

Economics of Sustainable Prosperity

Marty Rowland

December 12, 2019 – Class #4

6:30 - 8:00 pm

Henry George School of Social Science

149 E. 38th Street, NYC, 10016

This Course

Raison d'être

- Taking on of topical issues and the failures of mainstream economics in the way Henry George would have presented them



This Course

Raison d'être

- Taking on of topical issues and the failures of mainstream economics in the way Henry George would have presented them
- Using Lindy Davies' 2018 *Understanding Economics* text as the foundation of this effort



This Course

Raison d'être

- Taking on of topical issues and the failures of mainstream economics in the way Henry George would have presented them
- Using Lindy Davies' 2018 *Understanding Economics* text as the foundation of this effort
- Encouraging the study of six other hot-linked documents (including George's 1879 *Progress and Poverty*) as supplemental materials



This Course

Raison d'être

- Taking on of topical issues and the failures of mainstream economics in the way Henry George would have presented them
- Using Lindy Davies' 2018 *Understanding Economics* text as the foundation of this effort
- Encouraging the study of six other hot-linked documents (including George's 1879 *Progress and Poverty*) as supplemental materials
- By end of the course the student may agree that there is no reason why she/he is not experiencing sustainable prosperity



This Course

Raison d'être

- Taking on of topical issues and the failures of mainstream economics in the way Henry George would have presented them
- Using Lindy Davies' 2018 *Understanding Economics* text as the foundation of this effort
- Encouraging the study of six other hot-linked documents (including George's 1879 *Progress and Poverty*) as supplemental materials
- By end of the course the student may agree that there is no reason why she/he is not experiencing sustainable prosperity
- Or perhaps, at least, she/he will understand that such prosperity could be a logical possibility



3 factors of production

- Land
- Labor
- Capital



The diagram consists of three vertically stacked rectangular boxes. The top box is yellow and labeled 'LAND'. The middle box is light blue and labeled 'CAPITAL'. The bottom box is light orange and labeled 'LABOR'. The boxes are arranged in a vertical column on the right side of the slide.

LAND

CAPITAL

LABOR

Distribution of wealth

➤ Rent

➤ Wages

➤ Interest

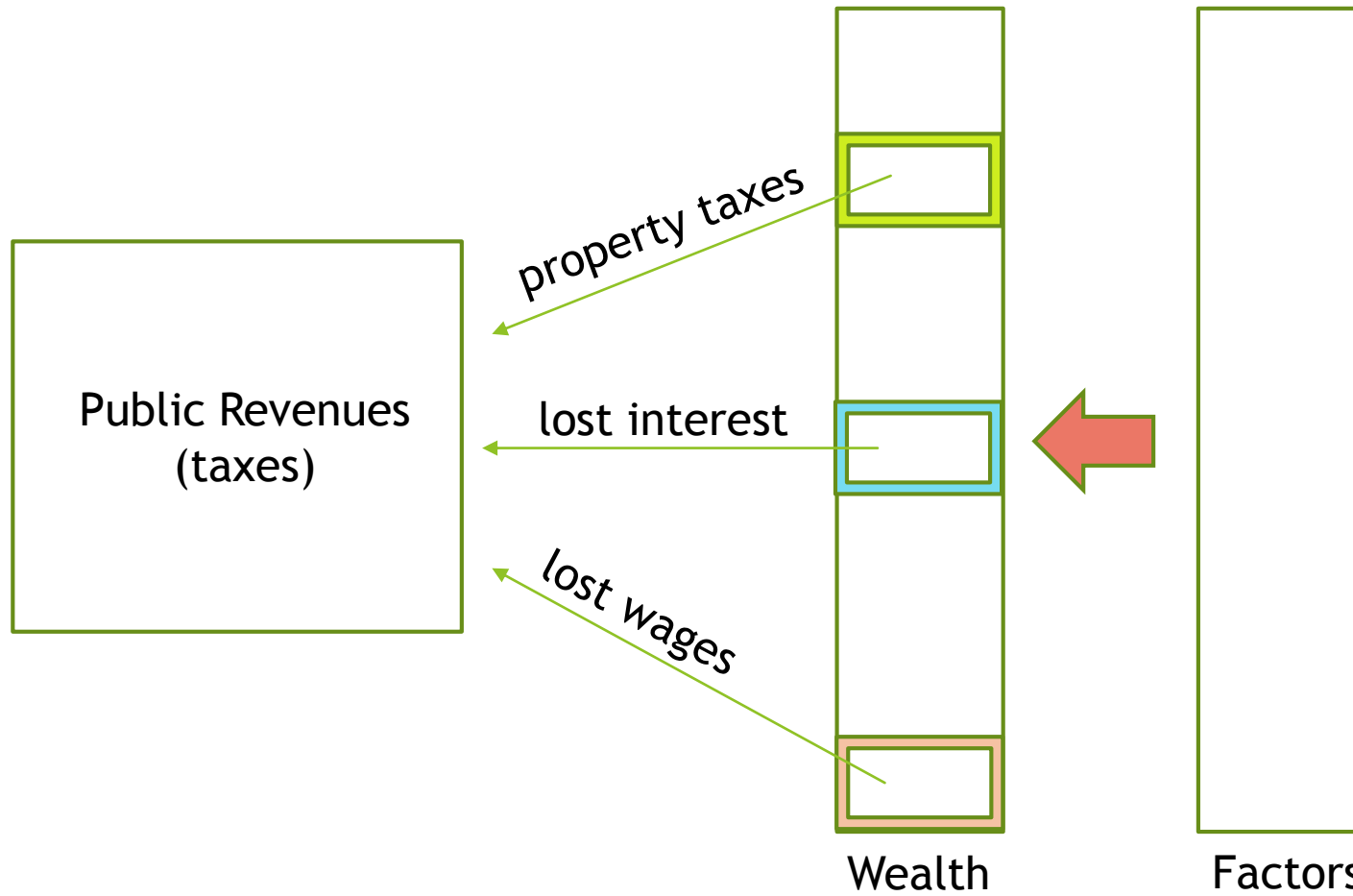
RENT

Replace
Consumed
Capital

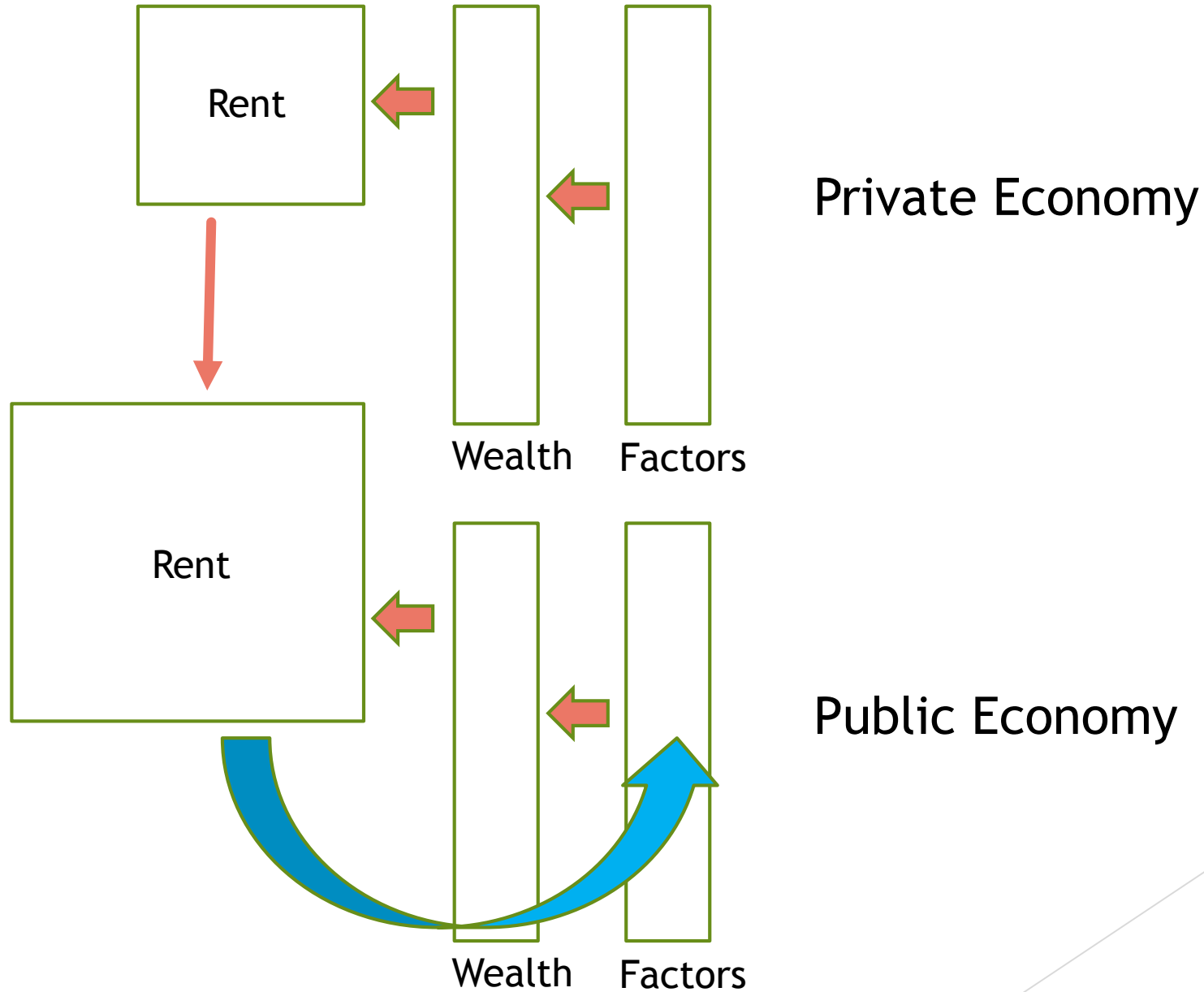
INTEREST

**TRUE WAGES
FUND**

Flow of Wealth - Today



Flow of Wealth - Return/Recycle



Special note

- Before we get too far into today's discussions, take note of the one-page handout entitled: **6 HG Principles**
- Each explains a principle that is well-established within the curriculum of the HGSSS
- The instructor asks that any student having a question that relates to any of those six principles wait until the end of class, when it will be addressed

