25

Rothbard's Anarcho-Capitalist Critique

BY C. LOWELL HARRISS

Professional economists who were contemporaries of Henry George generally opposed his views. Other chapters in this volume discuss the leading examples. More recently, in academe as well as elsewhere, there has developed support for property-tax revision along the lines he so fervently advocated—much greater reliance on site values and a corresponding reduction in burdens on capital and other products of human labor.

Land-value taxation relates to countless issues of (local) government finance, including many types of distress in urban areas; land-use policies, the environment, energy, and "externalities" of endless variety are related in one way or another to present and potential taxes on land. For dealing with these and other matters, all potentially useful insights deserve attention—George's as well as those of his critics who have claim to competence.

Among contemporary economists, few if any have written more extensively in explicit criticism of George's work than has Murray N. Rothbard, widely recognized as a leading libertarian and student of Ludwig von Mises.[1] He explains in the preface to *Power and Market* that he devotes more attention than is now customary to this topic because "the Georgists are correct in noting that their important claims are never mentioned, much less refuted, in current works. . . ."[2] His critique draws heavily upon analyses made by two other writers—Frank H. Knight (1885-1972), in his day one of America's foremost economists,[3] and Spencer Heath (1876-1963), a successful inventor and patent attorney who published a book and several pamphlets in the field of social and political theory.[4]

Rothbard's statement of his basic position, that ". . .the very existence of taxation and the government budget is considered an act of intervention into the free market. . . ," alerts us to a general frame of reference—anarcho-capitalism, the belief that even such services as police protection and defense against external aggression should be supplied through voluntary contract. This extreme posture was also taken by Heath but not by Knight, although he too was strongly committed to the free market economy.[5]

Introductory Points: Words and Classifications

Recent occasion to examine many of George's writings brought me to some of them for the first time. The range is wide. Some have distinct value for today, but discrimination is needed. No effort to deal comprehensively with all of the published work could fit within the scope of this chapter. Even though none of the three above-named critics ranges so broadly, they touch upon more topics than can receive attention here.

George wrote so much, under a variety of conditions, over so many years, and responding to diverse impulses, that consistency among his statements is not always certain. Followers and critics can cite sources for items that do seem to conflict. Meanings are not always clear. We can mislead ourselves by yielding to a temptation to pick on what are essentially matters of secondary importance, even to quibble.

Our world differs from his. Although he was aware of urban growth and blasts the conditions of life in cities, and although he criticized Ricardo for viewing the law of rent merely in its relation to agriculture,[6] he lived at a time when the American population was largely rural, decades before the auto helped to transform land use and life in general. Inflation was not a widespread reality in the years in which he lived; quite the contrary. And he wrote long before federal income taxation became a determinant of decisions about land use and real estate investments.

Rothbard refers to "Georgists." Who are they? Unquestionably, more than one grouping would be defensible; each group would include people who, even though they hold key points in common, differ significantly on one or more aspects of policies involving land-value taxation. To write, as does Rothbard, "Georgists anticipate" or "single taxers do not deny," may be both correct and misleading. Persons who have informed interest in, and sympathy for, the leading ideas—and perhaps also, but not always fully, for the feelings and sentiments—expressed by George, are not a close-knit group. Great caution is required in generalizing about their views as of today, or probably as of any date in the past. On the crucial issue of how much of the fruits of land "should" remain for present owners, I expect that their conclusions would differ widely.

Nor can we know how George might write and speak today. In his own time he insisted upon rejecting what must be recognized as advances in economic theory. Would he have remained so adamant? If he had kept abreast of expanding knowledge, he could, I believe, have held to his chief policy position—and without serious modification—yet perhaps have avoided alienating so many economists. For example, his predictions of growing distress (in an era when standards of living actually rose) do not seem to me essential to the case for financing government more extensively by taxing land values. The rising demand for land (from whatever forces, not necessarily limited to those George cites) seems to me the economic element crucial to his policy recommendations.

George's treatment of population growth scarcely does him credit but is not a topic for major attention by Rothbard, Knight, or Heath.[7] Heath nevertheless applauds him for a "masterly and magnificent refutation"[8] of what might be termed a limiting case of Malthus's admonitions; the point involves the meaning of the implied "other things being the same" assumption in a world of improving technology, broadly defined, and capital accumulation.

George's efforts to define *wealth* and his uses of the term, the nature of *production* as he conceived it, his conclusions about the worth of the processes of exchange, and his understanding of the role of capital—these topics may have interest as part of the history of economic thought. Knight does not attempt to cover such points. Nor does Rothbard: "I will not deal with what I consider grave fallacies in capital and production theory because they take us too far afield from the main problem."[9] He has, however, cited as a deficiency in Georgist thinking, its view of capital as "the product of human energy," alleging that the exclusion of an essential element—*"and time"*—constitutes a fatal error.[10] Yet one finds clearly in *Progress and Poverty* and elsewhere words explicitly recognizing time and its importance.[11]

But George's usefulness as a source of helpful insight today stands or falls on other aspects of his writing. The extent of his originality on these points, if any, is not our concern because the three critics do not dwell on it.

Our responsibility is to use the tools of analysis available today. Rothbard and Knight utilize economic theory more complete than that of *Progress and Poverty* and the later writings of George. Emotions played a prominent role in his career; their relevance and influence must be recognized for what they were, and as not necessarily deserving of the same endorsement as conclusions reached by objective study. Rothbard speaks of a "confusion of economic and moral arguments." Let us accept the warning, noting that in neither George's writings nor those of a critic will the mixture of "scientific" with value judgments destroy, as a matter of course, the validity of the former judgments or the worth of the latter.

