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# Henry George: rebel with a cause*

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## 1. Introduction

As every historian of economic thought knows, the most widely read book on economics in the nineteenth century was not Malthus' *Essay on the Principle of Population* nor John Stuart Mill's *Principles of Political Economy* nor Karl Marx's *Das Kapital* but Henry George's *Progress and Poverty* (1879). Even allowing for the growth of population over the last century, it may well be the greatest economics best-seller of all times. Certainly, in the last quarter of the nineteenth century, it was George who was the talking point of all the debates among fiery young intellectuals, inspiring both socialists and liberal reformers. The book was thought to be sufficiently subversive to call forth refutations from all the leading economists of the day, including Alfred Marshall, Francis Amasa Walker, Richard Ely, John Bates Clark and Edwin Seligman. Even so, George's proposal of a 'single tax' on land rents, single because every other tax could then be repealed, caught on in Canada, Australia, New Zealand and even in Britain and the USA, at least with local governments, despite all the orthodox arguments against it.

## 2. A little history of ideas

Ricardo's theory of differential rent, with its concept of margins of cultivation that earn no rent, inspired the marginal productivity theory of distribution that emerged in the closing decades of the nineteenth century at the very heart of orthodox economics. It is not always appreciated, however, that it also provided the first clear-cut demonstration in economics that

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some incomes are 'unearned' in the precise sense that they are paid to economic agents without the exertion of any effort on their part. Rent in Ricardo is the difference between the product of the total dose of capital-and-labour applied to land and the product of the final dose – at the intensive margin if land is homogeneous in quality and/or at the extensive margin if land differs in quality or location. Since land is a heterogeneous non-reproducible resource that is fixed in supply, ground rent is an intra-marginal surplus accruing to landowners in possession of sites of superior fertility and advantageous location. As the growth of population forces the extension of cultivation to less fertile or more remote land, these intra-marginal surpluses are bound to increase and yet the concomitant growth of rents per acre has absolutely nothing to do with the efforts of landlords. No wonder then that Ricardian rent theory soon became the grandparent of a century-long campaign to question, not just the rental income of landlords, but the very idea of private property in land. Even such stalwarts of mainstream neoclassical economics as Léon Walras and Philip Wicksteed were ardent advocates of land nationalization.[1]

Ricardo taught that 'rent does not enter into price' because price is determined at the intensive and extensive margins of cultivation where the product is only sufficient to pay wages and profits. This is true only if rent is pure ground rent and Ricardo took the trouble to define rent rigorously as a payment for 'the use of the original and indestructible powers of the soil', not counting interest on capital invested by landlords in the form of buildings, drains, hedges and the like (that might appear as part of contractual rent) and excluding gains resulting from the removal of timber grown on the land or the extraction of minerals under the land. In short, Ricardo's rent is pure ground rent of land considered as virgin territory with untapped mineral wealth. We shall see that this claim that pure ground rent can be distinguished from actual rent, not just in principle but also in practice, continued to plague the discussion of land taxation right through the nineteenth into the twentieth century. Be that as it may, there is no doubt that Ricardo made that claim and always insisted that there is some cultivated land in every country that pays no rent even if it is only part of an estate that does pay contractual rent (Clair 1957: 4, 67–9).

Since pure ground rent is a 'free gift of Nature', it follows that it is eminently suitable for taxation or even confiscation by the state; this would have no effect on the marginal cost and hence on the price of agricultural products. It was James Mill, Ricardo's mentor and disciple, who first drew this obvious conclusion from Ricardian rent theory in the very first elementary textbook of Ricardian economics, *The Elements of Political Economics* (1821), published only four years after Ricardo's *Principles of Political Economy and Taxation* (1817). Agreeing with Ricardo that landlords were entitled to whatever rents they presently received because existing property rights always ought to be respected, Mill (1966: 339–42) nevertheless argued that it would be perfectly proper to tax any *future* increase in rents that might result from new legislation or from the natural increase of population. Ricardo vehemently objected to Mill's conclusion in private[2] but the genie was now out of the bottle and in John Stuart Mill's *Principles of Political Economy*, published 27 years later, the notion of taxing what the younger Mill called 'the future increment of rental values' was given a full airing.

