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Henry George and the Reconstruction of Capitalism

by Dr. Robert V. Andelson*

Our long-time readers may be aware that a tax on the site value of land is the only tax that we believe serves to improve rather than hinder the economic process. The most famous proponent of this type of tax was the nineteenth-century economist and social philosopher Henry George. He proposed abolishing all other taxes, which hamper productive activity, and replacing them with a "single tax" on the unimproved value of land.

In his day, Henry George was enormously popular. His books were widely read, he lectured extensively, and his fame extended around the world. He ran twice for mayor of New York City and was nearly elected the first time, in 1886. Many academic economists have tended to overlook his ideas, perhaps because he was a self-made economist. However, renowned figures in economics and other fields have long acknowledged the merits of his arguments. Milton Friedman has described George's proposed property tax as "the least bad tax." In the text that follows, Professor Robert V. Andelson describes why, more than one hundred years after his death, Henry George's ideas on economics, free enterprise, and the rightful basis of property are still relevant.

With the fall of the Iron Curtain, people all over the world seem to be searching for a "Middle Way." Except in North Korea and Cuba, doctrinaire Marxism has been repudiated virtually everywhere, even by the Left. Socialism has become passé. Its adherents are no longer riding the crest of the wave of the future. Even the most energetic apostles of federal meddling, John Kenneth Galbraith, for example, eschew the Socialist label.

Yet, on the other hand, the free market economists of the classical period would scarcely recognize Capitalism as we know it in America today. Such luminaries of industry and finance as Lee Iacocca and Felix Rohatyn advocate a measure of government intervention that would have seemed entirely insupportable to Cobden or Ricardo. In the political field, the major candidates differ mainly on matters of degree. It is not so much a question of "Shall there be federal aid?" as of "How much federal aid shall there be?" or of "How shall it be administered?" As long ago as the late 1940s, "Mr. Conservative" himself, Senator Robert A. Taft, sponsored a bill for federal housing. Later, another Senate Republican leader, Bob Dole, was the chief architect of the food stamp program, which is itself a *dole*, not just for the poor but, above all, for agribusiness. A Republican president, Richard Nixon, instituted price controls, and cut the dollar loose from its last tenuous backing with the cynical quip, "We are all Keynesians now."

But what we are presented with, from Right to Left, is not a coordinated structure embodying the best ele-

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ments from both sides, not even a well-thought-out attempt at syncretism, but rather a bewildering welter of jerry-built solutions, each one based upon political and emotional considerations and lacking any functional relationship to a unified system of socio-economic truth—let alone any rootage in a grand scheme of teleology or ethics.

A little Socialism here, and a little Capitalism there; a concern for the "public sector" here, and a concession to the profit motive there; a sop to the "underprivileged" here, and a bow to incentive there—put them all together and what have you got? Nothing but a great big rag-bag, a haphazard pastiche of odds and end without any bones and without any guts!

Nevertheless, there is a Middle Way. There is a body of socio-economic truth which incorporates the best insights of both Capitalism and Socialism. Yet they are not insights that are artificially woven together to form a deliberate compromise. Instead, they arise naturally, with a kind of inner logic, from the profound ethical distinction which is the system's core. They arise remorselessly from an understanding of the meaning of the commandment: "Thou shalt not steal." This Middle Way is the philosophy associated with the name of Henry George.

I like to picture economic theory as a vast jigsaw puzzle which has been distributed across two tables, one called Capitalism and the other Socialism. But mingled with the genuine pieces of the puzzle are many false pieces, also distributed across both tables. Most of us are either perceptively limited to one table, or else we are unable to distinguish the genuine pieces from the false. But Henry George knew how to find the right pieces, and, therefore, he was able to put the puzzle together—at least in its general outlines. I don't claim that he was infallible or that there isn't further work to be done. Yet if I find a little piece of puzzle missing here or there, it doesn't shake my confidence in the harmony of the overall pattern he discerned. It doesn't make me want to sweep the puzzle onto the floor and start all over again from scratch.

Henry George was born in 1839 in Philadelphia and died in 1897 in New York City. It was in the San Francisco of the 1870s that he wrote his master-work, *Progress and Poverty*. For the greater part of his adult life he had been a working newspaperman, beginning as an apprentice typesetter and making his way up to the editor's desk. His was a peculiarly Californian saga. His philosophy was forged out of his observation of conditions in a burgeoning new state, where he was able to examine, as in a laborator,y the genesis and development of social and economic processes. *Progress and Poverty* has been translated into at least 25 languages. Among books of nonfiction, its sale was for many decades exceeded only by the Bible. At Oxford University, in the English literature department, it is used as a model of the finest prose. The rest of Henry George's life was one great crusade for social justice, at the end of which he literally martyred himself by campaigning for public office against his doctor's urging. In the middle of the campaign he died, and was spontaneously accorded the greatest funeral which New York City had ever witnessed.

