

Ely: A Liberal Economist Defends Landlordism

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Richard T. Ely was a member of that small yet growing group of advanced economists who, even during Henry George's lifetime, advocated a substantially greater role for government in the economy. After earning his baccalaureate degree at Columbia, he pursued graduate study for three years in Germany, receiving the doctorate from Heidelberg in 1879. Following a little more than a decade on the faculty of Johns Hopkins, he became director of the School of Social Science, History and Economics at the University of Wisconsin where, in 1920, he founded the Institute for Research in Land Economics and Public Utilities. Later he moved this organization to Northwestern University and ultimately to New York, changing its name, after the first move, to the Institute for Economic Research.

Under his direction, the Institute, which was privately funded and that at one time had a staff of twenty-five or thirty, conducted graduate courses, produced a considerable amount of economic literature including a quarterly journal, and engaged in adult education through an arrangement with the United YMCA Schools. One of the founders of the American Economic Association, Ely was author of more than twenty-five books, and co-author or editor of many others. His potency was by no means confined to scholarly efforts; not least of his accomplishments was that of fathering two children after his second marriage at the age of seventy-seven. He had wide influence as a teacher and advisor clear into the 1930s. Msgr. John A. Ryan, the subject of a chapter in the present volume, was among his many protégés, and Woodrow Wilson, Frederick Jackson Turner, and John R. Commons studied under him. His circle of personal friends included such luminaries as Theodore Roosevelt, Robert M. LaFollette, Oliver Wendell Holmes, Jr., and Cardinal Gibbons, not to mention numerous leaders in academe, on the one hand, and the world of commerce and industry, on the other. Raised in a strict Presbyterian home,

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he retained a strong lifelong Christian involvement, and lectured frequently to diverse denominational gatherings, and also to meetings of the Chautauqua Society, which was religious in its origins and overall atmosphere.

While at Wisconsin, Ely was the subject of a sensational trial before the Board of Regents, stemming from charges of socialism by the state superintendent of education. The assault upon him turned into a fiasco, and, as part of their statement of exoneration, the regents issued a famous declaration upholding academic freedom, which was inscribed on a tablet in Bascom Hall. Before he left for Northwestern, they conferred upon him an L.L.D. and other honors.

Despite his rejection of *laissez faire*, Ely did not regard himself as a socialist. He held that only certain areas of business are inherently monopolistic,¹ and he did not, by and large, consider land ownership to be among them. Psychological reasons for his generally sympathetic attitude toward land ownership may perhaps be revealed by his autobiographical remark that "a strong attachment to the land is characteristic of nearly all the Elys and of most New England families. . . . We, in Connecticut, loved the land we owned and would not let it go."² While he nowhere essayed a thoroughgoing critique of Henry George's writings, he did devote some adverse paragraphs to the single tax, and doubtless displayed his antipathy toward it orally in such a way as to inculcate his students, most of whom came to occupy positions that enabled them to further disseminate his unfavorable opinions.

In spite of his antipathy to the single tax, Ely, to his credit, was capable of generous sentiments concerning George's broader contribution:

Perhaps the greatest service of all which Mr. George has rendered is to be found in the discussions of right and wrong in economic affairs and institutions which he has provoked. There have always been plenty to advocate the economic rights of the individual, and it is very fortunate that now, at least, a few leaders of thought are urging us to look at rights from the standpoint of the public as well as the individual. . . . The question is frequently asked: "Are property rights safe?" I have no fear about the property rights of the individual, but I have much fear that the property of the public will be stolen in the future as it has too frequently in the past. Henry George and others like him are helping to protect the

property of the public, and for this the millions whose rights are too often overlooked ought to be grateful.³

Jorgensen's Response to Ely's Earlier Criticisms of George

Ely's most extensive criticisms of the single tax are contained in his *Outlines of Land Economics* and his *Outlines of Economics*. The first of these, which was originally published in three volumes in mimeographed form in 1922, was written to set forth fundamental principles upon which the more specialized monographs of the Institute would be grounded. In 1928, 1931, and again in 1940, its subject matter was revised and rearranged with the co-authorship of George S. Wehrwein, and brought out in a single volume, *Land Economics*. The foreword to the 1964 reprint of this work by the University of Wisconsin Press opens with the statement: "In the history of land economics, the Ely-Wehrwein volume is probably the single most influential book."⁴