Major Criticisms

The selection of topics for comment here, and the exclusion of certain subleties, reflect to some extent judgments about importance.

"Single" Tax: Changing Conditions

The "single" aspect of George's tax proposals might have been adequate in some or most American communities in George's day.[12] The Census of Governments found total state-local spending on current operations in 1902 to be $796 million; debt service, $79 million; and assistance and subsidies, $15 million. Do such totals seem within the probable limits of a site-value tax? Property tax then yielded $706 million. The additional burden on land might have been well within the realm of feasibility. Gross National Product was around $20 billion. George devoted no effort to measure in the modern sense; at best, figures would have been scarce. Be that as it may, (local) government spending has probably outpaced the rise in "pure" land rent.[13]

Knight and Rothbard recognize that the "single" aspect can have become obsolete without invalidating other features. *Site-value* and *location-value* taxation are more appropriate terms for the essence of what George proposed.

His critics do make a point that commands attention. Knight especially emphasizes it. Land is by no means the only form of property whose value may reflect "unearned increments." Rothbard uses Rembrandts to illustrate. Other examples in various gradations could be cited. George would distinguish the painting from land because labor made the one and created a moral claim to ownership. Moreover, as Winston Churchill put it when he was president of the Board of Trade in Asquith's cabinet, "pictures do not get in anybody's way."[14]

Here it is enough to assert that in my view site values can rank high indeed on the scale of potential bases for at least local taxation without any presumption (1) that they would approximate the total revenue that the property tax raises in many localities, or (2) that they constitute the only elements of income for which the recipient may have done rather little in creating the value today.

Separability of Land Values

Can land values be distinguished from those of improvements on—and in—the surface of the earth to apply significantly different tax rates (with possibly a zero rate on man-made capital)? Rothbard in an essay published in 1957 recognizes that in urban areas the separation of land and improvement values *appears* to be done. But he denies the possibility of successfully implementing differential tax rates. More recently, he writes: "Ground-land taxation faces a further problem that cannot be solved: how to distinguish quantitatively between that portion of the gross rent of a land area which goes to ground land and that portion which goes to interest and wages. Since land in use is often amalgamated with capital investment and the two are bought and sold together, this distinction between them cannot be made."[15]

Knight seems to believe that human weaknesses would make the results too poor to be tolerable. Is he not, however, out of touch with what has existed for years? Land-value assessments resting on market tests underlie property taxes now. Two questions need to be made explicit: the most important in practical policy, "How high the tax rate?"; the second, "What quality of administration do we expect?"

If George spelled out in specific terms the tax rates he desired and the way the tax base would be computed, I do not remember the details. The kind of administration of assessment required to accomplish the goals and the means of achieving them are held to be those already operating; critics are on solid ground in calling attention to the need to separate land from other elements that make up real estate transactions. The practical issues mix with those involving the possible de facto "socialization" of land. A tax rate absorbing all of the yield *would* approach "socialization" in the sense of government ownership. Operation might be private, but what would be the purpose of private ownership? However, George envisaged that a small percentage of the yield be left to owners.[16]

Knight pictures a result in which market valuations would not in fact be usable. Reliance would of necessity be placed on human action; "some official, some 'bureaucrat' with power, would have to appraise it—subject to error, prejudice, and acute disagreement."[17] True, but not conclusive.

In the world as I see it, a tax absorbing much of the rent of land could be administered. In fact, persons who have compared property-tax assessment at present with the results attainable under a site-value system agree, I believe, that the assessment task would be simplified if land only were taxed. One must be cautious, of course, in speaking of conditions that would exist in circumstances quite different from those of actual experience. In any case, however, a decision should not hinge upon the probability or improbability of approximating perfection under a new system. Do we live with any institutions that are perfect? Appraisers and assessors have methods of doing what Knight and Rothbard seem to believe is impossible—valuing "land" as such even when it has buildings and other man-made improvements. The two economists are correct, however, in asserting that we could not go back through history to identify all inputs of capital (and the labor of pioneers and other settlers) that have gone into putting land in the present form. The worth in the original condition, free from all other kinds of inputs, could rarely be determined now. But we look to the future.

Most of the work of assessors today involves the nonland portions of real estate. Drastic reduction in reliance on taxes on buildings would lead one reasonably to expect a freeing of personnel and other resources for doing a better job on the land portion. One parcel of land generally differs rather little in worth per unit of area from those nearby. The linkages assist greatly in assessing on a mass basis.

In Taiwan, in parts of Australia and South Africa, and in some other places, the tax rests on land values. My own inquiries and those of others indicate no serious doubts about the separability of values. However, it should be remarked that the tax rates applicable in these instances are very much lower than would apply in American localities if the present total-revenue importance of property taxation were continued but a much higher fraction were imposed on land. Today American assessments do generally distinguish land from other portions of the total value. The accuracy of the results in separating the land from other values will differ from one assessment area to another. Where, as at present, the same tax rates apply, little significance attaches to the distinction.

If tax rates differed greatly—and under the "full" Georgist system one rate would be zero, the other very high—much more dispute than at present could be expected. The separation of the land from the other portions of selling price or lease terms would have considerable tax significance. Questions would demand more accurate answers than in fact is now the case. For income tax and other purposes there is now need to distinguish land from other elements of real estate. The rules that have been developed for these and other purposes would probably not be fully satisfactory. But there would be no need to start afresh; existing accounts would be of help.

