

# Re: Murray Rothbard on Georgist fallacies

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*Source:* <http://sci.tech-archive.net/Archive/sci.econ/2007-05/msg00098.html>

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  - *Date:* Mon, 07 May 2007 19:49:35 GMT
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Not content to have instigated the public demolition and humiliation of himself, Paul Birch, Geoffrey Gardiner, and other anti-justice nincompoops at my hands, Lyin' Ryan now seeks cruelly to expose the ignorance, stupidity and intellectual dishonesty of propertarian icon Murray Rothbard, for all the world to see.

Does pulverizing these fools give me any pleasure? No, it's nothing but a chore: a dirty job, but someone's got to do it.

On 5 May 2007 11:47:59 -0700, w\_b\_ryan@xxxxxxxxxx wrote:

Murray Rothbard  
Man, Economy and State:

Chapter 4-Binary Intervention: Taxation  
(continued)

6=2E The Incidence and Effects of Taxation

Part IV: The "Single Tax" on Ground Rent

We have refuted elsewhere

ROTFL!!

the various  
arguments that form part of the Henry Georgist  
edifice: the idea that "society" owns the land  
originally

Strawman.

and that every new baby has a "right" to  
an aliquot part;

Strawman.

the moral argument that an increase  
in the value of ground land is an "unearned  
increment" due to external causes;

?? Refuted a self-evident and indisputable fact? Don't think so...

and the doctrine  
that "speculation" in sites wickedly withholds  
productive land from use.

As above.

George waxed eloquent over the harmful effect  
taxation has upon production and exchange.  
However, these effects can as easily be removed by  
eliminating taxation altogether as by shifting all  
taxes onto ground rent.[42]

ROTFL!! Yeah, how's the Somalia thing going?

In fact, it will here be  
demonstrated that taxation of ground rent also  
hampers and distorts production.

<yawn> "Pure ground rent is in the nature of a 'surplus,' which can  
be taxed heavily without distorting production incentives or reducing  
efficiency."

— Paul Samuelson, Nobel laureate in Economics

A tax on ground rent would have the effect of a  
property tax as described above, i.e., it could not be  
shifted, and it would be "capitalized," with the  
initial burden falling on the original owner, and  
later owners escaping any burden because of the fall  
in the capital value of the ground land. The  
Georgists propose to place a 100-percent annual tax  
on ground rents alone.

One critical problem that the single tax could not

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meet is the difficulty of estimating ground rents.

<yawn> Landlords and tenants seem to do it....

The essence of the single tax scheme is to tax ground rent only and to leave all capital goods free from tax. But it is impossible to make this division.

Except that appraisers do it every day...

Georgists have dismissed this difficulty as merely a practical one; but it is a theoretical flaw as well. As is true of any property tax, it is impossible accurately to assess value, because the property has not been actually sold on the market during the period.

Equivocation. Value is not price.

Ground-land taxation faces a further problem that cannot be solved: how to distinguish quantitatively between that portion of the gross rent of a land area which goes to ground land and that portion which goes to interest and to wages. Since land in use is often amalgamated with capital investment and the two are bought and sold together, this distinction between them cannot be made.

Except that it is made every day.

But the Georgist theory faces even graver difficulties. For its proponents contend that the positive virtue of the tax consists in spurring production. They point out to hostile critics that the single tax (if it could be accurately levied) would not discourage capital improvements and maintenance of landed property; but then they proceed to argue that the single tax would force idle land into use.

Strawman. It would only force idle \_supermarginal\_ land into use.

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This is supposed to be one of the great merits of the tax. Yet if land is idle, it earns no gross rent whatever; if it earns no gross rent, then obviously it earns no net rent as ground land. Idle land earns no rent, and therefore earns no ground rent that could be taxed.

Here Rothbard shows that he is either deeply stupid, disgracefully dishonest, and/or comprehensively ignorant of the ideas he is purporting to refute. Land rent is not what is actually paid but what the most productive users are willing to pay.

