

Davenport: "Single Taxer of the Looser Observance"

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I

Herbert Joseph Davenport (1861-1931) was a prominent, early twentieth-century American economist whose contributions to economic analysis include a sophisticated opportunity-cost theory and a series of lucid presentations of marginal-utility theory.¹ Something of an iconoclast, he criticized many of his fellow economists and befriended his former teacher Thorstein Veblen at a time when most economists had lost interest in Veblen's theatrical personality and sweeping denunciations of economic principles.² In addition to these accomplishments, Davenport is cited by George R. Geiger in his important book *The Philosophy of Henry George*, as a major critic of George's theory of capital. Geiger argues that the "classical" distinction between land and capital was "a crucial one for George's economic system," and that "Professor Davenport was perhaps the most characteristic critic of this type of distinction."³ But following these forthright assertions about George's system and Davenport's criticism of it, Geiger equivocates and severely qualifies his initial declaration that Davenport was "perhaps the most characteristic critic." His qualification is that Davenport's criticism is mentioned "not because his interpretation of economics—one which repudiates the classical attempts to make the science primarily a logical or ethical discipline and which instead stresses a strictly 'cost' approach—is felt to be necessarily representative of modern economic theory, but simply because of his decisive treatment of this particular [*capital theory*] problem."⁴ Geiger has introduced a contradiction with his "most characteristic critic" description followed by his denial that Davenport's ideas are necessarily representative of modern economic theory, and this contradiction is present throughout Geiger's discussion of Davenport's views. Geiger offers no explicit clues as to why he decided to circumscribe the relevance of Davenport's views, but it is clear that by his equivocation he severs those views from any role that they might have played as representative of how then contemporary economic theorists viewed George's ideas.⁵ As we shall see in the ensuing discussion of

Davenport's criticisms, Geiger's equivocation was as unnecessary as his basic point is incorrect; that is, Davenport's views on capital theory were very representative of contemporary economic theory, particularly as it was presented by Irving Fisher, and Davenport's capital theory was not a criticism of George's.

Geiger's view that Davenport was a critic of George's theoretical soundness is not absolute, because in a footnote he recognizes that Davenport favored a policy of land-rent taxation, and he correctly paraphrases Davenport's suggestion that "economists have been wrong in looking upon the single tax as a fad or hobby offering no practical discussion possibilities."⁶ Even stronger recognition of Davenport's positive view of George's theoretical soundness is offered by Geiger's quotation in the same footnote of Davenport's explicit statement that "the economists have never seriously attacked the theoretical validity of the single tax program." In another footnote, Geiger cites Davenport's inclusion of himself (in the concluding paragraph of his *American Economic Review* essay, "Theoretical Issues in the Single Tax") among the "single taxers of the looser observance."⁷ However, Geiger never reconciles Davenport's clear defense of the theoretical legitimacy of land-rent taxation, cited in these footnotes, with Geiger's own textual claim that Davenport is a major negative critic of George's theoretical structure. This contradiction between the main theme of Geiger's textual discussion of Davenport and the substance of the footnotes provides further evidence of Geiger's equivocal treatment of Davenport as a critic of George's theoretical soundness.

In addition to assessing the implications of Davenport's alleged criticisms of George's capital theory, we shall also examine Davenport's criticisms of land-rent-taxation proposals. Davenport expressed much sympathy with the basic principle of taxing land rents, declaring that "the truth is with the single-taxers in principle but not in method."⁸ The "method" to which he particularly objected was the taxation of rents already accrued at the moment of the adoption of a land-rent tax program. He argued that those economic decision makers who enjoyed the gains from past increases in economic rents should not be deprived of those fortuitous increases.

Finally, it is necessary to examine two fundamental elements of the economic ideas of George and Davenport, opportunity cost and economic methodology, in order to see that there are compelling similarities between their ideas, leading to the implication that, to the extent that Davenport was a sound economist, George was also.