In 1925 Ely, his Institute, and his *Outlines of Land Economics* were the targets of a 205-page attack by a Georgist, Emil O. Jorgensen, the vitriolic tone of which is typified by its cumbersome but pugnacious title. *False Education in Our Colleges and Universities: An Exposé of Prof. Richard T. Ely and His "Institute for Research in Land Economics and Public Utilities"* was published in Chicago by the Manufacturers and Merchants Federal Tax League, of which Jorgensen was information director. It accuses Ely of bias, hypocrisy, and mendacity, and strongly implies that the policies of his Institute were tailored to accommodate the landed interests prominent among its donors.⁵ While this implication may seem uncharitable, it is perhaps worthy of remark that as soon as Ely moved his Institute away from the University of Wisconsin, the regents of that school resolved "that no gifts, donations, nor subsidies shall in future be accepted by or in behalf of the University of Wisconsin from any incorporated educational endowments or organizations of like character"⁶—as if the Institute's dependence upon vested interests had threatened the integrity of its erstwhile host.

Whether or not Jorgensen was justified in impugning Ely's motives, he could scarcely have chosen a better way to vitiate the

effectiveness of his offensive. One finds it difficult to escape the conclusion that, were it not for Ely's prestige, many of his postures would be dismissed as perverse by most economists, regardless of their estimate of George, and that these postures fairly invited Jorgensen's intemperate response. Had Jorgensen been content to concentrate his fire on these without resorting to personal invective, his book might have been more successful in accomplishing its purpose. However, in his attempted refutation of the thirty-two chief fallacies that he purports to find in the *Outlines of Land Economics* and, to a lesser extent, in other works by Ely, Jorgensen does manage to score some telling points. Space does not here permit a review of his treatment of all thirty-two "fallacies," so the present authors will occupy themselves only with the thirteen most pertinent objections. Of those with which we shall not deal, some are trivial; others cast aspersion upon Ely's intellectual honesty; others merely assert dogmatically propositions contrary to those of Ely; while still others reflect what appear to be misreadings or distorted interpretations of the passages in question. Our method will be to state each "fallacy" in Jorgensen's words, to present a citation from Ely substantiating that he actually held the position ascribed to him, and, finally, to summarize in each case Jorgensen's rejoinder, with sometimes a comment of our own. The "fallacies" are numbered here as they originally appeared.

"3—*That Land CANNOT be Monopolized, While Capital and the Products of Industry CAN be Monopolized*": "Of all the factors of production land is the most difficult to monopolize. . . . In land ownership there is usually the freest and fullest competition, so that the returns yielded by land are reduced to a lower level than the returns to fluid capital. Land requires more care and gives smaller returns in proportion to what is put into it in the way of capital and enterprise, than standard investments of other kinds. . . . It is a curious thing that people speak of land as a monopoly when it, of all things is the least monopolizable."⁷

Jorgensen's rejoinder: "Land cannot be duplicated, but capital can be duplicated indefinitely," and, indeed, "must be constantly duplicated to keep it from returning to . . . the dust of the earth. Competition, therefore, cannot affect land in the same manner and in the same degree that it affects capital. . . ." "Land has no cost of produc-

tion, capital has. And whereas in civilized society land always starts at zero and *appreciates* in value, capital—minor disturbances apart—always starts at its cost of production and *depreciates* in value.”⁸

“6—*That Invention, Discovery and Material Progress Have the Effect of REDUCING Land Values Instead of RAISING Them*”: “Progress brings economy in the use of land, making the same area go farther toward satisfying the need for land. With a stationary population, if society progresses, a land supply, though constant in area, increases relatively through improvements in the utilization of agricultural land and through improvements in transport in the case of urban land. As a result land will fall in value.”⁹

Jorgensen’s rejoinder: The reverse of the above is true because human wants are insatiable. Improvements elevate the standard of consumption. This constantly increases the demand for land (even when population is stationary) and hence land values. To support his argument, Jorgensen quotes from various authorities, including Adam Smith and Thorold Rogers.¹⁰ Later, he administers the coup de grâce by quoting another passage from the same volume (p. 111) in which Ely, asserting that a progressive society that increases in prosperity “inevitably adds to the selling price of the land,”¹¹ takes a stand directly opposite to that under discussion.

