# A Critique of Henry George's Remedy to Poverty and Industrial Depressions

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## Land In The Marxian Frame

A manifest social injustice enshrined and sanctioned in Ricardo's system needed only to be approached from another angle in order to turn Ricardo's conservatism inside out into the most complete radicalism. Knowing this, Karl Marx made use of suggestions in William Godwin's *Social Justice* (1793), Charles Hall's *The Effects of Civilization in European States* (1805), and William Thompson's *Inquiry into the Principles of the Distribution of Wealth most Conducive to Human Happiness* (18--); for Godwin, Hall, and Thompson had all glimpsed, without stating it, the principle of surplus value which became the cornerstone of Karl Marx's system. His monumental treatise on *Capital*, first published in 1867, became the fundamental text of the new school of scientific socialism.

Marx was not the first to raise the embarrassing question which the economists had carefully avoided: "What is the source of capital and profit?" but he was the first to give a perfectly clear and definite answer. This can be stated very simply: the product of labor is sold for move than the cost of labor; the difference is known as surplus value. The individual laborer becomes enormously more productive under capitalist economy through the specialized division of labor and the use of machinery; he now produces much more than the cost of his subsistence, which is all that he receives back in wages; the rest -- surplus value - goes as profit to the employer. Industrial profit is therefore based upon the exploitation of labor. This is true, even though the manufacturing process requires the investment of a large amount of capital, for capital represents merely the accumulated profits of the past, that is, it is simply the product of earlier exploitation.

The mere recognition of surplus value would hardly be sufficient to clarify the matter; but here Marx introduced two additional doctrines. He held that the ever increasing concentration of capital was inevitable, but he saw the ultimate doom of the system of capitalistic production in the class struggle between labor and capital. The former results from the very nature of competition, which is a struggle for existence between producers, insuring, as in the biological world, the survival of the fittest -- the fittest, in economics, being the wealthiest or the most efficient, whether in the technique of production or in the strategy of business negotiation. Competitive capitalism would thus sooner or later develop into monopoly capitalism. Many members of the middle class would be forced down into the ranks of the workers; wages would fall lower and lower as the result of the existence of an increasing army of the unemployed always ready to furnish cheap labor; and destitution would become even more widespread.

Meanwhile, however, labor would have become class-conscious and aware of the exploitation involved in the very nature of the profit system. Hence as soon as it became sufficiently numerous to have the physical power, and sufficiently well organized to be able to use it, it would rise, take over the machinery of government by force and reorganize it, abolish all private ownership of the means of production, and inaugurate the cooperative society envisaged by socialism.

Marx was the first to make serious use of the historical method in economics, and in his recognition of the fact of exploitation and the tendency toward monopoly, he was far more realistic than the economists who had preceded him. Like them, however, his reasoning often tended to be *a priori* and deductive rather than inductive, and like them he sometimes failed to recognize the non-economic factors that enter into economics. He saw that labor's share of the national income tends constantly to decline relatively to the share of capital, but he did not see that its absolute increase in prosperous times, manifested by rising real wages, might be sufficient to prevent, or at least postpone, the widespread destitution he foresaw.

Furthermore, if there is a fundamental antagonism between labor and capital, inasmuch as it is to the interest of labor to have wages high and to that of capital to have them low, there is also a fundamental antagonism between agriculture and both labor and capital, inasmuch as it is to the interest of the former to have agricultural prices high and to that of the latter to have them low. The modern industrial situation has not conformed to the Marxian pattern of the two-ringed circus, but has usually been more like a three-ringed circus with a number of side shows added.

Marx did not closely examine the intricate problems of land relationships. But he expressed the view often enough that the monopoly of landed property, by excluding the producer -- the peasant -- from the soil, was really the whole basis of the development of the capitalistic system. The landlord, in his exploitation, followed much the same line as exploitation in other modes of production. But land rent was even less justified to Marx than capitalist profit. For the capitalist at least performed an active function in developing surplus value, while the landowner simply took the ground rent, created without his assistance. Land ownership did not create that portion of value transformed into surplus profit. It simply enabled the landlord to take the surplus profit out of the industrial capitalist's pocket and put it into his own.

## Certain Deviations

But things do not seem to have worked out invariably in that way. What has actually happened is that the industrial capitalist has simply succeeded in forcing the price of the landowner's products to a level insufficient, at least so far as the average farm owner is concerned, to buy a bare subsistence. The superior organization of industry, the comparative diffusion of agricultural land ownership, and the abundance of land have been chiefly responsible for this. The working owner's income has fallen below the wage level of the urban worker, pushing the wages of farm labor to a level even lower. Landlords, whether or not they operate their property themselves, are no longer "exploiters," for there is little left to exploit.