Prosperity and Automation - Class 4

- Introducing automation into economics discussion
- Davies' chapters 7, 8, 9
- Application of (George's) Remedy - common property
- What can we expect?
- How modern civilization must decline
- Embedded LABOR in CAPITAL
- Who ultimately benefits with food stamps?
- GBI - Remedy makes our dream world possible

Automation into economics discussion

- Automation within the context of Cooperative Economics is the science of abundance (as opposed to scarcity) with repurposed LABOR



LAND

CAPITAL

LABOR



Application of (George's) Remedy common property

Application of the Remedy - common property

- Public collection of the rent of LAND (with removal of taxes on production/wages) leads to vigorous sustainable prosperity
- Nothing wrong with clear-eyed analysis of falsifiable hypotheses
- There's a pernicious assumption that lurks beneath "positive" economic analysis ... that creates no end of problems ...
- That LAND is private property!



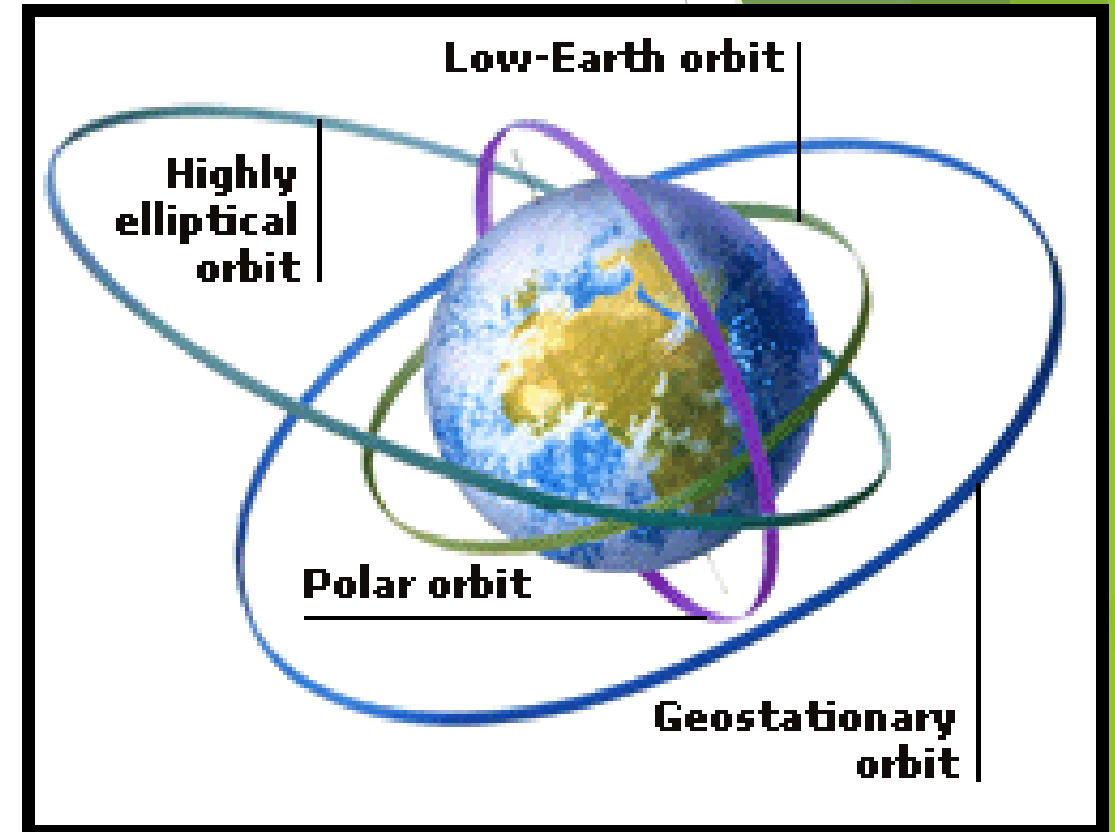
Application of the Remedy - common property

- 4 Criteria of a good tax
 - Bear lightly (nothing) on production
 - Easy and cheap to collect, fall directly on the ultimate payer (don't hide it)
 - Certain
 - Bear equally, nobody given advantage
- Fallacies of broad-based taxes
 - Spread it out so impact is smallest (#2)
 - However - sales tax regressive, wealthy benefit (not #4)
- Can landlord shift tax burden?
 - No, LAND not produced by LABOR
 - LAND is fixed in supply
 - If they did, they'd be seen adding cost of using the improvement, played out in the market



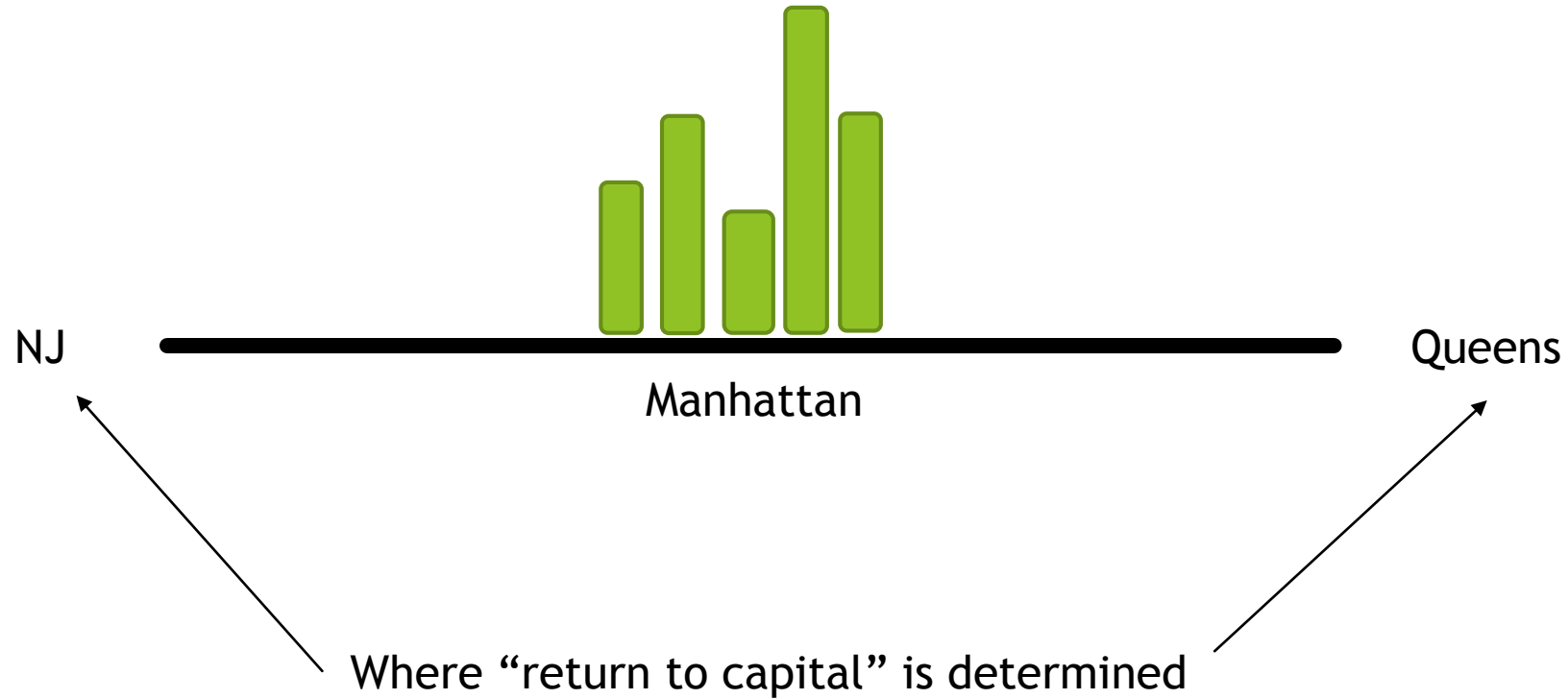
Application of the Remedy - common property

