

## A Second Look at *Progress and Poverty*

I read Henry George's *Progress and Poverty* (1879) as a student. I remember being delighted by the book, though not wholly convinced by George's argument. I have often said that it was the one book in economics with large passages which could be set to music. Rereading it has been an aesthetic as well as an intellectual pleasure. The sincerity, the passion, the genuine pride in progress and the anguish over its failure to extinguish poverty, and the single-minded attempt to fuse the intellectual rigor of classical economics with the challenge of what is essentially a Christian morality, gives Henry George a unique place not only in the literature of economics but in the English language itself. On rereading it, one realizes that something has gone out of the English language in the last hundred years — a vigor, a passion, a rotundity. It has become more angular, more cynical, and less capable of expressing intellectual passion. Returning to George is like reliving the loss of a friend — one would like to have known him.

It is a little strange that economics, the dismal science of utilitarian rationality, should have produced prophets. Even Adam Smith himself had a touch of prophecy. Behind his eighteenth-century rationality there is a deep passion for human betterment. Keynes was also touched by the

fire of the prophet. However, Karl Marx and George represent, more than any others, the prophetic tradition in economics. Marx certainly is the Jeremiah breathing forth doom, without any clear vision of what would follow it. Henry George is a different kind of prophet, an Isaiah or an Amos, lashing out against those who put field and field together and invoking a vision of justice as a mighty stream (Isa. 5:8; Amos 5:24).

In the last hundred years it has been Marx, the Jeremiah, who has triumphed in a river of human blood from Russia to Cambodia. Over half the world Jerusalems have been destroyed and human freedom is in captivity. But hope is not dead and it is worth listening to other prophets. Furthermore, it might be said of George, as of many prophets, that he was not without honor, save in his own country. His impact on the United States has been small, reflected only in a few communities, such as Fairhope, Alabama, and in a mild success in Pittsburgh. His greatest successes were in Australia, Denmark, Jamaica, New Zealand, and South Africa. The impact of George, however, is not to be measured by the amount of taxation of ground rent and land values in the world.

It is quite possible that no book on economics in over two hundred years has been read by so many people or has aroused more interest, as *Progress and Poverty*. The number of people who have been stimulated to an interest in economic problems by *Progress and Poverty*, from George Bernard Shaw on, probably would be a surprisingly large number if it were known.

### The Message

What, then, is the prophetic message of Henry George? In the first place, it is that progress is real, that there is human betterment over time, and that the human race is not irretrievably trapped in stable misery. This I think was why he hated Malthus, or at least the "vulgar Malthusianism" of academic economics, which attributed all human misery to uncontrollable fecundity and saw no way out of it. On the other hand, he was also passionately aware of the disappointing results of progress over poverty that went along with the maldistribution of its fruits. Progress not only did not eliminate poverty but sometimes even increased it. Of course, he identified the villain of the piece as privately appropriated land rent and increasing land values. In this, he was a faithful disciple of David Ricardo, whose analytical structure made a deep impression on him.

Unlike Marx, George is not against private property as such. Indeed, he strongly favors private property in those things which are the result of

human activity, for this he believes encourages progress. He is much closer to anarchism than to communism, though he is not an anarchist. He recognizes the necessity of government, but believes that it provides only the framework of progress — progress itself emerges as individuals are motivated to administer their lives and property more effectively. He did not attack the basic institutions of capitalism, not even financial markets, because he sees in these an instrument of progress, as indeed Marx himself did. It is the appropriation of the fruits of progress by the landowner which he identifies as the only — but almost fatal — weakness of the system of private property. This he proposes to remedy by a very simple solution — a 100 percent tax on pure land rent, i.e., what is paid for the use of simple land area irrespective of improvements. This in itself he thinks would prevent rising land values, because land values could not rise if net rents did not rise.

