

# OBSERVED BEHAVIOR VS. A PRIORI DOGMATISM IN LAND MARKETS

Henry George as a Behavioral Economist

Mason Gaffney

Notes for 4th Annual Conference on Behavioral Economics

San Diego State University, June 16-18, 1988

"The institutions that teach American elites to think about the modern world are unconcerned with teaching them to look at it."

-- Ada Louise Huxtable

Many seminal thinkers in land economics came from other professions. Hurd, Babcock: appraisers; von Thünen, aristocrat-landholder; Faustmann, forester; Henry George, journalist; Adam Smith, philosopher; Quesnay, physician; Wicksteed, minister; Ricardo, broker. Standard-brand economists have been perhaps too concerned with rationalizing the system and/or pursuing grants.

George, our present subject, was a reporter and editor, hence an observer of real behavior. Got into economics by observing land disposal policy and administration in California. Saw major resources delivered to a few with political influence, in amounts well beyond their ability to manage.

George was also a keen logician and a priori thinker. The combined talents are what made him outstanding. But occasionally the theorizing went wild, notably with his interest and capital theories. His behavioral observations kept him on an even keel.

Turned to study of ancient land tenures. *Progress and Poverty* lavishes major attention on history of common rights and landholder obligations. Much influenced by Andrew Bisset, *On the Strength of Nations*, a study of feudal tenures subject to military obligations.

Covers Lycurgus, Solon, Licinian laws, the Gracchi, Teutonic marks, Henry Maine, Émile de Laveleye, Arthur Young, New England commons, etc.

Leaned toward organic concept of state: "Then none was for a party, then all were for the state; then the great man helped the poor, and the poor man loved the great; then lands were

fairly portioned, then spoils were fairly sold. The Romans were like brothers in the brave days of old." (Macaulay, *Lays of Ancient Rome*).

George also valued free markets; sought to reconcile. Saw how to do so via taxation, which asserted common rights but also helped the market work better. This from observation:

1. Cash drains are a stronger constraint than notional "opportunity costs" on wasting land.
2. In markets for untaxed land, resale value overrides the possessory interest in affecting sale prices; hence speculators can outbid current users, with bad effects.
3. Original land distribution is a political act, not economic.
4. Land control tends to become more concentrated, around the original political nuclei, because high rents yield disposable, discretionary funds to speculate in more.
5. Rent-seeking wastes everyone's efforts—a negative-sum game. This is the small piece of George's insight that modern theorists have rediscovered—without credit, of course. His larger insight was that distributive inequity and iniquity lead to social strife, that most costly of morbid conditions.
6. Rent is a prior claim on the product, not a residual. Pay or get off.
7. Tax bases other than land rent are avoidable, and generate excess burdens.
8. Cities are synergistic and yield a surplus above wages, interest, and farmland values. The surplus is a "free lunch," to be fostered by public policy, and distributed impartially.
9. Putting the unemployed to work, and using land better, generates many free lunches. Abundance is within reach through better social organization.
10. Taxation can redistribute wealth and income without revolution, and without major changes in familiar forms of tenure.
11. Public goods can most efficiently be provided free or at low variable charges covering just marginal costs. The rent fund can finance them, and their presence adds to rents.

Most of those common-sense observations are pretty well blanked out by formal economic modeling. The conservative panacea then, as now, was "free trade in land": invoke the market and punt. George saw it would only speed concentration, and not stop speculation in resale values. He never said, but perhaps saw, that a free market in land titles, absent the goad of an annual land tax, turns to glue: viz. water rights in California today, five years after Assemblyman Richard Katz's bill created free trade in water.

A priori economists like to say that perfect markets require perfect knowledge. But when we come to valuation of perpetual income streams from land, perfect knowledge must mean perfect foresight, something like divine omniscience. That is so absurd a way to analyze real behavior that the explainers have changed it to something like doing your best.

The explainers will hardly let one register an observation of market failure nowadays. E.g.,

the Irvine Co. holds some 70,000 acres in Orange County, prime land, much of it empty, while workers commute four hours daily to and from Moreno Valley. The holders are letting it ripen into a higher use. If I say they are wrong, I am taking advantage of hindsight. They thought they were right when they did it, and probably still do: ergo, expectations are rational and markets are perfect. If I don't buy that, there is the tautology of revealed preference: they are merely indicating they get a high level of enjoyment from their lands.

There is the argument from risk. The speculator is waiting to see what others do, to reduce risk. This is a fallacy of composition because Alphonse waiting for Gaston imposes risk on Gaston. Well, then, the landholder is performing the economic service of bearing the carrying costs of holding title. But this is self-necessitating, considering speculators in the aggregate. Another fallacy of composition, but that idea has gone out of style.

There is no breaking through this steel chain of a priori rationalization; it is impervious in its own terms, and held compulsively, protected by landmines of inside jargon that baffle the intruder, as intended. When a large, well-financed priesthood devotes lifetimes to developing such doctrines, and preempting scholarly journals for them, and obscuring them in arcane jargon and symbolism, one must simply step outside for a breath of air and observe things as they are. It is time for a behavioral economics. Henry George deserves an honored place in its pantheon.