- Lifting tax on buildings increases development, thus LAND value - a virtuous cycle
- Similar approach for oil, EMS, geosynchronous orbits (Bank of Mars), other natural resources
- Modern LAND-equity reformers advocate for 2-rate system with higher tax rate on LAND
- However, tends to increase price of LAND
- This raises the margin of production (remember Class 3)



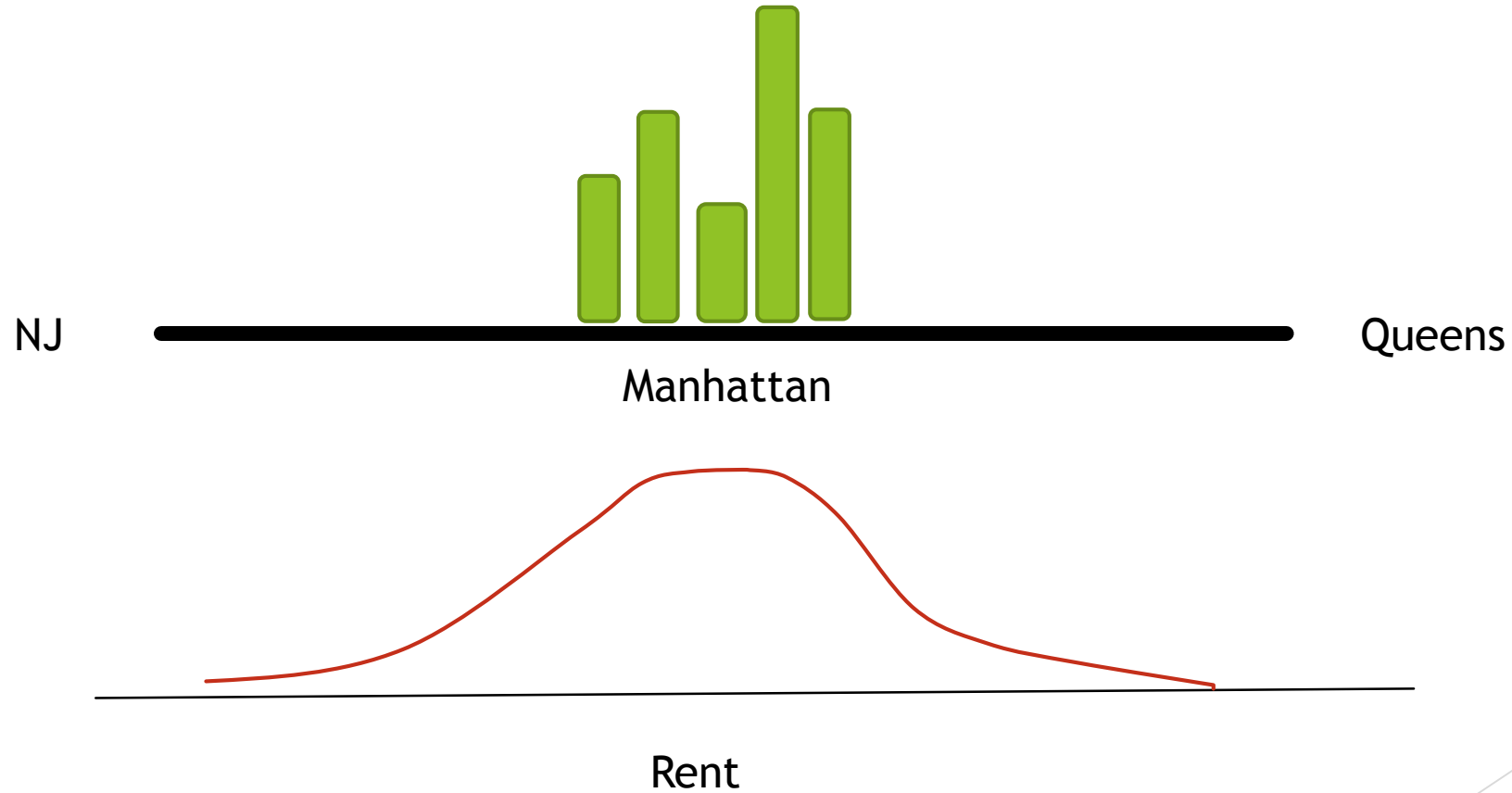
Capital, interest, profits

- margin of production/cultivation



Capital, interest, profits

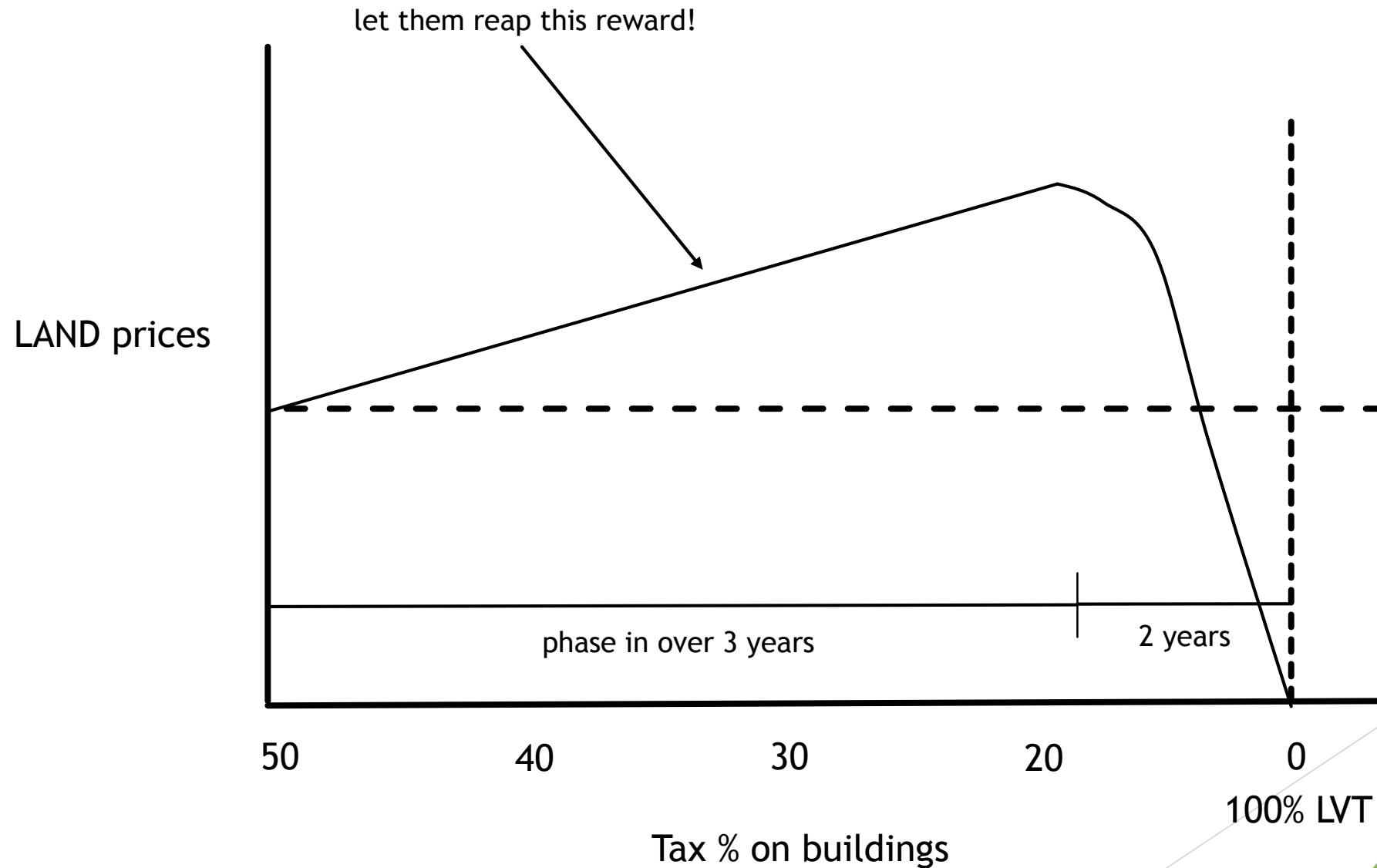
- margin of production/cultivation



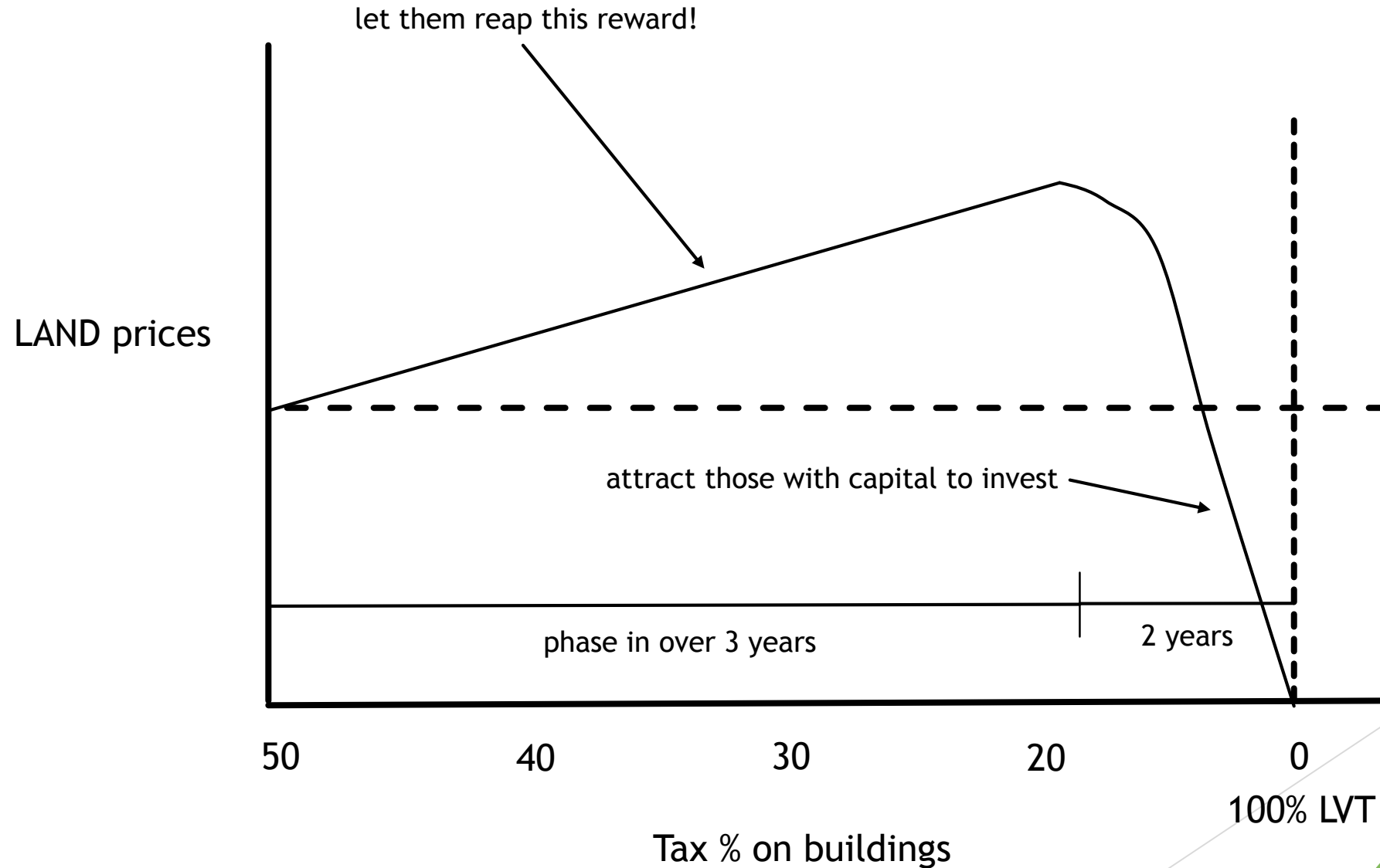
Effects of 2-tier tax system



Effects of 2-tier tax system



Effects of 2-tier tax system



Application of the Remedy - common property

- The Remedy - an eclectic, long-term educational effort - HGSSS challenge
- Examples where implemented
 - NYC 1921-1931, building boom - why NYers weathered 30s Depression
 - California's (1909) start of agricultural boom
 - Pittsburgh (1914), ended after sabotage of assessments, public blamed 2-tier
 - Hong Kong/Singapore, as colonies, half (LAND value) public revenue went to the Crown
 - Alaska collects 12% royalty from oil
 - Denmark, 1950s, wide-spread, then unprecedented prosperity not related to LAND value, opponents saw opportunity to ditch the effort