“7—*That the Rent of Land Has Not RISEN During the Last Hundred Years, But Has Remained STATIONARY*”: “Henry George and others hold that the rent of land absorbs the increase in wealth. The history of the world in the last hundred years, however, shows wealth increasing and the rent of land remaining fairly stationary. In the period from 1850 to 1910 the rent of land never amounted to as much as ten percent of the annual wealth of the United States, while in England the rent of land has decreased.”¹²

Jorgensen’s rejoinder: Contrary to Ely’s contention, rent has been steadily rising over the last hundred years, even in England. For example, farm rent that 200 years ago stood at zero, now absorbs from 20 to 60 percent of the farmer’s annual income. Urban residential site rent, next to nothing in the days of Benjamin Franklin, now takes from 12 to 40 percent of the earnings of the people who live on the sites. Royalties for coal-bearing sites are as much as 26 percent of the price the coal sells for at the mouth of the mine, oil royalties,

from 12 to 20 percent of the price of oil at the well. "In short, we know that the rent of land, which, in the seventeenth century absorbed nothing from the wealth produced by capital and labor, now absorbs twenty, thirty, forty and sometimes sixty percent of that wealth, instead of less than ten per cent as claimed by Prof. Ely."* Dr. Sun Yat-sen is quoted (New York *Independent* 13 June 1912) as saying that the value of land in Shanghai had increased ten thousandfold (100,000 percent!) during the past century.¹³

"8—*That Unearned Increment is Not to Be Found in Land RENT, But Is to Be Found in WAGES and INTEREST*": "Unearned increments . . . are due to two great causes; namely, monopoly and conjecture. In the case of land ownership the first is eliminated, whereas in many other parts of the economic field both operate."¹⁴

Jorgensen's rejoinder: Jorgensen offers the standard Georgist reply, pointing out that wages and interest are, by definition, earned, while rent, not being the product of individual effort, cannot be earned by individuals. He quotes John Stuart Mill's observation (*Principles of Political Economy*, bk. 5, chap. 2, sec. 5) that landlords "grow richer as it were, in their sleep, without working, risking or economising."¹⁵ We would add that Ely simply calls speculative profits (which certainly apply to land) "rent of conjecture" instead of monopoly rent, ignoring the fact that without some element of monopoly, conjecture would seldom yield rent, which results from the combination of a monopoly of location and/or subsoil assets with population increase and improvements in the area. He says (p. 55) that this speculative profit should be called "conjectural surplus" or "rent of conjecture" rather than the unearned increment of land, yet on the next page (p. 56) he explicitly classes it as an unearned increment.

"10—*That the Amount of Good Land Held Out of Use Is Not LARGE, But Very SMALL*": "The idea that good land is held out of use in large areas is a fiction."¹⁶

Jorgensen's rejoinder: The table of vacant land in thirteen U.S. cities,

*If it be objected that, by going back to the seventeenth century or to the days of Franklin, Jorgensen does not really speak to Ely's point that rent has not risen over *the last hundred years*, the truly immense appreciation in land values over the past three decades certainly supports his general position.

compiled by a staff member of Ely's Institute, and upon which he bases the above statement, actually does not support it, for it shows Spokane to be 63.5 percent, St. Paul to be 51.9 percent, Chicago to be 31 percent, St. Louis to be 29.8 percent, San Francisco to be 26.7 percent, and so on, unimproved. "But the situation is emphatically worse than the table indicates. For one thing, its accuracy in several places is rather doubtful—Chicago, for instance, having, according to the assessment officials, approximately 55 percent of its land vacant instead of 31 percent." Furthermore, even if the table were correct, it would be misleading because of the vast amount of land that is classified by public officials as improved, but that is so underdeveloped as to be practically vacant—where the "improvement" (which may be nothing but a billboard) bears no relation to the value of the site. Ely seeks to substantiate his claim only with respect to urban land, but Jorgensen documents the existence of immense tracts of desirable coal, mineral, waterpower, timber, and agricultural land that were either undeveloped or underdeveloped, citing figures from the Forestry Department, the 1914 federal report on *The Lumber Industry*, and Gifford Pinchot.¹⁷

"11—*That Speculation in Vacant Land Is an ASSET to a Community Instead of a LIABILITY*": "It should be apparent that the owner of vacant land supplies these conditions (available land for gardens, lawns and open air spaces) at a rather low cost. . . . Did we not have the public revenues yielded by vacant land privately owned while undergoing the ripening process, the tax rate would have to be raised. . . . He (the owner of vacant land) has made an investment: he has performed economically desirable functions, he has taken great risks, he has paid significant sums in taxes and assessments. Very uncertain and often inadequate are the gains that finally come to him."¹⁸