After an elegant restatement of the Ricardian theory of rent, J. S. Mill called for a valuation of all land in the country so that its present value could be exempted from taxation. Once this was done, he argued, a rise in the price of land could be taken as a rough indication of an increase in the rental value of land due to causes other than the personal efforts of landowners, in which case a tax on this 'future unearned increase of rent' would meet the fundamental canon of justice in taxation, namely that 'all classes should be equally taxed'. Landlords, he added, 'grow richer, as it were in their sleep, without working, risking, or economizing'. The land tax in England had not varied since the early part of the eighteenth century, he noted, and, despite the immense rise of rents over a century, 'the ascendancy of landholders in the legislature has prevented any tax from being imposed. . . . upon the very large part of this increase which was unearned'. He concluded:

> From the present date, or any subsequent time at which the legislature may think fit to assert the principle, I see no objection to declaring that the future increment of rent should be liable to special taxation; in doing which all injustice to the landlord would be obviated if the present market price of their land were secured to them; since that includes the present value of all future expectations.
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> (Mill 1909: 817–19, 823–24)[3]

I have taken some trouble to quote John Stuart Mill in his own words, not just because Henry George objected to Mill's fundamental canon of justice in taxation, but because many of the readers of *Progress and Poverty* would have been acquainted with Mill's language; after all, Mill's *Principles of Political Economy* remained for half a century *the* textbook on political economy for every educated Victorian. So, by 1850 or thereabouts, we have two intimately connected strands of thought, both of which lead to the inevitable conclusion that ground rent is a species of income radically different from profits and wages. First, if ground rent is an 'unearned income', the expropriation of rent by the state will not affect production in any way, provided that it is only pure ground rent on unimproved land that is being confiscated. Second, there is a case for drawing the line at existing property rights while insisting on the right to tax unanticipated further increases of rental


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income. The first strand is pure Ricardo and the second strand is pure Mill, both father and son.

Ricardo had characterized ground rent as 'unearned income' but nevertheless held back from the radical implications of this idea. However, those radical implications only followed from his sector-by-sector view of the concept of rent: in his theory, rent was paid, not for land devoted to growing a particular crop, but for the 'raw produce' of agriculture as a whole; arable land used for tillage never competed with land used for grazing cattle and indeed land used in agriculture was never conceived of as competing with urban land for residential purposes. In short, in Ricardo the opportunity cost of land is zero and that is why rent in Ricardo is price-determined; it is also why a tax on rent cannot be shifted forward and thus falls wholly on landlords.

With hindsight, we can read the same message in Adam Smith's *Wealth of Nations*: in the closing Book on the 'Revenue of the Sovereign', he leaves no doubt that a tax on rent will cause 'no discouragement . . . to any sort of industry' (Smith 1976: 844) but earlier in Book I he frequently referred to rent as a cost to the individual tenant farmer because of alternative uses of land, implying that a tax on rent would alter the supply of land to a particular purpose and hence the price of produce grown on the land. The question whether rent is price-determining or price-determined, and thus whether a tax on rent falls wholly on landlords or not, continued to be misunderstood throughout the nineteenth century. As late as 1929 Daniel Buchanan (1946) found it necessary to lecture his fellow economists on the existence of *three* margins of cultivation, an extensive margin, an intensive margin and a product-changing margin: rent always enters into the price of commodities if the land on which those commodities have been produced has more remunerative alternative uses and thus earns 'transfer earnings', a term due to Pareto: transfer earnings in excess of the opportunity costs of an input constitute 'economic rent' in modern parlance.

In practice, we do not observe any of these no-rent margins in isolation because there is no reason to believe that the least fertile plot of land in a region also happens to be the most distant site from a market town, or that the worst arable land on top of stony hills also happens to be the worst pasture for cattle and sheep; in short, while all margins should be equalized in principle, the landlord, the tenant farmer and the urban real estate developer are forever seeking the level of all these constantly moving margins so as to minimize the differences between them. Moreover, to move down one margin to another, and in particular to alter the product margin, typically requires capital investment in fencing, drainage, manuring, road construction, and the like, with the result that rent on land becomes inseparably mixed with profit on capital and that of course strengthens the conclusion that no-rent margins are not directly observable. Actual contractual rent as distinct from pure ground rent is never just an intramarginal surplus pure and simple.

All of which is to say that the Ricardian theory of differential rent is an abstract theory that has no simple direct counterpart in reality. Nevertheless, as Mill (1909: 432) put it, it 'may be called the *pons asinorum* of political economy, for there are, I am inclined to think, few persons who have refused their assent to it except from not having thoroughly understood it'. The easiest way of undermining Ricardian rent theory, rendering it totally irrelevant, is simply to deny the standard classical assumption that territory or pure space is a factor of production distinctively different from either capital or labour in that it is perfectly or at least highly inelastic in supply. It became increasingly common for late nineteenth-century neoclassical economists to deny altogether this watertight distinction between land and capital: there are no such things as natural resources available for use without cost, argued John Bates Clark, because fields have to be drained, cleared and ploughed before they can be cultivated and once in use have to be maintained by further expenditure just like ordinary capital goods.