Rothbard and the other critics are not obligated to prescribe means for solving transition problems. (George himself did not.) But to deny implicitly the possibility of effective solution seems to me to go too far. Most problems, I believe, could be anticipated as to their nature if not necessarily as to amounts.[18] *The changes in taxes would themselves alter both land values and the worth of existing improvements.* Any realistic approach would call for gradualism in transition—five years or more; one form of transition could be exemption or other favoritism for new structures or those of certain types.

The writings of George, and those of Georgists with which I am familiar, show little interest in the mechanics of implementing a separation of pure land values from those of man-made capital. Frequently, one senses a belief that land use is generally governed by rental agreements. In practice, of course, owner-occupancy is common. Rents are not the overwhelmingly typical form of payment. Rothbard and Knight are right in emphasizing that administration would of necessity rest on estimates of capital value made by fallible human beings. The conclusion, however, need not be that the present taxation of both land and buildings can be done tolerably well whereas a tax on land only could not be administered satisfactorily.

How High a Tax? Incentives

The height of the tax rate George would really have supported remains unclear to me.[19] He thought that the rent fund would yield a surplus over and above the public expenditures then existing, and that the greater part of this should be captured for public use.[20] Rothbard and the other critics typically write as if they believe that he favored taking *all* "pure" rent in taxation, and this conclusion seems confirmed by much of George's rhetoric, whereas his sentiments to the contrary are not prominently expressed and are therefore easily overlooked. Whatever George may have thought about the "proper" height of the tax rate, some points made by the critics ought to be considered. Rothbard writes:

> Suppose that the government did in fact levy a 100% tax on ground rent. What would be the economic effects? The current owners of ground land would be expropriated, and the capital value of ground land would fall to zero. Since site-owners could not obtain rents, the sites would become valueless on the market. From then on, sites would be free, and the site-owner would have to pay his annual ground rent into the Treasury.
>
> But since all ground rent is siphoned off to the government, there is no reason for owners to charge any rent. Ground rent will fall to zero as well, and rentals will thus be free. So, one economic effect of the single tax is that, far from supplying all the revenue of government, it would yield no revenue at all![21]

The extreme case of a one hundred percent tax is so far from experience that one has difficulty discussing the probabilities. Much would depend upon the structure of the tax. It would certainly be devised to raise revenue. Lawmakers would be smart enough to base tax on the *potential* yield. How would the market operate if the tax rate were one hundred percent? The responsibility, and the incentive, for getting the best price (yield) possible would perhaps lie overwhelmingly on government officials. Their concern for revenue would provide some incentive and involve the responsibility for getting whatever possible from the users of land. Differing productiveness of sites would exist. Rothbard seems wrong in asserting that one consequence would be no revenue. Locations would not become free if tax collectors were doing their job. Potential users would have reason to make the highest bids possible. Persons seeking homes, and businesses anxious for good locations, would be motivated to bid according to prospective usefulness. Payments would flow to government treasuries.

Rothbard may be on sounder ground, even though overstating his case, when he asserts that "economic havoc" would follow a tax of one hundred percent—but not because land producing no rent for the owner would be free. In an economy where owner-occupancy is common, a condition of land without price is not easily envisioned. Owner-occupants would pay differing amounts in taxes. But if government tried to take all, a significant change in conditions would be expected; the economizing forces of the price system would operate with less effectiveness. Would allocation become far less effective (though not necessarily chaotic) if government took all the yield? Or ninety-five percent?[22] Would waste from poor use become, if not enormous, at least enough larger than at present to cause real concern? Georgists cite improvements in land use as a benefit. Who would have both the knowledge and the incentive to get the best use if government took all? Gross yield would not fall to zero, but price could plummet. The form of tax we know, on capital value, might have to be converted into the British form of tax on yield—but not on the actual amount, as in Britain, but rather on the potential income, since under the former, idleness or gross underutilization brings in effect a kind of tax relief.

If government in fact became the owner of all the yield, would not politics and favoritism govern or at least play an inordinate role? Both Knight and Rothbard are apprehensive. If nongovernmental owners of land were left with no benefits, then one aspect of the demand-supply relationship would lose most of its force. Owners as suppliers would have less than the present incentive to strive for better terms, assuming that assessments reflected market conditions promptly.

Although such a condition can be pictured on the basis of some of George's statements, the picture seems to me quite out of line with anything reasonably to be advocated as site-value taxation today. Tax rates on land values could go up enough to permit constructive reductions in tax on man-made capital without reaching a height that would push land values to the near-zero level.

Two points relevant here are overlooked by both Rothbard and the other two authors: First, in some cases land values would benefit from rising demand as builders changed plans in response to lower taxes on new capital. Second, in many more cases, assuming that the change were not to alter the total revenue to be obtained from property taxation, present property owners would approximately break even; the decline in tax rate on improvements would bring advantages more or less offsetting the effects of an increase in tax on land.

Rothbard and the others are correct in pointing out that not all landowners are merely "idle," passively profiting as the community grows. Some devote time, energy, and skill—and serve usefully—in getting land into better uses. Land will not automatically move into the best use possible. Decisions must be made by human beings. The benefits to others that owners "produce" may sometimes include even the results of holding land apparently idle or underutilized ("on speculation") waiting for "ripening," although, of course, speculative withholding may also delay or prevent wholesome development. The world as it exists often involves much that is uncertain. Real doubts intrude on the commitment of capital and other resources to a plot of land, usually for a period of many years. Views will frequently differ.