Application of the Remedy - common property

- History of LVT in US at federal, State, local levels
 - Federal levy of property taxes 1789-1861
 - From local, to State, to federal
 - One time, local govts had more wealth than States
- Challenges
 - Transboundary resources - use Ostrom's common pool principles (Class 3)
 - Poor widow defense - allow LVT to accumulate, payable upon death/sale
 - Superintendentcy - that's wages!
 - How fast? 3 years, 5 years, immediate?
 - No compensation, rather ask for reparations!
 - Interesting origin of the property tax (111)



What we can expect

What can we expect?

- Economists agree appropriateness of taxing land for public revenue
- However, Federal Reserve Board and Natl Bureau of Economic Research say there's only 2% income from rent
- And, we need 25% of GDP to satisfy needs
- Why do Georgists get so hopped up about their pet hobby horse?



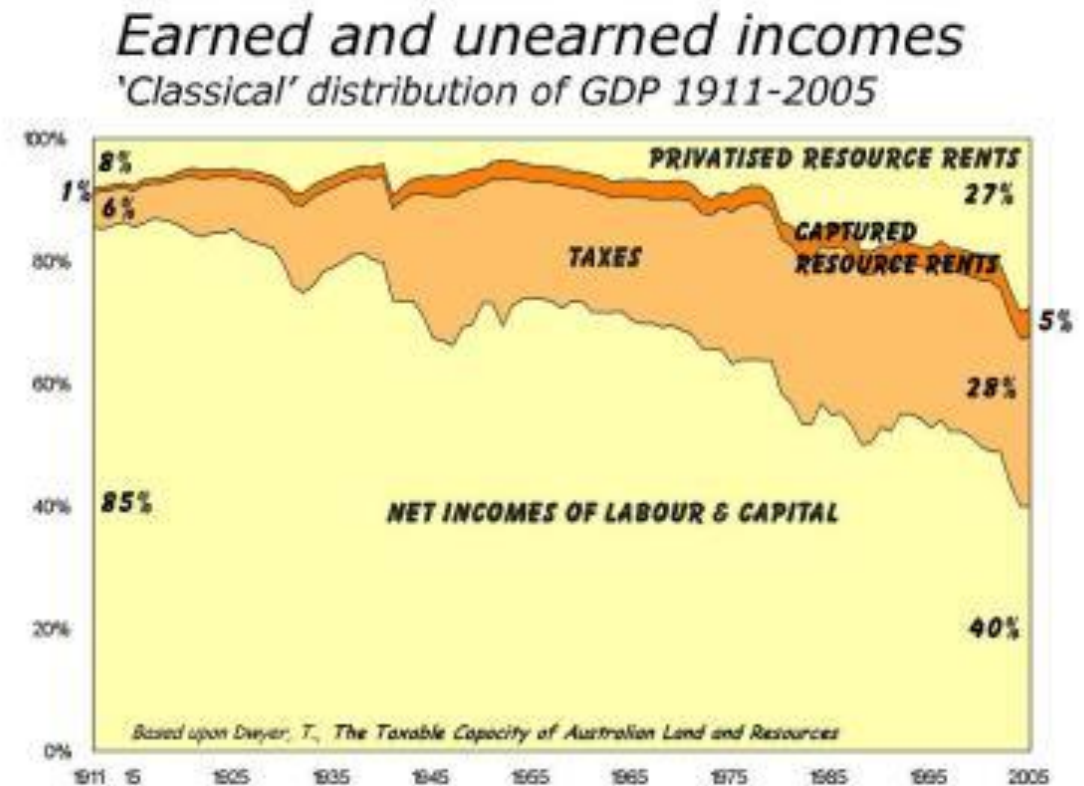
What can we expect?

- That 2% comes from IRS tax filers, then published as Natl Income and Product Accts (NIPA) as “rental incomes of persons”
- That is rent explicitly paid for real estate, and imputed rent where homeowners pay themselves
- Does NOT include rent paid in local property taxes (!!)
- Or, LAND capitalized into selling prices (called capital gains), or corporate assets
- THIS IS NOT AGGREGATE RENT