His genius has been glowingly acknowledged by such renowned figures as philosophers John Dewey and Mortimer J. Adler, presidents Woodrow Wilson and Dwight D. Eisenhower, scientists Alfred Russel Wallace and Albert Einstein, essayists John Ruskin and Albert Jay Nock, jurists Louis D. Brandeis and Samuel Seabury, columnists William F. Buckley and Michael Kinsley, and statesmen Winston Churchill and Sun Yat-sen. These names cover the entire political spectrum from Conservative to Liberal, yet all of them saw something of immense value in George's thought.

I'll take time to quote from only one of these testimonials—the one by Dr. Sun Yat-sen, the founder and first president of the Republic of China. "I intend," he declared, "to devote my future to the welfare of the Chinese people. The teachings of Henry George will be the basis of our program of reform." I think we may safely say that had Dr. Sun lived to carry out his promise, the Chinese mainland would not today be Red. But Taiwan, where it has been carried out, by no means fully but to a considerable extent, has, as a result, witnessed a spectacular transformation from abysmal poverty to vibrant prosperity distributed so as to benefit *all* levels of the population.

I said that I'd quote from only one testimonial, and I'll keep my word. But I do consider it apposite to mention that Count Tolstoy, author of War and Peace, Anna Karenina, and of the explicitly Georgist novel, Resurrection, wrote a long letter to Tsar Nicholas 11 in January, 1902, warning of mounting public disaffection, and pleading for reform along Georgist lines as the most immediate measure necessitated both by the demands of justice and the threat of socialist revolution. It was followed in May of the same year by a letter to another member of the imperial family, spelling out the specifics of George's proposal. May one not reasonably assume that, had Tolstoy's warning and plea

been heeded, Russia would have been spared more than seven decades of Communist tyranny; its satellite and subject nations, their respective periods of Marxist domination; and the West, the burden of the Cold War? Or that, by disregarding that warning and that plea, Nicholas 11 forfeited the lives of hapless millions, including, ironically, his own and those of his cherished wife and children?

For a long time, it was the fashion among academic economists to ignore or patronize Henry George—whether for his lack of formal credentials, for his propensity to mingle moral arguments with economic ones, or for other perceived intellectual crimes even more monstrous. Today, this is becoming less and less the case, although, of course, there were honorable exceptions from the outset. But now we find economists of every stripe, including four Nobel laureates, united in agreement that George has much to say that is of vital contemporary importance. The list is far too long to read in its entirety, but it includes such names as Gary Becker, Kenneth Boulding, James Buchanan, Milton Friedman, Mason Gaffney, Lowell Harriss, Alfred Kahn, Arthur Laffer, Franco Modigliani, Warren Samuels, Robert Solow, James Tobin, and William Vickrey—the last of whom served recently as president of the American Economic Association.

In the preface to the fourth edition of *Progress and Poverty*, Henry George wrote: "What I have done in this book, if I have correctly solved the great problem I have sought to investigate, is to unite the truth perceived by the school of [Adam] Smith and Ricardo to the truth perceived by the schools of Proudhon and Lasalle; to show that *laissez faire* (in its full true meaning) opens the way to a realization of the noble dreams of socialism." Let us return now to our illustration of the economic jigsaw puzzle, and take a look at the pieces which George selected from the two tables of Capitalism and Socialism.

We will begin with the Capitalist table. George considered himself a purifier of Capitalism, not its enemy. He built upon the foundations laid by the classical economists. The skeleton of his system was essentially Capitalist. In fact, Karl Marx referred to George's teaching as "Capitalism's last ditch." George believed in competition, in the free market, in the unrestricted operation of the laws of supply and demand. He distrusted government and despised bureaucracy. He was no egalitarian leveler; the only equality he sought was equality of opportunity. Actually, what he intended was to make free enterprise truly free, by ridding it of the monopolistic hobbles which prevent its effective operation.

In his book, *The Condition of Labor*, George said: "We differ from the Socialists in our diagnosis of the evil, and we differ from them in remedies. We have no fear of capital, regarding it as the natural hand-maiden of labor; we look on interest in itself as natural and just; we would set no limit to accumulation, nor impose on the rich any burden that is not equally placed on the poor; we see no evil in competition, but deem unrestricted competition to be as necessary to the health of the industrial and social organism as the free circulation of the blood is to the bodily organism—to be the agency whereby the fullest cooperation is to be secured."

