

Re-solving the Economic Puzzle

Walter Rybeck



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Endorsements of the book

William J. Byron, Professor of Business & Society, St. Joseph's University, former president, Catholic University of America: Commitment and competence characterize Rybeck's life-long effort to promote the common good through creative application of land taxation policies. This book revives the insights of Henry George and reveals the difference one man can make in the struggle to promote economic justice and prosperity, if only policy makers will listen.

Former Pittsburgh Congressman William J. Coyne: Our city pioneered in gradually shifting property taxes off buildings onto land values. This modest use of a land tax helped make Pittsburgh's renewal a model for the nation. The full-blown use of this tool that Rybeck urges could go far to restore our nation's economic health.

Ken Hechler, formerly White House assistant, Congressman, and West Virginia Secretary of State: This book re-tells the story of how coal, oil and timber became a curse to Appalachia because these resources attracted exploiters who left the bulk of mountain people in poverty. Rybeck, a native West Virginian, offers a workable formula that will make our natural riches a blessing for the population as a whole.

Stephen R. Reed, Harrisburg Mayor, 1982-2010: Rybeck shows how an innovative real estate tax policy stimulates economic growth and job creation. We know it works. It turned Pennsylvania's Capital City from the nation's second most distressed city into a nationally recognized economic development success story.

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Introduction

THIS BOOK BRINGS good news to those who want an America with full employment, a sustainable prosperity without roller-coaster ups and downs, and a return to constructive political and social discourse without rancor.

This is not to deny our critical problems. In this richest nation the world has ever known, from New Orleans to Detroit, from Boston to Los Angeles, in grand cities like Chicago and New York and in rural areas from Appalachia to the Ozarks, people are mired in poverty. Families and babies go hungry despite our prodigious ability to produce food and despite the mountains of wasted food. Large numbers of willing workers find no job in the face of unmet social and individual needs. Hordes of homeless city people roam the streets side by side with boarded-up housing. The bad news is that, if we allow current trends to continue, the outlook for our future is dismal.

However, waiting in the wings is a way to change course and revive what has been the genius of our economic and cultural life. This change requires a reform that is fully consistent with American traditions and ideals. In fact it harks back to one of the most significant factors undergirding our nation's remarkable earlier success – a factor that somehow has been all but obliterated from our collective memory. As will be seen, it involves removing an injustice that is corroding the enterprise system and that is increasingly making us more akin to nations characterized by sharp divisions between the underprivileged and overprivileged.

Many people are angry with the poor, the hungry, the homeless and the unemployed. “I made it on my own, so why can't they?” they ask, perhaps forgetting those who gave them a lift along the way. If the victims are at fault, there is no need to question whether there may be legitimate reasons that they are not “making it”. A majority, however, tend to sympathize with the misery of their

fellow citizens, leading them to support private charities and public assistance programs. Yet neither camp – those with empathy and those without – seem inclined to pursue the root causes of our socio-economic ills.

Only those who are Pollyannaish can say all is well with our nation when jails and prisons are overflowing and when mental illness is rampant. These are wake-up calls reminding us to understand and confront our festering social malignancies.

Another Injustice to Conquer

A serious injustice permeates our country. Laws allow individuals to appropriate values created by other people's work, depriving those who created these values of a fair return. This "legalized theft" sets off a chain reaction that has been a factor in the nation's repetitive boom and bust cycles. It blocks job creation. It eats away at our enterprise system. It infects our democratic institutions. It diminishes social unity and harmony.

The distress following the latest economic meltdown – all the lost jobs, lost homes, lost savings, lost businesses – underscores the need for systemic reform. Only by confronting the underlying economic distortion infecting our system can our nation live up to its lofty ideals and its promise to its own people and to the world at large.

Struggles against great injustice are proud chapters of our history. The ethnic cleansing of Native Americans and the enslavement of kidnapped Africans in our nation's formative years shock 21st century sensibilities. Women's voices as voters were not recognized until the 1920s. It seems almost incomprehensible now that these evils were once so widely accepted. Having overcome past injustices entitles us to have a high degree of confidence that the flaws cited in these pages can be corrected as well. Each effort to correct and atone for a serious departure from our professed aims bring us closer to a society that practices as well as preaches that *all* men and *all* women are endowed with equal rights.