Jorgensen's rejoinder: The vacant lots in question do not in the main consist of gardens, lawns, and so forth, as Ely implies, but largely of weed-patches, mud puddles, and dumping places for junk and garbage. Their price is too high for those who would like to beautify them. This high price forces congestion on the land that is improved, *reducing* the availability of fresh air and sunlight. As for taxes, "if it were not for the chronic undertaxation of vacant land everywhere there would be no resultant overtaxation of improved

land." Land ventures, it is true, do not always turn out profitably. But Ely thinks that speculators are entitled to a profit for making such investments and taking such risks. "Figs! The bandit who purchases a revolver and waits all night for his victim to come by is not always successful either. He, too, has made an 'investment,' has 'worked hard' and has 'taken great risks' and if the vacant land monopolist whose object is to hold up the land user is fairly entitled to a profit, so is the bandit." But the chief loss that the withholding of land imposes on the community is: (1) in the greatly increased cost that it lays on government, first, by making it more expensive to obtain land for public improvements, and second, by compelling states and municipalities to build and keep in repair an enormous amount of unnecessary improvements because of "suburban sprawl"; and (2) in the immense obstacles that it puts in the way of the legitimate production and distribution of wealth, because land available for use is not compactly situated.¹⁹ These two points, it may be parenthetically remarked, were never put more dramatically than by Winston Churchill in 1909, on the stump in Lancashire. What he said there on the topic was published as the fourth chapter of his book, *The People's Rights*,²⁰ and is heartily commended to the attention of the reader.

"13—*That Most Land is Owned by POOR People, and Not by RICH People*': "Few of the men of great wealth whose names are familiar to us have made their money in land. . . . Land is the poor man's investment and should be such."²¹

Jorgensen's rejoinder: Jorgensen presents a table showing that 10 percent of the U.S. population owns 90 percent of the total land values, 40 percent owns 10 percent of the total land values, and 50 percent owns no land values whatsoever. He then points out that the names of very few wealthy persons are "familiar" to the public at large, since they are chiefly nonproducers and therefore have no pecuniary reason to advertise their names. In any case, he says, it is not true that few of the famous multimillionaires made their money in land, and he backs this assertion with various citations, including the following from John R. Commons (*The Distribution of Wealth* [New York: Macmillan, 1893], p. 253): "If the size of fortunes is taken into account, it will be found that perhaps 95% of the total values

represented by these millionaire fortunes is due to those investments classed as land values and natural monopolies, and to competitive industries aided by such monopolies.”²²

“15—*That the Separation of Land and Improvements is NOT PRACTICABLE, But IMPRACTICABLE*”: “Among the many reasons why we should not tax separately the value of the land and the value of improvements is the difficulty of separating the two values.”²³

Jorgensen’s rejoinder: Jorgensen denies that such a difficulty exists, instancing the successful application of the Somers System in Cleveland and Columbus, Ohio; Springfield and Joliet, Illinois; Des Moines and Dubuque, Iowa; Phoenix, Tucson, and Prescott, Arizona; Houston, Beaumont, Waco, Galveston, San Antonio, and Corpus Christi, Texas; Denver, Colorado; Augusta, Georgia; and Redlands, California; and elsewhere; as well as the separation of land from improvement values in Australia, New Zealand, South Africa, Canada, Denmark, and Hungary, together with New York City and the California Irrigation Districts. In further support of his position he cites the authoritative *Principles of Real Estate Appraising* by John A. Zangerle, and *The Taxation of Land Values* by Louis F. Post, a Georgist who served as assistant secretary of labor under Woodrow Wilson.²⁴

“22—*That Consumption Taxes Will Not HURT the Poor People, But Will HIT the Rich People*”: “The ‘masses’ have a surplus that can be taxed. . . . On every hand can be seen an enormous surplus of income over needs of subsistence. The expenditures of the public for prize fights, ‘movies,’ ice cream, candy, tobacco, chewing gum, perfumery and beverages of all kinds run into the hundreds of millions, yes, even billions of dollars every year. . . . Taxes on consumption and various indirect forms of taxation must be employed to a larger extent.”²⁵ “Now, we have a great many people of large means who own tax-exempt securities and the aggregate of these securities runs into many billions of dollars. We can reach these people, and that without violation of faith, by indirect taxes.”²⁶

Jorgensen’s rejoinder: If there really is a margin that allows the workers to indulge in “movies” and ice cream, and if they earned it by rendering useful services, it properly belongs to them, and should not be sucked away from them in order to “enable the owners of our

natural opportunities to put in their pockets a still larger amount of ground rent which they do not earn."²⁷ As for indirect taxes being a means of reaching the rich: "There is no way in which indirect taxes can be placed upon the food, clothing and luxuries of the people that will not strike the poor, in proportion to their means, infinitely harder than they will strike the rich—not if they are intended to raise any substantial amount of revenue." For to raise much revenue, they must be levied upon such articles as are in wide and common use, and the millionaire does not consume a significantly larger quantity of these than does the day laborer.²⁸