Why did George take so many pieces from the Capitalist table? Because, I think, they are all corollaries of one big piece, namely, the moral justification for private property. You see, George, who in private life was a devout though non-sectarian Christian, had a stout belief in the God-given dignity of the individual. This dignity, he held, demands that we recognize that the individual possesses an absolute and inalienable right to himself, which is forfeited only when he refuses to accord the same right to others. The right to one's self implies the right to one's labor, which is an extension of one's self, and therefore to the product of one's labor—to use it, to enjoy it, to give it away, to destroy it, to bequeath it, or even (if one so desires) to bury it in the ground.

Now, taxation as ordinarily understood, especially when based upon the "ability to pay" principle, is a denial of this right. It is a denial of it because it represents a tribute levied on the product of an individual's labor. It is a denial of it because it rests upon the assumption that the community at large has the right to assess individuals disproportionately to the benefits which they receive from the community at large. And so George rejects as collectivistic many institutions which most present-day defenders of free enterprise would never dream of questioning—income taxes, tariffs, sales taxes, corporate taxes, personal property taxes, etc. This makes him in one sense an arch-Conservative, yet prominent Socialists like Walter Rauschenbusch and George Bernard Shaw have testified that it was Henry George who first kindled their concern for social justice. To understand the reason for this, we must direct our attention to the other table, the table labeled "Socialism."

In fitting together the economic jigsaw puzzle, George took only two pieces from the Socialist table.

But what large and what strategic pieces they were! The first of these was his insistence that all persons come into the world with an equal right of access to the goods of nature. The second was his contention that the community has the right to take that which the community produces.

Actually, these pieces had landed on the Socialist table only by default. They had originally been part of the theory of Capitalism, as outlined by John Locke, The Physiocrats, and Adam Smith. But Capitalism in practice ignored them, and so became a distorted caricature. George's notion was to rescue these lost elements, and restore balance and proportion to the Capitalist table.

Now, if private property derives its moral justification from the right of a human being to the fruits of his or her own efforts, clearly the land and the other goods of nature do not fall into the category of private property because no human efforts created them. And the value that attaches to them is not the result of anything their title-holder does to them; it is the result of the presence and activity of the community around them. Someone can build a skyscraper in the desert and the ground upon which it stands will not be worth a penny more because of it, yet a city lot with nothing on it may be worth a fortune simply because of the number of people who pass by it daily.

Why, asked Henry George in effect, should private individuals be allowed to fatten upon the unearned increment of land—upon the rise in value which the community creates because of population increase and the growth of public services? Why should certain people be allowed to levy tribute upon others who desire access to their common heritage? But, you say, the present owner may have paid hard-earned money for his land. Has he not, therefore, a vested right? To this, George would have answered: If one unwittingly buys stolen goods, the rectitude of one's intentions establishes no right against the legitimate owner of those goods.

Henry George was not the first thinker to comprehend the difference between land and other kinds of property. John Locke said that "God gave the world in common to all mankind.... When the 'sacredness' of property is talked of, it should be remembered that any such sacredness does not belong in the same degree to landed property." William Blackstone wrote: "The earth, and all things therein, are the general property of all mankind, from the immediate gift of the Creator." Thomas Paine stated that "men did not make the earth.… It is the value of the improvements only, and not the earth itself, that is individual property." According to Thomas Jefferson, "the earth is given as a common stock for men to labor and live on."

John Stuart Mill wrote: "The increase in the value of land, arising as it does from the efforts of an entire community, should belong to the community and not to the individual who might hold title." Abraham Lincoln said: "The land, the earth God gave to man for his home, sustenance, and support, should never be the possession of any man, corporation, society, or unfriendly government, any more than the air or water, if as much." In the words of Herbert Spencer, "equity does not permit property in land.… The world is God's bequest to mankind. All men are joint heirs to it."

But it was Henry George who emphasized this distinction and placed it at the very center of his system. At present we have the ironic spectacle of the community penalizing the individual for his industry and initiative, and taking away from him a share of that which he produces; while at the same time lavishing upon the nonproducer undeserved windfalls which it—the community—produces. Henry George built his whole program around the principle: Let the individual keep all of that which he produces, and let the community keep all of that which it produces.