### *Land Rents*

There is perhaps a little confusion in the exposition here between rent as income and land as a stock of capital value. This confusion between stocks and flows goes quite deep in classical economics and indeed is a basic flaw in Marx's analysis, and was not really resolved until Irving Fisher. Nevertheless, Henry George does identify two rather different problems associated with private ownership of land. One might be called the "income problem," that the landowner is able to extract from society an income in the form of rent without giving anything in return in the way of personal services or activity. In Adam Smith's words, "the landlords, like all other men, love to reap where they never sowed" (1789, rpt. 1937, p. 49). This is clearly a grant, a one-way transfer, not an exchange, from society to the landlord. If this is regarded as illegitimate, it must be identified as exploitation.

The other problem is that of speculative rise in the capital value of land, in terms of what is paid for simple land area. We saw this in the Florida land boom of the 1920s and the nationwide boom in 1979. Speculative high land values, as George perceived quite rightly, rested ultimately not only on the capitalization of expected future rents but on the expected rise in land values themselves. George sees the speculation in land values as the major cause of the business cycle.

People buy land at inflated prices because they expect to sell it later at still more inflated prices. On the other hand, this is a process that cannot go on for very long. Prices cannot rise without getting too high. At some point the expectation of further increase ceases and there is a collapse. During the rise in land values, however, enterprise is discouraged, and

human activity is diverted into essentially useless speculation, causing unemployment and a check to progress. George came to this conclusion, one suspects, by observing successive booms and busts in his native San Francisco.

### *Process of Change*

By contrast with Marx, George was a prophet of peaceful change. He is an evolutionist rather than dialectician. He did not believe in class war, and thought perhaps too optimistically that the basic interests of capitalists and workers were identical and opposed to those of the landlords. But he thought that landlords could be dealt with by democratic processes and essentially peaceful change.

Indeed, in his more optimistic moments George saw his rent tax proposals as an almost universally positive-sum game. He thought that by shifting the burden of taxation from improvements, that is, buildings and soil investments, on to bare land itself, even the landowner would ultimately benefit; he would be stimulated to make improvements merely by their absence. He would therefore end up perhaps even better off than he was before. There are passages which suggest that there has to be a real struggle between the land owning interests and the rest of society, but at no time does Henry George lose faith in the ability of democratic and constitutional processes to handle this struggle. The dialectical elements of the process represent a fairly minor aspect of the process of desirable change. This approach is in great contrast to the Marxian emphasis on struggle as the essential element in social change and on violence as the "midwife of the society." One is reminded of Keynes' remark that if only Malthus (the Malthus of 1836, of course) instead of Ricardo had been the dominant influence on the succeeding hundred years how much richer and happier the world would be. One cannot help feeling that if only George rather than Marx had been the dominant influence on reformers in the last hundred years, again how much richer and happier the world would be.

In the last hundred years we cannot deny that George has failed. But one hundred years is a short time in human history. One hundred years from now things might look rather different. It is important, therefore, to evaluate the thought of George to determine what was basically right in it and what went wrong. George was certainly right in perceiving that economic rent is the ideal subject of taxation. Taxation represents the capture of a certain proportion of the surplus of society by the coercive powers of state. It can capture only what is genuinely economic surplus, that is, an individual's income which, when lost, will not reduce his or her productive activity. If the state tries to do more than this, the

producer will reduce both activity and product. If taxation, the capture of a product by the state, does not interfere with progress or productivity, and if the resulting activity of the state as determined by its expenditure patterns likewise does not interfere with progress and productivity, the activity of the state becomes a remarkable positive-sum game in which we all benefit. If, however, taxation goes too far, and cuts into supply price, it diminishes the incentives for production and for progress. And if this goes far enough, a stagnant or even declining society could result. Historically, it would not be difficult to find examples of this, though one suspects that the defects of public expenditure in terms of creating insecurity and waste may be more important in explaining stagnation and decline than the defects of the tax system.

There is a deeper issue involved here, which George perceived rather clearly. He argued that economic rent is not only the ideal subject for taxation; there is a moral principle that it should be taxed and appropriated for the use of society at large rather than individuals. It is what might be called a "public distributional good." Private appropriation must be justified in terms of some other benefits, cultural or political, the size of which depends upon the nature of the class and political culture. Thus, landlords who improve their property may do more for progress than a state that does not. This may have been the case, indeed, in England in the eighteenth century, with a "Turnip Townshend" on the one hand and the appalling corruption of the government on the other. But this is a case that would have to be made in each particular society, and a careful study of human history is all too likely to reveal that the combination of unimproving landlords and an improving state is commoner than the reverse.