"23—*That to Take the Socially-Created Rent of Land is CONFISCATION, But to Take the Earnings of Capital and Labor is NOT Confiscation*": "Many are disturbed because property in land yields income. Our attention is frequently called to a corner lot in a city, from which the owner derives, let us say, \$30,000 a year. Taxes and all improvements are paid by the owner of the building erected on the lot. The owner of the lot may live in idleness, and it is said that he makes no return to society for what he receives. . . . Unless we are prepared to go over to Socialism and abandon private ownership of productive property, we must expect to find men receiving an income from property, and using this income sometimes wisely and sometimes ill. . . . The solution of our land problems is not at all to be sought in confiscation of land values."²⁹

Jorgensen's rejoinder: To the above, Jorgensen juxtaposes Ely's passage on consumption taxes for the masses, quoted under the last heading. The obvious conclusion to be drawn from comparing the two passages is that Ely maintains that it is the landowner's own business what he does with his income, but that if workers spend money on such nonessentials as ice cream and "movies," they should be penalized by indirect taxation. It could, of course, be objected that such taxes would apply to landowners as well, but Jorgensen contends that the landowner's income, being a social product, is something that "justly belongs to the whole community," whereas the wages of labor and the interest on capital are returns for human effort expended and useful services rendered, and therefore rightfully belong to those who have earned them. "Hence, if any portion of these funds of wages and interest be appropriated by taxation, it is—

so long as government has its own source of revenue—nothing less than robbery, robbery under the forms of law.”³⁰

“24—*That the Singletax Means, Not INDIVIDUALISM, But SOCIALISM and COMMUNISM*”: “According to the single tax theory all land is a gift of nature to society; consequently all the returns from utilizing land belong to society, not to any individual owner.”³¹

Jorgensen’s rejoinder: Jorgensen correctly asserts that “the single-tax theory *does* hold that ‘all land is a gift of nature to society,’ but it *does not* hold that ‘all the returns from utilizing land belong to society, not to any individual owner.’ The singletax holds just the opposite of this; namely, that ‘all the returns from utilizing land’ belong to individuals and not to society.”³² Upon analysis, Ely’s statement would indeed appear, as Jorgensen complains, to place the single tax “in the same class with socialism and communism.” Whether this was, as he charges, Ely’s design, is less clear. Yet Ely’s treatment of George in his *Recent American Socialism* lends a degree of credence to the charge, for in that work George is presented as a harbinger and abettor of socialism (which to some extent he unintentionally was), with scarcely a hint that he was also a firm believer in the rights of capital and in free market competition.³³

Later Criticisms by Ely

Ely’s *Outlines of Economics* went into six editions over a period lasting from 1893 to 1937. Most of these had various co-authors, and the views expressed in them were not always uniform, but Ely, as senior author, was ultimately responsible for the content of each edition. While all the editions tended to be unsympathetic to the single tax, the fullest discussion of it is contained in the two last ones, and it is therefore to these that we shall primarily refer.

“On what ground of justice or ethics,” asked Ely, “shall the landowner be singled out for taxation?”³⁴ Why should the rich merchant or stockholder go tax free while the landowner, who may be either rich or poor, is taxed to the point of confiscation? Ely maintained that the only just basis for taxation is ability to pay, and so was a strong exponent of the progressive income tax (although, as we have seen, he also favored taxes on consumption).

Ely's objections to the single tax were practical as well as moral. Allusion has already been made to his belief that the tax would be difficult if not impossible to implement, because of the problem of trying to separate the value of land from the value of improvements on or to it. Unlike General Walker, who advanced the same objection, Ely concerned himself with urban as well as with rural land, and asked how we could separate from the bare land value the value of such capital improvements as grading, landscaping, drainage, and the installation of sewers, streets, and utilities.³⁵ Curiously, this flatly contradicts his stand in earlier editions, where he raised the problem with respect to agricultural land only, and acknowledged that "it is easy in cities to separate economic rent from rent for improvements, and it is done a thousand times a day."³⁶ The final (sixth) edition, published in 1937, and co-authored by Ralph Hess, does not take a definite position one way or the other on this issue.

Ely was one of the first to broach the charge of inelasticity, which was to appear again and again in the writings of opponents of the single tax. He felt that the amount of land rent in a community did not necessarily equal the amount of revenue required for public purposes. At times the land-value tax might yield more than the government needed, but at other times it might yield less. In periods of emergency, such as depression or natural disaster, the land-rent fund would tend to diminish just when more public revenue was called for.³⁷

To this indictment the single taxers replied that the land-value tax would collect so much revenue that all possible governmental needs would be satisfied. Although, on both moral and economic grounds, George advocated collecting all but a small fraction of the land rent, some of his more moderate followers (notably, Thomas Shearman and Charles B. Fillebrown) pointed out that any of it not needed for legitimate public expenditures would not have to be collected. All of the single taxers argued that the government should live off its own rightful income just as any individual or corporation is expected to do, and should therefore limit its expenditures according to the capacity of the socially produced land-rent fund. They reasoned that a government expenditure should create an equivalent amount of land value because it presumably increases the desirability of living in the

area served by the government; this increased desirability is reflected in location value, that is, land rent. Hence, if a government expenditure did not increase land rent by an amount at least equivalent to the expenditure itself, it should be condemned as wasteful and ill-advised.

