson's text on Economics for a fairly concise treatment of the theoretical aspects.

The bottom line is that one cannot escape payment of taxes to be collected based on land value. Land value is constantly recertified by actions between buyers and sellers, leases and lessors, in the market for land. All government needs to do is to monitor this activity and set a rate of taxation high enough to collect the "economic rent."

Horrigan questions whether the nation's economic rent would be sufficient to pay for all governmental services at all levels in the United States. Probably not, given our tremendous defense expenditures. But the amount would be con-

siderable enough to permit reduction of taxes on individual and business incomes, on sales and on inventories to help American producers become more competitive in the world markets. We would be doing far more to encourage enterprise and discourage land hoarding than any other society.

For these economic policy reasons—and because I believe this approach is consistent with democratic principles of justice—there is every reason why investment in land should be singled out to support government activities.

I do not discount the extent to which our problems have been aggravated by Federal Reserve and other interventionist policies of government. Other writers have appropriately dealt with issues involving our monetary structure and fiscal problems.

But as we examine the dynamics of the global economy, I do suggest that we must consider what has occurred with regard to the world's natural resource, raw materials and agricultural products markets. Prices for almost all these commodities are down and show no sign of price "recovery." This price disinflation is a direct result of a collapse in demand for such commodities in much of the rest of the world.

Between 1973 and 1979 the price of crude oil approximately tripled. This produced a dramatic transfer of financial resources from the industrialized to the oil-exporting nations. The United States, Europe and Japan slipped into recession while the OPEC countries deposited billions with the large banks.

With few domestic clients for this money (except for federal government borrowing), U.S. banks went to the loss

developed countries with offers to provide financing (at floating rates of 20% and more) for industrialization projects and social welfare programs, secured by the future value of their exports. Unfortunately, Western consumers were not not buying because of the increased payments being made for energy and everything else.

In the United States, deregulation of the banking industry and elimination of usury restrictions further shifted the allocation of financial reserves away from traditional institutions and into the new high-paying money market funds. The nation's housing and finance industries were thrown into a tailspin from which they have yet to fully recover. The real estate industry crashed twice: first in the mid-1970s and then again at the end of 1979, taking the rest of the economy with it.

Recession in the industrialized West left the developing nations with-

out markets for their commodities, and the rising cost of energy made completion of most industrialization efforts impossible. Demand and prices fell, but interest rates remained high. International bank debt reached the

crisis level in 1982 and, according to many financial experts, is simply growing worse at a slower rate.

The International Monetary Fund instructed the debtor nations to raise domestic taxes, cut out spending and export... export... export. As a result, the West has been flooded by imports at a time when the number of consumers with money to spend has fallen.

Because of this "mysterious" halt in price rises in the United States, the Federal Reserve is applauded and the Reagan administration given substantial credit. Not everywhere, but in many regions of the country, the landmarket has once again become the target of speculative investment. Greater purchasing power and the diversification in some regional economies have combined to renew the speculative vigor. Land prices on Long Island, New York, for example, have increased by 20 to 25% just in the last year.

Not far beneath the surface is a global economic disaster of major proportions. Many American producers of raw materials and natural resources have found themselves unable to compete in these rock-

As Sweden found out, you can even lose a star tennis player if you tax income at too high a rate.

bottom markets and have faltered. Taxes, interest rates and labor costs have been "sticky downward." When agricultural prices were riding high, farmers speculated heavily in acquiring more land on credit at high interest rates.

It should have been no surprise that, as countries like Argentina stopped producing for domestic consumption and started exporting, food prices would drop and the farmers would be in trouble. Farm land prices have dropped (to levels dictated by global market conditions), which means that other farmers who refused to play the speculation game are in a position to operate profitably. Agribusinesses picking up foreclosed farms at today's prices should also be able to compete successfully in this market. Those who gamble, lost; and (though they were given all the wrong incentives and signals by our government and the bankers) those individuals are going to pay the ultimate price of losing their farms.

Social and political unrest in the developing nations may be the catalyst for a debt repudiation or moratorium against the U.S. and European banks. The only real solution, in my opinion, would be for these countries to move swiftly to a tax system that frees enterprise and captures the nations' economic rent (i.e., a national land value tax).

That is not even remotely possible, given the current state of things. Not only is land in less-developed countries more heavily concentrated in the hands of a few, there is little recourse available to the people through

democratic institutions.