### *Grants Economy*

A somewhat more general point that George highlights is that the tax system is by far the most appropriate instrument for correcting the distributional imbalances that may develop out of private property and a system of exchange. George advocates a special case of what might be called the "public grants economy."

The private grants economy, especially within the family, is an important agency for correcting the imbalances that develop in a pure exchange system; it supports those, particularly the children, the sick, the incompetent, and the aged, who cannot support themselves by producing goods or services for exchange. The family is still the major instrument of the grants economy; some 30 percent of national income is redistributed within the family to individuals who cannot produce things for exchange. However, the family is not sufficient, particularly as the

horizons of society expand to the nation state and ultimately to the world. Since the grants economy, especially inheritance, goes through the family to such a large extent, it will produce inequalities which may be socially unacceptable, if the system is confined to the family. Therefore, there has to be a public grants economy to supplement that of the family and to correct the excesses of the inequality that a pure exchange and family grants economy will produce.

This public grants economy, however, is best conducted through the tax system, including negative taxes, that is, subsidies, as well as positive taxes. George thought that positive taxes would suffice; indeed he felt that a single tax on land rent and values would be sufficient (in his day more than sufficient) for the expenses of government. By removing the burden of taxation from productive activities and combining the exchange and the family systems, a distributional pattern was created that was sufficient to prevent the paradox of poverty and limits to progress. Milton Friedman's proposal for a negative income tax is a direct descendent of the George proposals. It is a little surprising that Friedman has not been more enthusiastic about land rent and land value taxation, which would seem to fit in well with his general philosophy.

### *Human Welfare Politics*

The significance of this debate for human welfare is large. If what might be called the "neo-Georgist" philosophy is correct, that the distributional defects of the market and family system can be corrected institutionally with relatively minor changes in the tax and subsidy system, the whole case for revolutionary Marxism is undermined. Communism and centrally planned economies are seen as the wrong answer to what was a perfectly legitimate question; it is not a "progressive" step but rather an evolutionary setback which the human race will eventually have to overcome. It is hard to see how a revolutionary and dialectical philosophy can avoid falling into tyranny, whether this is the tyranny of violence as with Stalin and with the nightmare of Cambodia, or a tyranny of persuasion, as with the People's Republic of China. Communism has engendered real economic gains that cannot be denied, but it has done this at the cost of an appalling political retrogression, which can also hardly be denied; for many people this seems far too high a price to pay if the economic development and redistribution can be done more cheaply. The neo-Georgist view, therefore, would represent almost the only genuinely valid criticism of revolutionary Marxism in terms of Marxism's own ideals of human welfare and the abolition of poverty.

What then went wrong? Why has this been the century of Marx rather than of George, at such an unspeakable cost in human suffering and

political retrogression? The answer may lie partly in the personal characteristics of George himself. Although he undoubtedly had a great deal of charisma and capacity for leadership, his program and symbolism failed to put together a sufficient majority. At least in democratic politics, one has to have 51 percent of the vote, and this requires toleration, living with strange bedfellows, and even a loose attachment to high principle. Perhaps George, because of his honesty and decency, was incapable of this accomplishment.

It is unfortunate that the expression "single tax" became the symbol of George's proposals, although this was in no sense essential to his theories and indeed is hardly mentioned in *Progress and Poverty*. In addition the insistence on the 100 percent taxation of land rent and land values is a grave weakness, primarily because it alienated small landowners and especially rural land owners. Moreover, the plan was technically unsound. Mistakes in assessment in a 100 percent tax of any kind can be quite catastrophic, when at the 50 percent tax level they may be quite bearable.