It would bear no taxes under a consistent operation of the Georgist scheme! Since it would not be taxed, it could not be forced into use.

"Since  $2+2=7$ ,  $1+9=4!$ "

ROTFL!!

The only logical explanation for this error by the Georgists is that they concentrate on the fact that much idle land has a capital value, that it sells for a price on the market, even though it earns no rents in current use. From the fact that idle land has a capital value, the Georgists apparently deduce that it must have some sort of "true" annual ground rent. This assumption is incorrect, however, and rests on one of the weakest parts of the Georgists' system: its deficient attention to the role of time.[43]

Silliness.

The fact that currently idle land has a capital value means simply that the market expects it to earn rent in the future. The capital value of ground land, as of anything else, is equal to and determined by the sum of expected future rents, discounted by the rate of interest. But these are not presently earned rents! Therefore, any taxation of idle land violates the Georgists' own principle of a single tax on ground

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rent; it goes beyond this limit to penalize land ownership further and to tax accumulated capital, which has to be drawn down in order to pay the tax.

Absolute rubbish. Recovering the rent removes the capitalized value of future rents, leaving exactly the rent the most productive user is currently willing to pay. The current land rent is easy to determine: it's the amount that sees the land used without creating any capitalized value in it.

Any increase in the capital value of idle land, then, does not reflect a current rent; it merely reflects an upgrading of people's expectations about future rents.

Right, and knowing that future rents will be recovered just as current rents are removes the capitalized value of those future rents.

Suppose, for example, that future rents from an idle site are such that, if known to all, the present capital value of the site would be \$10,000. Suppose further that these facts are not generally known and, therefore, that the ruling price is \$8,000. Jones, being a farsighted entrepreneur, correctly judges the situation and purchases the site for \$8,000. If everyone soon realizes what Jones has foreseen, the market price will now rise to \$10,000. Jones' capital gain of \$2,000 is the profit to his superior judgment, not earnings from current rate.

Predictably, Rothbard does not want to know the difference between producing wealth and redirecting wealth from others to oneself.

The Georgist bogey is idle land. The fact that land is idle, they assert, is caused by "land speculation," and to this land speculation they attribute almost all the ills of civilization, including business-cycle depressions.

Strawman.

The Georgists do not realize that, since labor is scarce in relation to land,

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submarginal land must remain idle.

Outright lie.

The sight of idle  
land enrages the Georgist, who sees productive  
capacity being wasted and living standards reduced.

Not idle submarginal land. That is just a flat-out lie by Murray  
Rothbard.

Idle land should, however, be recognized as  
beneficial, for, if land were ever fully used this  
would mean that labor had become abundant in  
relation to land and that the world had at last  
entered on the terrible overpopulation stage in  
which some labor has to remain idle because no  
employment is available.

More outrageous rubbish.

The present writer used to wonder about the  
curious Georgist preoccupation with idle, or  
"withheld," ground land as the cause of most  
economic ills until he found a clue in a revealing  
passage of a Georgist work:

"Poor" Countries Do Not Lack Capital.

Most of us have learned to believe that the people  
of India, China, Mexico, and other so-called  
backward nations are poor because they lack  
capital. Since, as we have seen, capital is nothing  
more than wealth, and wealth nothing more than  
human energy combined with land in one form or  
another, the absence of capital too often suggests  
that there is a shortage of land or of labor in  
backward countries like India and China. But that  
isn't true. For these "poor" countries have many  
times more land and labor than they use. . . .  
Undeniably, they have everything it takes—both  
land and labor—to produce as much capital as  
people anywhere.[44]

And so, since these poor countries have plenty of

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land and labor, it follows that landlords must be withholding land from use. Only this could explain the low living standards.

Strawman.

Here a crucial Georgist fallacy is exposed clearly: ignorance of the true role of time in production.

Garbage.

It takes time to save and invest and build up capital goods, and these capital goods embody a shortening of the ultimate time period needed to acquire consumers' goods. India and China are short of capital because they are short of time.