Added Pressures to Induce (Force) Land into Use

Advocates of land-(site-) value taxation usually claim that one advantage would be an improvement in land utilization. Owners, it is said, would face more pressure to use land more nearly at its full potential. Knight, however, seems to doubt that owners would have greater inducement or opportunity to try for the best use possible. The market creates the alternatives; the best one sacrificed is the cost of the existing use. Rothbard, too, sees a disadvantage. He writes that Georgists

> assert the single tax will spur production. It will penalize idle land, and force landowners to develop their property in order to lower their tax burden.
>
> Idle land, indeed, plays a large part in single tax theory, which contends that wicked speculators, holding out for their unearned increment, keep sites off the market, and cause a scarcity of land; that this speculation even causes depressions. A single tax, confiscating unearned increment, is supposed to eliminate land speculation, and so cure depressions and even poverty itself. . . .[Omitted are several paragraphs that deal with what Rothbard regards as gaps in George's theories stemming from his alleged failure to recognize the role of time in capital formation and in production using capital.]
>
> Since labor is scarce relative to land, and much land *must* therefore remain idle, any attempt to force *all* land into production would bring economic disaster. Forcing all land into use would take labor and capital away from more productive uses, and compel their wasteful employment on land, a disservice to consumers.[23]

Rothbard seems to attribute to George an objective—"use" of "all" land—that appears quite out of keeping with the basic spirit of *Progress and Poverty*; certainly it is not articulated there or in any of George's other writings. Whether or not one could find half a dozen professed Georgists who would come close to advocating such an objective (forcing *all* land into use), it is not one meriting serious attention. Rothbard's treatment in *Power and Market* distinguishes a tax on current yield from one on capital value; the latter includes the present worth of future elements. The time factor enters. I do not see the inconsistency he does in taxing capital values of land on an annual basis, assuming real effort for good quality assessment.

What *would* happen? Actual results would, of course, depend upon a variety of conditions special to each particular locality. One consideration is the local tax rate that would apply. Another would be the effect of cuts in tax rates on improvements. In much of the country the tax rate on land could be a meaningful fraction of the gross potential yield from the land, conceivably a very large fraction.

Assessment should be realistic, that is, the responsible supporters of site-value taxation would endorse only assessments resting upon market valuations. Assessments would be related to the capitalization at going rates of return of what the land would produce. The tax would rest upon market values, but often at tax rates much higher than now prevail. Presumably capital values would change as the next tax structure became effective.

Interactions and changes from year to year could for a time be unsettling; the speed of transition would, of course, make a difference in the adjustment process.

George was, to say the least, lacking in precision in his statements about the most productive combinations of factors of production. Rothbard, however, seems to me to misunderstand the essence of site-value taxation as presently advocated. The market value (reflecting estimates of productivity under most favorable conditions) would determine the tax. Nothing in the system, even as George propounded it, would impose a current tax burden on sites with no worth. Labor and capital would be allocated by market forces as at present. The higher tax burden on supramarginal sites would tend to raise the availability of land as owners felt greater pressure to pay tax; but land that could not bid successfully in competition with other plots for labor and capital would have no value to bring tax liability. Nothing I can see would exist to draw labor and capital from land with higher to that with lower productive capacity.

The need to pay a tax in cash, generally at a rate much higher than at present—a tax based on the "highest and best use" (as reflected in market prices)—would discourage holding potentially productive land vacant or in a use below its optimum possibility. Determining that potential will typically involve uncertainty. Sometimes waiting for better conditions will be wise. The market by the process of discounting will distinguish present yields (excluding change of capital value) from those of equal dollar amount to be realized in the future. Today, of course, an owner not getting the best use of the land sacrifices an alternative that is a cost; this fact of economic life may occasionally involve larger values than any difference in tax proposed.[24] The tax change would be an additional factor leading to fuller use—*if the market would support the use.* If the market would not justify such a potential use, then the assessment and the tax would be "low." Nothing I can see in a "correct" restructuring would add incentive to put "idle" land to uses inappropriate to market realities.

The net effects in a community should be a readjustment of relative land prices. There would then be, on balance, pressures for uses of land closer to valuations reflecting current market opportunities. In challenging the exaggerated claims probably made by some Georgists, the critics do not weaken at all the fundamental point that reducing tax burdens on man-made capital and getting more revenue from a tax on land values would improve resource allocation and use. Although Rothbard recognizes that it would stimulate production,[25] neither he, Knight, nor Heath pays what I would consider adequate attention to the element of the Georgist plan consisting of the relief from taxes on improvements.

The total of capital funds available for investment in an area would presumably rise for the first communities to act. Funds would be redirected in the light of the relatively more favorable conditions. Demand for land would tend to go up.

The more localities adopting the change, however, the greater the spread of available new capital through the economy; unless new saving were to rise, the average increase in demand for land would be slight at most.

Service of Landowners

As already noted, the three critics, especially Rothbard, hold views that contrast strikingly with those of Georgists about the role of landowners in the determination of land prices. "Getting rich while sleeping" persists as the image of landowners as seen by some economists before George and by him and many of his followers. (I am speaking here of landowners per se, not of landowners insofar as they may also be improvers, developers, etc.) Just such extreme cases can be cited, while examples of more modest unearned gain abound. In many eras, in many countries, owners have profited from land-price increases they have done nothing positive to produce. The term *unearned increment* properly applies. Passivity, as nearly as can be seen, creates nothing but brings rewards. Not all increases in land values, however, result from the forces on which George focuses.

Another consideration has merit. It goes beyond the one emphasized by Rothbard. If the landowner seeking his own benefit tries to put his land to best use, he performs services in allocating this productive resource. Success can lead to rewards for others in the "neighborhood" (broadly defined) as well as for the owner of land.