That was *not* the point of view of Marshall whose *Principles of Economics* (1891) supplanted Mill's *Principles of Political Economy* as the leading textbook in economics. Marshall always insisted that virgin territory does have some claim to be considered as a special factor of production. For one thing, it has the characteristics of certain long-lived goods, such as railway embankments, bridges and some buildings of being maintainable by very small expenditures on running repairs. In addition, it is expensive and sometimes impossible in a settled country to augment the supply of land by draining swamps or irrigating deserts and moorland. Consequently, the supply of economic space really is much less elastic than the supply of capital goods; of course, this was not an either/or question but a matter of degree and the degree of inelasticity of supply of mere space was large enough to matter. In other words, Marshall (1961: I, 434–37; II, 492–512) thought that the Ricardian analysis of rent, particularly with reference to a crowded island like Great Britain, was essentially correct (Blaug 1997: 81–2, 395). Some British economists of the day shared Marshall's sympathy with the Ricardian approach to rent but, increasingly into the twentieth century, mainstream economists followed John Bates Clark and Frank Fetter in abandoning the notion that land is a unique factor of production and hence that there is any need for a special theory of ground rent. We shall see that this is in fact the basis of all the attacks on Henry George by contemporary economists and certainly the fundamental reason why professional economists increasingly ignored him.

### 3. The content of progress and poverty

Anyone beginning to read *Progress and Poverty* in order to learn more about George's proposal to replace all forms of direct and indirect taxation by a single tax on ground rent is in for a surprise because 'The True Remedy', as George called it, is only reached in Book VI, chapter 2, well past the half-way mark in the book. The whole of Book I – some 90 pages – is devoted to the Wages Fund Doctrine, a classical theory of wages that is so obsolete that most modern students of economics have never heard of it. Book I is followed by Book II, a 60-page diatribe against the Malthusian theory of population, which for all its effectiveness seems out of place so early in the book. The subject of rent is not reached until page 153 and 'the true remedy' of a single tax until page 328.[4] The explanation for this peculiar structure of the book is contained in the very title: it is not a book about devising a better tax system but rather an attempt to explain why economic progress is invariably accompanied by more and not less poverty.

The standard Victorian explanation of poverty was, in a nutshell, too many people and too little capital. It is the latter that involves the wages fund doctrine, according to which all production is analogous to the discontinuous, annual harvest cycle of agriculture in which the total wages bill at least in real terms is dependent at any moment in time on the amount of pre-existing capital; hence future increases in wages always depend critically on the current investment decisions of capitalists. Workers themselves can only help to secure those wage increases by controlling the size of their families. George thought it necessary to knock down both the wages fund doctrine and the Malthusian theory of population in order to show that neither provided a convincing account of the persistence of poverty amidst the growing affluence of an industrial civilization, the real reason being the growing rental share that leaves only a dwindling share going to wages and profits.

Francis Walker had already attacked the wages fund doctrine in *The Wages Question* (1876) but George's critique of the doctrine was more strident and perhaps more profound than Walker's (Collier 1979a). But the idea that labour is paid out of a previously accumulated stock of consumer goods and not out of current output, that the discontinuities of production in a highly differentiated industrial economy put a ceiling on wage increases, was so profoundly misleading and confused (Taussig 1896: 283–89, Gordon 1973, Blaug 1997: 178–81, Whitaker 1997: 1896–97) that a modern reader might well be excused for nodding-off over the first 60 pages of *Progress and Poverty.* Not so, however, over the next 60 highly polemical pages on the Malthusian theory of population, which marshalls all the standard objections against Malthus, having to do with the difference between the potential and the actual growth of population, and adding a veritable dynamic 'law of increasing returns' to offset the usual notion of statically diminishing returns (George 1947: 232, 235–43, 245).[5]

Finally, on page 168 of *Progress and Poverty* we reach 'the law of rent which since the time of Ricardo, has been accepted by every economist of standing and which, like a geometrical axiom, has but to be understood to compel assent' (George 1947: 218). George's exposition of the Ricardian theory of rent is not impeccable: like Ricardo, he overemphasizes the extensive margin of cultivation, virtually loses sight of the intensive margin and never mentions the product-switching margins at all (but neither did any of his contemporaries). He wrestles with a definition of land that would truly distinguish it from capital and virtually concedes that there are improvements in landed property which in time become undistinguishable from the land itself (*ibid.*: 38–9, 343), a fatal concession for the Georgean programme. He also ignored the fact that technical change may be land-saving instead of labour-saving, thus contracting the margins of cultivation inward and upward, a serious omission in view of Ricardo's considerable analysis of 'agricultural improvements'. On the other hand, he lays much more stress than Ricardo did on the fact that location is as much a source of intramarginal surpluses as variations in the fertility of different plots of land.

