

IS "SLEEPING WITH THE ENEMY"

(from page 5)

their gasified garbage there. Coase, in practice, is compatible with assuming that polluters have established de facto ownership of the air in the form of tradable permits, by virtue of their histories of having polluted it for years before. Bankers like this too, because to buy such tradable permits on the market calls for them to get involved in lending up front." (Gaffney)

So, again, we have the economy rewarding the efforts of a few (who often just "make money while they sleep") instead of being "for the greatest good, for the greatest number, for the longest time." (John Stewart Mill & Jeremy Bentham propounded this philosophy as Utilitarianism: <http://en.wikipedia.org/wiki/Utilitarianism>) Gaffney explains:

"As Armen Alchian, the alpha libertarian, got to know me better he withdrew his support, because he saw Pigovian charges as "interventions" (improper meddling) in the free market, which he saw as a panacea for all problems, including pollution. Alchian was reflecting and struggling to explain the Coase Theorem, published in 1960, which George Stigler and other Chicago economists had embraced to refute Pigou's notion that air (or any natural resource) is or could be made common property. By 1975 they had spread it with vigor among their disciples nationwide and worldwide. It was to displace Pigovian charges as the market-based solution to pollution."

At one point during last week's seminar, Gaffney used an example from Ted Gwartney's life to show how it was dangerous to be an assessor, but we might also add it is dangerous to be an Economist with the correct theory. Stephen Zarlenga, and others, attribute Henry George's death at a mere 57 years of age, to the ravages caused by going against the establishment. On the other hand, lauded Economists like Milton Friedman get to survive comfortably into their 90s. Gaffney is bucking the trend, and that is as remarkable as the fact he is able to do so at all. Perhaps, as Professor Kris Feder remarked last week, this is because the establishment economists no longer perceive Georgists as a threat, as they once did.

Gaffney talked quite a bit about where Georgism has been, partly from his own experience, but even before, when Georgism was in its heyday during the early part of the last century. Indeed, George's son, Henry George, Jr. (<http://homepage.ntlworld.com/janug/100yrs.htm>) helped draft the first income tax, meaning it to be a tax on the Land holdings of the wealthy, previously untaxed. But, through a series of 7 steps that Gaffney described in class, it has become a Payroll Tax instead, discouraging production, and encouraging exactly the opposite of its original intent as so-called "Capital Gains" taxes, indirectly on Land, waste away to zero.

The dangerous trend, although well-meaning in its original form, has been to impose "command and control" measures, Gaffney tells us, setting strict limits on pollution, instead of charging for it. Why is this dangerous? Well:

1. It is susceptible to weakening in successive generations of political classes, who believe, however wrongly, that jobs are traded for willingness to allow pollution.

2. It provides no revenues for government and is all

stick and no carrot.

3. It fails to provide proper incentives to reform. Yes, companies do not want to get fined – though, because of #1 above, even that is in question – but that is an incentive to avoid the fine, not to improve the process and profit by lessening a direct tax. These are, as an army of well-paid lobbyists will tell you (if they are in an honest mood), not the same thing.

Gaffney tells of another danger in tradable permits, related to the "sooner" rule mentioned earlier. Those who pollute first and greatest, get to do so more and heavier later. Rather than an incentive to clean up their act, the greatest polluters now have official permits allowing them to continue, with some vague threat to tighten the restrictions later on. Indeed, there is already evidence Europe's system of trading permits has failed to achieve Kyoto-inspired targets. (<http://www.theage.com.au/news/world/europe-falling-behind-in-kyoto-carbon-targets/2007/06/15/1181414548676.html>) Perhaps one of the greatest takeaways from both the seminar and Gaffney's article, is that simplicity is a virtue, as well as a sound economic principle, as George discovered long ago; they don't call it the "Single Tax" for nothing.

Gaffney went on to form the B.C. Institute for Economic Policy Analysis (1973-76), which, he hoped, would create Pigouvian type policy papers to Tax Bads not Goods. But, meanwhile Coasian Economics – more a Free Market faith (It should be clear by now that there's nothing "Free" about a Market that charges you to breathe and gives companies subsidies to pollute and overuse resources.) than a theory – was taking off.

"In principle Coasians profess not to care what worthy few get the original entitlements. Just privatize them and that panacea the market will take it from there. In practice, however, a select company of ancient and honorable polluters get them. We now call these "offset rights", a new form of property. In the L.A. Basin (South Coast Air Quality Management District), a few have grown rich by establishing their respective histories of pollution which they can now sell to others who wish to continue this wholesome tradition. The demonstration effect on those contemplating new and as yet unregulated forms of pollution may be imagined.

"Those needing air to breathe? Well, according to the modern philosophers they can enter the market, buy up offset rights and retire them. Thus is fulfilled Robert Ingersoll's forecast a century ago that if some corporation could bottle the air it would, and then would charge us to breathe." (rpt. in Roger Greeley, 1983).

As luck, or perhaps perversity, would have it, at the time I was rereading this article for class, a cartoon came out in New Yorker in which a space-suited father says to his similarly suited son on his knee, "And then one day some wise men realized that it didn't matter what happened to the environment, so long as we wore these nice, shiny suits!"

Is this still a joke?

Gaffney moved onto California in 1976-78, to work in Jerry Brown's Administration, Part One, where he testified as Assemblyman Al Rodda kept introducing LVT bills. However, Gaffney ran into the fiscal tsunami that was the unlucky Proposition 13, perhaps the (continued on page 16)