A point consistent with the spirit of Rothbard, Knight, and Heath but not made explicitly by them deserves attention. Economic progress and rising (real) values of land depend upon more than population growth and the general accumulation of capital. One reality *is* passive "sitting by," waiting for others to accumulate capital, which increases the demand for land—presumably by doing something to satisfy consumers. But *active* effort to direct and to influence change constructively is also a reality. Innovation, risk-taking, entrepreneurship, do make a difference because things get done, things that sometimes are much better than routine (but sometimes flops!). Human beings act. The actions count. What will induce the most fruitful actions? The three critics have a low estimate of the likelihood of best results from bureaucrats administering a system that takes all, or virtually all, of increases in benefits as tax for government.

One element of progress involves better use of land—specific plots and larger areas. Part of the difference between high success and mediocrity depends upon the development of "community." The best results require more than the rather passive waiting for others to act, perhaps in semi-automatic ways. Leadership can make a difference. Some forms of community activity, some representation of the civic spirit, can be fruitful and productive without bringing direct monetary compensation (salaries) to the persons making the effort. Why will some persons try? The hope for a rise in land values can provide one positive incentive for getting desired and desirable things done. Such a hope will not, of course, provide a spur (and may even sometimes constitute a disincentive) to members of the community who do not own land. But those who do can be important.

Rothbard emphasizes a related element, one that contrasts markedly with the general focus of Georgist writings, with their concern about undue holding of land for apparently submarginal purposes (speculating on "unearned increments"). The landowner, or a developer acting as entrepreneur, benefits himself and others by putting land to higher-yielding uses. How much of the rise in land prices reflects the positive results of landowners' efforts to find the best uses? More of the increments than George would have conceded, but far from all those which have developed, have probably depended upon landowners' allocative actions. I see no way to measure the relative impact of the two conflicting forces.

In some cities today the preservation of value, the minimization of deterioration, and the reversal of retrogressive trends will constitute the difference between revitalization and eventual doom. Who will have incentive to engage in what can be a discouraging, unpromising, and uncertain activity? Who will have economic reason for sticking with the endangered area and trying to remedy matters as against moving to the suburbs and other newer spots? One group will be the owners of what must remain—the land. Their incentive may be enhanced, or threatened, by taxation.

The "good society"—good for present and future members—will have institutions that offer the owners of resources promising prospects of rewards from getting land, capital, and labor into the best uses possible (as well as for adding to the stock of productive capacity). Land can be distinguished from man-made capital. For one thing, unlike machinery, land in the physical sense is the product of nature. For another, the economic worth of land does depend to varying degree, often to large degree, upon what the "community" has done and is doing—upon what human beings as individuals and groups accomplish.[26] The fixity of location gives rise to special problems. It may be appropriate for the community both (1) to assure incentives to create value of location, to add to its social and economic attractiveness, and (2) to put pressure on the owner of this resource to induce more fruitful use than the owner acting alone might select.

One result of these considerations is the desirability of both carrot and stick.[27] The owner should have incentives, perhaps powerful ones, to get land into the best use. Moreover, he should have incentives to make a better community. In fact, today one of America's greater needs is inducement to make parts of some cities more inviting. The hope of rising land values offers promise. George's writings, and also those of the three critics, slight these matters; the untaxing of improvements would, of course, make a positive difference, but enhancement of the worth of location would seem to me desirable in addition. Mason Gaffney, incidentally, has stressed that the untaxing of improvements acts as a stimulus to such enhancement.[28]

The Ethical Issues

All three critics strike at George's advocacy of the expropriation of existing land values. To my knowledge, George did not suggest any specific timetable for the implementation of this proposal, but no present-day Georgists of stature urge that it be done except in gradual stages. Large, sudden, arbitrary changes in established rules do not belong in "the good society." But gradual change to achieve large results constitutes the responsible way to progress. Further, an element in George's plan that the critics slight deserves equal attention—the relief of man-made capital from taxation.

The issues involve elements that extend beyond the economic. Decisions as to what is "just" or "fair" or "equitable" in requiring persons to pay taxes for public services, rest upon more than the narrowly defined economic results to be expected from the various possible alternatives. By ethical criteria, which results are better? One consideration may be the legitimacy with which a person came into the income or property that the legal system now recognizes as his own. If there are degrees of legitimacy, then they may provide some basis for differential treatment. References are made by George to "natural law." Such references will help if gravity or molecular combinations are the subject under discussion. Land occupancy today, however, presents more complexity. Sincere differences of view about the propriety of right to occupancy of plots of ground can exist among persons who have equal claims to competence or confidence in the understanding of divine revelation.

George, as I and the three critics understand him, argued that no values in land as such (as distinguished from capital investments made in grading, drainage, etc.) belong by right to the present owner. Land was not created by humans. The persons who have, somehow, obtained title to land cannot, according to George, have legitimate ownership to value created by nature and the community. Therefore taxes to take the fruits of land are ethically proper.

