

Geonomics and Community Power

(Reversing the Nondecision of Who Benefits from Unearned Wealth)

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As various organizations search for effective programs for the promotion of economic justice and political change, a program that should not be overlooked is geonomic theory. The greatest economic injustice today is the corporate and private takings of the wealth which is created by society through its population concentrations and provision of governmental services, and by nature in natural resources and the qualities of land site locations. These are sources of unearned wealth that people seek to monopolize for corporate gain and private property. Justice, however, asserts that this unearned wealth belongs to all of the people of the society, and that government therefore has a responsibility to appropriate and redistribute unearned wealth. The most effective means of carrying out this responsibility is via the land-value tax.

The land or site-value tax is based upon the market value of particular parcels of land, not the market value of the improvements upon them, the latter of which is the rightful source of earned wealth, and should not be taxed. This distinction between two different types of property and wealth forms the basis of the geonomic theory of economic justice. And redirecting the flow of unearned wealth into the public domain is an exercise of community power.

Geonomics is a proven political/economic policy where it is applied in roughly 2,000 cities in Australia, New Zealand, Taiwan, Japan, Denmark, Canada, South Africa, and 17 cities in the U.S., all in Pennsylvania, with Pittsburgh being the largest. (Cord, 1991) From the standpoint of contemporary economic theory, land or site-value tax works as an effective economic program because its application respects the theory of "economic rent," as defined in standard economic textbooks. Unlike economic programs such as local minimum wage hikes and rent control and other price controls, all of which obstruct the workings of the market economy and therefore result in the discrediting of any organization advocating them, geonomics and the land-value tax is widely respected as an effective economic reform program.

A Common Wealth Theory

Geonomics works because it recognizes the fundamental differences between the economic concepts of earned and unearned wealth, and affirms the moral right of a community to appropriate for the common good the unearned wealth through taxing economic rent or site value. Geonomics recognizes that among the mechanisms for the creation and accumulation of wealth, land is unique. The return on labor (wages) and capital (interest) are forms of earned wealth since they derive from human effort. In contrast, the return from land (rent) is unearned wealth since land exists independent of human energy. Geonomics recognizes that improvements made upon the land are derived from labor and capital, which result in the accumulation of earned wealth; while the qualities of a site that create land value include the natural resources upon the site, the concentration of population which provides commercial opportunities,

and the provision of government services to the site (i.e., roads, utilities, schools, etc.) which result in the accumulation of unearned wealth deserving of sharing by all citizens.

Thus, a community may ethically appropriate for itself the land value via a site-value tax, since it is the community itself which creates this unearned wealth, not the land owner. The site value is different from the value of the improvements placed upon the land by its owner, and therefore the two may be treated differently for tax purposes. Through the land value tax the products of labor and capital are privatized, and the gifts of nature are socialized. Just as the individual citizen has a moral right to keep as private property all of the wealth derived from their own labor and capital, so the community has a moral right to appropriate the value of the common wealth.

Basic Geonomics

The strategy of the land value tax (LVT) is to raise the tax on the site value and lower the tax, preferably to 0%, on the improvements. In cities which adopt LVT, the change is often made revenue neutral, with simply a shift of the tax burden off home owners and onto commercial interests, by instituting a two-rate property tax and decreasing that portion which taxes improvements. Politically, this is especially feasible since most voters are home-owners, while most commercial interests (such as multinational corporations) are not voters. The primary resistance comes from the large real estate interests, which are typically influenced by the corporations which have invested in the community, and which typically have a strong influence upon the local government.