As the conflicts grow in intensity and governments are replaced, the likelihood of repudiation grows. Investors will not wait very long before dumping their troubled bank stocks. Many banks may go under, despite the likelihood of a government-sanctioned taxpayer bailout.

Perhaps Mr. Horrigan will give us the benefit of his expertise to explain how the Fed and the administration can invoke some of the tried-and-true anti-depression Keynesian policy prescriptions to solve these problems.

My view continues to be that we are running out of time required to achieve necessary structural changes. Ending monopoly, and land monopoly in particular, should be our first political order of business.

by Dan Rottenberg

"The return for the use of land involves no expenditure of effort on the part of the landowner in the capacity of owner."

Thus speaks Welcomat reader Edward Dodson in his latest treatise on land reform (see page 5). Although Dodson has some interesting points to make, his central premise, as articulated above, is the questionable conviction that the grass really is greener in someone else's yard—in this case, the yards of anyone who owns real estate. Dodson sees all of the advantages of land ownership and none of the liabilities—for example, you can't move it, you can't conceal it and, you can't easily liquidate it. What's more, whatever benefits accrue from land ownership are usually offset by the high cost of acquiring and maintaining one's property. Nobody has a free ride in life—not even land barons.

Dodson asks, "How much land should any one person or family or corporation be permitted to control and so deny access to that land by others in need?" He evades the stickier question: How do we measure "need"?

Dodson blithely remarks that "Most Americans do not need to control much land because we have become a nation of office and factory workers." But I have a funny feeling that most Americans, given their druthers, would sooner own the corner of 17th and Market than work in an office or factory, and plenty of them could produce ingenious reasons why they "need" to own that corner.

So who decides whose need is legitimate? The government? Edward Dodson? I'd stick with the hoary old free marketplace as the least of all evils. Dodson to the contrary, land ownership involves tremendous responsibility.

LETTERS

TO THE EDITOR

Real estate taxes

To the Editor:

The call for higher real estate taxes to fund the teachers' contract calls for a change in the way we tax real estate in Philadelphia. We must now shift our present policy of taxing improvements and tax our land value more.

A study authorized by City Council and co-sponsored by the Henry George School shows that if property tax rates on buildings were set at 6% and land assessments at 9.11%, homeowners in 59 of the city's 66 wards would pay less in taxes.

The main purpose of this tax change is to encourage economic development in Philadelphia. All available evidence shows that this would be the case.

Seven cities in Pennsylvania already tax buildings at rates lower than those for land. In Pittsburgh, where they have been taxing buildings less than land since 1979, new construction jumped 14% as compared to the 1977-78 average, and then 312% and 590% in the ensuing two years.

In Scranton, when they doubled its land tax rate in 1980, significant increase in construction ensued. Every city which has dared to change has seen a building boom follow.

The Urban Land Institute concluded in its report that the land value tax is "a golden key to urban renewal—to the automatic regeneration of

the city, and not at public expense."

Isn't it time for Philadelphia to join the growing list of cities which tax buildings less than land? Because of the normal revenue needs of 1986-87, I'm sure City Council will be asked to raise more money. Shouldn't Council members be urged to raise the additional revenue by an increase in the land tax only?

Our city, like many large urban cities, faces widespread unemployment. This year is a good time to give added incentive to local private enterprise to build and expand and provide more jobs. And just think: A two-rate tax would not cost the city government a single penny.

William J. Phillips
Fairmount

EDITOR'S NOTEBOOK

The trouble with Libertarians

by Dan Rottenberg

"What our society needs, I would argue, is not legislated sacrifice but the *spirit* of sacrifice—not people saying 'There ought to be a law,' but more people saying, 'There ought not to be a law.'"

The above quotation appeared in this column more than a year ago (Apr. 3, 1985) and launched me into three weeks' worth of ruminations about the relative merits of the "compulsory" sector (government, lawyers, monopolists) as opposed to the "voluntary" sector (the rest of us, who make our living through positive inducements rather than negative sanctions). "Our society," I argued, "has evolved to the point at which we now possess the tools to solve many of our social problems outside the realm of the law."

Ever since then, the *Welcomat* has received a steady stream of essays and letters from Libertarians who insist that I'm one of them. (Libertarians essentially believe that anything government can do, the free enterprise system can do better. They're sort of Yuppie anarchists: Instead of throwing bombs, they throw position papers.) Even as I happily published their missives and even found many of them refreshing and farsighted, I knew it was only a matter of time before they discovered the bitter truth about me. That time has arrived.