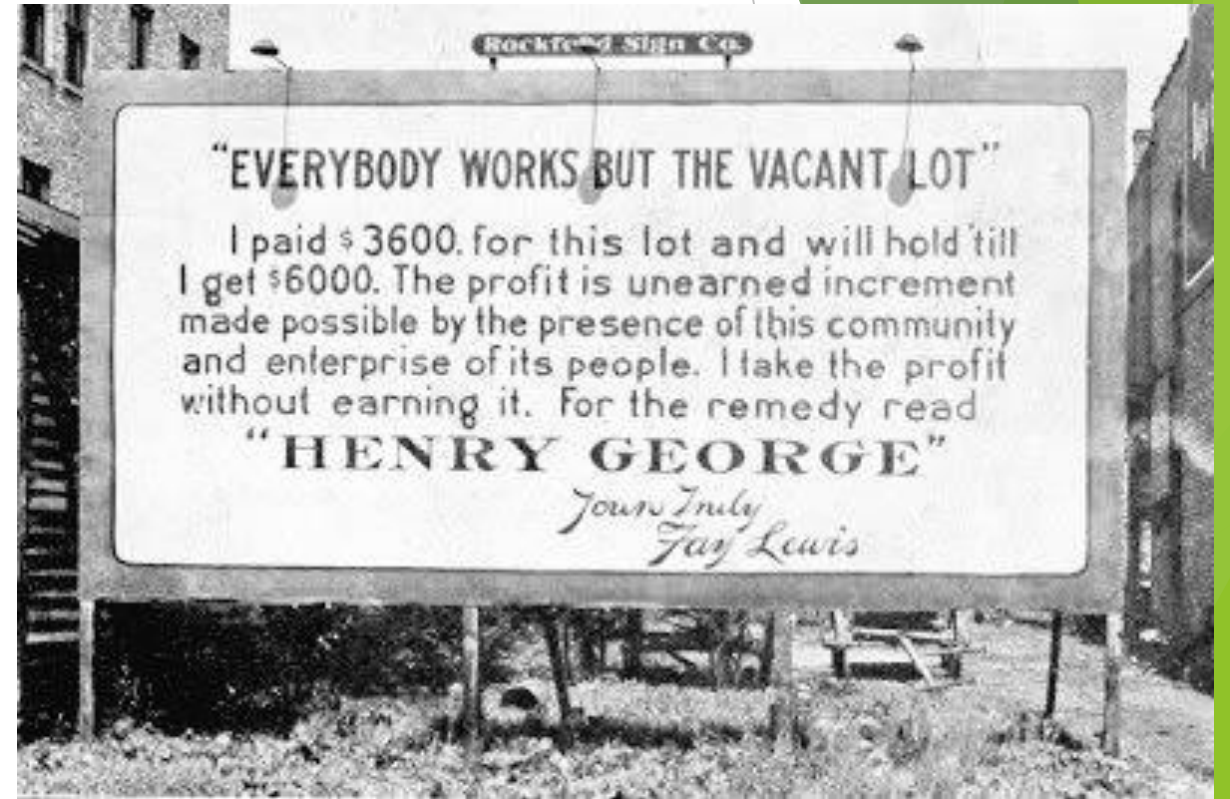
What can we expect?

- Comes from a conflict in definitions
- Those who cite 2% deny the existence of LAND as a distinct factor of production, so rent supply is underestimated
- However, Australia (1911-1999) tracks LAND assessments separately from improvements ...
- They find 26% of their GDP is LAND rent (2003 study by Dwyer)
- Also, 24% of Australian GDP collected in taxes of all kinds (non-LVT)



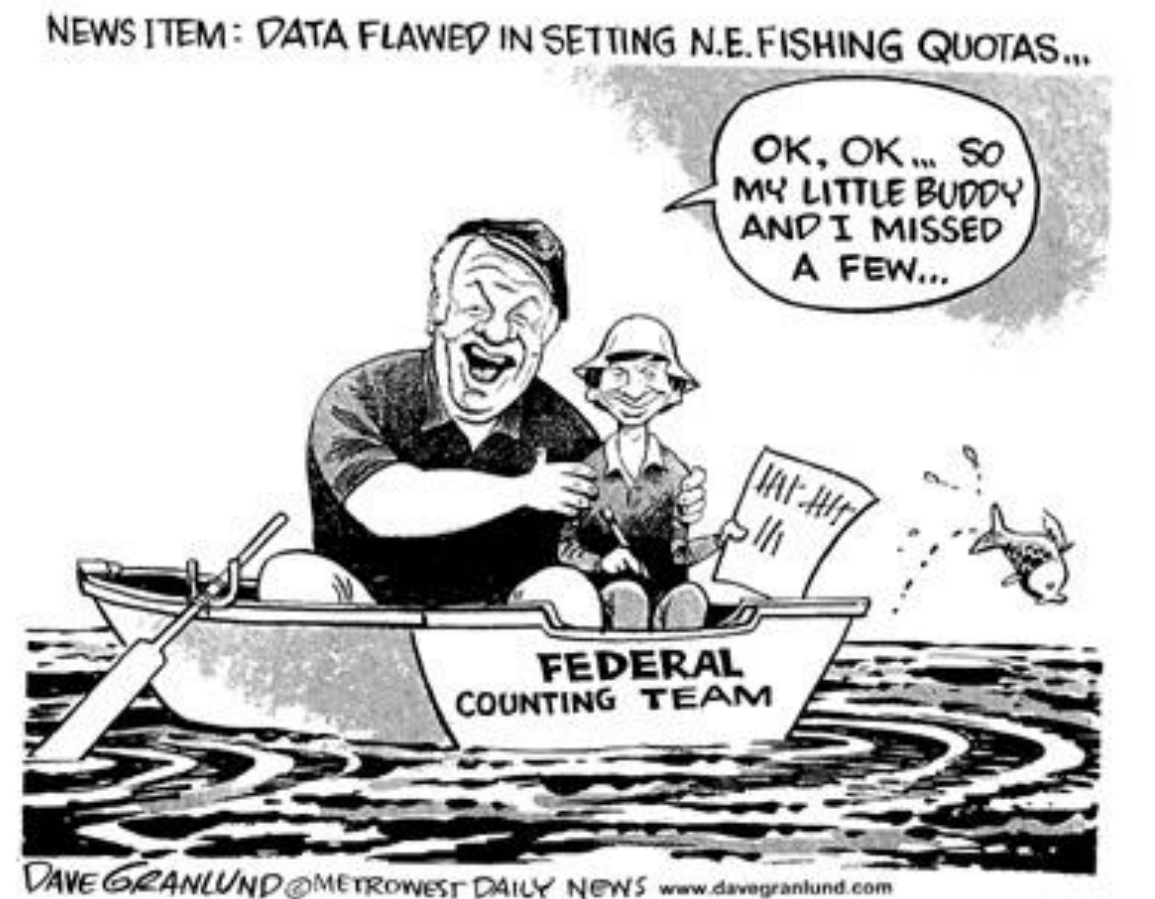
What can we expect?

- Henry George Theorem
 - Value of LAND in a city a function of public investments in infrastructure
 - Properly done, aggressive spending by government will equalize aggregate LAND rent
 - 100% of city revenue could come from LAND rent
 - Only applies to location values within cities
 - These are burdened by State and federal taxes
 - Locational LAND rent could be supplemented by natural opportunity rents



What can we expect?

- Mason Gaffney's The Hidden Taxable Capacity of LAND-Enough to Spare (2009) says there's sufficient source for public revenue
 - Radio spectrum
 - Telecom relay sites
 - Slots in geosynchronous orbits (Bank of Mars)
 - Fishing quotas
 - Quotas on all sorts of production and marketing
 - Pollution permits (air, water, land)
 - Parking spaces
 - Highway access (congestion?)
 - License to withdraw water



What can we expect?

- What happens when LAND is taxed
 - If you collect LAND rent, you don't need other sources
 - Most people get a 30% pay boost
 - Demand for LAND increases
 - LAND values increase
- Look at map (page 117) where there are no sales taxes
 - Where shopping centers abound
- Despite 50/50 2-tier system
 - Where property taxes are high, higher incomes
 - NH, NJ, Conn, NY, Alaska
- Imagine effect of 100% LVT!



What can we expect?

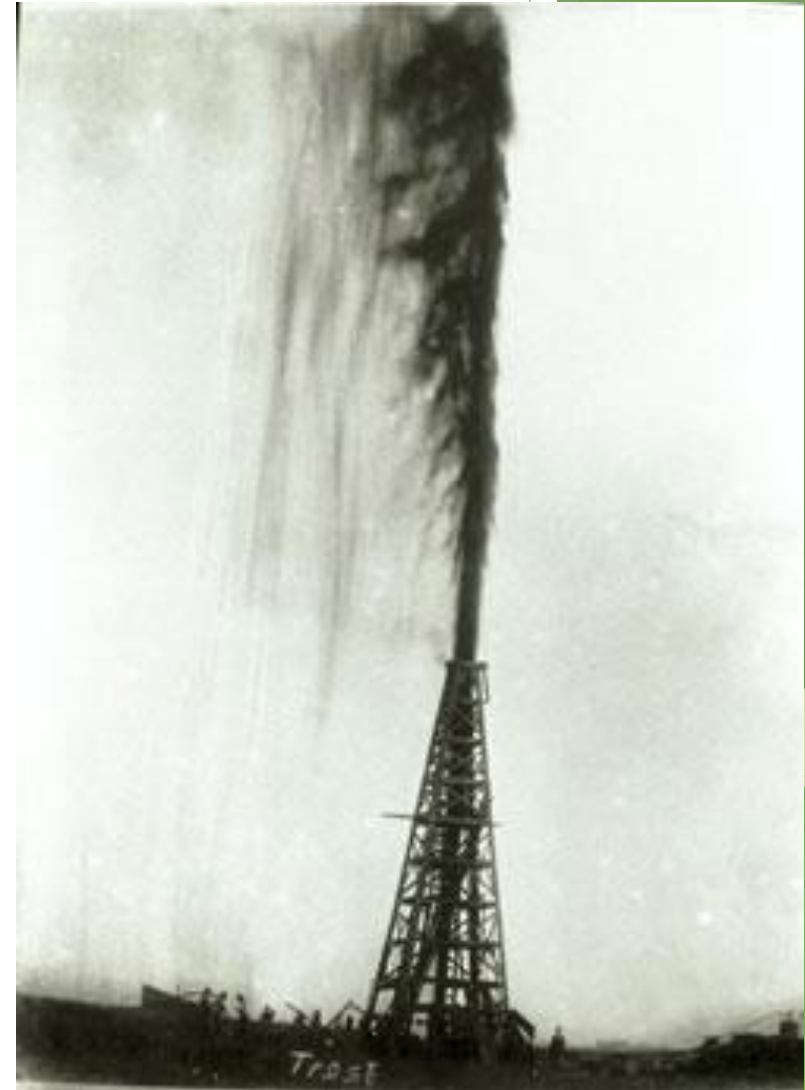
- Counter-intuitive nature of farm LAND taxation
 - Lower taxation killed off the family farm
 - Led to concentration of ownership
 - 1930-1945, 1.32% to 0.77%, same today
 - Didn't take much to make this swing
 - Victims happy to get "relief" until they weren't
 - LAND value kept rising



What can we expect?