The change in property tax payments for a particular property, resulting from the institution of the land value tax, depends upon two things: how the local real estate market values the particular plot of land, and what improvements are on that land. Typically, after the change to the land value tax, vacant lots in prime downtown areas pay a lot more tax, forcing owners to build or sell to someone who will build, while high rise buildings may pay less, depending upon the value of the lot upon which they sit. The result is both more efficient use of land and an economic stimulus. Low-rise commercial areas generally pay more taxes, which results in a disincentive for strip mall developments and other low density sprawl. Residential owners often pay less since their plots are small and their houses become untaxed. In Pennsylvania cities where this tax structure was instituted, 85% of homeowners payed less property tax. Only those with large plots or valuable locations payed more. Parks, open space and agricultural land can be protected through zoning and tax exemptions as they are now. (Hartzok 1995)

One of the easiest ways to understand the concept of site value is through the parking meter analogy. First of all, it is generally accepted that some parking meter locations are more expensive than others, and so in the same way, some building site locations should pay higher site value taxes than other building locations. Secondly, it does not matter how expensive a car you park at a particular parking meter

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space, since you pay that location's parking price regardless of the value of what you are driving. By logical extension, an owner of a building should not pay a tax on the value of their building; only on the value of the land upon which it is parked. The result is that the tax structure encourages building owners to improve their property since under the site value tax, such improvements do not directly result in increased property taxes. Making improvements on the property stimulates business activity, resulting in economic growth, which leads to increased land values, and finally, improved site-value tax revenues which can be used to provide more governmental services. This dynamic is unique to the land value tax. All other systems of taxation result in an economic disincentive, while the site-value tax actually creates a synergy between government and the capitalist system.

Instituting the LVT requires education of a population (or at least its city council) about basic economic concepts. Initially, the large real estate interests often resist the site value tax. However, the application of the land value tax goes further than merely the revenue-neutral change of shifting property mill levies. Geonomics suggests that all taxes on labor and capital may be eliminated, including sales taxes, inheritance tax, luxury tax, inventory tax, value-added tax, flat tax, poll tax, and the income tax—in favor of the land value tax. Removing other taxes paid by real estate interests can help to win their support for the site-value tax. Besides land value or ground rent, only user fees and severance taxes are consistent with geonomic theory.

The best example in the U.S. of a state severance tax is the Alaska Permanent Fund which pays each state resident an annual dividend from the state's \$14 billion oil trust account. In 1993 the payment was \$949.46, and there is no state income tax. (Rosen, 1994) This is a policy of sharing the common wealth, in this case from oil resources, which could be more widely practiced. Elsewhere in America, our state and national governments use tax money to subsidize corporate takings of the common wealth. For example, when the government subsidizes a road or transit line, land values rise or logging and mining become profitable, but all this profit goes to private land holders or corporations. Geonomics suggests that government can tax this increase in land value, as well as impose a severance tax on the harvested natural resources, and share that wealth with citizens via a citizen's dividend. Such a policy would be consistent with "demand-side economics" as opposed to our "supply-side" programs of corporate welfare, and would enable the elimination of the federal income tax. By one accounting, the national annual citizen's dividend would be about \$4,000. (Gilman, 1984. Also, *The Geonomy Society*)

Community Power

The theory of democratic process includes not just the right to a popular vote on issues, but also the right to be involved in the setting of the political agenda and the definition of the issues on that agenda. When a subject is

prevented from being discussed and kept off of the political agenda, the status quo prevails and the issue is considered to be a non-decision. (Harrigan 1991) In this way, the issue of the ownership of the unearned wealth which flows from land value has been kept to a nondecision.

The effort to institute the land value tax illuminates the previously hidden agenda of individuals who, and organizations which, have manipulated the economic and legal environment so as to privately benefit from the unearned wealth rightfully belonging to society as a whole. Geonomics serves to remove the issue of unearned wealth from the realm of nondecisions and place it on the public agenda.