ROTFL!!!!

They start from a low level of capital,

Flat false, of course. Both had far higher levels of capital than Europe until the 19th C, and correspondingly higher levels of industrial production, too.

and  
therefore it would take them a long time to reach a high capital level through their own savings.

Flat wrong. The problem in both India and China was that their dense populations and private collection and retention of land rent rendered idle landowning the principal means of personal economic advancement.

Once  
again, the Georgist difficulty stems from the fact that their theory was formulated before the rise of "Austrian" economics and that the Georgists have never reevaluated their doctrine in the light of this development.[45]

ROTFL!

As we have indicated earlier, land speculation performs a useful social function. It puts land into the hands of the most knowledgeable and develops land at the rate desired by the consumers.

Flat false. It puts land into the hands of the richest, and develops land only when the owner gets bored with watching its price rise while he does exactly nothing.

And good sites will not be kept idle—thus incurring a loss of ground rent to the site owner—unless the owner expects a better use to be imminently available.

Translation: he has to figure out which planning officials to bribe.

The allocation of sites to their most value—productive uses, therefore, requires all the virtues of any type of entrepreneurship on the market.[46]

Other than productivity, that is...

One of the most surprising deficiencies in the literature of economics is the lack of effective criticism of the Georgist theory.

??? Oh, man, that is priceless!! Clue time, Murray, ol' chum!

Economists have either temporized, misconceived the problem, or, in many cases, granted the economic merit of the theory but cavilled at its political implications or its practical difficulties. Such gentle treatment has contributed greatly to the persistent longevity of the Georgist movement. One reason for this weakness in the criticism of the doctrine is that most economists have conceded a crucial point of the Georgists, namely, that a tax on ground rent would not discourage production and would have no

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harmful or distorting economic effects. Granting the economic merits of the tax, criticism of it must fall back on other political or practical considerations. Many writers, while balking at the difficulties in the full single-tax program, have advocated the 100-percent taxation of future increments in ground rent. Georgists have properly treated such halfway measures with scorn. Once the opposition concedes the economic harmlessness of a ground-rent tax, its other doubts must seem relatively minor.

The crucial economic problem of the single tax, then, is this: Will a tax on ground rent have distortive and hampering effects? Is it true that the owner of ground land performs no productive service and, therefore, that a tax upon him does not hamper and distort production? Ground rent has been called "economic surplus," which would be taxed up to any amount with no side effects. Many economists have tacitly agreed with this conclusion and have agreed that a landowner can perform a productive service only as an improver, i.e., as a producer of capital goods on land.

And they are right.

Yet this central Georgist contention overlooks the realities. The owner of ground land performs a very important productive service. He brings sites into use and allocates them to the most value-productive bidders.

Lie. He does not bring sites into use. Users do. The landowner can only stop others from using land, he cannot make them use it --- and he sure as hell doesn't pay them to use it!

Here Rogthbard again just shows how deeply stupid, ignorant and dishonest he is.

We must not be misled by the fact that the physical stock of land is fixed at any given time. In the case of land, as of other goods, it is not just the physical good that is sold, but a whole bundle of services along with it--among which is the service of transferring ownership from seller to buyer. Ground land does not simply exist; it must be served to the user by the owner. (One man can

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perform both functions when the land is "vertically integrated.")[47]

ROTFL!!!!

Yeah, no wonder no one ever used any land until there were landowners to "serve" it to them!

ROTFL!!

The landowner earns the highest ground rents by allocating land sites to their most value-productive uses, i.e., to those uses most desired by consumers.

<yawn> Problem is, this function is just as efficiently discharged no matter who collects the rent. Ooops.

In particular, we must not overlook the importance of location and the productive service of the site owner in insuring the most productive locations for each particular use.

Oh? And how might he be doing that, pray tell?

The view that bringing sites into use

Owners do not bring sites into use. They merely charge a fee of those who do.

and deciding on their location is not really "productive" is a vestige of the old classical view that a service which does not tangibly "create" something physical is not "really" productive.[48]

Lie.