That emphasis in his rent theory brings us to his evident belief that the outward and downward movement of the margins of cultivation resulting from the growth of population would not just raise total rents and rents per acre but also the rental share of national income, so that a smaller proportion would remain to pay wages and profits. If that is to be construed as an explanation of persistent poverty despite the growth of income, it requires a firm demonstration that the Ricardian theory of rent implies a rising rental share as well as a theory of wages to account for the failure of wages to rise at the expense of profits. But Ricardo himself gave up the idea that the principle of diminishing returns necessarily implies a rising rental share in the course of economic progress (Blaug 1997: 100–106) and, in addition, George combined a marginal productivity theory of wages – wages are determined by the extra product that labour unassisted by extra capital could produce on the least fertile or least favourably located land – with a curiously non-marginal theory of interest or profit, according to which the ratio of wages to profits is always a constant (George 1947: 223). This 'all devouring rent thesis' (Collier 1979b: 226–30) will not stand up to examination, and even if it were to, it would not demonstrate that the shrinking economic surplus could never be divided in favour of labour. The fundamental thesis of the book, poverty despite progress, 'the conjunction of poverty with wealth, of low wages with high productive power' (George

1947: 87), is never convincingly demonstrated by the analytical standards of nineteenth-century economics, not to mention those of twentieth-century economics. I do not think this lessens the force of his arguments for land value taxation but it certainly lessens the force of Georgism considered as a panacea for all economic ills.

The explanation of poverty was the principle objective of *Progress and Poverty* but another was the explanation of business cycles, which of course may be made to account for both the periodic appearance of poverty in successive slumps and the secular increase of poverty from one slump to another. George's theory of business cycles is unique in the economic literature in that he pointed to speculation in land values as 'the main cause of those periodical industrial depressions, to which every civilized country . . . seems increasingly liable' (*ibid.*: 263, 274–77). Even the most enthusiastic Georgists have found it difficult to discern any coherent explanation of periodic business fluctuations in George and indeed no real attempt is made to connect business cycles with the abiding problem of poverty amidst affluence. All we really get in George is the thesis that land speculation would vanish once ground rents are taxed and that the disappearance of land speculation is somehow bound to bring periodic cycles to an end (see Whitaker 1997: 1901).

This brings us at long last to the very heart of the book, the attack on the idea of private property in land. George is a thorough-going Lockean in that he endorses the deontological view that rights to private property in an asset depend on having 'bestowed' personal labour on that asset (George 1947: 334–37)[6]. He has no patience with any Benthamite consequentialist justification for private property as providing appropriate incentives or any Burkean appeals to tradition as providing the only limit to the constant temptation to abrogate property rights. True to his Lockean beliefs, he denies the validity of every title to the exclusive possession of land: 'private property in land has no warrant in justice, but stands condemned as a denial of natural right' (*ibid.*: 403). However, after asserting that the remedy for the unjust and unequal distribution of wealth in modern civilization is to 'make land common property', he nevertheless concludes 'it is not necessary to confiscate land; it is only necessary to confiscate rent' and 'to abolish all taxation save that upon land values' (*ibid.*: 328, 406). Moreover 'in every civilised country, even the newest, the value of the land taken as a whole is sufficient to bear the entire expenses of government' and 'taxes levied upon the value of land cannot check production in the slightest degree, until they exceed rent, or the value of land taken annually (*ibid.*: 406, 413).

Finally, he hammers home his view of property rights by sneering at John Stuart Mill's proposal to tax, not the whole of ground rents, but only the future increment of rents after deducting the present market value of all land in the country. This is 'better than nothing', George agreed, but nevertheless capitulates to the interests of landowners. Since land is not reproducible by human effort, all the results of human improvements to land considered as mere space belong to the community:

> That such a man as John Stuart Mill should have attached so much importance to the compensation of landowners as to have urged the confiscation merely of the future increase in rent, is explained only by his acquiescence in the current doctrines that wages are drawn from capital and that population constantly tends to press upon subsistence.
>
> (*ibid.*: 363)

As a historical thesis, this is simply absurd and ignores the younger Mill's debt to the political views of his father but it only goes to show how much more radical George's labour theory of property was than anything found in Smith, Ricardo and the two Mills: they all agreed that landowners were idlers and superfluous drones[7] and that intramarginal ground rents in principle could be taxed away with impunity but in practice they were extremely reluctant to cast doubt on the sanctity of property rights in land (or in anything else). Not so for Henry George however (Collier 1978): he scorned to enrol John Stuart Mill as an ally despite the fact that even as late as the 1870s Mill was deeply respected as 'the saint of liberalism', and he never ceased to rub in the analogy between private property in land and private property in human beings. Should we have compensated the slaveowners of the South in 1863 when Lincoln emancipated the slaves, asked George (*ibid.*: 362–63, 1997: 88)?[8]

He sums up by stating once again the case for 100 per cent land taxation meaning a confiscatory tax on the unimproved value of ground rent:

> We should satisfy the law of justice, we should meet all economic requirements by at one stroke abolishing all private titles, declaring all land public property, and letting it out to the highest bidders in lots to suit, under such conditions as would sacredly guard the private right to improvements.
>
> (*ibid.*: 403)