Deviations from our goal of justice do not contradict the fact that America has been and remains a remarkable society and a splendid ideal. History teaches us not to be stunned that decent citizens and brilliant leaders can be blind to monumental injustices. The injustice described in this book is widely practiced and accepted by good people. No irony intended. We honor Washington, Jefferson,

and other Founding Fathers for their vision and political genius despite their having been slave owners. By the same token, perpetrators of our current injustice should not be held culpable. We should condemn the *injustice itself*, not the decent people who are actively or passively caught up in it with little awareness that they are doing so.

Americans are frequently told that our country is the greatest, the best hope of mankind, and the like, persuading some that our nation is close to perfection. To them, asserting that the nation is contaminated with a serious flaw may be so jarring that naming this flaw may invite instant disbelief and a disinclination to listen further. Of course, people who profit from an injustice tend to like and defend it, even to the extent of calling reform efforts unpatriotic. They need to be reminded that correcting the nation's failings is among the most fundamental expressions of liberty for which patriots have sacrificed their lives and fortunes.

That said, I can identify with those who find it hard to consider that a long-standing feature of our economy, one that is embedded in our legal system, is poisoning our society. The prevalent economic theories offered in college courses make it difficult to visualize the problem or to imagine that, in some essential respects, America is not on the right path. My initial reaction to a contrary view was to deny it.

To Demonstrate an Injustice

Mainstream economists pride themselves on being analytical and non-judgmental. A message of this book is that without *ethical* inquiry there can be little understanding of our Great Recession or how to alleviate our chronic economic failures.

Imagine that slavery still existed. Consider how today's social scientists would confront it. They would devise elaborate computer models to project what would happen if the institution were expanded or diminished. They would construct sophisticated regression analyses to test how various policy options would affect slaves, slave owners, and those who were neither slaves nor owners. They would measure the impacts on different industries and types of agriculture. They would indicate whether winners or losers would predominate. Mathematical formulas and input-output models, along with precise indications of margins of error,

would give their findings an aura of scientific certainty. Their learned articles on the topic would reveal their discovery that slavery is not a single problem, that it is actually a multiplicity of problems, and (to ensure that their continued studies are adequately funded) that each of these facets of the problem require considerable additional research.

No need to pursue this illustration further. Econometric manipulation of data would throw little light on the central question: *Was the institution of slavery right or wrong?* Ethical tests are needed. This requires holding social practices up for scrutiny to see whether they conform to the highest moral codes of the people and of the nation. Slavery represented a disconnect from these high codes. A burden of this book is to show that a similar serious disconnect exists with respect to certain land and taxation policies. To make such a case, reference to concepts of fairness, logic, history and bedrock American ideals will be relied upon, however old-fashioned this approach may appear in contrast to elegant algebraic formulations.

This is not to denigrate the potent and highly useful tools of modern economists. These tools can verify the effects of various reforms and programs that are contemplated or already implemented. It is no criticism of these tools to note that they do not answer the initial question of whether something is morally acceptable. Fortunately, as it turns out, experience tells us that doing the right thing usually produces the greatest benefits for the greatest numbers.

Road Map of the Book

Part I at the very outset spells out the nature of the injustice that is undermining our economy. It is followed by a “secret remedy”, so called because it has been kept out of the public eye for a long time. Then a chapter on land and property rights aims to clarify the problem and ways of dealing with it.

Part II tells how I accidentally became alerted to the land issue.

Part III traces people and events that, in the fullness of time, provided a framework for helping me confront critical land issues. Sharing these intellectual journeys may enable others to more readily understand, if not accept, the conclusions I have reached. Of course, life embraces much more than economics and I recount

my good fortune in being exposed to a rich cafeteria of opportunities. Asking why too many Americans are denied entry to such opportunities brings us back full circle to economic inequities and explains much of the motivation for writing this book.

Part IV tells of a remarkable cast of mentors and co-workers who inspired me and wove a common thread of insights into land issues throughout my careers in journalism, politics, and economics.

Part V recounts neglected or glossed over aspects of American history that have a surprising bearing on current problems and that point to forgotten conditions and policies that practically cry out for revival.

Part VI describes successful applications of the tax strategies discussed throughout the book. One chapter addresses successes in the United States, another cites some overseas successes, and the final chapter in this part deals with the special case of natural resources, contrasting ruinous approaches in Appalachia with more equitable approaches in Alaska.

Part VII specifies how land policy changes can deal constructively with a broad range of seemingly intransigent problems and help attain the more equitable and prosperous America that we all yearn for.

PART I

**ANOTHER CRACK
IN THE
LIBERTY BELL**

THIS BOOK IS WRITTEN in the firm belief that Niccolo Machiavelli, astute politician and observer of human nature as he was, mistakenly used the word “never” when he wrote: *“People are always provoked by small injustices but never by great injustices.”*

1

Problems Hidden in Full Sunlight

“NOBODY SAW IT COMING.”