Geiger's discussion of Davenport is the sole basis in the literature for the claim that Davenport was a negative critic of George's theory. Geiger was simply wrong, and a suitable explanation for his error cannot be reconstructed from the textual evidence. We may hypothesize several speculations: that Geiger, a philosopher and not an economist, simply misread what Davenport and George wrote; that Geiger did not intend to introduce equivocations and contradictions, and they were simply missed in the editorial process; and that Geiger had an ax to hone, and Davenport's ideas provided a convenient rough edge against which he could sharpen his own preconceived ideas. These and other speculations must remain unresolved because it is not the present concern to engage in a historiographical reconstruction of Geiger's motives. In

fact, the issue of whether Geiger's error is the result of deliberate intent or whether it was purely accidental is irrelevant to assessment of the contents of Davenport's ideas as they relate to Henry George. But Geiger's error (that Davenport was a negative critic of George's theoretical soundness) is relevant in a broader context, the issue of whether Henry George was a competent economist. Since Geiger's book (in the main an able and valuable study) is basically a defense of George's thought, the implications of this error tend to vitiate the work's essential thrust, and, were he aware of them, could not fail to be distressful to its author.

Geiger's initial identification of Davenport as a theoretical critic of George establishes a perspective in which George's conceptual foundations are viewed as being in conflict with the ideas of prominent economists. Geiger states that George's distinction between land and capital "has been severely attacked by more recent economic critics," and then he goes on to identify Davenport as the "most characteristic" of these severe critics.⁹ Geiger's presentation is symptomatic of a major presupposition that underlies much of the literature that presents George's ideas—the preconceived, untested notion that George's ideas stand on one side of the issues he addresses and that the ideas of respected economists stand on the opposite side. Geiger to the contrary, Davenport was not a critic of George's economics. Davenport's and George's concepts of capital are different but compatible because they addressed different analytical needs, Davenport's the capital budgeting (optimal investment decision) problem and George's the theory of production and distribution. Extending beyond Geiger's presentation, Davenport did object to the retroactive taxation of accrued land rents, but this is an objection grounded in normative differences about what "ought" to be, not in positive differences based on theory about what "is." There is no basis here for arguing that Davenport was a negative critic of George's economics, because different policy prescriptions based on different value judgments are perfectly consistent with simultaneous agreements about the objective analytical facts. Finally, in two major conceptual areas Davenport and George were in agreement (opportunity cost and methodology), and this provides a far more substantial basis for arguing that Davenport and George shared similar analytical conceptions than Geiger's error does for arguing that Davenport and George were conceptually opposed. Geiger's error is unimportant in and of itself, but when related to the larger issue of whether George's ideas are outside the framework of accepted economic analysis, it deserves to be exposed. Such an exposure cannot prove that George was a good economist, but it can prevent false proof from being tendered that he was not.

II

It is in chapter 3, "George's Economic Solution," that Geiger presents what he interprets as the differences between Davenport and George: Davenport "broadly" defines capital as "all durable and objective sources of valuable private income," while George "narrowly" defines capital as "wealth used in the production of more wealth." In Geiger's view these definitions are radically different, with Davenport's representing "the continual shift away from the classical separation between land and capital. . . which is becoming

more and more a characteristic element of present-day theory," and with George's representing the traditional classical position stated in the works of Adam Smith, David Ricardo, and John Stuart Mill. In order to assess Geiger's interpretation of the conflict between these concepts of capital, we must simultaneously address several related issues. First, is Geiger correct that these concepts of capital conflict? Second, what does George's definition mean in terms of his analytical approach? Third, what does Davenport's definition mean in terms of his analytical approach?

Geiger is incorrect that Davenport's view of capital is a criticism of or is in conflict with George's view of capital. Geiger fails to recognize that Davenport's concept of capital is intended for a different analytical purpose from George's, and that different definitions of capital are appropriate to different analytical contexts. Davenport's concern with capital is in terms of what is currently called the capital budgeting problem, or alternatively, the problem of optimal investment decisions.¹⁰ This modern capital budgeting theory relies heavily on Irving Fisher's seminal analyses of capital theory, where consumption is viewed as the final aim of economic activity.¹¹ Davenport was well aware of Fisher's work, and he footnotes his discussion of the theory of capital and interest in *Value and Distribution* (1908) with the comment that "Professor Irving Fisher's admirable treatise upon *The Rate of Interest* appears as the present work is passing through the press." The footnote then continues over six pages of close type, taking up nearly all of the pages with a careful exposition of the basic elements of Fisher's capital and interest theories. Based on the Fisherian view, the balancing of consumption opportunities over time becomes the central economic allocation problem and it is broadly conceived as encompassing all rational economic choice.¹² The time element is a critical feature of this balancing process because it means that rational economic decision-making revolves around choices to consume income now or to abstain from consumption now and to wait to consume income in the future. Capital is then defined as current income that is not consumed but is "invested" to provide for consumption in the future, or in Hirshleifer's elegant phrasing, "capital is the present embodiment of future-dated consumption goods."¹³ This view of capital emphasizes what economists call "capital value," and it is this capital value, the present market value of future income streams, that solutions to the capital budgeting problem are intended to maximize over time.