Actually, this function is just as productive as any other, and a particularly vital function it is. To hamper and destroy this function would have grave effects on the economy.

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No, it is just as effectively performed by the community recovering the rent as by the landowner pocketing it.

Suppose that the government did in fact levy a 100-percent tax on ground rent. What would be the economic effects? The current owners of ground land would be expropriated, and the capital value of ground land would fall to zero. Since site owners could not obtain rents, the sites would become valueless on the market. From then on, sites would be free, and the site owner would have to pay his annual ground rent into the Treasury.

But since all ground rent is siphoned off to the government, there is no reason for owners to charge any rent.

??? You mean, other than to avoid having to pay the land rent out of their own assets??

ROTFLMAO!!!

Rothbard again proves that he is an \_ABSOLUTE\_ECONOMIC\_IGNORAMUS\_.

Ground rent will fall to zero as well, and rentals will thus be free.

<sigh> Ground rent is what the most productive users are willing to pay. It is not going to be zero. Duh.

So, one economic effect of the single tax is that, far from supplying all the revenue of government, it would yield no revenue at all!

?? Un-freakin'-believable!

Such a claim betrays an idiocy so profound, so breathtakingly comprehensive, that no amount of ridicule on my part could possibly make it look more nonsensical than it already is on its face.

The single tax, then, makes sites free

The words of a liar, fool, or lunatic. What other explanation is there?

when they  
are actually not free and unlimited, but scarce. Any  
good is always scarce

False.

and therefore must always  
command a price in accordance with the demand for  
it and the supply available. The only "free goods"  
on the market

?? Free? And on the market? Run that one by me again...

are not goods at all, but abundant  
conditions of human welfare that are not the subject  
of human action.

The effect of this tax, then, is to fool the market  
into believing that sites are free when they are  
decidedly not.

Having embarked on it with such misplaced hubris, Rothbard continues  
his grand tour of cloud-cuckoo land...

The result will be the same as any  
case of maximum price control. Instead of  
commanding a high price and therefore being  
allocated to the highest bidders, the most value-  
productive sites will be grabbed by first comers and  
wasted, since there will be no pressure for the best  
sites to go into their most efficient uses.

?? "Grabbed"? How? Rothbard simply refuses to know the fact that  
the land rent recovered by 100% LVT is just what the high bidder is  
willing to pay for use of the site.

People will  
rush in to demand and use the best sites, while no

one will wish to use the less productive ones.

"The whales falling from the sky will turn the streets to cherry Jell-o."

On the free market, the less productive sites cost less to the tenant;

Likewise under LVT.

if they cost no less than the best sites (i.e., if they are free), then no one will want to use them. Thus, in a city, the best, or most potentially value-productive, sites are in the "downtown" areas, and these consequently earn and charge higher rents than the less productive but still useful sites in the outlying areas. If the Henry George scheme went into effect, there would not only be complete misallocation of sites to less productive uses, but there would also be great overcrowding in the downtown areas, as well as underpopulation and underuse of the outlying areas. If Georgists believe that the single tax would end overcrowding of the downtown areas, they are gravely mistaken, for the reverse would occur.

Rothbard continues to build his tower of babble.

Furthermore, suppose the government imposed a tax of more than 100 percent on ground rents, as the Georgists really envision,

An outrageous lie.

so as to force "idle" land into use. The result would be aggravated wasteful misapplication of labor and capital. Since labor is scarce relative to land, the compulsory use of idle land would wastefully misallocate labor and capital and force more work on poorer land, and therefore less on better land.

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Absurdity piled on absurdity. You can't make people use land by taxing it more than the rent. You can only make them stop using it. And then you won't be getting any rent from it at all. Duh.

Rothbard goes on at tedious and uniformly fallacious length, but is anyone here really interested in any more of his idiotic tripe? I would certainly hope not.

— Roy L

.