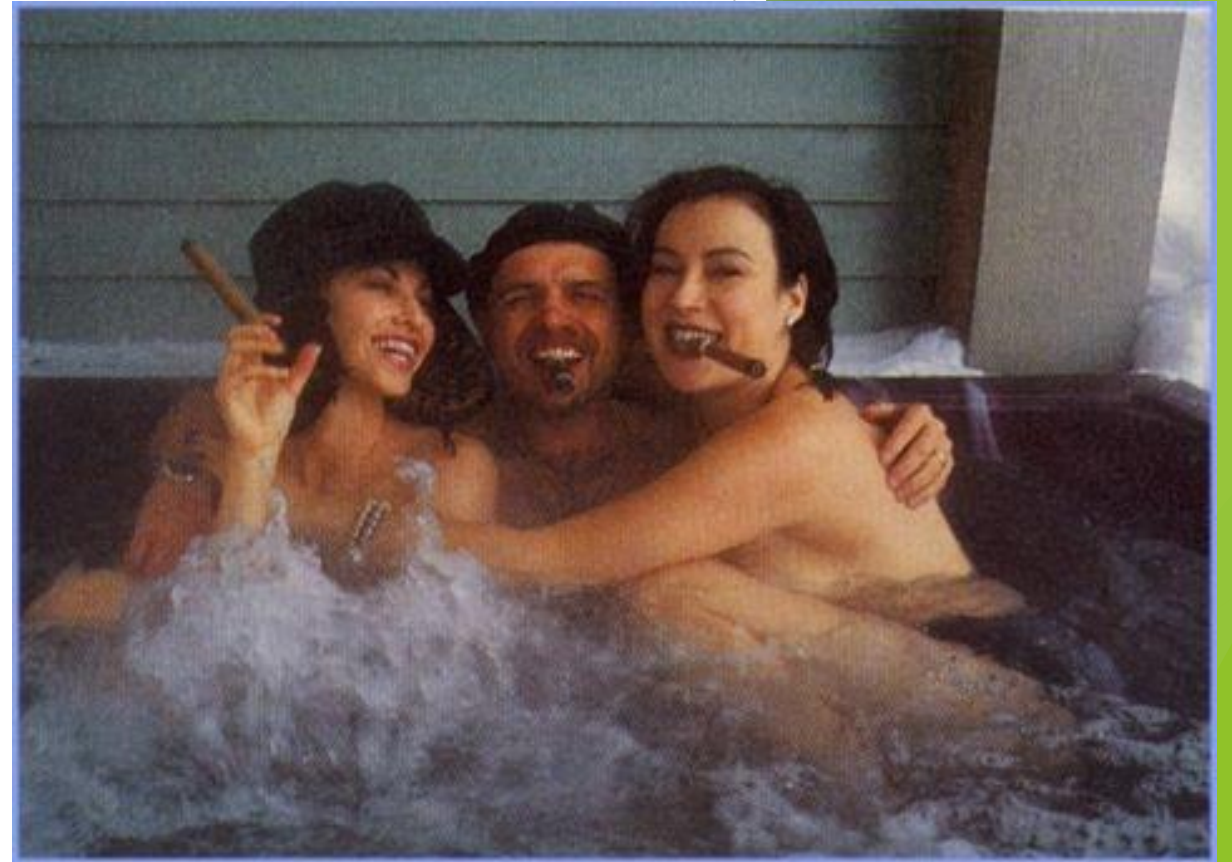
➤ Resource Curse / Dutch Disease

- (Remember the Profit episode)
- Windfalls from gas, oil, other natural resources
- Less investment in other sectors; e.g., Venezuela, Mexico, Nigeria
- Norway, an example of what to do (oil)
- Highest per capita standard of living
- LABOR centralized bargaining system
- Public education
- Macroeconomic stimulus in downturns
- Amassed a national fund that is 75% of GDP



What can we expect?

- Curse leads to “rentier state”
 - Embodies break in work-reward causation
 - Wealth coming by chance or situation
 - Unearned income
 - Leads to recession
 - Norway prevents rent-seeking behavior



What can we expect?

➤ Urban dilemma

- Many cities in dire financial trouble
- Taxing themselves out of existence
- But, we know there's an alternative to create sufficient revenue to run any city
- Value of urban LAND is a measure of success for local govt
- Eliminates LAND speculation
- Rent is based on value of opportunity and services
- Creates incentive for re-development



What can we expect?

➤ Enterprise zones

- Abating taxes with logic that business volume will make up for the “priming” costs
- Few jobs created from subsidies for real estate speculation
- All effects are within short distance of the zone, not a city-wide benefit
- LVT IS citywide



What can we expect?

- Sustainability squared (Green New Deal)
 - Imagine ... living in Scandinavia, without degrading natural resources, expansive opportunities in spite of lower per capita natural resource consumption
 - Yes, Norway is doing well with the hand it was dealt (oil reserves), but LAND is a resource that never dries up!
 - It's about shifting proportions of LABOR and LAND (natural resources)
 - Raising demand for LABOR
 - Compensating LABOR better
 - Let's look at impacts on farms, cities, businesses



What can we expect?

➤ Farms

- In developing world, densely populated farms produce more per acre at less cost per worker
- Taiwan is 16X more productive than US, using 23X more LABOR
- Netherlands is 12X, 2.5 X more LABOR
- Smaller equipment, more crop rotation
- US uses more LAND, because of federal subsidies
- Technology for tough tomatoes
- Machines to use tough tomatoes
- Intensive use of natural resources
- 95% of California's tomato crop is machine harvested
- There's embedded LABOR in machines
- 2013 UN report says small farms can supply entire populations (GBI - embedded LABOR)



What can we expect?

➤ Cities

- Benefit from a division of LABOR
- Creative people intermingle for productivity and innovation
- People of NYC produce less than 1/3 of GHGs than average American
- Sprawl goes to farm LAND and wood LAND, cities decay
- By renovating urban infrastructure, we get better services, filling vacant lots
- NYC still has 6% vacant LAND (2018)



What can we expect?

➤ Businesses

- Japan needed just-in-time (JIT) manufacturing due to lack of space
- Also, they used total quality manufacturing (TQM), using many inspectors (LABOR) to assess against benchmarks
- Some times this means smaller batches of products
- Skilled, flexible workforces
- Small banks with individual services
- During “Contract on America” (1994), US allowed interstate banking to resume
- Conclusion - we can produce differently with better outcomes
- No need to subsidize CO2 dumping, highway extensions
- Rather, plug loopholes, smaller farms, higher wages, untax production, better education



What can we expect?

➤ Sustainability squared

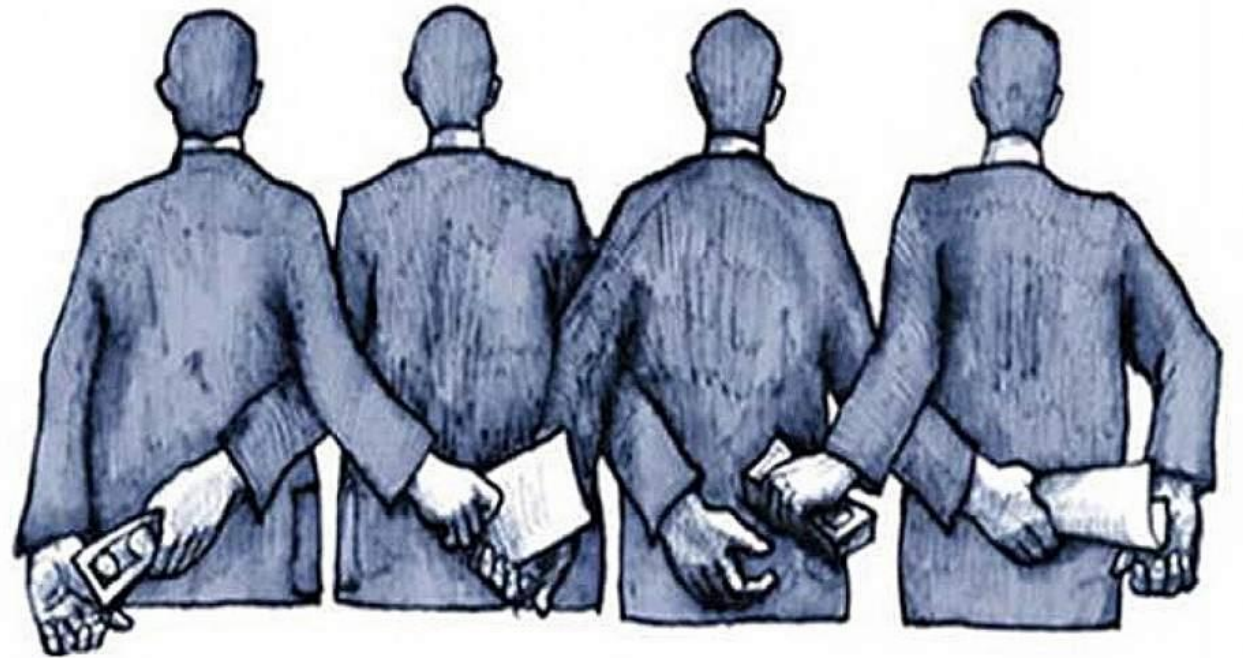
- Better environment
- Secure, better-paying jobs
- Need common property in LAND



