



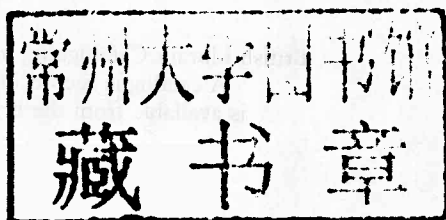
WALTER RYBECK

# **RE-SOLVING THE ECONOMIC PUZZLE**

Joblessness  
Blighted Cities  
Crumbling Infrastructure  
Homelessness  
Environmental Abuse  
Recessions

# Re-solving the Economic Puzzle

Walter Rybeck



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To Buddy, Ry, Art, Erika,  
Rick and Alex

who in their various ways  
made – and make –  
our world more civil,  
more culturally rich,  
more equitable

## 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.

## Acknowledgements

READERS WILL RECOGNIZE that the central theme of this book borrows heavily from common knowledge and from the wisdom of the ages as passed down by writers, philosophers, theologians and statesmen, living and dead. Most are unnamed but I am in their debt.

Far from anonymous were those who critiqued early drafts. My wife Erika was my sounding board, constant timekeeper and stand-in for readers without economics training. My sons Rick and Alex offered thoughtful corrections and additions. Nephew Ted Rybeck and cousins Norman Suslock and Robert Treuer provided invaluable help. Others with incisive comments were John Rybicki, Mason Gaffney, Vivianne and Elliot Pierce, Robert Rochlin, Tom Carcaterra, Robert Calvert, Won Yin and Anne Southard.

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I owe special thanks to an admired mentor, Lowell Harriss, chairman emeritus of the Columbia University economics department. We participated in an intensive study of U.S. assessment practices and served together on the Schalkenbach Foundation board. Touchingly, a few months before his death, at age 97, he sent detailed handwritten suggestions about my draft and phoned to say it was urgent "to get the message out".

*Public Management (PM)* magazine used an article titled "Retooling Property Taxes" as the lead piece in the magazine's March 2010 issue, which is published by the International City/County Management Association (ICMA), Washington, D.C. The article was based on successful United States land tax reforms detailed in Chapter 28. The magazine article elicited follow-ups from a number of local government managers. My thanks to *PM* editor Beth Payne.

It was my good fortune that Shepherd-Walwyn in London, England, took my manuscript under its wings. Publisher Anthony Werner, along with editor Alice Aldous and designer Jean Desebrock, combined great care and remarkable speed to enable this book to become part of the search for new economic directions. They fully shared the author's eagerness that messages herein would contribute useful guidance to policymakers working to halt the current crisis and to avert future ones.

The usual caveat, as true as it is necessary, is that none of the many who tried to help with the book are to blame for errors of fact or concept, for which the author bears full responsibility.



## 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.

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# 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."*





## 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