### George's Program

Many of the failures of George's political campaigns and political rhetoric do go back, however, to certain inadequacies in his analysis, and these must be faced squarely if we are to develop a neo-Georgian movement. George's analysis was profoundly insightful. It foreshadowed many things which have happened in economics and social philosophy. It was based heavily on classical economics, especially those of Ricardo, and it shared many of the classical system's defects. George's thought exhibits both the strength and the weaknesses of the amateur in the best sense of the word, that is, the lover of truth carried away somewhat by love. His exclusion from academic life — for which indeed we have to blame the academics — isolated him from marginalist revolution which was going on in the 1870s, even though in an odd way he made some contribution to it, for John Bates Clark was influenced by George. We cannot blame George for having been born before national income statistics and the Keynesian revolution. It is perhaps unfortunate that he rejected Malthus so completely and instead accepted the current academic economists' negative evaluations of the Malthus of 1836 and the *Principles*. One hundred years later, Keynes' *General Theory* essentially was a rebirth of these views. We need therefore to reinterpret George in the light of a larger and more adequate evolutionary economics so that the acceptance of his profound insights will not be hampered by one hundred- or even two hundred-year-old failures of analysis.

*Classical Theory Inadequacies*

In the first place, we need to reevaluate the classical theory of production in terms of land, labor, and capital as factors of production, a theory that has come down to us from Adam Smith and is still standard in all the textbooks. I have argued that land, labor, and capital are in fact quite heterogeneous aggregates useful only in certain rather crude analyses of production, and that productive processes consist essentially of the production of phenotypes, such as the chicken or the house, from genotypes, such as the egg or the blueprint. Production is a process by which know-how, in the form of the genotype, is able to capture and direct energy for the transportation and transformation of material into the improbable structures of the phenotype or product. Know-how is the active factor; energy and materials are necessary limiting factors. To these three factors of energy, know-how, and materials we also should add space and time, for all processes of production require these. Space and time also may be limiting factors.

A fertilized egg needs space, a womb, and time to grow. Land, labor, and capital are each mixtures and aggregates of these five essential factors. Thus, land, as it enters the market, is defined primarily by area. What is bought and sold, or rented in this case, is the area within certain lines drawn by a surveyor and recorded on the map in some government office. This then becomes property through the institution of title. Property may be subdivided, in which case new lines are drawn and new areas identified.

*Qualities of Land*

The economic significance of what lies within a particular area depends on the energy and materials that lie within it, whether this is soil, rich or poor, foundation materials for building, such as rock, sand, or quicksand, fossil fuels beneath it, or even sunshine falling on it. It depends also on its location relative to other pieces of land and qualities. All these things together generate market value of land, together with the general know-how patterns of the environment. Thus, uranium-bearing land was not so valuable before we knew about nuclear power. For a parcel of land on Wall Street, the underlying soil, if there is any, is irrelevant, though the capacity of the material structure to bear buildings is important. The location is overwhelmingly important. In the case of an Iowa farm, the material of the soil may be all important and the location relatively unimportant, although adjacent structures such as roads or railroads, may have some significance. Time may also be an important factor in the case of land. Land now is not land then; it is defined by a time position as well as by space position. Indeed, it is this property



which opens up the possibility of land speculation, because the value of a piece of land changes over time.

Land is significant economically; it has some kind of value, because particular spaces, times, materials, and energy sources are significant for productive human activity. Human activity, for instance, requires space. Land, incidentally, which is defined mainly on a two-dimensional surface, actually has important three-dimensional aspects, both towards the center of the earth and away from it. Clearly when we buy a piece of land we do not buy a pyramid stretching from the center of the earth to the extremities of the universe. It may be legally dissociated either from what is beneath it, as in the case of mineral rights, or what is above it, as in the case of air rights. What we are really defining in the case is always volumes rather than areas.

#### *Land Use Decisions*

The question for society, then, is who makes the decisions about the changes that should be made and the activities that should be pursued on a particular legally defined parcel of land? In land as in other things, property eventually resolves itself into legal definitions about whose decisions relating to a particular parcel of land are legal and whose decisions are not. Property is the definition of a bundle of everybody's rights and duties with respect to defined objects. If I own a piece of land, it means that the law defines what I can do with it and what everybody else can do with it. I can grow potatoes on it but not marijuana; I can build a house on it if the house conforms to building codes and is passed by the building inspector. I can keep somebody else from building a house on it, even theoretically from walking on it, that is, from trespassing. I have an obligation to pay taxes; if I do not, the land will be taken from me. I may not do certain things that would be nuisances to my neighbors. The list goes on in a vast elaboration of detail. If an organization such as a government or a corporation owns the land, decision-making rules about it will be set forth in an elaborate set of rules and codes. In the national forest, the forester may make decisions about cutting down trees, but he cannot build a house for himself on it or even rent it out for timber-cutting, unless he has permission from a considerable hierarchical array of superiors, leading ultimately perhaps to Congress.