Specifically, on April 12th I wrote a column in the *Inquirer* suggesting that the SEPTA fare box should be eliminated and public transportation in the Delaware Valley should be funded entirely with taxes, just like the police and fire departments. My point was that in a major urban area there is no wiser and

more efficient use of public funds than to make it as easy as possible for people to get from one place to another.

Two good Libertarian readers responded with letters—not to the *Inquirer*, but to the *Welcomat*—accusing me of apostasy and inconsistency (Apr. 23). "I was very shocked . . ." wrote Warren Meyer of Fairmount. "In the past, you have consistently offered free-market solutions to socio-economic problems."

Well, the fact of the matter is that in the best of all possible worlds I would love to see free-market solutions to all problems, even military defense. Especially military defense. (How many wars do you suppose there would be if Reagan and Gorbachev had to seek voluntary contributions in order to produce nuclear bombs—even if they offered T-shirts and book bags as inducements?)

The problem is that we do not live in the best of all possible worlds, nor will we ever. A voluntary society, free of coercion of any sort, is a worthy goal. But the truly pertinent question is: What do we do in the meantime? How do we evolve in that direction without impairing our day-to-day survival? How do we build on our existing foundations to improve our lot and the lot of the world?

The trouble with Libertarians—like all ideologues, left and right—is that they do not ask these questions. They do not think in terms of evolution. They look at the idiocies of thousands of years of human civilization and think only that these tragedies could have been avoided if their ideology had been in force. They fail to see that each mistake, however painful, was part of a necessary and valuable learning process.

People spent tens of thousands of years throwing rocks and spears at defenseless animals in order to eat; only the development of agriculture and (more recently) meat substitutes has emboldened animal rights advocates to suggest that all that killing may not be necessary. A century from now, eating beef may be perceived as sinful—like eating human flesh, or horse-meat; but two thousand years ago the same practice was a necessity. We could not have reached our present stage of enlightenment without the help of our brutish hunter ancestors.

Similarly, the world's great democracies all tolerated tyranny once upon a time—for the simple reason that, at the time, tyranny seemed preferable to the alternative, which was chaos: Only under the relative order provided by tyrants were people able to figure out ways to make tyranny unnecessary.

How do you explain, for example, that virtually every advanced civilization—Europe and Japan spring to mind—has at some stage of its history passed through a period of feudalism? (North America missed out on feudalism, but we did have indentured servitude and, of course, slavery.) Today feudalism seems archaic, but in another time and place it struck people as a good deal all around: the peasant farmer gave up his freedom in exchange for the feudal lord's protection, and in the process lands were cleared that no one had previously dared to farm. That

strengthening of society's productive resources turned out to be a vital step along the long, torturous road to a free society.

Thus each social system—feudalism, nationalism, capitalism, socialism, libertarianism—is not an end in itself, but merely a

new level in a society's collective, cumulative education. And the relevant question is not "What is the best system?" but "What is the best system for this particular time and place?"

My interest in free-market solutions to public problems stems primarily from my feeling that Americans have grown so sophisticated at communicating non-violently (through the media, organizations, unions, boycotts, demonstrations and, most important, the consumer's power of the pocketbook) that government may be much less necessary than we believe. But I wouldn't dream of suggesting the Libertarian model to present-day Russians—with their authoritarian mindset—or to 13th Century Burgundians, with their lack of books and telephones.

Thus every problem is best solved not in an ideological context, but in the context of its time and place. Huge public school bureaucracies, for example, may have represented the best means of educating America's huddled masses through most of the 20th Century, but they did their job so well that many urban Americans today are just as smart as the teachers and principals—and just as capable of deciding how their kids should be educated. That's why a city like Philadelphia would be wiser today to get out of the education business and simply give each school-age student a voucher to be spent on the school of his family's choice. But such an approach would not be the best solution in small-town or rural areas, which couldn't provide a variety of school choices and where the public school bureaucracies are still of a manageable size.

Urban mass transit, on the other hand, is the opposite case. Small-town and rural folks can get around by themselves today, thanks to the auto; city dwellers, packed tightly together, can't. By eliminating the fare box and thus unlocking the public's access to goods and services, we Philadelphians will relieve much of our other dependence on government services. (For example, if the unemployed could travel freely to and from job interviews, more of them would pursue jobs and public welfare costs would decrease.) Ultimately, as such a system pumped

unprecedented health into the city's economy, some entrepreneur would discover a way to make money on mass transit for less than it costs SEPTA to do the job, at which point government would get out of the transportation business, just as it ought to be getting out of education.

