CHAPTER 18

THE MAIN COUNTERARGUMENT

So far the weight of narrative evidence will have given the reader some idea of why the Georgist movement hasn't made greater headway. This question will now be taken up from a more formal angle, involving economic and political principles. And since to solve the enigma of an important economic idea relatively ignored, one must at least start with the issue of its correctness, a good way to begin is to consider the main arguments of George's critics and see if they can be satisfactorily answered.

As has been recounted, there has been a plethora of demurrers to the application of George's theory: it would be hard to differentiate between intrinsic land value and improvements; it would be unjust to deprive current owners of their rent-yields; the tax-shift from land to buildings might produce overbuilding, etc.

But such considerations are all subordinate to the overriding basic question: is private profit from land really a major cause of poverty? Is it really responsible enough for the maldistribution of wealth to make it worthwhile to cope with the above-mentioned problems for the sake of changing the system?

Critics contend that it is not. Their underlying objection has been not so much to the difficulties of application as to the theory itself. "Henry George was all right as far as he went," they seem to be saying, "but he went too far. Land isn't as important as all that."[1]

This chapter will weigh the pros and cons of this argument.

What George thought was that the high prices of land deprived workers of cheap access to land, and that this bottleneck was the primary cause of poverty. Landholders, he held, could absorb all the fruits of progress, and force wages to a bare minimum:

"Labor cannot reap the benefits which advancing civilization thus brings, because they are intercepted. Land being necessary to labor, and being reduced to private ownership, every increase in the productive power of labor but increases rent—the price that labor must pay for the opportunity to utilize its powers; and thus all the advantages gained by the march of progress go to the owners of land, and wages do not increase."[2]

But land monopoly—that is, a control exclusive enough overwhelmingly to affect the price of land and derivative working conditions—was never as severe, except in some rural, feudal societies, as George portrayed it in his theoretic assumptions. In industrial countries it was never true—even before the days of union power and other factors which counteract the workings of natural economic law—that landlords could siphon off all the workers' surplus income.

This belief of his is what the British economist John Hobson, a contemporary and admirer of George, called "the fallacy of the residual claimant." In a brilliant analysis of what was right and what was wrong in George's teachings that to this day has not been surpassed, he wrote in 1897:

"Some have found it hard to understand that many in this country should accept a theory which posits the landowner as the 'residual claimant' in the scheme of distribution and assigns to him the power to take every increase of wealth beyond the minimum requisite to sustain labor and capital. . . . The merest tyro in economic thinking must perceive that the power of competing landlords to tax the manufacturing and commercial classes falls far short of their power over the agricultural and mining classes, and that even in the latter case the constant expansion of the area of production . . . clips the wings of English landlordism."[3]

It was indeed this "fallacy of the residual claimant" that was the weak spot in Henry George's theory. If this was true even in his own time when a larger number of employments were agricultural or extractive, it is even more so today, when a far greater proportion of work is industrial or commercial, and therefore not so predominantly dependent on land; and, moreover, when there are so many human services needed that can give employment without utilizing any extra land at all. Inexpensive access to land is no longer, if indeed it ever was, the prime requisite for securing employment and decent wages. Men might have access to cheap, productive land and still not be able to make a living. Entrepreneurs might have difficulty in obtaining sufficient capital regardless of whether land costs were high or low.

Georgist sympathizers answer this by pointing out that land costs in various forms add up to a large component of economic enterprise, and that to reduce them via a stiff tax would favor the more equitable distribution of wealth. The fabulous prices now often demanded for city land would be deflated, for if high asking-prices were to be nullified by the high land tax, there would be no sense in speculation. The creation of housing would not be hampered by initial high land costs. And the less a business establishment has to pay for the ground on which it stands, the more it has left over for wages and returns to suppliers of capital.

As to natural resources, if the government were to absorb a greater share of the profits from these through increased royalties or stricter leasing arrangements, larger revenues would revert to the people to whom these resources justly belong, while corporations feeding on these resources would not reap so much of what is partly unearned income.

So although the unearned profits from land are not the all-decisive factor in low wages and unemployment, they do have a substantial bearing on the problem of inequitably distributed wealth. Many public figures outside the Georgist movement have concurred in this to a greater or lesser degree.

An important corollary to the objection that land monopoly is not as crucial as George thought it was is the claim of his critics that he ignored other great inequities in economic society. They point to the elements in the industrial set-up whereby certain men win higher rewards than others, not by dint of superior exertion or talent but due to various factors in the way the economy operates.