He only once referred to this proposal as 'single tax' but the term soon caught on as a description of his programme and, after some hesitation, he himself adopted it as a suitable title to differentiate Georgism from Alfred Russell Wallace's land nationalizers and Parnell's movement for peasant proprietorship in Ireland (see Barker 1968, Gaffney 1987, George 1997: 50–1, 79–85). By 1920 or thereabouts, even that title was no longer suitable to describe the Georgist programme. It became increasingly obvious from new American national income statistics that a single tax on ground rent would not be sufficient to defray all the expenses of a post-war American government and, hence, the platform of a single tax on ground rent gave way to the more modest proposal of 'land-value taxation' (LVT). From then on, LVT always meant taxation of land at a much higher rate than the distinguishable improvements that are made on the land plus full or partial exemption of improvements together with capital gains taxes on land sales at a higher rate than ordinary capital gains. It should never have been called 'land value taxation' but rather 'land *rent* taxation' for it was the rent from land and not its selling value that George wanted the government to tax. Even better would have been 'tax exemption of improvements' (Cord 1965: 109n) but, no doubt, any short label invited misunderstanding of what was after all a subtle mixture of ideas.

## 4. Criticisms of George

Henry George was attacked during his lifetime by just about every leading economist in the USA and by many minor, now forgotten, economists and political commentators in both the USA and Britain.[9] Much of the technical criticism of George focused on his claim that private landownership and land speculation were the sole cause of poverty and periodic depressions but his denial of private property rights in land also attracted furious counter-arguments. The modern interest in the question whether LVT can tackle the problems of urban overcrowding or the fiscal deficits of local governments came much later in the interwar years. At the bottom of much of the criticism was irritation with an amateur who had never studied economics or even attended a university at a time when economics was becoming increasingly professionalized. Edwin Seligman, America's leading expert on public finance, was not reluctant to rub that in: 'there is not a single man with a thorough training in the history of economics', he thundered, 'who is an advocate of the single tax on land values' (quoted in Andelson 1979: 274). Not only was George a self-educated layman but he was also the author of a best-seller. Now, if there is one thing that professional economists hate it is the name of one of their own becoming a household word – call it the Galbraith Effect. Finally, George's book was thoroughly steeped in what was then regarded as old-fashioned classical economics of the Smith-Ricardo-Mill variety and, if that were not bad enough, George himself never missed an opportunity to express his contempt for the 'new' economics of the so-called Marginal Revolution.[10] In other words, he set himself up as an outsider and of course the insiders threatened him as unkindly as possible. And yet, as Schumpeter (1954: 865) said years later:

> The proposal [of a single tax on ground rent].. is not *economically* unsound, except that it involves an unwarranted optimism concerning the yield of such a tax. In any

> case, it should not be put down as nonsense. If Ricardo's vision of economic evolution had been correct, it would even have been obvious wisdom.
>
> (Schumpeter 1954: 865)

To a remarkable extent, the objections to George's arguments by literally dozens of contemporaries may all be classed under five headings (Cord 1965: 173–75, 221–23, Wasserman 1979: 41–2):

- Since unearned surpluses are ubiquitous in a capitalist economy, why single out land and landowners?
- It is impossible to separate the value of new land from the value of improvements made on the land.
- Land taxes would simply be shifted forward in terms of higher prices and higher rents.
- An exclusive tax on land would be unresponsive to the changing requirements of public revenue.
- A land tax would nullify the individual ownership of land and have negative incentive effects.

I label these: (1) the Anti-landlord Thesis; (2) the Inseparability Thesis; (3) the Adverse Incidence Thesis; (4) the Inelasticity Thesis; and (5) the Moral Hazard Thesis. Let us briefly consider each of those objections in turn.

The Anti-landlord Thesis is fundamental to the very essence of Georgism. Land as pure territory is non-reproducible and almost perfectly inelastic in supply; hence the income of landowners resulting from the relative scarcity of land is an unearned income *par excellence*. This is pure Ricardo and if wrong makes nonsense of not just George's single tax, but also the Ricardian theory of rent.

Next there is the Inseparability Thesis, probably the most popular of all objections against LVT and a particular hobby-horse of Richard Ely, America's leading land economist and author of the standard college textbook in introductory economics in George's times. George (1947: 124–26) spent pages rebutting this thesis in *Progress and Poverty*, noting that it must at least be possible in practice to tax land values independently of taxing betterment because it was done habitually in the property taxes of many American states. On the other hand, if it were impossible even in principle to separate the two, it destroys both the very definition of ground rent in Ricardo as payment for 'the original and indestructible powers of the soil' and the Ricardian doctrine that rent does not determine price but is determined by the price. The fact that a tax has been levied does not demonstrate that a valuation problem has been solved and so, despite the history of LVT around the world, the Inseparability Thesis remains troublesome.