Davenport's definition of capital cited by Geiger, "all durable and objective sources of valuable private income," is in fact a definition of "real capital" or "capital goods" that is consistent with the Fisherian view of capital, shared by Davenport, which identifies capital as the present embodiment of future-dated consumption goods. The durable and objective capital goods provide the sources of the income streams that are allocated over time to maximize consumption over time. The source of these income streams is irrelevant to the capital budgeting (optimal investment) decision; what is important is that these income streams exist. Geiger's emphasis on Davenport's definition of capital goods is used to demonstrate that Davenport would include land in the definition of capital goods, and Geiger is correct. But Geiger's implication is that the inclusion of land in the category of capital goods is evidence of an attack on the traditional distinction between land and capital, and this

implication is incorrect. Land was included in the category of capital goods because it yields an income stream that can be allocated over time, and this allocation process is what Davenport was interested in describing and analyzing. Davenport does not deny that land has unique physical properties and that it can earn rents that are payments in excess of opportunity costs, but he does deny that these features of land are relevant to the decisions regarding the maximization of consumption opportunities over time. Maximizing consumption over time through the allocation of various income streams is not influenced by the sources of the income streams.

Geiger never realizes in his narrative that Davenport's definition of capital goods refers to sources of income, while Davenport's concept of capital refers to capital values that can be allocated over time to maximize consumption opportunities. As Davenport explains, "The value of any instrument of production is the present worth of all the future income attributed to it," and this value is the capital value to which the sources of income streams are irrelevant.¹⁴ These income streams can come from land, machinery, buildings, inventories of goods and services, and all things that can be "traded in, or valued, or rented, or capitalized."¹⁵ In fact, Davenport's list of durable and objective capital goods includes items that are durable and objective only in the sense that they can provide allocatable income streams over time: they are durable in the sense that they persist across alternative time periods, and they are objective in the sense that they provide allocatable income streams. Some of these less obvious capital goods besides land, buildings, machinery, and inventories are "patents, copyrights, trade-marks, business connections, reputation, good-will, privilege, government favor, franchises, royalties, rights of toll and tribute, rents, annuities, mortgage rights, personal claims; and further it includes monopolies of no matter how various kinds and degrees, so far as they may become the subject of invested cost in obtaining them, so far as they are bought and sold as steps in competitive-productive investment, or are vendible upon the market as capitalized dividend-paying properties."¹⁶ All of these capital goods are legitimate objects of capital budgeting (optimal investment) decisions, and Davenport makes this quite clear in his description of the capital budgeting process. "Actual business computations of the expenses of production include a wide range of expenditures made out of what, in the individual reckoning, stands as the total business investment, and functions in the terminology and reckoning of the business world as business capital. . . . The manufacturing entrepreneur or the corporation manager would find it a novel and perplexing doctrine which should restrict the capital investment to the buildings, machinery and raw materials of the undertaking; the corporation really possesses nothing that is not capital."¹⁷