Civilization must decline

How modern civilization must decline

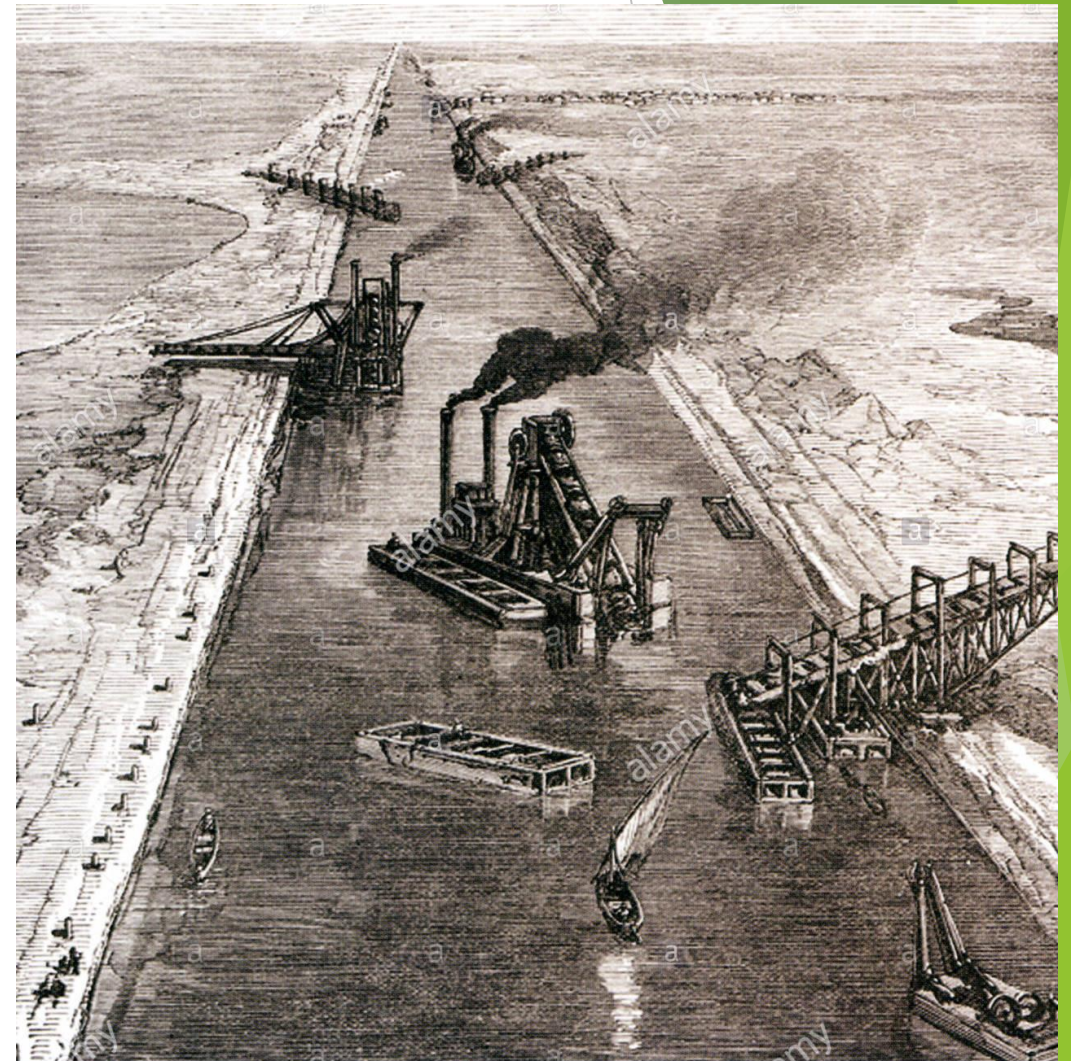
- Forms are nothing when substance is gone
- In hereditary succession, sometimes you get wise and just rulers
- In corrupt democracy, power is always given to the worst
- Unscrupulousness commands success
- Foundation of our society is sapped before our eyes
- Rights to liberty are denied when equal right to LAND is denied
- Economic law and moral law are essentially the same



Embedded LABOR in CAPITAL

Embedded LABOR in CAPITAL

- Progress and Poverty, Book I, Chapter 3, page 67:
 - When the Suez Canal or Lincoln Tunnel are cut, there's no advance of CAPITAL
 - Canals, tunnels become CAPITAL with the money spent (in LABOR) in cutting them
 - Value of company stock is not lessened when CAPITAL, LABOR, and LAND are combined to create more CAPITAL (canals and tunnels)
 - Workers are not paid in “tunnel feet”
- This is same as when millions of dollars are needed in R&D / construction of automation/AI machine



Who ultimately benefits with food stamps?

Who ultimately benefits with food stamps?

- Those nasty conservatives who like to tell the less fortunate among us that hard work breeds good character
- We just can't give you food money unless you work for it
- But who benefits with food stamps?
 - The corner bodega, and the immigrant proprietor
 - Farmer, who could be a neighbor if mega corporate farmers were not given subsidies
 - \$65 billion per year



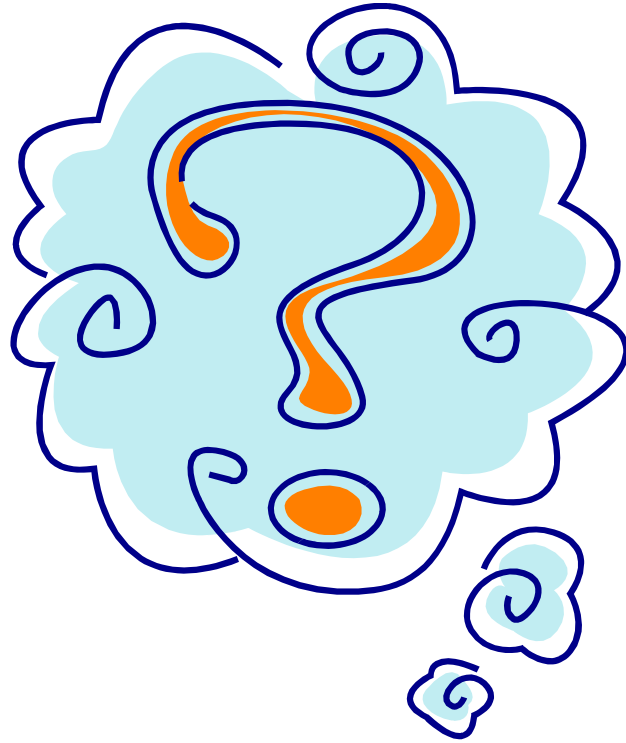
**GBI - George's Remedy makes our
dream world possible**

GBI - Remedy makes our dream world possible

- Guaranteed Basic Income (GBI), sounds like a big government giveaway program; but, who might benefit?
- As we unwind the powerful interests who do not share the benefits they've received from natural opportunities (private LAND ownership monopoly), there's plenty of wealth to go around
- The embedded LABOR in AI makes it possible to free many of us to take advantage of our developed or innate skills to promote human progress even further



Questions



Ostrom: principles of cooperation

➤ In her debunking of the “tragedy of the commons” thesis, Ostrom identifies 8 principles that are always present when people collaborate to share a resource - across time, geography, cultures:

- Clear definition of physical boundaries of the resource pool and membership of the user pool
- Appropriation rules
- Collective choice arrangements
- Rights of appropriators to organize institutions
- Monitoring compliance with collective decisions
- Range of sanctions to fit the severity of violation of decisions
- Low-cost conflict-resolution mechanisms
- Sets of rules established within a hierarchy of appropriator institutions for resources within larger resource systems and political jurisdictions

Bromley: exhaustion and exclusion

		Exhaustability	
		High	Low
Excludability	High	Private	Toll goods
	Low	Open Access	Public

Bromley: exhaustion and exclusion

		Exhaustability	
		High	Low
Excludability	High	Private	Common Pool
	Low	Open Access	Public