Land monopoly is the great monkey-wrench which is caught in the works of the free enterprise system, and which prevents the proper meshing of its gears; it is the hidden cancer that is eating out the heart of Capitalism. Early in this century, a great statesman described its virulent effects in the following words:

> While the land is what is called "ripening" for the unearned increment of its owner, the merchant going to his office and the artisan going to his work must detour or pay a fare to avoid it. The people lose their chance of using the land, the city and state lose the taxes which would have accrued if the natural development had taken place, and all the while the land monopolist has only to sit still and watch complacently his property multiplying in value, sometimes many fold, without either effort or contribution on his part.
>
> This evil process strikes at every form of industrial activity. The municipality, wishing for broader streets, better houses, more healthy, decent, scientifically planned towns, is made to pay more to get them in proportion as it has exerted itself to make past improvements. The

more it has improved the town, the more it will have to pay for any land it may now wish to acquire for further improvements.

The manufacturer proposing to start a new industry, proposing to erect a great factory offering employment to thousands of hands, is made to pay such a price for his land that the purchase price hangs around the neck of his whole business, hampering his competitive power in every market, clogging him far more than any foreign tariff in his export competition, and the land price strikes down through the profits of the manufacturer on to the wages of the workman.

No matter where you look or what examples you select, you will see that every form of enterprise, every step in material progress, is only undertaken after the land monopolist has skimmed the cream off for himself, and everywhere today the man or the public body that wishes to put land to its highest use is forced to pay a preliminary fine in land values to the man who is putting it to an inferior use, and in some cases to no use at all. All comes back to the land value, and its owner is able to levy toll upon all other forms of wealth and every form of industry.

Those were the words of Winston Churchill. And if you will examine the history of the major American depressions, you will find that every one of them was preceded by a period of intense land speculation which had an inflationary effect upon the whole economy. In 1836, in 1857, in 1873, in 1893, and in 1929—in every case the big crash was precipitated by the bursting of the land bubble.

The purely economic ramifications of land monopoly are so vast as to be staggering. Land monopoly does not affect rents alone. It affects wages, prices, production, the cost of government, and the distribution of purchasing power. It is the major cause of slums and blighted areas. It is the greatest single breeder of revolution around the world.

Had it not been for land monopoly, the Bolsheviks could never have gained power in Russia. Mao Tse-Tung and his so-called "agrarian reformers" (and I use that term advisedly) could never have wrested control of China. Fidel Castro would never have arisen in Cuba. Because of land monopoly, El Salvador has endured decades of murderous civil war. Because of land monopoly, the Amazon rain forest is being rapidly destroyed to make room for settlers who have been denied a foothold elsewhere except on terms that offer little better than starvation. These are just a few obvious examples, taken almost at random. Because of land monopoly, Latin America and the Middle East are veritable tinder boxes, ready to explode at any moment. We in the U.S. may not yet have reached that state, but we're moving in that direction. How much longer can we go on propping up a rotten structure by borrowing against the future?

Well, exactly how did George propose to deal with the problem of land monopoly? Did he advocate that privately held land should be expropriated and divided up? Quite the contrary. That remedy is as ultimately ineffective as it is ancient. There is more truth than fiction in the aphorism that the French Revolution delivered the peasants from the aristocrats only to hand them over to the usurers, and what was true of the peasants was equally true of the soil they tilled. Thus has it ever been with programs of expropriation and redistribution.

Under Henry George's system, private land titles would not be disturbed one iota. No one would be expropriated. Instead, the community would simply take something approaching the total annual economic rent of land for public purposes. This amount would be determined by the value of each site on the free market, not by any arbitrary governmental fiat. In other words, the privilege of monopolizing a site is a benefit received from society and for which society should be fully compensated; and so under the Georgist system, the person who wished to monopolize a site would pay a rent for it to the community, approaching 100 percent of its annual rental value, exclusive of improvements.

Let me emphasize that last phrase, "exclusive of improvements." The apartment house owner would pay the full value of his lot, and nothing on his building; the factory owner would pay the full value of his site, and nothing on his factory; the farmer would pay the full value of his ground, and nothing on his structures or his crop, his livestock or his machinery; the homeowner would pay the full value of his lot, and nothing on his house. if the land had no market value, the owner would pay nothing; if it had a value, he would pay regardless of whether he were using it or deriving income from it.