The third objection, the Adverse Incidence Thesis, is simply the corollary of the Inseparability Thesis: if ground rent is indistinguishable from rent for betterment, then of course a tax on total contractual rent does not fall on landlords but is passed on to consumers. But the idea that a tax on an input in inelastic supply cannot be shifted forward is an elementary theorem in public finance, found in every modern textbook, which only brings us back to the basic question whether unimproved land is such an input and indeed whether there is such a thing as unimproved land – the Inseparability Thesis all over again. Another way of stating the Inseparability Thesis is to deny that land is a factor of production distinct from capital. As we shall see, the melding together of land and capital that became increasingly to characterize American mainstream economics at the turn of the century was perhaps the central cause of the declining attraction of the Georgist programme.

The fourth objection, the Inelasticity Thesis, stands alone without reliance on the three previous theses. It is the claim that an exclusive tax on land would be unresponsive to the changing requirements of public revenue, sometimes raising too much and sometimes too little to finance government expenditures. But this is only a damaging criticism if LVT is the only tax and one of the reasons that George himself resisted the label of 'single tax' was that he was perfectly willing to admit other forms of taxation if required. A particular version of this thesis, popular with Seligman, America's leading tax economist, was the assertion that the more land rentals are taxed, the smaller the selling price of land, which at a constant rate of interest causes land rentals to fall, hence eroding the tax base for LVT (Cord 1965: 87). This argument seems to be misguided. The single tax was to be based on the competitive rental for a site in its highest valued use, a rental to be assessed if necessary by an official. The higher the tax percent, the smaller the percent retained by the owner and therefore the smaller the capital sum he would get from transferring title. Nevertheless, an increased tax percentage (if less than 100 per cent) would yield more to the government and still provide the owner an incentive to let the land to its highest valued use. In any case, Wilford King's National Bureau study of *The Wealth and Income of the People of the United States* (1915) showed that a confiscatory tax on ground rent would have been insufficient to defray the expenses of government as early as 1910 and after the growth of government expenditure in World War I it was clear to everyone that the LVT could not be the only tax (*ibid.*: 122, 234). Then and there, the idea of a truly 'single tax' died a sudden death.

Finally, we have the Moral Hazard Thesis, which is grossly unfair to George and in some sense is just a variation on the Inseparability Thesis. *Progress and Poverty* comes back time and time again to the adverse efficiency effects of excise duties, sales taxes and income taxes, rejecting incidentally a progressive income tax (George 1947: 320), and the entire weight of his case for a tax on pure ground rents is that it would cause no dead-weight loss (*ibid.*: 413–14). If ever there was a public finance economist who was aware of the moral hazard created by taxation, it was George.

George made two great enemies in professional economics, John Bates Clark and Alfred Marshall, and of the two it was perhaps Clark who dealt the most lasting blow. Clark paid tribute to George for inspiring his own discovery of the marginal productivity theory of distribution (quoted by Collier 1979a: 226) but quietly pulled the rug out from under Georgism by systematically attacking the distinction between land and capital as separate factors of production and therefore between the ownership of land and the ownership of capital. It followed that just as taxation of capital discourages investment, so taxation of land in any form whatsoever discourages the improvement of land. This fear was soon echoed and re-echoed by Ely, Seligman, Fetter, and even such land nationalizers as Phillip Wicksteed, becoming absolutely standard doctrine in the interwar years as shown by the writings of Frank Knight (Collier 1979b: 267–78; Knight 1935: 37–8).

A modern Georgist, Mason Gaffney (1994), has argued that this was a deliberate stratagem adopted first by Clark and then by virtually all orthodox economists as the lynch pin of an assault on Henry George, but whether this conspiracy argument is accepted or not, there is simply no doubt that their refusal to draw a line between land and capital was the final nail in George's coffin. In view of the fact that the distinction between land and capital is in any case a matter of degree, it was not an easy argument to meet: no doubt, land must be continually repaired and maintained just like capital and hence it is difficult in a settled country even to conceive of land in an unimproved state. It is interesting to ask how one would decide that land really is different from capital in the sense that its elasticity of supply is not just less than but dramatically less than the elasticity of supply of capital? A possible answer lies in interemporal and interspatial comparisons of the price and rentals of land compared to the price and rentals of capital goods but none of the critics of George ever made such comparisons.[11] For the most part, the argument was conducted on essentialist lines by endlessly reiterating the thesis that land values are mostly man-made and that unimproved land is virtually unknown.

George's other great enemy was Marshall. George and the idea of a single tax was not mentioned in Marshall's *Principles of Economics* (1891), the leading textbook in English economics for the next two decades after George's death in 1897, and this despite the fact that Marshall had every reason to be deeply sympathetic to George's programme.[12] To make matters worse, Karl Marx and his theories received a number of pages and references in Marshall's book, although Marx in 1891 was an obscure German economist compared to the famous, indeed notorious, Henry

George.[13] But that is perhaps the key to Marshall's failure even to mention George. Marshall was dedicated above all to protecting the professional standing of economics and George was not only openly contemptuous of academic economists but an autodidact who seemed unaware of the new marginalism of Jevons, Walras, Wicksteed, Clark and the young Marhall himself. Marshall did not share John Bates Clark's conviction that land was indistinguishable from capital and he also was keenly aware of the product-shifting margin of land use in addition to the extensive and intensive margin of cultivation; a tax on land in general such as George had in mind was a tax on land's 'public value' whose incidence would be borne entirely by landlords, whereas a tax on a particular use of land would be a tax on land's 'private value', which would be borne at least in part by the tenant. Although we have to read between the lines, it appears that Marshall had no objection to a confiscatory tax on land's 'public value' but he did insist on landlords being compensated for the loss of land's 'private value'. This interpretation of a cautious and entirely implicit endorsement of Georgism is confirmed by the support which Marshall gave to Lloyd George's budget of 1909 with its first-time ever proposals for taxing land values (Hébert 1979: 66–7).