The political spotlight upon geonomic theory and the site-value tax, resulting from placing the issue of unearned wealth upon the political agenda, can be utilized to show that through sharing our common endowments of natural resources and of other forms of unearned wealth, we can reduce conflict and enjoy a more synergistic and mutually supportive social dynamic. This can result because geonomics helps to address the issue of the great disparity between the wealthy and the poor, which is a source of social conflict. Once the transition to the land value tax is made, conflict is reduced and society takes on a more synergistic dynamic because geonomics is not a redistribution-of-wealth program, nor an entitlement program. Rather, geonomics rewards and therefore provides an incentive for individual participation in the economic system.

The issue of the nature and causes of social conflict have been studied and explained in various community power theories. A government's goal is to manage a political-economic program in which all sectors of the economy and all classes of people may work together for both individual and mutual advantage, rather than lopsidedly for the exclusive advantage of certain economic elites. This is the interdependence concept found in systems theory, and the functionalist perspective explained in sociological theory. (Farley 1990)

In the study of community power, different local political structures have been given names describing their different attributes. The "elitist theory" describes cities controlled by one business interest or a group of business leaders. The "pluralist theory" adds the power bases of government, labor unions, churches and various social groups to that of business. Of the various other theories of community power, the "growth machine" and the "unitary interest" theories are most appropriate to the issues of land value, unearned wealth and nondecisions. (Harrigan 1991)

John Harrigan explains the growth machine: "... local elites with substantial local land holdings dominate community policy making ... these leaders' common interest lies in promoting growth ... (they) seek to co-opt local political leaders by bringing them into the pro-growth machine. ... (T)he elites of the growth machine are local real estate owners, bankers, developers, construction unions, and central city newspapers ..." (Harrigan 1991) John Harrigan continues by explaining the unitary interest community

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power theory, as developed by Paul Peterson in his book City Limits printed in 1981, as simply the "mutual recognition of the best interests of all of the city's residents." As an example of unitary interest at work, Harrigan cites downtown redevelopment schemes and efforts to attract new investment capital. This form of integration of the interests of different classes and sectors of a population into a consensus opinion, and a political/economic program, can also result from the institution of the geonomic program of the land-value tax, given a successful educational program.

Geonomics may qualify as a unitary interest form of community power in-so-far-as all sectors of a city's population recognizes that replacing the taxes on earned wealth with the land value tax on unearned wealth is indeed in everyone's best interest. Once the struggle over control of a city's unearned wealth is resolved in favor of the theory of geonomics, that city may then represent an example of the integrative paradigm of unitary interest community power. And many such cities exist around the world.

Synthesis of Capitalism and Socialism

If capitalism and market theory are the thesis, and socialism the antithesis, then geonomics may be explained as the synthesis of these political-economic theories. The application of the land-value tax suggests that there is no inherent contradiction between capitalism and a just society; the challenge is simply to understanding how capitalism and socialism may work together for the benefit of all. This is the paradigm change of the new age; an awakening from the conflicting world views of the ownership and control of capital and labor (the means of production) which was the basis of the Cold War, into a new world paradigm of integration of the opposing views of socialism (the ideal of the sharing of creation for the common good) and of capitalism (the ideal of individual freedom in the pursuit of happiness). As we recognize the value of both socialist and of capitalist ideals when applied appro-

priately, the two need no longer be in conflict, and instead may be seen as complimentary aspects of a new social contract. This political-economic synthesis is sometimes called Georgism.

Geonomic theory is the new term given to the ideas originally published in Progress and Poverty by Henry George in 1879, just twelve years after Karl Marx's first volume of Das Capital. Dr. Kenneth Bolding of the University of Colorado wrote of George's ideas, originally called single-tax theory, that, "one cannot help feeling that if only Henry George (who did not believe in class war) rather than Marx had been the dominant influence of the last years, ... how much richer and happier the world would be." (Scrofani 1991)

No nation can avoid land reform. All it can do is determine the course it will take: bloody revolution or taxation." This quote from James Michener's Hawaii, by the character for General MacArthur's economic aid during the reconstruction of Japan after World War II, recognizes that property always tends to concentrate into the hands of a few, whether in capitalism, socialism or communism; a trend toward centralization which is part of the "iron law of oligarchy."