Davenport's presentation of a Fisherian view of capital is not necessarily inconsistent with George's narrower view of capital as produced means of production. In the Fisherian sense, capital is anything that yields valuable services over time, and in such a circumstance "the theory of capital becomes a theory of general economic growth."¹⁸ *Capital* simply becomes a general term denoting consumption that is put off until a later time period, and the rate of interest is the exchange rate between present and future-dated consumption. Such an approach permits various solutions to the problems of intertemporal

choice and the maximization of consumption over time, but if one is interested in a different problem, such as the problem of substitution in production and distribution, then a different concept of capital might not be inappropriate. These latter words are carefully chosen, because my argument is not that the Fisherian theory of capital is incapable of yielding answers to the issues surrounding production and distribution theory (primarily substitutability among productive resources)—in fact, this broad conception of capital can be used to provide such answers; instead, my argument is that George's conception of capital is not incapable of yielding these answers either. Thus the broad Fisherian capital concept advanced by Davenport has multiple analytical applications because it is so broad, while the narrower, produced-means-of-production concept advanced by George has fewer applications, but those to which it is relevant are just as legitimate as the Fisherian applications. There is no necessary conflict between the theories of capital advanced by Davenport and George, and Geiger's perception of conflict is mistaken.

As a final note on this capital theory issue, we should recognize that George did work through a rudimentary marginal productivity theory of production and distribution, and it is to this theory that the produced-means-of-production concept of capital is relevant. Although it is possible to develop a marginal productivity theory without the distinctions between land, labor, and capital that are present in George's analysis, it is also possible to develop such a theory with them, and this is what George did in a preliminary way. The critical requirement for a theory of marginal productivity is the recognition of the substitutability condition among resources in production, and George recognizes the necessity of substitutability at the margin.¹⁹

III

In two articles dealing with single-tax proposals, Davenport does provide some evidence that he is a "critic" of Henry George, but a critic of specific policy applications of land taxation, and not a critic of George's theoretical soundness.²⁰ Although George is not mentioned explicitly, Davenport objects to all single taxers who would tax both the existing accrued rents and the future increments of rent. He advocates only the taxation of the future increments, arguing that the taxation of previously accrued rents constitutes "a program which shall impose on any casual present owner of original natural bounty the penalty for a general and institutional blunder."²¹ This objection is not a quarrel with the idea of the single tax on theoretical grounds; instead, it is a normative objection based on differing ethical standards. Davenport makes this clear when he declares that the "truth is with the single-taxers in principle but not in method," and that "it may be said with approximate accuracy that the economists have never seriously attacked the theoretical validity of the single tax program."²² Davenport's strong normative views are well summarized by his rhetorical claim that "surely wholesale confiscation of existing land values is wholesale robbery."²³ In this, Davenport's rhetoric sounds similar to George's, although the objects of their rhetoric are different. To George it was robbery to permit landowners to retain the rights to accrued rents, just as surely as it was robbery to permit them to accumulate future rental increments. George rhetorically asks, "Why should we hesitate about

making short work of such a system [of land rent]? Because I was robbed yesterday, and the day before, and the day before that, is it any reason that I should suffer myself to be robbed today and tomorrow? Any reason that I should conclude that the robber has acquired a vested right to rob me?"²⁴

Although this difference in normative value judgments between Davenport and George provides evidence of a legitimate context in which Davenport is a negative critic, it is hardly the sense in which Geiger views Davenport as a critic. Differences in value judgments may exist between individuals who share identical scientific analytical conceptions, and the existence of such differences cannot be accepted as evidence that the individuals differ concerning their basic theoretical approaches to issues.

IV

Thus far I have rejected Geiger's claim that Davenport's advocacy of a Fisherian capital theory constituted a criticism of George's analytical soundness, and I have acknowledged that Davenport and George differed with respect to the value judgments attached to the taxation of accrued rental values. Although neither of these discussions leads to the conclusion that Davenport and George were at odds on basic economic principles, they also fail to provide any strong evidence that they shared any fundamental conceptual ground. To provide some evidence of conceptual similarities, let us briefly examine what each man had to say about two central elements of economic reasoning, the idea of opportunity cost and the methodology of economics.

Davenport is widely recognized as a major contributor to the notion of opportunity cost.²⁵ In fact, Davenport's contribution was quite sophisticated in that it went beyond the traditional concept of the predictive theory of opportunity cost and explored the concept of choice-influencing subjectivist cost. The traditional predictive theory views costs as quantifiable values that can be determined following the act of choice, while the choice-influencing subjectivist theory views costs as subjective constraints existing in the mind of a decision-maker prior to the act of choice and determining the direction of choice.