This would, of course, eliminate all speculative profit in landholding, squeeze the "speculative water" out of land prices, and in effect bring back the frontier by making cheap land readily available to everyone—at

least initially. The result would be to raise the margin of production, increase real wages, and stimulate building and productivity. Eventually, the flourishing economy would cause use value to exceed the former speculative value, but instead of being engrossed by those who make no contribution to the economy, land rent would flow into the public coffers in place of taxes levied upon labor and capital. The land-value charge is really what Walt Rybeck so aptly calls "a super user's fee." For the privilege of exclusive access to and disposition of a site and its natural resources, the owner pays an indemnity to those who are thereby dispossessed—an indemnity reflecting precisely the market value of his privilege, collected through the tax mechanism and relievin g them of the burden of payment for public services. What could be more fair?

Actually, I daresay that each one of you, probably without realizing it, frequently pays something that partakes of the principle of such a "super user's fee" whether you own land or not. Every time you put money in a parking meter, you are purchasing a temporary monopoly of the parking space. Don't ever complain about having to put money in a public parking meter; it's a bargain for you. You're getting a free gift from the community—the difference between what you pay and what a commercial parking lot in the vicinity would charge!

I have spoken of land monopoly, as a cancer, and so it is. Yet land often cannot be used efficiently unless monopolized. The Georgist remedy does not provide for the excision of land monopoly but rather for its transformation from malignant to benign. For the monopoly of land can be fair and even salutary if the monopolizer pays into the public treasury a sum that reflects substantially the market value of his privilege.

Perhaps this would be a good place to interject that when economists speak of "land", they are talking about nature. The term embraces not only space on the earth's surface but also natural resources—oil in the ground, virgin timber, wildlife, the oceans and other natural bodies of water, the airwaves, airspace, etc. To capture for the public the value of these natural goods, land-value charges may in some cases need to be supplanted by or combined with other methods such as severance taxes and auctioning of leases. But the principle is the same.

If time were not limited, I could talk at length about specific advantages of the Georgist system. I could go into the "canons of taxation," and show how it fulfills better than any other method these ideal criteria whereby economists measure the effectiveness of a system of public revenue. I could give concrete illustrations of how it is working right now in Denmark, in Australia, in New Zealand, in Taiwan, and even in some areas in the U.S.

This is not the idle pipe-dream of an armchair visionary. It has been tested by experience. Let me just cite the Hutchinson Report, a survey comparing the various Australian states in terms of the degree to which they use the Henry George approach. It found that wages, purchasing power, growth of industry, volume of retail sales, land under cultivation, value of improvements, and population gain through immigration from other states were in every case greater in direct ratio to the proportion of revenues derived from the public collection of ground rent. To me, this is the most conclusive argument anyone could ask for!

Of course, Henry George's proposal has nowhere been fully implemented. Even where it has been implemented substantially, its beneficial impact has invariably been blunted by countervailing policies, oftentimes at other levels of government. It is not a panacea. To be completely effective, it would need to be supplemented by other reforms, such as measures to assure a stable currency. But of it this much can be said: All other systems have been found wanting. This alone has worked whenever and wherever it has been tried to the extent that it has been tried. I submit that it is now deserving of actualization on a broader and more thoroughgoing scale.

Nobody, to my knowledge, advocates that it be instituted whole-hog overnight. But it could be phased in in easy stages so as to obviate the risk of shock and dislocation. And it is my considered opinion that, by the time the system were in full effect, the revenues produced by collecting land values alone would suffice to meet all legitimate public needs. This may not have been true during the Cold War, with its staggering burden of nuclear defense. But with that burden lifted, and with the need for welfare of all kinds evaporated because of the full employment and other social benefits that the system would naturally engender, and for other reasons, which time precludes my specifying here, I really think that we could dispense with taxes on incomes, improvements, sales, imports, and all the rest. If I am unduly optimistic in this belief, and the public appropriation of land-values were insufficient, this would be no argument against using it as far as it could go.

There are two things which a government can never

do and still be just: The first of these is to take for public purposes what rightfully belongs to private individuals or corporations. The second is to give to private individuals or corporations what rightfully belongs to the public. All wealth that is privately produced rightfully belongs to private individuals or corporations, and for the government to appropriate it is unjust. But land rent is publicly produced, and for the government to give it to private individuals or corporations is equally unjust. He who thinks himself prepared to justify in principle the private monopolization of land rent, must also be prepared to justify in principle the jobbery of the Tweed Ring and the looting of Teapot Dome—not to mention the escapades of Michael Milken, Ivan Boesky, and Charles Keating.

In closing, I will summarize with a quotation from the late Dr. Viggo Starke, for many years a member of the Danish cabinet: "What I produce is mine. All mine! What you produce is yours. All yours! But that which none of us produced, but which we all lend value to together, belongs by right to all of us in common." This, in a nutshell, is the philosophy of Henry George.

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