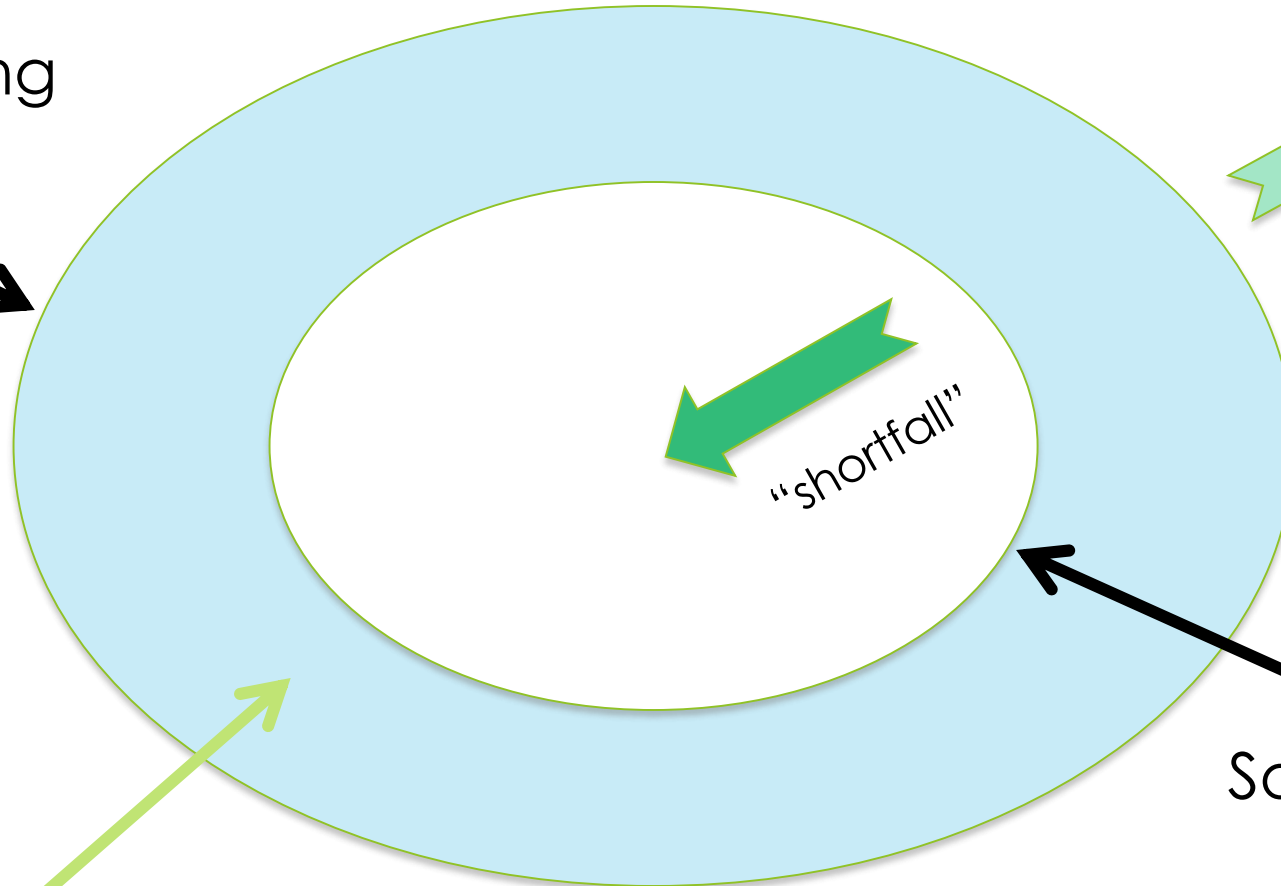
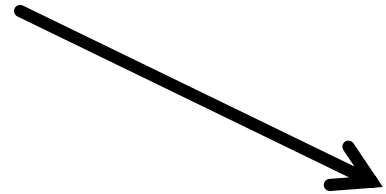
Rowland: 7 transition factors

- In his study of water management institutions, Rowland identified 7 factors always present when organizations transition from a state property regime to a common pool property regime:
 - Increased population growth
 - Increased resource usage
 - Impacts to resource or and environment
 - Resource access rights disputes
 - Improved understanding of resource flows of the area
 - Social and political climate favors change
 - Individual initiative taken to effect change

Doughnut Economy (Kate Raworth, 2017)

55

Ecological Ceiling



"overshoot"

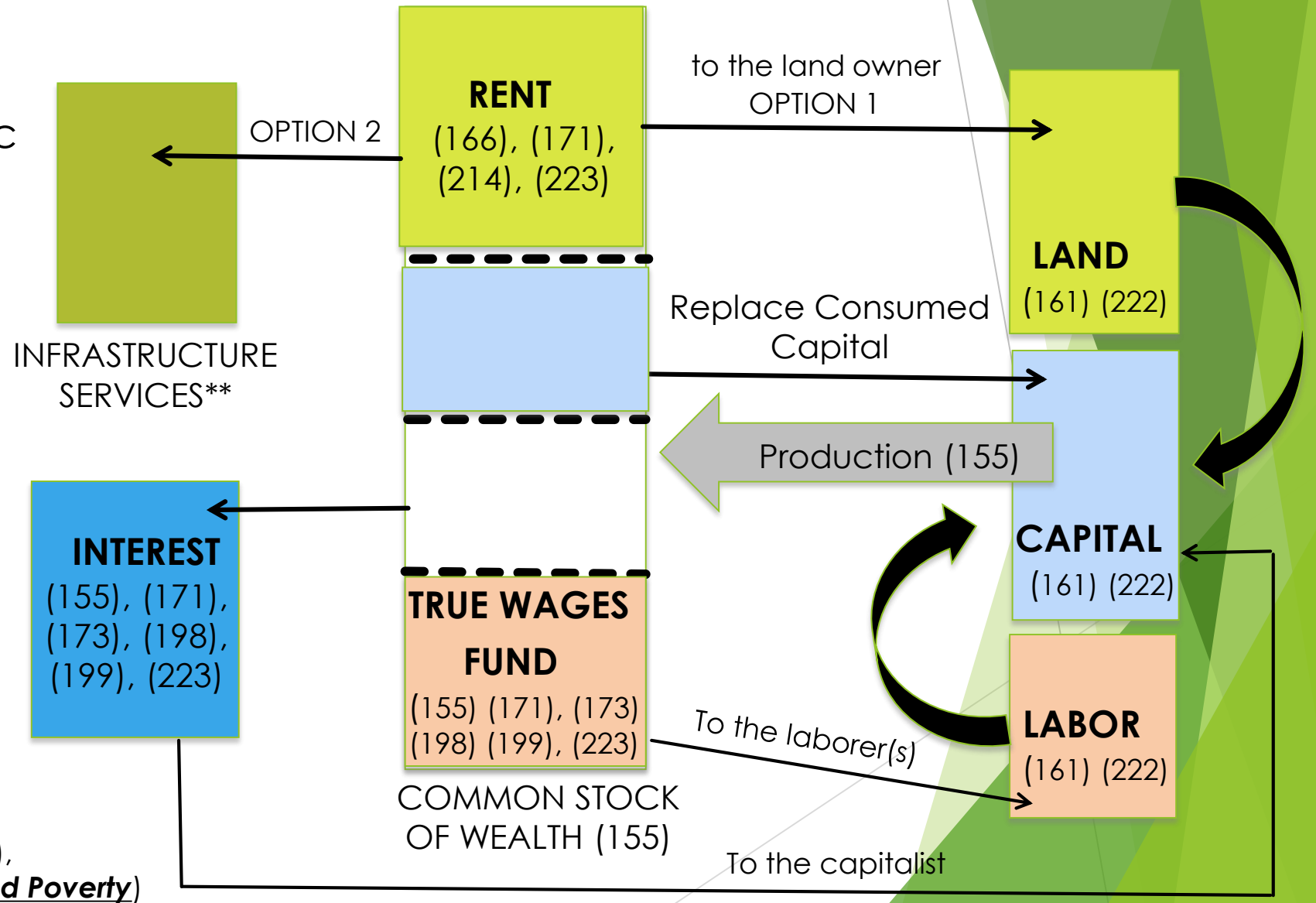
"shortfall"

Social Foundation

the safe and just space for humanity

PRODUCTION* / FLOW OF WEALTH

** Includes: Gas, water, heat, electricity, public library, public school, public health, recreation, roads, bridges, telephone, highway, post office, telegraph, railroads, deepening river bed, lighthouse, public market, issue money, and reduce appropriative power of aggregate capital. From: **Social Problems** (188) (190) (178) (179) (191)



* Adapting (manufacturing/transporting), growing, and exchanging (**Progress and Poverty**)

Labor and production of wealth

- Money is not wealth, but only an intermediary, just as are bonds, stocks, and other promises



Common Property Fee Curve

Goal - Stay within lower and upper limits

The curve represents the fee logic used to manage a property. The dashed curve on the left will prevent it from falling too low. The solid curve on the right will prevent it from climbing too high. Most properties will seek equilibrium on the lower or upper side, so usually only one fee curve is needed per property. Fees are fairly stable in the safe zone. The smooth curve prevents economic shocks.