Davenport emphasized "entrepreneur's cost," which characterized cost as a "margin determinant" purely within the personal aspects of entrepreneurship, "a managerial fact, a subjective phenomenon, in which all the influences bearing upon the psychology of choice between different occupations or between occupation and leisure have their place."²⁶ Davenport's basis for the psychology of choice is "the psychological law valid for all human activity: men follow the line of least sacrifice."²⁷ This sounds remarkably similar to George's "fundamental law of political economy" that "men always seek to gratify their desires with the least exertion."²⁸ Although George's presentations of opportunity cost are clearly in the traditional mold, based on measurable values sacrificed after the act of choice, there is an element of subjective choice implied in the examples he gives to illustrate the idea. George's image of the marginal workers seems to rely on an implied subjective choice context, where these decision-makers are evaluating their opportunities before the act of choice and basing their decision on their

attempts to "gratify their desires with the least exertion." As George describes the framework of opportunity cost,

It is, indeed, evident from observation, as it must be from theory, that whatever be the circumstances which produce the differences of wages in different occupations, and although they frequently vary in relation to each other, producing, as between time and time, and place and place, greater or less relative differences, yet the rate of wages in one occupation is always dependent on the rate in another. . . . Thus, on the verge of each occupation, stand those to whom the inducements between one occupation and another are so nicely balanced that the slightest change is sufficient to determine their labor in one direction or another.²⁹

These marginal decision-makers "on the verge of each occupation" seem to be engaging in subjective evaluations of the costs to themselves of remaining in their present occupation compared to changing to another occupation. While I am not trying to suggest that George's concept of opportunity cost included the same awareness of the distinction between choice-influenced objective costs and choice-influencing subjective costs that is explicitly developed by Davenport, it is accurate to suggest that the basic notion of choice-influenced opportunity cost is present in George's ideas along with a hint of the subjectivist element. Davenport and George are discussing the same ideas with similar conceptual language, and in this respect there is common conceptual ground upon which their ideas rest.

George's methodology emphasizes that the nature of economics is as a positive science as opposed to a normative science, and he advises that in commencing to study economics (political economy) we should consider "the nature and scope of political economy."³⁰ This is a similar admonition to the one offered by John Neville Keynes in his classic consideration of the character of economic methodology, *The Scope and Method of Political Economy* (1890). In Friedman's equally classic article on "The Methodology of Positive Economics," Keynes is quoted with regard to the methodology issue, where he identifies a positive science as "a body of systematized knowledge concerning what is; a normative or regulative science" as a body of systematized knowledge concerning what ought to be, and an art as "a system of rules for the attainment of a given end."³¹ These characterizations are quite similar to those offered by George with respect to the methodology issue.

There is found among economic writers much dispute not only as to the proper method of political economy, but also as to whether it should be spoken of as a science or as an art. There are some who have styled it a science, and some who have styled it an art, and some who speak of it as both science and art. Others again make substantially the same division, into abstract or theoretical or speculative political economy, on the one side, and concrete or normative or regulative or applied political economy on the other side.³²

George leaves no doubt about his views of the proper method of political economy.

Into this matter, however, it is hardly worth while for us to enter at any length, since the reasons for considering a proper political economy as a science rather than an art have already been given. It is only necessary to observe that where systematized knowledge may be distinguished, as it sometimes is, into two branches, science and art, the proper distinction between them is that the one relates to what we call laws of nature; the other to the manner in which we may avail ourselves to these natural laws to attain desired ends.

Thus, consistent with Keynes's admonition of 1890 and Friedman's contemporary version of it, George advises us that the methodology of economics involves the determination of laws that describe "what is," that is, economics is a positive science. Davenport also sought to rid economic theory of any dependence on ethical value judgments, and the entire character of his major works is infused with the attempt to make economics as value-free as possible. In this, George and Davenport are alike, and their methodological approaches are consistent with the standard approach in the economic literature as represented by Keynes and Friedman.³³

V

Herbert Joseph Davenport turns out not to be a theoretical critic of Henry George at all. Contrary to George R. Geiger's claim with respect to their different conceptions of capital, Davenport's Fisherian capital theory is not necessarily antagonistic to George's more traditional, produced-means-of-production concept. The two articles in which Davenport does disagree with George are evidence of differing normative value judgments between them, not of opposing theoretical structures. Their thoughts on opportunity costs and economic methodology reveal fundamental similarities. Geiger's error concerning their capital theories is relatively unimportant when taken in isolation from wider implications. The danger is that if it is permitted to stand uncorrected, it could lend unwarranted support to the mistaken impression that George's contribution is somehow outside the accepted boundaries of economic theory.