The oversupply of land and the consequent loss of bargaining power by its owners are new and unforeseen developments. In this competitive scheme, characterized by the hegemony of industry, land monopoly would be unprofitable even if it were possible, while the working farmer is frequently little more than a laborer with a title deed. As for the agricultural landlord, his rent is often insufficient to compensate him for the loss of fertility of his soil. Strange as it may seem, it is not unusual for him to shut his eyes to waste, live in the present alone, and be utterly unconcerned about future yield.

Monopolization of land is the last thing in the world any capitalist would attempt. Diffusion of land ownership appeals to the industrialist, for thereby the price of farm products is forced down, permitting the cheaper purchase of raw materials. Rent, to which Ricardo paid so much attention, is only of minor importance under the new dispensation.

Ricardo said that when land was most abundant, productive, and fertile, it yielded no rent. The rent yielded by such land in America has now almost reached that stage, but has been affected by one other factor; The advance of machinery and the surplus of agricultural workers created by industrial development increased production so much that the surpluses created ultimately forced agricultural prices and agricultural rents down to almost nominal levels. And urban rents have come to depend far less on differential site values than on financing, labor and material costs, intensity of use, and other factors.

## Economics in Two Dimensions

If the problems of land seemed interesting enough to Marx, yet curiously detached from the central theme of his thought, they seemed to the land reformers, who followed and elaborated the germinal thought of Quesnay, to occupy a position of commanding strategic importance. To them, with their different frame of reference and different origin of coordinates, the relations flowing from ownership and exploitation of land seemed fundamental.

Much of their thought today appears unrealistic and sentimental. We live in a world they could only dimly envisage. Not the slow, inevitable change of the seasons, the age-old progression from sowing to harvesting, is dominant in us today, but the sharp staccato rhythms of industry, implacably insistent, rule imperious and unquestioned -- and all our wistful dreaming cannot restore that other world, in which they lived and moved, and which necessarily conditioned the pattern of their thought.

Although the industrial system was well under way, the world of the land reformers was still predominantly agricultural and predominantly individualistic. The city was still the tributary of the vast rural plains that formed the backbone of the nation. The volume of stock holdings and other personal property was still relatively small all over the world. Land was still the dominant form of wealth. In many countries, its ownership was concentrated, and that concentration appeared to be steadily increasing. Numerous striking instances of injustice, of hardship, and of windfall profits in land appealed to the imagination rather than to calm, sober analysis. They served to mask the fundamental underlying trends of Society, and to conceal the true direction in which the young industrial economy of the Western world was moving. In this way they led to what, in retrospect, we now recognize as erroneous conclusions.

The concentration of landed wealth which faced these earlier economists was a concentration whose outward symbol was the manor house and the, "no trespass" sign. It was an unyielding and indolent ownership which stubbornly resisted change and maintained the attitude that what was should continue to be. Opposed to this was the expansive force of industry. Concentration of ownership here appeared in essence dynamic; the size of operating units would necessarily tend to increase, since up to a certain limit production costs would drop in proportion; and the physical volume of production might increase manifold, to the general good of all. And these early economists saw, opposed to the expansive force of industrial capital, opposed to the vast tide of physical and cultural improvement due to this new mode of production, the landowner, in the growing city, in the factory suburb, or on his broad acres in the pleasant English countryside. They saw him sharing in this new stream of wealth produced by industry -- sharing passively, but none the less lavishly, by the sole reason of his ownership.

Business was still a personal matter, operated or actively supervised by those who expected to take the profits or Bear the losses. The position of the landowner seemed untenable to those who sought to contrive a theoretical foundation for the accomplishments of the rising business order. For the landowner, through no positive merit or of his own, yet asserted a prior claim upon the wealth produced by the activity of entrepreneurs, by the willingness of capitalists to take risks, by the physical work of laborers; and the landowner's position was obviously exposed to serious ethical questioning -- the more so since most of the real property in Europe had been acquired by inheritance and not by purchase. From Ricardo, attacking the agrarian tariffs as unjust enrichment of the land-owning class, as silly and futile attempts to set the clock back, through Mill and Spencer, denying all right of private property per se in land, without advocating confiscation of rights already vested, to Henry George, denouncing all rent as medieval and unjust, a millstone around the neck of progress -- was an ordered and inevitable progression.

## A Question of Emphasis

To the land reformers, land rent was the alpha and omega of all tragedy, all injustice and suffering and wrong.

This view of land was oversimplification with a vengeance. It was like selecting any point on the circumference of a circle, and saying that every other point was a consequence of it. Or like taking one indispensable part of a machine and saying that that was what made the machine go.