By one accounting, roughly 3% of our population owns about 95% of all private land in the U.S. (Meyer 1979) This concentration of land ownership, along with the tendency for land rents to rise as fast or even faster than the productivity increases in labor (wages) and capital (interest), explains the continual erosion of the middle class and the growth in number of the working poor and the homeless, while the rich only enlarge the gap between themselves and everyone else. This problem is generally known. In 1981 Senator Jesse Helms even read into the Congressional Record the state-by-state statistics on the percent of land ownership by percent of population. The radical right blames this situation upon such scapegoats as "the East Coast liberal establishment" or the "Zionist Occupation Government," and paramilitary groups are forming today to fight against these perceived forces

(black helicopters and all the rest). If we don't learn the best way to correct this problem (i.e., tax unearned wealth) we will likely see more domestic terrorism, and more real estate market collapses leading to stock market and other economic dislocations, and resulting hardships for all. Clearly, there is a great need, and a great opportunity, for someone or some organization to explain in a national campaign the true source of our nation's economic, political and social insecurities.

And the problem is not just here in America. At the 1988 conference of The Fourth World held in Toronto, Canada, the land value tax activist Alanna Hartzok stated that Toronto land prices had doubled in the preceding ten years, and that the Mayor of Toronto had received nearly 100% of his campaign contributions from real estate developers. That evening on a late night infomercial about a real estate investment course, a testimonial was given that, "I used to work for a living, until my investments in real estate made me rich!" The connections between this strategy of wealth creation and the problem of growing poverty may not be obvious to most people, and so it becomes the responsibility of those who do recognize the problem to educate others, and work to correct the problem. At the same time, it is clear from where the primary resistance to the institution of the land value tax will come.

A New Spiritual Ethic for a New Age

The issue of land reform has followed the entire history of Western civilization. Many writers have explained the "enclosure of the commons" resulting from the taking of common lands for private profit during the beginning of the market economy in England and Northern Europe, and the resulting impoverishment of many formerly self-reliant peasants. A similar history is explained in the phrase, "Roma Latifundia delenda est," or "the great estates destroyed Rome." (Sapiro 1995)

The ability of the Roman aristo-

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crats (called patricians) to take as their own the common lands was challenged by a succession of tribunes (magistrates elected by the common people, or plebeians, to protect their liberties), but the patricians always prevailed. Around 130 B.C. the tribune Tiberius Gracchus stated, "The wild beasts of Italy have their dens and caves of abode. But the men that fought for their country have nothing else but air and light, and are compelled to wander up and down with their wives and children having no house or resting place." Tiberius was later assassinated. Many thousands of free Romans had no shelter but the public halls and temples, and no provisions except what came from public storehouses and charitable gifts. (Sapiro 1995)

Two thousand years later we finally have the land value tax to address this problem. In America, half of our Western region is Federal land, including 46% of California, much of it monopolized by agricultural and timber interests, resulting in a form of corporate welfare called "cowboy socialism." (Sapiro 1995) As in Ancient Rome, we are now also seeing threats and actual violence against those in the government who work for the people's right to common benefit from common lands.

The fall of Rome was not so much due to the strength of the invading Visigoths, Vandals and Germans, as those challenges had been stopped before. Rome fell more because of the loss of the resolve of its people to defend it. Much of that resolve, on the part of many governmental leaders as well as many of the poor, went into the new religion of Christianity, which eventually gave us the "Protestant work ethic" and the expansion of the market economy to a global system. Thus, we are today confronted with the same problem faced by the Romans; massive disparities in wealth and privilege. This is a problem that we can correct if we recognize the difference between earned and unearned wealth, and carry out the appropriation and general sharing of the latter.

