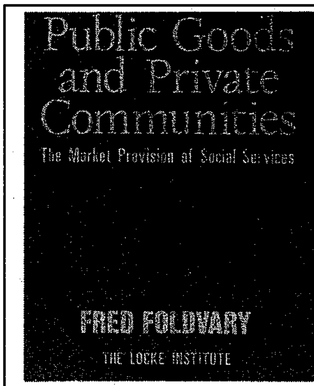
Public Goods and Private Communities *Review by Lindy Davies*

When a newcomer asks, "Is the Georgist Philosophy a right-wing or a left-wing point of view?", the natural answer is "Yes." Although most social and political movements tend to line up in one camp or other, ours is not so easily pigeonholed. Our conferences attract individuals of every political and ideological stripe, who may agree only on one vital point: that the rent of land belongs to the community. That, however, is a tune that can be played a million different ways. There are many opinions on how the rent ought to be collected, by what agency, at what level of government, and who should decide how to spend it. As much as we proclaim (justifiably) to present society with a "middle way," we must acknowledge the differences among Georgists – and a great many of them have to do with government. How much of it is necessary, and how is it to be made accountable to the people? Should government play any economic role beyond simply collecting the rent? Should it exist at all?

In his new book *Public Goods and Private Communities*, Fred Foldvary examines one assertion about government that has achieved the status of a truism: the notion that government cannot supply public goods efficiently. The reason commonly given is the "free-rider" problem: if access to the public good, such as a roadway or a school, is open to all in the community, then individuals will have an incentive to avoid paying its cost. The alternative has always been for government to finance improvements with tax revenues – and/or public debt.



Public Goods and Private Communities: The Market Provision of Social Services *by Fred Foldvary, published by Edward Elgar, Inc. for the Locke Institute*, 264 *p.*

Now Fred Foldvary believes that conventional methods of taxation are destructive and wrong, that they penalize production and ought to be replaced by the community-created fund of the land rent. He has to explain this position to his mainstream readers, but not to us at the *Henry George News*. For us, the provocative part of his thesis concerns how the rent fund ought to be collected and used to pay for public goods – and that ought **not** to be done by government as we know it today. The public sector, in its attempt to counteract "market failure," has created the worsening monster of "government failure." Government typically provides goods that are more expensive than they need to be, and benefit influential people at the expense of common taxpayers.

Foldvary's analysis seems to establish that the market-failure hypothesis is actually wrong – that there is no real reason why entrepreneurs cannot efficiently and profitably provide all the roads, schools, power grids and sewers that people want. The reason why is the territorial aspect of these public goods, a fact that is overlooked by most theorists. Although public goods are almost always considered to be non-excludable (in other words, available for everyone to use), Foldvary argues that that is by no means necessarily so; many examples exist in which public goods have been freely provided by entrepreneurs.

He details a number of fascinating case studies of such "private communities," including Walt Disney World, the single-tax enclave of Arden, Delaware and the entrepreneur-planned city of Reston, Virginia. In all these communities public infrastructure of all kinds have been very effectively provided by private, contractual arrangements. This method of providing public services, he notes, is much more responsive to the needs and desires of the general population – because people have a direct ability to fire the service providers, not an amorphous stake in the outcome of some future election.

Why is it profitable for private entrepreneurs to provide public services? Conventional theorists have focused on the general citizenry as the "free riders" on openly-provided public goods, but the true free rider, Foldvary notes, is the landowner. Public goods and services, which are normally financed by taxes on production, benefit the landowner in increased rents. If landlords are allowed to retain some or all of those increased rents, then it is in their interest to pay for public improvements themselves. They will provide those improvements with the utmost market-induced efficiency, so as to lower their own costs. The people will get the public goods they want at the most competitive prices, and the wasteful edifice of "big government" will be revealed as a huge mistake. This, Foldvary believes, would allow cities to overcome their seemingly intractable problems of urban decay and public finance; instead of our current, decayed system of city government, he envisions decentralized, "contractual communities" providing just the right services to meet each community's needs.

One might question the applicability of Foldvary's examples to the wider economy.

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Undoubtedly the entrepreneurial choices made in public-service provision has enhanced the desirability, and hence the land rent, of such places as Reston, Virginia and Walt Disney World; that was the whole point from the start. But such communities exist in a wider society. People want to come to a town like Reston to get away from the disagreeable, crime-ridden city of Washington, DC – and they travel back and forth on federally-subsidized highways. Rental values in Reston are high primarily due to all the high-wage jobs in the nation's capital; for all these reasons, Reston seems an ideal place to locate a "planned community" – and indeed, a number of towns like Reston have appeared around Washington, DC. Other communities, such as blighted areas in DC itself, are not so attractive to private investors. Walt Disney World is, clearly, a unique development whose very singularity is the source of its high rents. And even Arden, by virtue of its history as an arts colony, as well as the fact that other towns failed to see the wisdom of its public revenue policy, became a uniquely desirable place, better at generating rents than its neighbors.

Indeed, it may be that Fred Foldvary has eloquently and persuasively argued a moot point. His analysis of the chosen examples of "private communities" shows that public goods can be provided by private businesses – where is it profitable to do so. A more compelling question might involve the impetus for entrusting government with the provision of services in the first place. Was it because of the "free-riding" average citizen, who Foldvary shows not to actually have been free-riding at all? More likely, it was because the market could not be trusted to provide public goods **equitably** – given the existence of pockets of poverty and the flight of capital away from them. No one really tries, after all, to argue that the government is more efficient than the market at providing much of anything. But when local conditions have become deeply polarized, larger sovereign institutions have tended to step in to remedy the problem according to some widely-shared conception of human decency or rights. It was never really a matter of efficiency, but one of justice.

The great strength of Henry George's insight as a "middle way" out of our economic dilemmas lies in its ability to reconcile the seemingly opposed forces of efficiency and equity. As George writes, "Liberty is justice and justice is the natural law." It is hard to see how that reconciliation could be effected by clearing the field for "decentralized, contractual communities" to provide public goods for profit, within self-defined profitable areas.