## 5. A final appraisal

Georgism was effectively killed off by the dramatic fall in rental shares in both the USA and the UK from something like 15 per cent in the 1870s to 6 per cent in the 1960s (Andelson 1979: 88). Even when we include the imputed rent of owner-occupiers and allow for the stimulating effect of the withdrawal of non-land taxes, we still get no higher than 20 per cent of national income in modern times (Tideman 1994: 18, Hudson *et al.* 1995: 150–51). In short, whatever the other merits of LVT, the 'all'-devouring rent thesis' is now as dead as a doornail.

However, that in no way affects the case for LVT as one tax among many, a case based on its merits as a neutral tax that cannot be shifted. In that form it was increasingly adopted in Canada, Australia, New Zealand and many American cities, which routinely value land separately from buildings, so often said to be impossible, and exempts improvements in part or in whole from general *ad valorem* taxes on real estate (Cord 1965: 9, 52, 157, 196, Bonaparte 1987, Hudson *et al.* 1995: 98–101, Groenewegen and MacFarlane, 1990: 23–6, 80–1, 85–6, 101, 148). The effect, it is argued, is to stimulate the improvement of land, to discourage land speculation, to reduce the market price of land (by the present value of future taxes), and to reduce the revenue that is required to be raised from other taxes that, unlike LVT, always carry dead-weight losses (Gaffney 1994: 40–41). A site-value tax creates no excess burden because it does not reduce the supply of land and creates no incentives to use land less intensively (Gaffney 1994: 40–41, Hudson *et al.* 1995: 125–28, Skouras 1997). Nevertheless, despite all these desirable features, LVT is only mentioned inconspicuously in leading books on public finance (e.g. Musgrave 1959: 158–59) and the name of Henry George hardly appears in standard textbooks of economics (but see Gaffney 1987). Was there ever so dramatic a decline in reputation as the virtual oblivion of the name and even the ideas of Henry George?

And yet the concept of LVT continues to win endorsements from leading economists and even Nobel laureates. Paul Samuelson called LVT 'the useful tax on measured land surplus'. Milton Friedman agreed that 'a pure land tax is one of the *least* bad taxes that is possible'. James Tobin thought that it was 'in principle . . . a good idea to tax unimproved land, and particularly capital gains on it. Theory says that we should try to tax items with zero or low elasticity, and those include land sites'. James Buchanan asserted that 'The landowner who withdraws land from productive use to a purely private use should be required to pay higher, not lower, taxes'. Robert Solow argued that 'users of land should not be allowed to acquire rights of indefinite duration for single payments. For efficiency, for adequate revenue and for justice, every user of land should be required to make an annual payment to the local government equal to the current rental value of the land that he or she prevents others from using'. And those are only five out of 30 prominent US economists who signed a letter to Mikhail Gorbachev in 1990 urging him to introduce LVT in what was the Soviet Union (Friedman 1998: 431, Incentive Taxation 1991). I do not like to win an argument by citing authorities but these are, after all, the leaders of the economic profession: if they are wrong, we are all wrong. Schopenhauer once said that every original idea is first ridiculed, then attacked and finally is simply taken for granted. The idea of LVT is not yet quite taken for granted – but it almost is.

I conclude with the observation that Henry George triumphed in the end despite himself: the growth of land rentals in a capitalist economy never was a convincing explanation of the persistence of poverty despite growing affluence and it became an ever less convincing explanation as manufacturing expanded and agriculture shrank. Land speculation never was the root cause of business fluctuations and LVT would dampen but never eliminate periodic booms and slumps; the revenue that LVT, fully and properly applied, was capable of raising may at one time have been sufficient for the expenses of government but ever since 1930 the very notion of LVT as a single tax has seemed almost laughable. But none of this in any way detracts from LVT as one tax among many whose yield ought to be maximized because of its unique features. Perhaps for us in 1999, the perfect Georgist rent is 'spectrum rent', the imputed scarcity value of a broadcast license. Since the electromagnetic spectrum exists in the state of nature and is of course non reproducible and fixed in supply, the spectrum space leased to a licensee earns a spectrum rent, which surely ought to be taxed away to subsidize public broadcasting? This is an argument which comes naturally to anyone brought up on Georgist doctrines.