High officials, leading economists, pundits, bankers, legislators, and fiscal regulators insistently repeated that phrase after the 21st century’s initial boom turned into an ugly bust. They were not paying attention, nor were they studying history.

Land economists, a rare breed, knew it was coming. Since the early 1800s, Americans have experienced economic breakdowns almost every generation. Most were relatively mild while some were catastrophic. They happened mostly for the same underlying reason. Speculative landholding sprees fueled the start of each cycle. Substantial numbers of individuals and businesses that had engaged in production diverted their efforts to the non-productive pursuit of profits from runaway land costs. When inflated land rents and land prices exceeded a great many people’s and firms’ ability to pay, the bubble burst, wiping out jobs, enterprises, and the savings of the mass of people who were behaving prudently.

Each panic, depression, and recession whittled away a bit more of Americans’ optimism, pride in workmanship, and trust in the nation’s economic and political systems. Each time, another bit of liberty was eroded.

Underneath All, the Land

Whether the economy rises or falters, whether it is erratic or on a steady course, is closely related to how land is treated. Land is so

critical because it is the source of all wealth. Land and the natural resources on or in it are the elementary building blocks of every economy. Land provides all the basic essentials for human survival. How we treat land touches nearly every aspect of the economy – from our homes to the health of cities, from family farms to giant manufacturing plants, from availability of jobs to the profitability of firms. Economic troubles arise when land monopoly deprives large segments of society of their access to the gifts of nature.

Land monopoly? In America? Most people are astounded to learn that a mere three percent of Americans own 95 percent of our privately held surface land. Even more concentrated is the ownership of oil, natural gas, coal, iron, and other raw materials. One man, Ted Turner, owns two million acres, nearly twice the size of the state of Rhode Island. In many cities a few families own most of the prime downtown sites. Land monopoly is alive and well in America.

Home ownership provides a kind of cover to this reality. Home-owners with their typical small lots are landowners of a sort, although mortgage lenders hold over half of the equity in their properties. Home ownership is a good thing, contributing to family and community stability. Those who cite the degree of home-ownership as a gauge of economic well-being, however, are mistaken. West Virginia with its high poverty rates boasts a 76 percent rate of homeownership, highest in the nation. This masks the fact that, like a banana republic, the bulk of that state's rich natural resources are owned by absentee corporations.

Many parts of Latin America, Asia, and Africa suffer from exaggerated forms of land monopoly. The masses are beholden to small ruling classes typified by extensive landholdings and tremendous wealth. The United Nations reports that a mere 500 individuals earn more than 416 million of the world's poorest people. America is moving away from its egalitarian past and witnessing a rapid move toward great economic disparities. This wealth gap is not simply a measure of disparate annual earnings, nor of the miles-apart assets of rich and poor families. It is a reflection of the increasingly concentrated ownership of the land on which the economy stands, or totters. It is a flashing warning signal.

Clash of Ideals and Practice

America's land policies violate the noble ideals we profess. We recite our fundamental precepts but unconsciously permit them to mean something else:

All are endowed with inalienable rights to life, liberty, and the pursuit of happiness. But the lands necessary to activate these rights are increasingly concentrated in the hands of the few, diminishing the rights of the rest of society.

Equality for all, special privileges for none. Except that land monopolists drive a wedge between the overprivileged few and the growing ranks of the underprivileged.

People are entitled to the fruits of their labor – what they sow, others may not reap. But landed interests take unfairly large bites out of the earnings of workers and producers.

Thou shalt not steal is a Commandment we endorse. But we permit owners of prime urban sites that are required for commerce and the owners of natural resources that are essential to industry to siphon off land values that belong to the community as a whole. We imprison those who commit minor thefts but we protect by law, and tend to honor, those who take away the earth rights of their fellow citizens.

Custom, in short, has numbed people into accepting the land-owners' privileged status.

Owning and Selling Air and Land

Suppose a man claimed to own the air and refused to let others breathe it until they paid him. His sanity would be questioned for claiming what he had no role in creating and for saying, in effect, "Pay me or die." Land, like air, is a provision of nature that nobody can live without. Yet our legal system is out of sync with this fundamental fact.

An owner might insist, "I got my land fair and square and I have a clear title to it." A search may trace that title back to a grant from

Congress, a king of England, or the pope who, sight unseen, assigned New World domains to the Spanish and Portuguese. None of these grantors, of course, obtained a prior grant from the Creator of the land.

