

Economics for Conservatives

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Introduction

Conservatives seek to preserve tradition. The United States has traditionally had a market economy, and conservatives have resisted state socialism, and the expansion of government in the economy. Conservatives have great respect for the US Constitution and its federal structure, and therefore have resisted the concentration of political power in the federal government, at the expense of less authority for the states.

Conservatives have resisted an increase in the welfare state. They seek an economy in which families can support themselves and not be dependent on government aid.

Traditionally, conservatives have resisted an increase in government debt. Although some politicians who label themselves “conservative” have implemented greater government debt, this is not the policy of conservative philosophy. Another meaning of “conservative” is “smaller” as in less spending. Thus philosophical conservatives have sought balanced budgets.

In economic theory, conservatives have opposed both Marxist socialism and Keynesian economic manipulations. For economic theory, conservatives look to the classical theory of Adam Smith and the free-market theories of Milton Friedman and the Austrian-school economists Friedrich Hayek and Ludwig von Mises. A major conservative magazine has been *National Review*, founded by the conservative thinker William F. Buckley.

Private property and private enterprise are a bedrock of conservative principles, but conservatives support profits from voluntary transactions, not subsidies and handouts.

Conservatives reject moral relativism, the concept that there is no universal moral imperative. Conservatives tend to believe that there exist absolute and universal moral truths.

Conservatives have often not followed conservative theory to its logical conclusion. What follows is some economic analysis that applies conservative principles to ultimate policy conclusions.

Taxation

Conservative thinkers recognize that taxes can damage enterprise. Some have advocated a flat income tax, in contrast to the graduated income tax, as economists recognize that the stifling effects of taxes depend not on the average tax rate but the marginal tax rate, the tax rate on extra income or extra spending. If we follow this concept to its logical conclusion, we arrive at a marginal tax rate of zero. There should be no damage to enterprise from taxation.

If taxes there must be, how can we have an adequate average tax rate while also having a zero marginal tax rate? We do this by taxing something that does not flee, shrink, or hide when taxed: land value. The concept of public revenue from land rent was recognized by Adam Smith, who wrote, in the *Wealth of Nations*, “Ground-rents, and the ordinary rent of land, are, therefore, perhaps, the species of revenue which can best bear to have a particular tax imposed upon them.”

One would expect a great free-market economist like Milton Friedman to have arrived at the same conclusion. And he did, saying: “the least bad tax is the property tax on the unimproved value of land, the Henry George argument of many, many years ago.”

Henry George was the American economist of the 1800s who analyzed and advocated land value taxation as well as free trade. His book *Protection or Free Trade* is recognized as one of the clearest explanations of the benefits of free trade, a policy favored by many conservatives. But Henry George went beyond arguments for free trade among countries; he argued that “true free trade” requires removing the internal tariffs of sales taxes and other tax barriers to trade.

William F. Buckley was a follower of the ideas of Henry George. Buckley’s intellectual development was influenced strongly by the free-market Georgist thinkers Albert Jay Nock and Frank Chodorov.

Land rent (or land value) is an economic surplus that can be tapped for public revenue without any damage to the economy. Thus conservatives should be enthusiastic advocates of land value taxation.

Subsidies

Conservative economic thought recognizes that a truly free market economy should not have any subsidies. A subsidy is a governmental intervention that skews market outcomes. Subsidies are a favoring of one group at the expense of others. A price subsidy has a deadweight loss, because the loss of social well-being due to the tax is greater than the gain to consumers from a lower price.

Governmental subsidies can be implicit. When government provides public goods such as roads, parks, and security, these make locations more attractive and productive. That increases the demand for land, raising the rent and land value. This is a forced redistribution of income from those who pay most of the taxes - workers, investors, and entrepreneurs - to landowners. Workers and business owners get double billed, paying both taxes and higher rent, while landowners get subsidized.

This rent subsidy can be avoided by taxing land value for public revenue. Then labor and enterprise pay only once, with the rent they pay, and landowners do not get subsidized.

federalism

Conservatives lament the shift of political power from localities and states to the federal government. Much of this centralization was due to the federal income tax. States avoid tax competition by having the federal government impose income taxation, some of which then is

transferred to the states. Land value taxation facilitates local government, because land does not run to other places when taxed. A shift from taxing income to taxing land value would facilitate the decentralization of government, a policy favored by many conservatives.

the welfare state

Conservatives have opposed an excessive expansion of the welfare state. But we need to examine the cause of poverty, as Henry George did in his book *Progress and Poverty*. George traced the cause to land tenure and taxation. Conservatives recognize that many of the poor get trapped in poverty, as when they go to work, they lose their welfare benefits. But the tax system causes much of the poverty in the first place. Taxes reduce the take-home wage of workers while increasing the cost of living. When the poor get welfare, they end up bidding up the cost of housing. The conservative remedy is to, as George put it, “extirpate” poverty, to eliminate its cause. When taxes on labor, including those paid by employers, are eliminated, more workers get employed, and at higher wages. By removing the subsidy to land rent described above, housing is cheaper. Then workers can much better afford housing and other goods. This policy also eliminates the call for higher minimum wages and rent controls, policies opposed by conservatives.

government debt

If the only tax were land value taxation, there would be great political pressure to avoid governmental debt. Future debts would be paid for from taxes on land value, and that would reduce land value if the debt were excessive. With today’s government debt, it is not clear who will ultimately pay it. But with land value taxation, the debt is a claim on land value. The political pressure would be to incur debt only for productive investments.

socialism

Conservatives have resisted socialist and communist movements. But for the long-run success of conservative values, it is not enough to defeat socialist legislation. Conservatives should understand the motivations of socialists. They see social problems such as poverty, and then seek superficial solutions, interventions, such as higher minimum wages and rent control. Conservatives as well as progressives should examine the causes of social problems in order to cure them permanently. Since land rent captures much of the gains from economic progress, the collection of that rent for public revenue would prevent much of the poverty while providing greater equality without hurting productivity. The success of private enterprise would then reduce the calls for socialist programs.

moral relativism

Henry George agreed that there are universal and objective truth and morality. The right of a person to his own labor and earnings is one such universal value. Another is that trade is mutually beneficial, and people have a natural right to engage in exchange and trade. Subsidies are both economically damaging and morally unjust. As many conservatives look to religion for values, they would do well to follow Ecclesiastes 5:9, “the profit of the earth is for all”.

conclusion

As free-market and conservative thinkers Adam Smith, Milton Friedman, and William F. Buckley recognized, free markets flourish when taxes on production, trade, and consumption are eliminated. Public revenue from land rent makes the economy more equal while not hampering entrepreneurship and investment. The values and beliefs of conservatives are fulfilled with land value taxation. Without economic liberty, the traditions that conservatives hold dear will be relentlessly challenged. Only a single tax only on land value provides that liberty.

For more information and literature, see:

www.schalkenbach.org

Foldvary, Fred, *The Ultimate Tax Reform*, two pages www.foldvary.net/works/two-pager.pdf

Foldvary, Fred. *The Ultimate Tax Reform*, 36 pp. <http://www.foldvary.net/works/policystudy.pdf>

George, Henry. *Progress and Poverty*. <http://progressandpoverty.org/>