This argument really divides itself into two considerations, often not clearly distinguished from each other. They are: (1) a mass economy *automatically* bestows many unearned gains; (2) there are numerous special privileges and deliberately collusive practices that obtain unearned profits for certain men or groups of them.

1) The first point may be illustrated by a hypothetical example. Suppose that in a village in India there are two shoemakers, Mr. X. and Mr. Y.,and that Mr. X. is slightly better at crafting the kind of shoes his customers want. In a year he has made perhaps 1,000 rupees more than Mr. Y. Suppose now that both men emigrate to the United States, and each sets up a shoe-manufacturing company. Before long Mr. X. may well be making a million dollars more than Mr. Y. Their relative personal capacities haven't changed, but the mechanisms of mass machinery, mass advertising, a mass market, have multiplied Mr. X.'s slight superiority into vastly greater earnings. Moreover, he can invest these earnings to yield him an amount of interest that would never have accrued to him in India. In short, *the multiplying factor in* industrial society has yielded him much personally unearned income, which is an automatic result of living in that society.

2) In the second category, special privileges causing unearned profits may include (besides the landowning privilege) all franchises to public utilities: telegraph, telephone, gas, pipelines, rights-of-way given to railways, etc; leasing of natural resources on terms allowing high profits to the operators; also tariffs, patents and banking privileges. Deliberately collusive practices include certain mergers, price-fixing and all the monopolistic activities which anti-trust laws are aimed at.

How would George have answered the criticism—advanced in countless discussions of the "single tax"—that these factors making for inequitable distribution have been slighted in his theory?

As to the first category, though he was a little ambiguous on the point, sometimes mentioning "the appropriative power of vast aggregations of capital," he usually implied that mass production didn't automatically engender unearned profits. But some of these profits which are apparently due to "the multiplying factor" are actually—as he held them preponderantly to be—due to more specific causes. Taking the example of the Indian shoemaker, it well might be that much of Mr. X.'s profits stemmed from the facts that the land on which his factories or outlet stores were situated had risen in value; that he had secured patent rights; that he had invested in corporate enterprises whose monopolistic character assured him high dividends. So even though the remainder of his profits were attributable to mere mass production, George's point of view on this score would still have a good deal of validity. For if all advantages due to special privileges and monopoly practices could be eliminated from the picture, the residue of unearned windfalls due to automatic processes would indeed be much smaller.

As to all these particular causes of maldistribution, far from ignoring them, George specifically pointed them out. He didn't look upon landowning as the only significant unfair privilege, but was well aware of the others, mentioning them briefly in *P&P* and detailing them in *Social Problems*. Among these he listed franchises to all kinds of public utilities; patents; banking privileges; and he wrote a whole book—*Protection or Free Trade*—against the tariff. His perception of the unearned profits due to deliberately collusive practices was equally acute.

So George was actually in agreement with his critics in thinking that society was riddled with special privileges and monopolistic arrangements other than landholding.

He did, however, advocate an unusual way of dealing with the maldistribution of wealth caused by these factors: he thought that these causes of inequity should be abolished at the source—that they simply should not be allowed to exist in the first place. The protective tariff and extended patent rights should be done away with by legal changes; trusts should be broken up; utilities should be run by the government.

But a large question remains: why is it not generally appreciated how keenly aware George was of all these non-land monopolies?

The primary reason his grasp of these sources of economic injustice has not received sufficient credit is that he himself did not emphasize it. With the exceptions of land and the tariff, there is comparatively little about these special privileges in his speeches, his editorials, or any of his books except *Social Problems*.

Why did George neglect, so to speak, his own acute perception of all the sources of maldistribution not attributable to landowning? Here one must revert to a point made earlier in this chapter: his "fallacy of the residual claimant." For he not only held that land was the greatest monopoly—which may be true—but he wrote that nothing else would avail to correct the maldistribution of wealth until the land issue was settled.

To sum up the main points arrived at:

1) George attributed to the influence of land profits upon the economic process an exaggerated supremacy but he was right in thinking that these profits are a cause of the maldistribution of wealth. 2) He was quite aware of economic inequities other than landowning and believed they should be combatted through legislative changes, yet he gave them relatively little emphasis in his writings and addresses. 3) As to the desirability of collecting the unearned income from land, the difference between George and many thoughtful critics is a question of degree.