Each individual has some basis by which to judge some things moral and others not. Frankly, I agree with the critics that it would be wrong to wipe out owners who have sacrificed other alternatives to acquire land values. Knight writes (and I agree; but for an ably argued contrasting approach, see Harry Gunnison Brown *Economic Science and the Common Welfare*, 2d ed. [Columbia, Mo.: Lucas Bros., 1925], pp. 217-24.):

> The allegation that our pioneers got the land for nothing, robbing future generations of their rightful heritage, should not have to be met by argument. The whole doctrine was invented by city men living in comfort, not by men in contact with the facts as owners or renters. How many preachers of single-tax doctrine would care to live their lives and bring up families under the conditions of the frontier, fight off the savages and other enemies, and occasionally be massacred, suffer the hardships, overcome the difficulties or succumb to them, do without the amenities of civilization, including medical attention for their families—for what the average pioneer got out of it? The question answers itself. Their heirs, near or remote, often got unearned wealth, but again that is not a sequel peculiar to land.[29]

Site values, however, do have characteristics that lend themselves to special taxation for local government, as Knight himself admits.[30] Not least among the reasons is the expenditure of governments on streets and other facilities that enhance the worth of land. In my view, there is a persuasive case on grounds of what is ethically "right" for capturing such increments in taxation for local government.

Present owners have acquired land according to rules long established and that have legal (constitutional) standing and overwhelming public support. The alternatives sacrificed in buying land as against other uses of savings represented opportunity costs. And the persons owning structures paid prices that assumed the continuation of property taxes. The "rules of the game" may have been less than optimal, but they prevailed. Suddenly to reverse them retroactively—and thereby quite arbitrarily to create gains for some and losses for others—conflicts with my sense of the morally desirable as well as of the politically feasible. (Such reasoning, however, would not be open to an anarcho-capitalist like Rothbard, by whom the fact that property rights have been decreed and sanctioned "by the very government which is condemned as a chronic aggressor"[31] could scarcely be cited either to justify them or to argue for gradualism in their modification or abolition.)

George uses the freeing of the slaves as an analogy. Slavery should never have existed. Destroying slavery without compensation he believes to have been justified. And he writes that private ownership of (most of) the income from land should "never" have developed; therefore, he argues, major changes in the conditions of landownership are warranted. An economist might, as a first point, suggest that the country would probably have been vastly better off during the last century if it had ended slavery by compensating owners rather than by fighting the Civil War. Be that as it may, possible means of revising property taxation will have different effects. Sudden, massive confiscation of property legally acquired would seem to me morally repulsive and economically destructive.[32] Nor would windfalls from sudden untaxing of man-made capital be the stuff of responsible public policy.

Tax laws, though, do alter the absolute and relative positions of taxpayers. Gradual change can accomplish much over the years. Such is the procedure of compromise. It is appropriate for a continuing society that has diverse values.

Rothbard admits that there is a land problem, and gives credit to George and his followers for calling attention to the fact.[33] But the problem, according to Rothbard, stems solely from the consideration that so many existing land titles have their origin in grants or sales by governments (to which the land never rightfully belonged from the beginning) rather than in first use, which he claims alone legitimizes title. His argument that first use creates a valid title simply extends to the land itself the rationale advanced by Locke (and accepted by George) for the ownership of produced goods: that he who mixes his labor with previously unused natural materials thereby abstracts the product from the common fund of opportunity and justly makes it his own property.

> no producer *really* "creates" matter; he takes nature-given matter and transforms it by his labor energy in accordance with his ideas and vision. But *this* is precisely what the pioneer—the "homesteader"—does when he brings previously unused land into his own private ownership. Just as the man who makes steel out of iron ore transforms that ore out of his know-how and with his energy, and just as the man who takes the iron out of the ground does the same, so does the homesteader who clears, fences, cultivates or builds upon the land. The homesteader, too, has transformed the character of the nature-given soil by his labor and his personality. The homesteader is just as legitimately the owner of the property as the sculptor or the manufacturer; he is just as much a "producer" as the others.[34]

In response to this George would probably point out that Locke qualified his willingness to recognize land ownership as just with the proviso that "there be enough and as good left in common for others,"[35] which, translated into economic terms, means as long as land has no market value. And indeed, it should be evident that the arrogation in perpetuity of the very ground of natural opportunity is not to be equated, either in logic or in ethics, with the mere abstraction of a renewable resource. As for nonrenewable resources, under George's system their value would presumably be reflected in the rent paid to the community, which would therefore have an obligation to spend it in ways that would compensate future generations for their loss.

Closing Comment

It is not to be supposed that the hostility exhibited toward much of George's thought by Rothbard and the other two critics dealt with here is necessarily characteristic of libertarians. George would probably have considered himself a libertarian had the term been current in his day, for he insisted that social ills could not be remedied by "weak projects for putting men in leading-strings to a brainless abstraction called the state. . . ."[36] And such twentieth-century libertarian champions as Albert Jay Nock and Frank Chodorov professed themselves outright Georgists.[37] It was Nock, in fact, who acclaimed George "the philosopher of freedom," "the exponent of individualism as against Statism," "the very best friend the capitalist ever had," and "the architect of a society based on voluntary cooperation rather than on enforced cooperation."[38] Something of the basis for this estimate may be seen in the following sentences from *Progress and Poverty*, which underscore the positive, constructive aspects of George's outlook, which the critics, in their alarm at his proposal to appropriate land values, tend to minimize:

> To abolish the taxation which, acting and reacting, now hampers every wheel of exchange and presses upon every form of industry, would be like removing an immense weight from a powerful spring. Imbued with fresh energy, production would start into new life, and trade would receive a stimulus which would be felt to the remotest arteries. The present method of taxation. . .operates upon energy, and industry, and skill, and thrift, like a fine upon those qualities. If I have worked harder and built myself a good house while you have been contented to live in a hovel, the tax-gatherer now comes annually to make me pay a penalty for my energy and industry, by taxing me more than you. If I have saved while you have wasted, I am mulct, while you are exempt. If a man build a ship we make him pay for his temerity, as though he had done an injury to the state; if a railroad be opened, down comes the tax-collector upon it, as though it were a public nuisance; if a manufactory be erected we levy upon it an annual sum which would go far toward making a handsome profit. We say we want capital, but if any one accumulate it, or bring it among us, we charge him for it as though we were giving him a privilege. We punish with a tax the man who covers barren fields with ripening grain, we fine him who puts up machinery, and him who drains a swamp. . . .
>
> To abolish these taxes would be to lift the whole enormous weight of taxation from productive industry. The needle of the seamstress and the great manufactory; the cart-horse and the locomotive; the fishing boat and the steamship; the farmer's plow and the merchant's stock, would be alike untaxed. . . .Instead of saying to the producer, as it does now, "The more you add to the general wealth the more shall you be taxed!" the state would say to the producer, "Be as industrious, as thrifty, as enterprising as you choose, you shall have your full reward! You shall not be fined for making two blades of grass grow where one grew before; you shall not be taxed for adding to the aggregate wealth."
>
> . . .Every productive enterprise, besides its return to those who under-

take it, yields collateral advantages to others. If a man plant a fruit-tree, his gain is that he gathers the fruit in its time and season. But in addition to his gain, there is a gain to the whole community. Others than the owner are benefited by the increased supply of fruit; the birds which it shelters fly far and wide; the rain which it helps to attract falls not alone on his field; and, even to the eye which rests upon it from a distance, it brings a sense of beauty. And so with everything else. The building of a house, a factory, a ship, or a railroad, benefits others besides those who get the direct profits. . . .

Well may the community leave to the individual producer all that prompts him to exertion; well may it let the laborer have the full reward of his labor, and the capitalist the full return of his capital. For the more that labor and capital produce, the greater grows the common wealth in which all may share.[39]

Notes

1. Rothbard is professor of economics at the Polytechnic Institute of New York. His critique of George first appeared in 1957 in a ten-page essay, *The Single Tax: Economic and Moral Implications*, duplicated from the typescript and disseminated by the Foundation for Economic Education, for which it had been produced. This was followed by a three-page mimeographed *Reply to Georgist Criticisms* later the same year, also distributed by FEE. However, owing to criticism of Rothbard's analysis from within its own staff, FEE ceased to send out these pieces except when specifically requested to do so. Their argument was incorporated virtually intact into Rothbard's *Man, Economy, and State* (Princeton, N.J.: D. Van Nostrand, 1962) and *Power and Market: Government and the Economy* (Menlo Park, Calif.: Institute for Humane Studies, 1970), and continued on a somewhat different front in his *For a New Liberty* (New York: Macmillan, 1973).

2. Rothbard, *Power and Market*, p. viii.

3. Frank H. Knight, "Fallacies in the 'Single Tax,' " *The Freeman*, August 1953, pp. 809-11. Knight, Martin D. Hull Distinguished Service Professor at the University of Chicago, served as president of the American Economic Association in 1950. When mentioning George in *The Conquest of Poverty* (New Rochelle, N.Y.: Arlington House, 1973), Henry Hazlitt refers the interested reader to "the excellent analyses that have been made by Rothbard, Knight and others" (p. 121).

4. His main commentary on George is the twenty-three-page pamphlet, *Progress and Poverty Reviewed and Its Fallacies Exposed* (New York: The Freeman, 1952). Spencer Heath was a man with wide-ranging interests. His pamphlet reveals familiarity with some economic materials. This discussion contains points that seem to me scarcely worth pursuing as well as several that have merit. An example of those deserving of respectful attention is the call to look at government's taxation and unwise spending; some of the unpleasant results that George and his followers attribute to landowners' demands for increasing rents (which absorb growing output) come really from the "take" of government. In challenging George's methodology, Heath notes that although George, in opening the discussion that proceeds for hundreds of pages, asserts a determination "to take nothing for granted," the conclusions set forth in *Progress and Poverty* had been reached long before it was written.

An erstwhile Georgist, Heath retained the idea that all public services should be paid for out of ground rent, but advocated that instead of being supplied by government they be supplied by landowners (individually and in association), holding that the market would attract renters to those locations with the best services—including defense. These proposals for social reorganization are developed in his *Citadel, Market and Altar* (Elkridge, Md.: Science of Society Foundation, 1957).

5. Rothbard, *Power and Market*, p. vii.

6. See George, *Progress and Poverty*, 75th anniversary ed. (New York: Robert Schalkenbach Foundation, 1954), p. 170. The editor of the present volume, drawing upon more extensive knowledge of George's writings than I possess, warns against any suggestion that George was merely an "agrarian reformer." Certainly true. The processes in urban land markets have similarities with, but also differences from, those of agriculture. The differences do not, I believe, have material significance for George's major argument except for magnitudes—the relatively greater importance in cities of man-made capital (and thus of reducing taxes on it)—and perhaps the complexities of useful as against wasteful "speculation."

7. George, in denying the principle of diminishing returns (variable proportions), took a position that I find difficult to understand. Perhaps he was misreading the history of his times with its extraordinary expansion of settlement on good land. The availability of such areas over the earth was inevitably limited. Improvements in technology—seeds, animal breeds, fertilizer and herbicides, machinery, communications, and so on—raise output per man and acre. But they involve capital.

8. Heath, *Progress and Poverty Reviewed*, p. 7.

9. Rothbard, *The Single Tax*, p. 3.

10. Ibid., p. 2. Original emphasis.

11. George, *Progress and Poverty*, pp. 183-85, 196; idem, *The Science of Political Economy* (1897; reprint ed. New York: Robert Schalkenbach Foundation, 1962), pp. 368-70. George seems to argue that abstention from consumption is essential for capital formation but not sufficient to account for the payment of interest. What he wrote about capital and the sources of new wealth might have some relevance to his main policy conclusions if measurement of dollar amounts to be taken as pure rent were to become a practical matter. But the discussion does not get to the practical issues of how to determine amounts of the returns that George would prescribe as appropriate for taxation.

