The New Henry George

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THE NEW HENRY GEORGE

By G. R. DAVIES

WHILE we are not at all likely to accept the totalitarian philosophy, the experience of Russia may nevertheless serve to teach us a lesson in theoretical economics. It is a lesson which has been pointed out before, but which has never been regarded as important. Of all our economists, perhaps Henry George came the nearest to suggesting it, but he failed to see its full implications.

When the Russians adopted modern cost accounting methods for their ambitious corporate system, they made the simple discovery that the cost of human services—wages of management and labor—by no means equaled the value of produced income. If, however, all items of capital equipment, such as real estate and machines, were accorded their imputed earnings, then accounts balanced. In other words, as we well know from our own experience, the cost of production, in the broad meaning of the term, is represented by the earnings of capital and labor. Theoretically, in perfect equilibrium markets, a unit of labor, land, and machinery each gets the value it adds to total production.

But this matter of costs is only preliminary to the essential point of the discovery. Conventional economics has always assumed that private earnings may be broadly classified as payments for personal services and payments for saving. To us, payments for saving are as necessary and as justifiable as payments for services. It is the theoretical aspect of this conclusion that the Russian experience questions.

If a corporate system could start its books, as the Russian system did, without the usual credits to owners of private capital, it would absorb the earnings which we call interest, dividends, and the "unearned" portion of profits. It then would have ample savings without paying for saving. However, if it began in conformity with free enterprise, and built its corporate structure by crediting investors, then its capital earnings would eventually go to investors, even though temporarily plowed back. And it would be obliged to hold out the attractions of interest or dividends to insure further investment. Practically speaking, a system thus established could not be materially changed.

Just what percentage of total production is theoretically allocated as capital earnings we do not know. Undoubtedly it varies from one country to another, and from one stage of development to another. Moreover, it could be modified by withholdings or bonuses. But on the basis of markets as indicated by our own experience, such earnings probably would have approximated 30 percent in the early days and 25 percent in recent times, while normal savings shortly before the Great Depression were estimated at 20 percent. If these estimates are correct, collectively we have been paying investors 25 percent of our aggregate income to induce them to save 20 percent of it. But the high cost of saving guarantees relatively free competition, and prizes for the winners. On farms and in highly competitive small businesses these prizes may be small. But unearned increments and monopolistic profits should round out the aggregate payments for saving.

The principle involved in capital earnings has an interesting relation to the theories of Henry George and the so-called single tax. Henry George argued that the earnings of land represent in effect a tax which individuals levy upon society, and which should be recovered by the single tax. But he failed to note that the original earnings of land provided funds for the early stages of capital investment. And these investments in turn, combined with land rent, supplied later capital. Consequently it may plausibly be argued that in the aggregate practically all capital earnings are theoretical derivatives of land rent, though over the years individuals may have confused the issue by buying and selling the properties which yield these earnings. Capital, therefore, may be said to possess an effective taxing power. Its levies may be called a natural tax, because they arise naturally from an equilibrium market. Obviously this natural tax could not now be recovered by an enlarged single tax without destroying free enterprise. Moreover, the taxing power of capital may be defended on grounds of expediency. But at least it emphasizes the truth of the traditional religious principle that wealth is a trust fund.

The fact of capital's natural tax helps to explain some of the phenomena of history. In a new country free enterprise doubtless stimulates a rapid rate of progress, inasmuch as it offers large bonuses to successful tycoons. But as the country matures and wealth settles in the hands of an hereditary class, the incentive to take risks lessens. As markets become complex, as inherited capital loses its initial spirit of enterprise, as diminishing investment returns are experienced, and as depressions become common and extreme, free enterprise systems tend to pass over into plutocracies, dictatorships, or militaristic empires.

The earliest records of civilization, written on the clay tablets discovered by archeologists in the Tigris-Euphrates Valley, reveal free enterprise in full bloom. But various retarding factors, such as those just mentioned, produced rebellions, wars, and empires. Then progress slackened.

Through the centuries of economic history, free enterprise has been revived again and again in frontier areas, or in old areas by the influence of improved transportation. And in each new frontier, as a rule, business has climbed to higher levels of invention and power, and has often revived old reactionary centers. Now that we are shedding our isolationism, new geographic frontiers should keep us busy for a generation or two, assuming the usual clashing of rival imperialisms. After that, only the frontiers of new science will remain. But these frontiers so quickly yield enlarged investment funds, that a paralysis of enterprise may again ensue.

If modern democracies are to escape the historical fate of free enterprise systems, there must be an advance in social science comparable to that which has occurred in the natural sciences.