Their most prominent representative, of course, was Henry George. With the theories of the noted economist John Stuart Mill as a back ground, he developed the arguments for the single tax -- easily the most controversial of all subjects in the mid-Victorian and late-Victorian periods, since socialism had not yet become entirely respectable. Confronted with the privileged position of the British landlords, Mill had drawn mildly radical conclusions from Ricardo's theory of the continual rise of rent. While strongly opposed to any more intervention of the government in the economic sphere than was strictly necessary, he made an exception in the case of land, the rent-profits from which, he held, might suitably be made a special object of taxation.

Mill had said:

Suppose that there is a kind of income which constantly tends to increase, without any exertion or sacrifice on the part of the owners: those owners constituting a class in the community, whom the natural course of things progressively enriches, consistently with complete passiveness on their own part. In such a case it would be no violation of the principles on which private property is grounded, if the state should appropriate this increase of wealth, or part of it, as it arises. This would not properly be taking anything from anybody; it would merely be applying an accession of wealth, created by circumstances, to the benefit of society, instead of allowing it to become-an unearned appendage to the riches of a particular class.

Now this is actually the case with rent. The ordinary progress of a society which increases in wealth, is at all times tending to augment the incomes of landlords; to give them both a greater amount and a greater proportion of the wealth of the community, independently of any trouble or outlay incurred by themselves. . . .

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 landlords 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. With reference to such a tax, perhaps a safer criterion than either a rise of rents or a rise of the price of corn, would be a general rise in the price of land. It would be easy to keep the tax within the amount which would reduce the market-value of land below the original valuation: and up to that point, whatever the amount of the tax might be, no injustice would be done to the proprietors.[1]

In this suggestion of a "special tax" lay the germ of Henry George's more drastic theory of the "single tax."

Henry George's famous *Progress and Poverty* shows no familiarity with Marx's work, which was still almost entirely neglected in America. In 1879, when the first edition of *Progress and Poverty* was published, *Das Kapital* had not yet been translated into English, though in the original German it had been current for some twelve years.[2] Instead, George went back, like Spencer and Mill, and for that matter, like Marx himself, to Ricardo. In the monopolistic character of land rent he found the sole cause of the hideous anomaly that increasing progress seemed to mean increasing poverty. Not only land rent, he held, was determined by the difference between the value of the richest land and that on the margin of cultivation; the same factor determined interest and wages.

"The general rate of interest," George argued, "will be determined by the return to capital upon the poorest land to which capital is freely applied -- that is to say, upon the best land open to it without the payment of rent."[3] Similarly, "wages depend upon the margin of production, or upon the produce which labor can obtain at the highest point pf natural productiveness open to it without the payment of rent."[4] Thus only could be explained the fact, made much of by George, that interest and wages rise and fall together. Labor is not exploited by capital, but both the laborer and the capitalist are exploited by the landlord.

Ricardo had asserted that land rent continually increases and it did not occur to George to question the truth of this thesis, or to examine how far such a tendency, if it really existed, was significant. Taking it at its face value, he deduced that there was an inevitable tendency to speculate on future profits, so that land values periodically rise to a point where capital cannot continue to be profitably invested; and the consequent withdrawal of capital upsets industry after industry and brings unemplbyment in its train. The whole economic scheme becomes disorganized, and we have recurrent crises, each of which endures until land values fair temporarily to a point where capital will be induced to reinvest and the old process will begin all over again.

Henry George's remedy was simple; by shifting all taxation to land alone, land values would be depressed until private ownership would cease to be profitable and the land would revert to the public, to whom it properly belongs. There would be no injustice in this, since, as George pertinently remarked, the mere fact of ownership does not increase production one whit, and the landlord's profit is derived from an "unearned increment" which he does not bring about and to which he has no moral claim.

Henry George's eyes were fixed upon the past, which supplied the data on which all his logical deductions were based. But at the very time when he was writing, land was beginning to lose the privileged position he assigned to it, and henceforth, land values would become more and more dependent upon industry instead of the reverse. George did not foresee, as Marx did, the rise of monopoly capitalism; and he was curiously tender toward capitalist ownership, justifying interest on the ground that it represented "the reproductive forces of nature, such as the natural growth in vegetable and animal life."