The difference between America

and Ancient Rome is that we do not have a barbarian invasion force on our border waiting to send us back to the Dark Ages. Although there are prophecies of a great battle between good and evil due to occur any year now, it looks more likely that our future will be one of increasing social stratification, with a few isolated, sinfully rich people growing ever more concerned about the masses of meek, working-poor around them who have been promised the inheritance of the earth. Even today a mere 1% of the richest Americans possess greater wealth than the bottom 90%. (Hartzok 1995)

The wild card in this stacked deck, however, is the prophesied "Second Coming of Christ," also due at this change of the millennia. The first time he visited he was asked about paying taxes to Rome. His evasive answer meant that he was only concerned with spiritual matters, not temporal. We might hope, however that during the Second Advent we will be told, when we ask again about paying taxes; "Render unto yourselves your earned wealth, and unto the service of the Lord the unearned wealth." In this ideal, governmental services paid by the tax on unearned wealth at various levels would serve all of the people in a global, "Kingdom of God." In fact, many of the world's religions teach of a coming period of peace and plenty (usually after a period of tribulations), and fulfilling this prophecy can become a multi-faith goal for united action toward global adoption of the land value tax. If we have a good idea of how to create this better world, we must not ignore the calling to work to help bring it about.

Relating geonomics via this new spiritual ethic could be the quickest way to gain mass acceptance for what is an elegant solution to an age-old problem. Much of the basic work has been done for the implementation of the land value tax. The laws have been written, the models exist, and the people are becoming more cognizant of the need to make changes. In the coming millennia we only need to find an effective program through which to work to generally apply geonomic theory.

Applied Geonomics

Since state and county tax structures are regulated by state legislatures, the switch to the land value tax can not happen in a given local government until the state provides for the change (called a local option). However, the ground work has already been done. Herman Daly and John Cobb state that, "A model law encouraging this tax reform has been drawn up by the American Legislative Exchange Council and published in the 1987-88 Source Book of American State Legislation." (Daly & Cobb, 1989)

Currently, the state of Pennsylvania permits its cities and school districts to adopt the split-rate property tax, and recently it was discovered that a long forgotten law in Maryland passed in 1916 permit all of its municipalities except Baltimore and the state's county governments to adopt the land-value tax. Efforts to expand this local option exist in Pennsylvania and Maryland. For the effort in Maryland, contact Larry Bohlen, Conservation Chair of the Maryland Sierra Club, PO Box 1227, College Park, MD 20741. larry.bohlen@sierraclub.org (Rybeck, 1996)

The support of the Sierra Club for the land-value tax is due to the slowing of urban sprawl as a result of the institution of this tax. The environmental organization has rewritten its land use policy statement to include: "Tax laws should be modified to ... prevent low density sprawl." One of the causes of sprawl is land speculation, or the tendency for urban land owners to keep land or buildings vacant or under-utilized to avoid the tax on improvements while waiting for their property to appreciate in value. The result is boarded buildings and vacant lots used as dumps, corporate flight to the suburbs and urban decay. In contrast, the land-value tax provides two incentives for land owners to maximize the utility of their land. First, since the tax is on land value as determined by the market rate (economic rent), then a land owner must make the greatest utility of the land in order

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to pay the taxes, or sell it to someone who will. Second, since the LVT reduces or eliminates the tax on improvements, there is no disincentive to prevent new construction. The result is that businesses continually revitalize the city centers rather than move out to the suburbs. In this way, the pressure on open-space land is relieved, resulting in the LVT being an environmentally-friendly tax scheme, and earning it the name "geonomics."