Although it is widely conceded that in George's time land rent would have met the cost of government at all levels, and although after three decades of geometrically increasing land values, the most informed estimate is that U.S. annual land rent is now probably double U.S. corporate after-tax profits,³⁸ many would question whether even this would yield a sum sufficient to support today's gigantic public budgets. As for the single taxers' "rightful income" argument, while it might hold true in a utopia where all men are rational and no one infringes upon the just claims of his fellows, its applicability to our present nonutopian world seems rather dubious. In a utopia, huge outlays for defense and police would not be necessary. But today the size of such outlays is determined by urgent practical need rather than by the amount of land values they might generate. On the other hand, Georgists would be quick to point out that the effect of land-value taxation with respect to employment, housing, and numerous other domestic problems might well be such as to eliminate or at least drastically reduce the requirement for public spending in these and related areas.

Furthermore, it should be realized that the inelasticity criticism applies only to the single tax, not to a land-value tax imposed as one tax among others. Somewhat unaccountably, Ely, in most of his writings, refused, as did many other professional economists, to consider the land-value tax as anything else than a single tax.³⁹ Yet there is no real reason why the land-value tax, if insufficient for justifiable government expenditures, could not, consistent with George's premises, be supplemented by other levies based on the concept of payment for benefits received.⁴⁰ And even most contemporary economists (who reject the benefit theory) recognize the peculiar advantages of land-value taxation as one source of public revenue.

Ely's argument that it is practically impossible to separate urban improvement values from bare land values was not borne out by the experience of many municipalities that even in his day were

assessing land and improvements separately. This may be why the argument does not appear in the final edition of his book. Assessors were and are doing what he claimed was impossible. To the examples instanced by Jorgensen, we may add Kiao-chau during its period as a German protectorate prior to World War I, Jamaica, Hawaii, and the Pennsylvania cities of Pittsburgh, Scranton, Allentown, and Harrisburg. Only the costs of grading, drainage, and other types of site development that “merge with the land” present a genuine difficulty, but solutions do exist. One good method is to permit tax deductions, spread over a number of years, for the increase in land values resulting from these site-development expenses.

What about Ely’s contention that ability to pay (as an application of the more general social utility theory) is the most just criterion for a tax? Like other “liberal” economists who reflected the influence of study in Bismarck’s Germany, he was contemptuous of the idea that people should be obliged to pay only for specific benefits received from the community, holding that the individual has no rights apart from society, and that the privilege of being part of society is a general benefit for which he should be made to pay whatever he is able.⁴¹ To George, an uncompromising Jeffersonian individualist whose social philosophy was squarely grounded on the doctrine of natural rights, this approach was, of course, anathema. He maintained that all true taxation was morally wrong, and that the so-called single tax was not really a tax at all. It was merely the public appropriation of a publicly produced phenomenon, land rent, for public purposes.⁴²

But when he used the word *tax* in the broader and more conventional sense (as he often did as a concession to common parlance), George maintained that it was better to tax a special privilege like the exclusive use and disposition of a site (a portion of that earth that God created for the habitation and sustenance of all His children) than an ability such as business acumen or inventiveness. Why fine a man by taxing his ability when by using it he cannot help but benefit society? A contemporary proponent of land-value taxation might add that we should adopt it because it fulfills better than any alternative the canons of taxation generally accepted ever since the days of Adam Smith. While no Georgist would ever advocate “soaking the rich” as

a matter of principle, if for some reason this were still deemed necessary or desirable by the elected representatives of the public, other taxes could be added for the purpose.⁴³

The sixth (last) edition of the *Outlines of Economics* contains a criticism that we have not yet considered, which also appears in germinal form in the fifth edition and is similar to arguments earlier advanced by Carl C. Plehn, John Bates Clark, and Frank Fetter.⁴⁴

Henry George's social philosophy was based . . . on the fundamental distinction he drew between land and capital. . . . But modern economic thought has come to recognize that land, like capital, is an agent of production which owes its usefulness to human toil. Land, in the economic sense, can be said to exist only in so far as it is brought into use by man, and, in this sense, the supply of land, like the supply of capital is susceptible of increase in response to demand.⁴⁵