What I am saying, you see, is that "free-fare" mass transit is not an end in itself, but merely the equivalent of a "feudal" period in the Delaware Valley's transit evolution: It represents our most efficient means of economical survival until we come up with something better. Like feudalism itself, it's a phase we must pass through if we hope to reach the Libertarians' free-market promised land. There is no short-cutting the process. The means matter more than the ends. The by-product is more important than the product. Getting there is half the fun. That is the lesson of human history. I find it a pretty exciting lesson, myself.

LETTERS

TO THE EDITOR

Libertarians

To the Editor:

Your April 30th editorial "The trouble with libertarians," has been in my "things to do" folder awaiting the proper moment for a response. Today seemed like the appropriate time.

You were criticized by a number of supposed libertarians for advocating broad-based tax support for mass transit. You responded that while "a voluntary society . . . is a worthy goal," we must "evolve in that direction without impairing our day-to-day survival."

On the issue of mass transit, those who have a vested interest in Philadelphia's economy might consider a plan that charges user fees (say, three times what is currently charged) only to those who are leaving the city. This plan might become a deciding factor for those trying to decide whether to work in Philadelphia but live in suburban communities.

As for the raising of revenues from taxation, the availability of such public services plays a significant role in pushing up land values; therefore, that increase is an appropriate source for the needed revenue.

A question you raised asked why it is that all societies in history have passed through feudalism. Feudalism is part of the natural scheme of things where the hunter-protection class manages to also appropriate the lands of an agrarian society.

Of all the societies in history, Murray Rothbard was able to find only one—the Celtic Irish—who managed to thwart the rise of a monopolistic/oppressive state. This lasted only as long as

these people remained isolated from mainstream Eurasian culture. The English then brought feudalism and its elitist structure to libertarian Ireland.

Statism is, unfortunately, the direction in which the elitists have taken us.

Mainstream conservatives want the liberty of being able to establish monopolistic capitalism without restriction while dictating controls over individual actions in the realm of morality.

Mainstream liberals call for freedom of choice but are unable to accept a competitive economic model where there is failure.

Both groups operate under assumptions of group hierarchy—of leaders making the decisions and followers doing what they are told to do.

The libertarian sees these philosophical conflicts and prefers the dangers of private monopoly to state monopoly; the libertarian extols the virtues of private schools, hospitals, roadways, police protection and courts—a society built on private contracts.

What you have pointed out is that libertarian philosophy does not provide the framework for an incremental, evolutionary dismantling of the existing structure that will also provide each citizen the birthright of equality of opportunity.

Those who seriously want to achieve the goal of a society based on voluntary contracts should look to what the Georgists have been saying for the last century. The problem with the world economy and the primary justification for heavy-handed government/intervention in our daily lives has ostensibly been to soften the effects

of tax and property laws that have historically protected the wealth and power of the few.

We need tax and property laws that will stimulate a universal rise in the consumption power of citizens everywhere throughout the world. We need equality of opportunity and an erosion of monopolistic protectionism.

The Georgist proposal is to gradually reduce and then eliminate all taxation imposed on the production of physical wealth (i.e., end wage taxes, sales taxes, personal property taxes, inheritance taxes and that portion of the real estate tax falling on improvements). At the same time, make up the lost revenue by applying a higher rate of taxation to the assessed value of land and natural resources.

I will anticipate your question by answering what this would accomplish.

Land and natural resources have a "zero production cost." Except for the fact that the state has permitted private control over land and natural resources, each of us could access them equally. Our government gave away large portions of this country to the railroads and to speculators. What little land homesteaders obtained eventually found its way into the hands of the powerful, whose influence in the state and federal governments ended forever Jefferson's vision of a nation of yeoman farmers.

Today, the source of this nation's material wealth is controlled by a very small number of people; over 90% of all the privately-held land in the United States is controlled by less than 5% of

our population. This and worse concentrations of landownership exist throughout the entire world.

As a result, we live under a very unstable global economy, a fact those in power use to entrench and expand their controls over economic (and political) activity. Whether we talk about the state-socialism of the Soviet Union, or state-capitalism as exists in much of Latin America, or simply the heavy state-intervention of the United States and Western Europe, the long run outcome is the destruction of what individual liberties we have left.

At least we Georgists have identified a way out from under the grip of statism. While I have little hope that those who have fooled themselves into thinking socialism is anything but a road to slavery, I am puzzled by the narrow-mindedness of many libertarians, who ought to pull their heads out of the sand and get in there with us Georgists in our fight for meaningful change.