He apprehended keenly the vivid contrast between landowner and producer; he saw the dead hand exacting tribute from the living world, from industry and commerce and peasant alike. He saw that this indeed was inequity, but he did not see that the dead hand of rent was only one element in an infinitely vaster complex of vested rights. Debtor and creditor, exploiter and exploited, these relationships were for him included in or synonymous with the great fundamental concept of landlord and tenant. From that it was only a step to say that if wages were increased, rents would increase *pari passu*. From that it was only a step to say that all inequalities, all injustice, all exploitation came from rent and would vanish with the social appropriation of rent. Confucius had moralized about the essential goodness of all men at birth. George, with the Spencerian background, with the ethical approach, had generalized from the equality and the economic expansion of a new country to the thesis, like Confucius, that all men were good. Maladjustment, he thought, came from one screw in the social mechanism. Align that, appropriate rent, and all the other delicately balanced cams and gears of an organism essentially analogous to a man-made machine would, henceforth function in orderly and harmonious rapport.

In a word, with Henry George moral indignation took the place of objective scientific analysis; he felt that he had laid his ringer upon the ultimate root of all the evils in the system when he condemned as unjust enrichment one form alone of the obstructive vested rights taking toll, like the robber barons of old, of wealth they had not actively helped to produce. It was far too obvious a solution; but his individualism would not permit him to see that there were other basic evils, of which rent was only a special case. Granted the full validity of his case against unearned increment; granted the complete flawlessness of his attacks on rent as usurpation by fortuitous private landowners of what rightfully was the common property, belonging to the entire people; granted all this, it still was a *non sequitur* that all oppression would end with the appropriation by society of only a single element of economic oppression. The demand for the abolition of rent was an emotional response, unsupported by more than sketchy statistical analysis, and conditioned primarily by an unwavering emotional allegiance to the tenets of individualism and of business enterprise. It was perhaps the only response possible, aside from an apologetic attitude which would do violence to the profoundest instincts of logic and common sense; but it was, nevertheless, still an evasion.

## Poet and Prophet

To link together Henry George and Karl Marx has, in latter times, come to be another evasion not very dissimilar. The implication that Marx, too, was merely "another reformer," another theorist who from the intricacies of Hegelian metaphysics forged a tool of economic analysis trenchant, yet essentially one-sided -- the innuendo, as a matter of emotional color, rather than the explicit and easily refutable categorical statement -- this has been a popular way of prefacing discussions of past trends in social thought, and an easy way of dismissing Marx in a few colorless I sentences.

Marx, too, was limited and conditioned by the age in which he lived. He was limited above all by the poverty of the statistical equipment and methods of analysis then current. But it would indeed be a willful perversion to attempt to maintain the thesis that, like George, he abstracted, he simplified, he, too, singled out one and only one element of the system for condemnation as the root of all evil.

He envisioned not reform but transfiguration. He saw a new heaven and a new earth, but he knew, as a social scientist, that it would come in its appointed time. He was no evangelist. Henry George, was.

## These Later Years

Subsequent economic theory need not detain us. The final form of orthodox political economy, the system of "marginal utility" based upon the margin of demand, was as deductive as other economic systems.

An entirely new approach was at last initiated by the American economist, Thorstein Veblen, who developed a brilliant and novel analytical technique and applied it to the current patterns of social, financial, and technical organization. Among his numerous studies, he brought out the hitherto neglected role of the inventor and technical expert, whom he considered more responsible for the increase of production than the owners of capital, who, as he showed, are frequently engaged in limiting, or, in his own language, "sabotaging" production in the interest of higher prices and larger profits. The American institutionalist direction in economics, of which Veblen was the most striking representative, has gone on to trace the agency of institutions, thus abandoning, to a certain extent, the older point of view as to the relative immutability of the natural laws of economics, the validity of which is now perceived to depend on the existence of ideal conditions of unrestricted competition. Today the free functioning of these laws is checked on every hand by all kinds of newly organized institutions representing labor, capital, or that greatest of all institutions, the government. It was no accident that with the advent of the Roosevelt administration in 1933 a prominent part was taken by representatives of this direction -- among others, Moley, Tugwell, and Berle -- in formulating the policies of the New Deal.

## Disappointment

But the institutionalists have advanced no new theory of land. With regard to our special subject, the study of economic theory, orthodox and unorthodox, ends in disappointment. One has learned much about prices and profits and wages, but no special application of all this to land has been made. The speculations of Mill, Spencer, and George indicated a vague recognition of the fact that land was following a separate course from industry, but they failed to realize the true nature of this course or that it was really determined not by the nature of land but by the nature of industry itself. Since Henry George there has, in fact, been little serious fundamental theorizing on land economics, though much invaluable work has been done on zoning, housing, conservation, and other practical applications.

If in the end we conclude that the nationalization of land is probably approaching, the outlook must arouse a certain sardonic amusement when we see that this policy, advocated by Henry George because of the excess profits from land, is likely to be adopted for the opposite reason that land today yields excess losses.