But decades before Ely gave it currency, this point had been forcefully addressed by Thomas Nixon Carver, who stoutly upheld the distinction between land and capital in the following words:

Now land capital [economic land as distinguished from mere geographic land] cannot possibly mean anything else than land *value*, since it is used in a way which excludes improvements placed on the land such as buildings and fences. But to argue that though land surface may not be increased land value may, is to beg the whole question. One might as well say that during the supposed coal famine of the winter of 1902–1903, it was not coal in the economic sense, but only in the material sense, which was scarce; that though there were few coal-tons there was much coal-value; and that therefore there was as much coal, in the economic sense, as ever: but that would be a travesty on the science of economics.⁴⁶

Carver went on to point out that although there are certain ways (such as improved transportation facilities) by which the scarcity of land can be alleviated when the pressure becomes great enough to furnish inducement, they cannot do so sufficiently to prevent land from “rising to enormous values in thickly populated centres”—which is manifestly the case with capital only temporarily when at all.

George Raymond Geiger, expanding upon remarks by Harry Gunnison Brown, subjects Ely's argument to yet another line of contravention, with which it seems appropriate to bring this chapter to a close:

We are told, by Ely *et al*, that the utilization of land is possible only through labor, since the use of land demands accessibility, and that therefore in this sense land is *produced*. "How utterly irrelevant is all this to the real problem about land rent! If landowners alone paid the entire cost of 'creating means of access' to their land, such as bulding all the railroads, roads, bridges, and wharves required, maintaining them, and replacing them when worn out or obsolete; if the various owners paid, each in proportion to the increased land value received by them; and if the total capitalized land value did not exceed the reproduction cost, minus depreciation and obsolescence, of these 'means of access,' then Ely's discussion would have relevancy to the problem of private enjoyment of land rent." We are told that bridges and dams and irrigation projects are irreproducible, and that therefore to distinguish between land and capital is old-fashioned! In other words, we are indirectly informed, by an argument like this, that depreciation of *all* capital can be neglected. Or perhaps we are supposed to believe that land *site* depreciates just as much as manufactured articles. (That *fertility* does decline is obvious, but what "land economist" is prepared to argue that the depreciation of farm land *in general* is commensurate with that of buildings and improvements?) This is the type of argument that is used to overthrow the classical contention that land space is set by natural forces, that man can *in no significant way* amend that work of nature or extend it, and that man can and does produce and reproduce goods—wealth and capital. Is it any wonder that some of us become very impatient with our emancipated economic theorist?⁴⁷

Notes

1. Richard T. Ely, *Ground Under Our Feet* (New York: Macmillan, 1938), p. 268.
2. *Ibid.*, p. 4.
3. Richard T. Ely, "The Single Tax," *Christian Advocate*, 25 December 1890, p. 856. Cited in Arthur N. Young, *The Single Tax Movement in the United States* (Princeton, N.J.: Princeton University Press, 1916), p. 318.
4. Richard T. Ely and George S. Wehrwein, *Land Economics* (1940; reprint ed. Madison, Wis.: University of Wisconsin Press, 1964), p. v.
5. According to Ely himself, contributors included the Carnegie Corporation of New York, the Laura Spellman Rockefeller Memorial Foundation, railways, public utility companies, land companies, lumber companies, etc. "An Open Letter," *Institute News*, October 1924.
6. Resolution of the Board of Regents, August 1925.
7. Richard T. Ely, assisted by Mary L. Shine and George S. Wehrwein, *Outlines of Land Economics* (Ann Arbor, Mich.: Edwards Bros., 1922), 2: 52, 53, 73.