This is not to question the need – nor the genuine virtue – of giving people exclusive rights to the *use* of land for their homes, farms, or business sites. Rather, it suggests the need for a mechanism that respects both the private use of land and the equal right of all people to nature's bounty. As described in the next chapter, such a mechanism exists but is too rarely put into practice.

The Injustice in a Nutshell

To challenge the notion that all people have equal rights to land is to argue against the hallowed concept that all people are born with equal rights. It is to claim that the life-nourishing qualities of land and the ability of land to bestow economic prosperity may properly be concentrated in the hands of a relative few instead of serving all members of society.

Not only individuals and families suffer from the misappropriation of land rights. Governments, on behalf of all citizens, also have legitimate claims to land that are not being recognized. Failing to collect their fair share of the land values created by nature and by their own activities, governments short change themselves. Then, to make up for their lack of funding, they over-tax the privately created earnings that rightfully should be left with workers and producers.

Compounding this injustice are the individuals, businesses, and so-called financial wizards whose mad pursuit of rising land values produces the bubbles and blows them up to the bursting point, utterly disrupting the economy.

European settlers brought their unfair land system to our shores. For several centuries Americans were largely inoculated against the harm of this system because of a most fortunate circumstance. The pioneers and settlers had *easy access to great expanses of free or cheap land*. Difficult as it often was to eke out a living on this land, its availability opened the way to almost unlimited job opportunities and kept our enterprise system free.

Once this happy circumstance was no longer the case, a greatly increased population had a harder time finding home sites and work

sites. Unwholesome land tenure practices multiplied. Quintessential features of the American society – class mobility, a can-do attitude, and competitive free markets – were put into jeopardy.

Far ahead of his time, Philadelphia native Henry George, journalist and self-taught political economist, spotlighted this threat to our social fabric in his 1879 masterwork, *Progress and Poverty*. George's contention that there were serious cracks in our socio-economic foundation was seriously disputed in his day, and long after. Today few would deny that the country is beset with serious troubles. Yet the general public and our leaders reveal great confusion about the nature of those troubles and what to do about them.

Faulty Diagnoses

Not only did the most celebrated public affairs spokespersons fail to foresee the latest economic nosedive; after it arrived, most of them failed to ascribe satisfactory explanations to either the boom or the bust. Few cited land problems. Instead, they blamed soaring housing prices, unsafe mortgage lending, greed, mass psychology, and exotic investment devices. These were all sore points, but to a large extent each represented *referred pain*, as when a patient feels a severe ache in a thigh that is perfectly healthy but is painful because of an inflamed nerve in the spine.

The so-called housing price bubble was referred pain from a *land* price bubble. Few realized that home prices remained fairly stable throughout the cycle. It was the cost of the sites under those homes that were figuratively going through the roof.

The unsound economic behavior stemming from mass psychology and the greed of financial “geniuses” was transferred pain from vision defects that prevented people from seeing that there had to be an end to the steep climb in real estate portfolios, which is to say *land* portfolios.

The pain from the failure of the investment market was blamed by one camp on under-regulation and by another camp on over-regulation. Neither camp addressed the referred pain from *perverse land policies* that distorted markets and sent them into paroxysms. Neither those who defend the *free market* nor those who want to restrict it seem to recognize the extent to which the market is far from free, for reasons that are discussed later.

In economics no less than in medicine, focusing only on the referred pain is perilous. Operating on a healthy but painful knee, for example, makes the matter worse if the cause is elsewhere. Giving crutches, drugs, feeding tubes and other stimuli to various facets of the economy without treating the land policies at the source of the troubles will not keep the destructive effects at bay.

Such patchwork measures will set the stage for another wild ride on the roller-coaster unless there is a systemic treatment of the land system – the topic of the next chapter.

The Great Spirit Speaks¹

*I have given you lands to hunt in,
I have given you streams to fish in,
I have given you bear and bison,
I have given you roe and reindeer,
I have given you brant and beaver,
Filled the marshes full of wild-fowl,
Filled the rivers full of fishes;
Why then are you not contented?
Why then will you hunt each other?
I am weary of your quarrels,
Weary of your wars and bloodshed,
Weary of your prayers for vengeance,
Of your wranglings and dissensions;
All your strength is in your union,
All your danger is in discord;
Therefore be at peace henceforward,
And as brothers live together.*

NOTE

1. From Henry Wadsworth Longfellow, *The Song of Hiawatha*, Grosset & Dunlap, 1923.