#### *Private Ownership*

The case for private property in land is strongest when it is administered directly by the owner. This is why we have encouraged small home ownership on such a large scale in this country. There is something in the "magic of property" when that property is close to the

proprietor, and when the failures of decision-making in regard to land are reflected directly in the welfare of the one who makes the decisions. Even here we still have to take account of externalities, decisions that the owner makes which affect neighboring owners. We try to do this by such institutions as zoning, building codes, and even laws against attractive nuisances such as unfenced swimming pools. Private ownership can become pathological when the ownership is absentee, whether it is an absentee landlord, as in the catastrophic case of Ireland, or even an absentee corporation or an absentee government. There is nothing in the public ownership of land which does not make the decision-maker an absentee, which is why I suspect that George wanted to keep decision-making about land in the hands of private ownership, although he wanted to tax off the economic surplus which might result.

The market for land can hardly help being imperfect, even though it does not necessarily result in monopoly. Land rent is not necessarily an income that results from monopoly power, though sometimes it is. Thus, if I own a parcel of Iowa corn land I could prevent anybody from growing corn there. My action would not noticeably affect the price of corn, nor would it affect the market value of the land; it would only mean that I might deprive myself of the maximum income from it. Here the theory of differential rent arises in all its glory. The economic significance of a parcel of Iowa corn land depends on the price of corn and of alternative crops. This in turn is going to depend on the supply curve of corn in some sort of equilibrium, the equilibrium price being that at which there is no net incentive to expand corn production. If corn can be grown only on a certain limited area of land, at some point the supply of corn may become inelastic. Then if the demand rises into that area of it, other corn land will obtain something like a monopoly price as a result of land monopoly. If, however, the demand is such that the supply of corn is highly elastic, there will be very little monopoly element in its price or in the price of land that grows it. I may have no more monopoly in my piece of corn land than I have in my stocks of harvested corn. Land on Wall Street, however, is highly inelastic in supply because of the location factor. A stockbroker can get an inexpensive office in the Adirondacks but he will be seriously inconvenienced by the location. He would probably do less business there than he would in a very expensive office in a Wall Street skyscraper. Land cannot fly down from the Adirondacks to the tip of Manhattan Island as the stockbroker can.

#### *Land Speculation*

This geographical immobility of land is what creates the enormous differences in both the rent and the value of equal areas in different

places. The relative mobility of workers and capital goods makes it impossible to have the kind of differences in price per unit that we find in the case of land. The case for social appropriation of large land values, especially in the central cities, seems very strong. The diseconomies of land speculation are quite frequently evident, in the wastage of urban land, unused lots, the sprawl of cities, and the leapfrogging of business areas over those which are being held speculatively on the edge of central cities out to new centers. There is also the possibility, recognized by George, that speculation may drive up the price of land to the point where it seriously interferes with developmental processes and operates as a tax on progress.

There is, however, a case on the other side. First, land speculation is not fundamentally different from speculation in other areas, for instance, on the stock market. Here too we see perverse dynamic movements, as in the events from 1927 to 1929, which were clearly pathological from the point of view of the larger society. The role of speculation in stimulating inflation is a relatively recent phenomenon following the Keynesian revolution, which gave us a money supply indefinitely flexible upwards and speculative price rises in commodities and in land and financial instruments. These price increases are self-justifying, because the money supply rises under the pressure of the fear of unemployment and in turn justifies the speculative price. The phenomenon, however, is not peculiar to land, and there is a case for taxing all speculative augmentations of the value of particular assets.