## Notes

* This paper began as the 1999 F. J. Walsh Memorial Lecture in honour of Henry George, delivered at Macquarie University in Sydney, Australia. I thank Roger Backhouse and Denis O'Brien for helpful comments on a first draft of this paper.

1 For Walras' rather tortured views on land nationalization with full compensation to landlords, see Jolink (1996: 169–74).

2 Ricardo (1952: 132–33; also Shoup 1960: 82, Mill 1966: 380, O'Brien 1975: 250–51, Winch (1987) produced three confusing objections, the second of which was that a tax on land rent might in practice fall on profits from improvements made by the landlord, an objection which denied his own definition of ground rent as rent on unimproved land. Ricardo concluded with a comment which showed that, despite the importance he attached to established property rights, the logic of his rent theory inclined him to toy with the case for the nationalization of land: 'On the whole, I should greatly prefer the present system of taxation. If land is to be peculiarly the subject of taxation, it would be desirable to adopt the Asiatic mode, and consider the government at all times, both in war and peace, the sole possessor of the land, and entitled to all the land' (Ricardo 1952: 133).

3 Mill fails to notice that even a tax on the future increment of rental values from some base year would be discriminatory if the announcement of the tax were anticipated by landlords because it would immediately cause a fall in the price of land. Tideman (1994: 117–18) makes a similar objection to Mill's argument.

4 All these page references are to the Modern Library Edition of *Progress and Poverty* (George 1947).

5 Georgists who criticize him for not understanding the principle of diminishing returns (Andelson 1979: 384–85) simply fail to distinguish the static concept of diminishing returns to a variable input and diminishing returns to scale from the dynamic concept of what Schumpeter called 'historical diminishing returns'. There was nothing technically wrong with George's attack on the Malthusian theory. It is striking, however that George always cited the inflammatory first edition of Malthus' *Essay on Population*, not the more moderate and more optimistic later editions.

6 This is sometimes called a 'geoist ethic' grounded in the philosophy of 'geoism', the social philosphy based on the self-ownership of persons and common ownership of land rent (Foldvary 1998: 152).

7 'As soon as the land of any country has become private property' wrote Adam Smith (1937: 49) in an endlessly repeated sentence, 'the landlords like all other men, love to reap where they never sowed, and demand a rent even for its natural produce'.

8 The property rights of landlords are of course never absolute, being subject to constant revision as social attitudes change. As this is being written, the right of

walkers to roam freely over private land in Britain is being granted once more by Parliament, having only been suspended by statute since the seventeenth century, before which ownership of land never implied the right to exclude others from that land (Shoard 1999). How George would have loved this virtual repossession of the land for community purposes.

9 Andelson (1979) is a compendium of papers appraising these contemporary critics of George. Oser (1974) is the best single, all-round modern appraisal by a sympathetic historian of economic thought. See also Whitaker (1997) with an excellent reader's guide to the secondary literature.

10 'The science [of political economy] as currently accepted has undergone no material change or improvement since the time of Ricardo'; and 'There is in truth a marked resemblance between the science of political economy, as at present taught, and the science of astronomy, as taught previous to the recognition of Copernicus' (George 1947: 98, 221).

11 It is noteworthy that the market price of land has always been one-third to one-quarter of the value of the output of agricultural land across different countries in the world and across different time periods throughout history (Clark 1957). This suggests that land has not become scarcer relative to capital in the course of economic progress.

12 Marshall had publicly debated with George in the 1870s at which time it was George's theory of poverty, and not his ideas on taxation, that drew his ill-tempered criticisms (Stigler 1969).

13 It is fascinating to think what Marx would have thought of George and George of Marx if they had taken each other seriously. Upon receiving copies of *Progress and Poverty*, Marx dismissed it to a friend but there is no evidence that he ever read the book. In any case, the idea of taxing ground rents for efficiency reasons must have seemed like bourgeois claptrap to Marx. George, on the other hand, met leading British Marxists in the 1880s but clearly did not read Marx in the original and had little to say about Marxism or socialism except to express incredulity at the Maxist belief in a fundamental conflict between capital and labour (Harrison 1979: 196–7, Andelson 1979: 389–90, George 1997: 140–48, 175–77).

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**Abstract**

Henry George's *Progress and Poverty* (1879) was undoubtedly the most widely read book on economics in the nineteenth century. Its proposal for a 'single tax' on land rents inspired both socialists and liberal reformers in the closing decades of the nineteenth century but it was attacked and condemned by virtually all the leading economists of the day, principally on the ground that it was not possible even in principle to separate pure ground rent from profits on capital invested in land. The question whether land is a special factor of production, essentially different from labour and capital, turns out to be at the very heart of all the controversies surrounding the doctrines of Georgism; my view, like that of Marshall, is that land is indeed a unique factor of production.

**Keywords**

Ground rent, site value taxation, single tax, unearned increment