8. Emil O. Jorgensen, *False Education in Our Colleges and Universities: An Exposé of Prof. Richard T. Ely and His "Institute for Research in Land Economics and Public Utilities"* (Chicago: Manufacturers and Merchants Federal Tax League, 1925), pp. 38 f., 40.
9. Ely et al., *Outlines of Land Economics*, 2: 58. See also Richard T. Ely and Edward W. Morehouse, *Elements of Land Economics* (New York: Macmillan, 1924), p. 262.
10. Jorgensen, *False Education*, pp. 43–50.
11. *Ibid.*, p. 72.
12. Ely et al., *Outlines of Land Economics*, 2: 74.
13. Jorgensen, *False Education*, pp. 51 f.
14. Ely et al., *Outlines of Land Economics*, 2: 56.
15. Jorgensen, *False Education*, p. 53.
16. Ely et al., *Outlines of Land Economics*, 3: 98.
17. Jorgensen, *False Education*, pp. 61 f.
18. Ely et al., *Outlines of Land Economics*, 3: 105 f.
19. Jorgensen, *False Education*, pp. 64 f.
20. Winston Spencer Churchill, *The People's Rights* (1909; reprint ed. New York: Taplinger Publishing Company, 1971).
21. Ely et al., *Outlines of Land Economics*, 3: 98.
22. Jorgensen, *False Education*, pp. 75–78.
23. Ely et al., *Outlines of Land Economics*, 3: 115.
24. Jorgensen, *False Education*, pp. 85–87.
25. Ely et al., *Outlines of Land Economics*, 3: 93.
26. Richard T. Ely, *Taxation of Farm Lands* (St. Paul: Webb Publishing Company, 1924), p. 25.
27. Jorgensen, *False Education*, p. 107.
28. *Ibid.*, pp. 109 f.
29. Ely et al., *Outlines of Land Economics*, 3: 102 f., 105.
30. Jorgensen, *False Education*, p. 113.
31. Ely and Morehouse, *Elements of Land Economics*, p. 323.
32. Jorgensen, *False Education*, p. 117.
33. Richard T. Ely, *Recent American Socialism* (Baltimore, Md.: Johns Hopkins University Press, 1884), part 2.
34. Richard T. Ely, Thomas S. Adams, Max O. Lorenz, and Allyn A. Young, *Outlines of Economics*, 5th rev. ed. (New York: Macmillan, 1930), p. 462.
35. *Ibid.*, pp. 444, 460.
36. Richard T. Ely, *Outlines of Economics* (1893; reprint ed. New York: Macmillan, 1905), p. 366.
37. Ely et al., *Outlines of Economics*, 5th rev. ed., p. 460.
38. Mason Gaffney, "Adequacy of Land as a Tax Base," in *The Assessment of Land Value*, ed. Daniel M. Holland (Madison: University of Wisconsin Press, 1970).

39. An exception would be *Land Economics*, co-authored by George S. Wehrwein, in which taxation as a land-use control is sharply distinguished from the single tax. See p. 477.

40. This is implied by Ely and Wehrwein, *ibid*.

41. See, for example, Richard T. Ely, *Property and Contract in their Relations to the Distribution of Wealth* (1914; reprint ed. Port Washington, N.Y.: Kennikat Press, 1971), 2: 504. For a discussion of this position as advocated by E. R. A. Seligman, see the chapter on Seligman in the present work.

42. Henry George, *Progress and Poverty*, 75th anniversary ed. (New York: Robert Schalkenbach Foundation, 1954), p. 421.

43. The income tax is not so much of a "soak the rich" tax as many people think. There are many loopholes in the income tax law, and rich men can employ able accountants and lawyers to find them. Most large incomes are derived from capital gains, only 40 percent of which are subject to taxation for individuals and 25 percent for corporations. Income splitting among family members, a loose interpretation of business expenses, income from tax-exempt government bonds, profit-sharing trusts, stock options, etc., are legal means of tax avoidance. In addition, it is well known that tax evasion is widespread at the high and medium income levels, whereas salaried employees must pay their full share and more of the tax load.

In 1955, 84 percent of the income tax revenue was derived from the 20 percent basic rate that all taxpayers paid on taxable income, and only 16 percent of the revenue was derived from the progressive rate (which ranged from 22 to 91 percent). How much more progressive (i.e., based on income) is the income tax when compared with a national sales tax?

Census figures indicate that in 1955 the highest income-tenth received 29 percent of the national personal income before federal income taxes and 27 percent after. The highest income-fifth received 45 percent before and 43 percent after. (See Gabriel Kolko, *Wealth and Power in America* [New York: Praeger, 1966], p. 34.) The disparity has become even greater since then.

Since the more valuable land is owned almost entirely by rich people, a land-value tax would fall much more on them than upon the poor. In the light of the above statistics, it is certain that the land-value tax would be more progressive than the income tax!

44. Plehn's criticism was presented in a paper read before the Massachusetts Single Tax League, 8 December 1902; Clark's argument is found in his *Distribution of Wealth* (1900), and Fetter's in "The Relations Between Rent and Interest," *Publications of the American Economic Association*, 3d ser., 5, no. 1, pt. 1.

45. Richard T. Ely and Ralph H. Hess, *Outlines of Economics*, 6th ed. (New York: Macmillan, 1937), p. 465.

46. Thomas Nixon Carver, *The Distribution of Wealth* (New York: Macmillan, 1904), p. 113 f.

47. George Raymond Geiger, *The Theory of the Land Question* (New York: Macmillan, 1936), pp. 76 f. The interior quotation is from Harry Gunnison Brown, *The Economic Basis of Tax Reform* (Columbia, Mo.: Lucas Bros., 1932), p. 115 n.