#### *Land as Capital*

Land from the point of view of the accountant and the balance sheet is an asset just like any capital good. We cannot really separate it from the general discussion about the validity and the pathologies of the ownership of capital in general. George defended interest and profit on the rather curious grounds that they arose from the biological increase of living things. This view has seldom recommended itself to economists, but nevertheless it deserves to be taken more seriously than it has been in the past. George sees quite clearly that interest and profit arise from the growth of the value of assets, but he argues that this happens because calves grow into cows and saplings grow into trees, so that their owners increase their assets by simply waiting. This, of course, is a reflection of the time factor in the productive process; there is an elaborate body of theory about this, originated by Irving Fisher and Böhm-Bawerk in the Austrian School, which attributes interest and profit to impatience on the one hand and to the productivity of sheer waiting on the other. We have to wait, of course, not only for trees to grow but for power stations to be

built, and waiting itself has a psychological cost, that is, impatience. It is not surprising that we pay more for newly marketed goods than we would for the same goods in the future. This is discounting, which is essentially the same phenomenon as interest and profit.

This raises one question: if rent is properly appropriated by society as a whole, why is not interest and profit? This is precisely the great Marxian question. Of course the Marxists criticize George on the grounds that he did not go far enough; they claim that rent is only part of surplus value, and all of surplus value, including profit and interest, should be appropriated to society as a whole. George's answer to this would undoubtedly be that, whereas rent can be expropriated without any damage to human activity, private property in capital is so much more productive than public enterprise that the return to capital does not really constitute surplus value. The problem here actually is an empirical one, as to whether private enterprise is in fact more productive than public, so that the return to capital represents a net addition to the product of society and hence cannot be regarded as exploitation. The answer to this question depends on the institutions of society. While one can take a rather dim view of centrally planned economies in light of the experience during the twentieth century, the possibility of social inventions that would allow centrally planned economies to be politically democratic and permit individual freedom, while also being efficient, cannot be ruled out entirely. However, I confess that I am extremely skeptical about the realization in any conceivable future of such social inventions.

Another question of great difficulty, relevant both to George and to Marx, is the social appraisal of the value of luck, uncertainty, and what might be called the "lottery of life." Every person who buys a lottery ticket clearly has a demand for inequality; oddly enough this persists even in the socialist countries. A perfectly just society in which everything bad that happened to one was one's own fault and could not be blamed either on anybody else or on bad luck could well be regarded by most people as a nightmare. We believe in offsetting bad luck up to a point; otherwise we would have neither insurance nor welfare. But this rarely goes to the point of believing in perfect equality. If we prevent people from having good luck, as in the case of land speculation, we would cut out a pattern of human activity, particularly in risk-bearing, for which there is clearly some demand. This is a difficult question that I cannot pretend to resolve, but it cannot be neglected in the evaluation of any program for social change.

### Conclusion

Perhaps the movement that undermined George's influence more than any other was the rise of the progressive income tax, most of which took place after the publication of *Progress and Poverty*. In the opinion of most economists and men of affairs, this represented a method of redistribution, even the capture of economic surplus, which was more general than any land tax. Of course, the rise in the expense and function of government also made the idea of a single tax on land totally inadequate. Furthermore, George did not have the benefit of national income statistics, which seem to point to a rather minor (even declining) role for land rent in the total economy. To some extent this may be an artifact of the statistical processes themselves; there is a good deal of evidence that the national income statistics underestimate the importance of rent. Nevertheless, even though what George started may have been a special case, it is a special case of a very important principle. Furthermore, we are by no means out of the woods in regards to social policy towards land and land rent. It remains a source of socially appropriable economic surplus, and the whole relation of the market in land to the needs of society, however these are defined, remains an unsolved one. The great difficulty here is that every piece of land is unique. The regulation of land use by government becomes an almost insoluble problem, requiring an administrative structure far greater than it could conceivably be worth.

George's solution — to keep land in private hands and tax away its economic surplus — has the great attractiveness of administrative simplicity. It is a neglected part of the tool box of social policy. It should be taken much more seriously by economists, other social scientists, philanthropists, reformers, and politicians, even though we may end up with a solution much more complex than a single tax.

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13 Jan 1996