Logically, what follows from the LVT incentive to build is an economic stimulus for any locality that institutes the tax. This was proven in a recent study by Nicolaus Tideman, professor of economics at Virginia Technical University, and Florenz Plassman. (Cord, 1996) Their study found that the change in the rate of new construction in 15 two-rate cities in Pennsylvania was greater than the change in 35 cities in the same state which had not gone two-rate. This study confirmed what the Henry George Foundation of America had found in its own, less scholarly studies. In one such study, the rate of change in building permits issued in Aliquippa and Ambridge, Pennsylvania, sitting opposite each other on the Ohio River, was compared before and after Aliquippa changed to the two-rate system. Aliquippa's permit applications increased by nearly 200% while Ambridge's decreased 30%. (For the Tideman/Plassman study titled, "The Impact of Two-Rate Property Taxes on Construction in Pennsylvania," send \$5 to the Henry George Foundation of America, 2000 Century Plaza #238, Columbia, MD 21044)

The economic stimulus resulting from the application of the LVT is a selling point for the tax program, since it is clearly not an anti-development tax. On the contrary, tax revenues increase without an increase in the tax rates, simply because of the increase in value of real estate undergoing economic development. For this reason the newsletter of the Henry George Foundation of America is called Incentive Taxation.

Among the questions raised about the LVT is the concern that land owners will simply pass their increased site-value tax to tenants. The general consensus among economists is that the land value tax can neither decrease the supply of land, nor increase the demand for land, and thus the market would not be affected. (Cord, 1991 & 1996) Land is unique in this respect. Unlike any commodity which tends to become scarce when taxed (such as wages), the amount of land does not change with the increase or decrease of the land tax. With no change of supply or demand in the rental market resulting from the land value tax, land owners cannot raise rents without pricing themselves out of the market. To the contrary, since the land value tax tends to encourage construction, the supply of rental units tends to increase, further encouraging the improvement of the local economy.

Another concern is often expressed with regard to the issue of "development." As a pro-growth policy, the primary value of geonomics is that it channels economic development

in an ecologically responsible as well as socially responsible direction. Geonomics works to assure that the impact of development is as light as possible upon existing ecosystems. (Hartzok 1995)

Conclusion

We may view Henry George, and American government's failure to embrace his land-value tax idea, in the same way that we view W. Edwards Deming's experience of trying to convince American corporations to accept his ideas of total quality management. Ignored at home, Mr. Deming went to Japan to apply his ideas. Only when Japanese corporations began out-competing American corporations was Mr. Deming recognized at home. Interestingly, both Japan and Taiwan, two of America's greatest economic competitors, were introduced to Henry George's ideas. Dr. Sun Yat-Sen, architect of the Chinese nationalist government which controls Taiwan, and General Douglas MacArthur who wrote Japan's constitution, both incorporated Georgist theory into the design of those post-war governments. Therefore, Henry George may be credited in part, along with W. Edwards Deming, for those nations' economic success, although neither nation has fully applied Georgist theory. Getting Henry George's ideas about taxing unearned wealth out of the realm of nondecisions and into the American political debate is an opportunity waiting for an organization to take advantage of this proven economic program for its own and its nation's benefit.

Geonomics or Georgism has many positive attributes that commends it to any organization's program of economic and political reform, even to bi- or multi-partisan coalitions. Geonomics is a macro-economic theory consistent with basic supply and demand concepts. It provides for economic development and center-city economic renewal, reduces suburban sprawl, and encourages environmentally responsible land management. Geonomics creates an ethical and moral economic context in its respect for both private and common property, and its balance of individual concerns with social needs. Through its focus upon local community power to tax land rent, thereby enabling control of land by a local population, geonomics addresses many of the fears of those who are concerned about the increasingly negative influence of global economic forces, such as transnational corporations, in their community. The existence of model enabling legislation for the land value tax, and studies of the positive experiences in American cities which have instituted the land value tax, presents the necessary ground work and basic resources for further applications of geonomic theory.

A. Allen Butcher began learning about Georgist theory as a board member of the School of Living Community Land Trust, applying the concept within a non-profit organization. Allen lived for twelve years in the Federation of Egalitarian Communities, is currently on the board-of-directors of the Rocky Mountain CoHousing Association, works for the City of Denver, and is studying for a masters degree in computer information systems at Regis University.