Notes

1. Davenport's major ideas are presented in *The Economics of Enterprise* (New York: Macmillan, 1913), and *Value and Distribution* (Chicago: University of Chicago, 1908).
2. Philip Charles Newman, *The Development of Economic Thought* (New York: Prentice-Hall, 1952), and Joseph Dorfman, *The Economic Mind in American Civilization, 1865-1918* (New York: Viking Press, 1949).
3. George R. Geiger, *The Philosophy of Henry George* (New York: Macmillan, 1933), pp. 99-100.
4. *Ibid.*, pp. 100-101.
5. A purely speculative explanation might be that Geiger, a philosopher and not an economist, did not regard his own assessments of economic theory as definitive, and he was not willing to commit himself to an unequivocal declaration that Davenport was a mainstream representative of economic theory. In fact, such a commitment was fully justified by Davenport's contributions.

Another speculative explanation is that Geiger wanted to use Davenport's material as a straw-man basis for his own ideas.

6. Geiger, *Philosophy of Henry George*, p. 105 n.
7. *Ibid.*, p. 157 n.
8. Herbert J. Davenport, "The Single Tax in the English Budget," *Quarterly Journal of Economics* 24 (1910): 6.
9. Geiger, *Philosophy of Henry George*, p. 100.
10. Jack Hirshleifer, "On the Theory of the Optimal Investment Decision," *Journal of Political Economy* (August 1958).
11. Irving Fisher, *The Theory of Interest* (New York: Macmillan, 1930), and *The Rate of Interest* (New York: Macmillan, 1907).
12. George J. Stigler, *The Theory of Price*, 3d ed. (New York: Macmillan, 1966), p. 286.
13. Jack Hirshleifer, *Investment, Interest and Capital* (Englewood Cliffs, N.J.: Prentice-Hall, 1970), pp. v-vi.
14. Davenport, *Value and Distribution*, p. 242.
15. *Ibid.*, p. 152.
16. *Ibid.*, pp. 152-55.
17. *Ibid.*, p. 148.
18. Stigler, *Theory of Price*, pp. 275-86.
19. Henry George, *Progress and Poverty*, 75th anniversary ed. (New York: Robert Schalkenbach Foundation, 1954), pp. 168-72.
20. Herbert J. Davenport, "The Single Tax in the English Budget," and "Theoretical Issues in the Single Tax," *American Economic Review* 7 (1917). Davenport especially focused his policy criticism on ad valorem land taxation, which he viewed as destructive of individual investment incentives and as contrary to his conception of ethical justice.
21. Davenport, "Theoretical Issues in the Single Tax," p. 2.
22. Davenport, "The Single Tax in the English Budget," p. 279.
23. *Ibid.*, p. 287.
24. George, *Progress and Poverty*, p. 365.
25. Edmund Whittaker, *A History of Economic Ideas* (New York: Longmans, 1940), p. 456.
26. Davenport, *Value and Distribution*, p. 273.
27. Davenport, *The Economics of Enterprise*, pp. 59-61.
28. George, *The Science of Political Economy* (1897; reprint ed. New York: Robert Schalkenbach Foundation), 1962, p. 86.
29. George, *Progress and Poverty*, pp. 210-11.
30. George, *The Science of Political Economy*, p. xxxviii.
31. John Neville Keynes, *The Scope and Method of Political Economy* (London: Macmillan, 1890), and Milton Friedman, *Essays in Positive Economics* (Chicago: University of Chicago, 1953).
32. George, *The Science of Political Economy*, p. 101.
33. See also *Progress and Poverty*, p. 13. This is not to deny that George believed that, from an ultimate perspective, "economic law and moral law are essentially one." *Ibid.*, p. 560.