12. Government finance was then overwhelmingly *local*.

13. Figures of "rental income of persons" in national income accounts—probably around $44 billion as of 1978—apply to elements significantly different from those appropriate for the tax base George had in mind. The annual estimate is by no means limited to land. And much that would belong in the base consists of the fruits of parcels of land that are not subject to lease—the homeowner's occupancy and the land owned and used by a corporation, as for factory, office space, or commercial occupancy, with the net yield appearing, presumably, as profit or in payment of interest on debt. The economic rent of much agricultural land appears as "farm income." Probably most of the land value in the country does not yield a rental appearing as such in the national income accounts. And, of course, in parts of the country property taxes *do* take more than a little of the pure rent. Moreover, taxes on capital gains absorb some of the land values George wished to capture; the revenues from capital gains go to federal and state, not local, governments—but federal-state grants to local governments far exceed yields from income taxes on capital gains and land rents.

14. Winston S. Churchill, *The People's Rights* (1909; reprint ed. New York: Taplinger Publishing Co., 1971), p. 118.

15. Rothbard, *Power and Market*, p. 92.

16. George, *Progress and Poverty*, p. 405.

17. Knight, "Fallacies in the 'Single Tax,' " p. 809.

18. For example, a decline in tax on structures would tend to encourage new building and raise the demand for land in some parts of the country.

19. If government spending were less than the total of annual rental values, the tax rate would not need to approach one hundred percent of yield. Thomas G. Shearman, one of George's staunchest associates, advocated taking no more in taxation than would be required for "the effective but economical administration of government," and calculated that, at the time he wrote, less than half of the net income from land would suffice for this. See his *Natural Taxation*,

2d ed. (New York: Doubleday & McClure, 1898), pp. 133, 157. George wrote long before the availability of statistical data we now take for granted. None of the three critics relies upon empirical gaps as the basis for challenging the argument.

20. The practical problems today seem to me to call for an approach more moderate than George had in mind. Confiscation of land-value rights seems to me subject to far more serious condemnation than it did to George. Using the term *socialization* does not dispose of the issue. What would be the results?

21. Rothbard, *Power and Market*, p. 95.

22. Would five or ten percent of (gross) yield be enough to induce smart men and women to exert themselves to devote skill and energy to get land into the most appropriate uses? Because of the importance of "location" and better as against poorer land use, the voting public should offer greater incentives than ten percent. But who can feel confident in recommending any specific amount? During the years of transition there would be opportunity for testing and gaining experience to use in settling on a "final" division.

23. Rothbard, *The Single Tax*, pp. 3-4; emphasis original.

24. Income tax considerations complicate calculations of the way the change in land tax would influence owners. The after-tax out-of-pocket costs of holding land for appreciation and capital gain may at times be modest relative to the after-tax benefits from a better current use. The relative few who are subject to very high federal plus state personal income tax rates would presumably be influenced differently from most owners, including corporations (especially those with income under $50,000). But any general conclusion is hazardous. Tax treatments of capital gains can be complex; they will affect decisions.

25. Rothbard, *Power and Market*, p. 92.

26. Governmental expenditures—for streets, schools, sewers, etc.—play a key role in adding to the market value of land in new suburbs and some other areas.

27. The "stick" as a symbol of deliberate governmental action carries, perhaps, an aura of intervention of a type inappropriate for a society that prizes freedom. My excuse for using the term is a belief that urban land values result in large part from community forces rather than from the creativity of the owner.

28. Mason Gaffney, "Adequacy of Land as a Tax Base," in Daniel M. Holland, ed., *The Assessment of Land Values* (Madison: University of Wisconsin Press, 1970), chap. 7.

29. Knight, "Fallacies in the 'Single Tax,' " pp. 809-10. Inheritance as an institution raises issues ranging beyond those of site values. The preservation of capital is itself involved.

30. Ibid., p. 811.

31. Rothbard, *For a New Liberty*, p. 29.

32. Governments in this country and abroad have failed to respect more traditional property rights. One result, I believe, is a weakening of the bases for personal security and capital accumulation for general progress.

33. Rothbard, *Power and Market*, p. 92.

34. Rothbard, *For a New Liberty*, p. 34.

35. John Locke, *Second Treatise of Government*, chap. 5, par. 27.

36. Henry George, *The Study of Political Economy* (March 1880; reprint ed. New York: Robert Schalkenbach Foundation, n.d.), p. 19.

37. While sometimes chiding Chodorov for his Georgism, Rothbard makes appreciative references to both these thinkers. See *Power and Market*, pp. 97, 172, 197, 205, 206, 211, and 215. Georgist sentiments are also expressed, although less explicitly, by two other libertarians mentioned appreciatively by Rothbard—Franz Oppenheimer and Bertrand de Jouvenel. See Oppenheimer, *The State*, trans. John M. Gitterman (New York: B. W. Heubsch, Inc., 1922), pp. 9-10, 14, 83, 278-79, 282-85, 290; and Jouvenel, *Sovereignty*, trans. J. F. Huntington (Chicago: University of Chicago Press, 1957), p. 162 n.

38. Albert Jay Nock, *Henry George* (New York: William Morrow & Co., 1939), p. 215.

39. George, *Progress and Poverty*, pp. 434-36.