Edward J. Dodson
Cherry Hill

Editor's comment: In my view, your generally lucid discussion degenerates into rhetoric precisely when you reach your central point. Who are "the powerful" of whom you speak, and precisely how did all that land "find its way into their hands"? You assume that land ownership is all blessings and no hassles, but a landlord in North Philadelphia might tell you otherwise. Ditto for the owner of a farm on the Israeli-Syrian border. And if 90% of the land is controlled by less than 5% of the people, so what? Many people have no desire to own land, including many rich and powerful people—Wall Street investment bankers, for example.

LETTERS

TO THE EDITOR

Land ownership

To the Editor:

In several editions of the *Welcomat* during the past year I have presented a theory of justice built on the acceptance of two premises. The first is that the earth is the birthright of all mankind; the second, that natural property must be produced by human labor and capital goods.

The first statement simply means that because we are all human, we have a natural right to equally access nature in order to nurture our survival. What we then produce by our efforts is our property, to which we have total and inalienable rights.

From this central theory of justice, I have attempted to show where our own and other societies have succumbed to positive law inconsistent with these principles. I have argued that land ownership, which is static and produces nothing, has no basis of legitimacy under just law.

Land ownership is, therefore, a privilege (in the form of a license to use) rather than a right associated with natural property. As a license to use, land ownership should bring its return to the entire citizenry rather than any individual user.

Importantly, what is produced by the individual after paying for such a license must, if just principles are to be followed, be treated as property. Any attempt by the state or other parties to confiscate such property by taxation or force violates the principle of justice and is theft. This restates my position as succinctly as I can.

You suggest in response to my recent letter (July 23), published under the heading "Libertarians," that my presentation "degenerates into rhetoric." What is most intriguing is that you do so not on the basis of principle or fact, but on an apparent lack of historical perspective. The history of how the territory we now occupy was acquired and settled should be example enough.

It took the native tribal groups a while, but they eventually came to understand the danger to their culture and very survival in the presence of the European. The first major attempt to thwart the westward advance of the whites was made by the great Ottawa chief, Pontiac. His own people were disorganized, technologically backward and numerically inferior.

Historian Allan Eckert, in his narrative *The Conquerors*, writes that Pontiac "did not think it was possible that any of the tribes could fail to fall in with him when he explained to them how the English destroyed the forests and fields, killed the game, laid waste wherever they went, spread sickness and hurt and, most of all, drove the Indians from their own land and took it as theirs."

As Pontiac then knew, and as other Indian chiefs would learn, "the (whites) were all the same—give them one tree and they took the forest, give them one foot of ground and they took acres. Give them acres and they took the country."

Pontiac had reason to fight against the massive denial of rights he and his fellow tribesmen experienced; but he too

would have kept the land for his own people had he been able to do so.

There has rarely ever been a period or place in history where the principle of equal access to nature has been the rule. Politics has always stood in the way of justice. The tribes of North America often used land commonly amongst themselves, but they fought to maintain exclusive control over territory against all others. History is an endless series of attempts to monopolize nature.

So while I commend your willingness to print ideas with which you do not agree, I cannot help but feel sorrow that you can respond, "So what?"

to the knowledge that control over the world's land and natural resources is becoming more and more concentrated.

Moreover, land and capital ownership in the United States have become concentrated in the hands of a rapidly decreasing number of corporate and government entities.

While there is no distinct land-owning class or capitalist class, our society is experiencing a growing maldistribution of wealth ownership. The ownership of stocks, bonds and government securities (representations of physical wealth) is also highly concentrated.

Over time, it has become more and more difficult without heavy state intervention for the landless or the capitalless person to compete in such an arena. The situation in most other countries is far worse.

The tragedy is that far too many of those who are genuinely concerned about the global maldistribution

of land and wealth ownership are unquestioning statisticians. They want to nationalize industry, nationalize land, nationalize education, nationalize medicine and nationalize equality of distribution.

The Marxists would do so without regard to individual contributions to production.

If those on the left win, we end up with state socialism; if those on the right win, we end up with state capitalism; if we do nothing we will continue to experience a deterioration of respect for natural property and a society existing in a condition of strife between the haves and the have nots.

Either way, in the end, we will lose our freedom unless we stop confiscating natural property and begin collecting for redistribution the values attached to the granting of licenses to access nature.

Edward J. Dodson
Cherry Hill, N.J.

Editor's comment: How can you bring about a redistribution of land ownership without some form of compulsion—that is, statism? And how can you be sure that such a distribution would be more fair than what we have now? And what would you do about all the people like me who would just as soon forego the responsibilities of land ownership and focus our talents and energies in other directions?

Land ownership

To the Editor:

You and I have exchanged views and raised questions on issues of great importance, from both the philosophical and the practical points of view. Few others have apparently been moved to express themselves.

I am frankly quite perplexed. I wonder if you have any thoughts as to why this has been so.

Still, you raise important questions concerning the standards by which justice is to be measured.

First, you ask: How can you bring about a redistribution of land ownership without some form of compulsion—that is, statism? And how can you be sure that such a distribution would be more fair than what we have now?

As a practical matter, any debate over the distribution of wellbeing possible within a stateless society remains a purely intellectual exercise. Not being an anarchist, I do not foresee a time (at least for many centuries) when the presence of the state will not be required to arbitrate those instances of conflict arising out of the exercise of individual actions. Many such occurrences will involve the violation of the liberty of one segment of society by the exercise of "license" on the part of another.

What is essential, in my view, is that our system of law meet the test of justice I previously outlined (i.e., each of us is born with an equal right to access the earth; that only production constitutes property to which the individual has a natural right; and, that the state sanctioning of any privilege creates unnatural property, the value of which belongs to society as a whole).

How we act toward one another is, of course, heavily influenced by the structure of our political system. A system that concentrates its energies in the support of justice should require far less coercion to enforce just laws than the level we now experience. The state may not wither away but should recede in terms of interference in our everyday lives.

The structural changes I have presented will bring about an eventual "redistribution of land ownership." The speed of such change would be tied to the degree of gradualness under which tax and property laws were changed.

I have said nothing about imposing a transfer of land titles from one group of individuals to others; I indicate only that those who do hold title to land should be relieved of its annual rental value in return for the state's sanctioning of the license given (in the form of title) that prohibits others from gaining access.

Some landholders—those who have neither the desire nor ability to actually use land for production—will relinquish (sell or lease) rather than absorb taxes equating to the land's annual rental value.

Coercion? To a degree, yes. But quite market-driven and consistent with the above requisites for justice. And I hope it is not necessary to argue the point that a measure found to be just is, by definition, also fair.

You also ask: What would you do about all the people like me who would just as soon forego the responsibilities of land ownership and focus our talents and energies in other directions?

Justice requires that each of us be free to exercise our liberty in any

manner that does not infringe upon the liberty of another. Those who directly work the land would pay no taxes on what they produce; thus, the more produced, the greater the wealth accumulated. This would be true regardless of whether one leased land from another or owned land directly.

What the owner would receive in leasing fees would equate to the annual rental value and be paid to the state, as the agent of society. Thus, the landowner must do something else besides simply own land—must produce goods or exchange labor as services—to survive. Land ownership might be a preoccupation, but is not a productive occupation.

Only those who desire to directly work the land—whether in farming, mining, forestry, aquaculture, or real estate development—will find it financially sound to assume "the responsibilities of land ownership." The commodities they produce will still have to be processed, packaged, transported, marketed and advertised before production is complete. And, here is where most of us come into the picture.

The difference is that while the concentration of land ownership will not decrease dramatically, the landowner's claim on production will have disappeared. Only those who actually produce wealth or offer their services to direct producers will share in production.

Is there, I ask, a better standard of justice than that embodied in these principles? They are consistent with our spiritual heritage and are to be found in the highest order of political philosophy.

Henry George relied on the same sources for guidance in writing his master work, *Progress and Poverty* as had Paine, Jefferson, Madison and Franklin. Their search for justice rested on Judeo-Christian teachings, to which was added the political ideas of Locke, Turgot, Quesnay and Smith. Countless others individually came to the same understanding. Among them was Thomas Carlisle who, in *Past and Present*, gives us much to ponder:

"Men talk of 'selling' Land. But the notion of 'selling', for certain bits of metal... how much more the Land of the World-Creator, is a ridiculous impossibility! Properly speaking, the Land belongs to these two: To the Almighty God; and to all His Children of Men that have ever worked well on it, or that shall ever work well on it. No generation of men can or could... sell Land on any other principle: it is not the property of any generation... but that of all the past generations that have worked on it, and of all the future ones that shall work on it."

Edward J. Dodson
Cherry Hill, N.J.

(The Welcomat editor printed, but did not reply to, the above letter.)

