

A CHANCE ENCOUNTER

We met at Barth's Retreat—high up on Mt. Tamalpais just north of San Francisco. He was a retired doctor, a surgeon; I, a retired businessman. When he heard I was continuing with research in my lifelong interest in economics and politics he wanted to know where I stood. Was I a liberal, or a conservative, or what? The conversation proceeded as follows:

"I really don't know how to answer that. I suppose the most appropriate way to describe my views would be to call them radical."

"Radical?" He was clearly disturbed by the term.

"Yes, in the best sense of the word: going to the root of the problem. You doctors never hesitate to do that. If a leg has to be amputated in order to save a life, you don't hesitate to say so. Right?"

"What do you think the root of our problem is?"

"We never did enforce Jefferson's principle: Equal rights for all; special privileges to none. You believe in that principle, don't you?"

"Of course."

"Would it surprise you to know that two powerful interests other than slaveholders heavily influenced the writing of our Constitution and are still with us today—more powerful than ever?"

"It certainly would. What evidence is there of that?"

"James Madison's extensive notes taken at the Constitutional Convention. I take it you haven't read them?"

"No."

"You should. And read them carefully. Madison left no doubt about the influence of these privileged interests."

"Like what? Name them."

"Landholders and bankers."

"You sure sound like a radical all right. Don't you believe in free enterprise?"

"Absolutely. Far more than most people do."

"It sure doesn't sound like it."

"I'm not being inconsistent. We need landholders and bankers. But they should not have the special privileges our government gave them. Those privileges have prevented our free enterprise system from functioning properly. Unemployment, inflation, credit crunches, and the increasing concentration of wealth in the hands of a few are all traceable to those privileges."

"They are?"

"Yes. Tell me, do you think you have as much right to live in this country as anyone else?"

"Of course. Why do you ask?"

"You'll see in a minute. How do you explain the fact that some people have to pay others who may not even be citizens of this country for the right to be here?"

"What do you mean?"

"A person who owns no land at all has to live somewhere. So he is obliged to pay someone for the right to use, or occupy, part of this country. Isn't that so?"

"Yes. I see nothing wrong in that."

“But if we all have the same right to be here, then shouldn’t any rent paid for the use of part of this country rightfully belong to all of us—share and share alike? How else can we assure the equal right of every citizen to be here?”

“I don’t follow your reasoning.”

“Suppose you are the sole owner of this whole country and all the rest of us had to pay you rent for whatever land we were using. Would it not be obvious that our rights to be here were inferior to yours, and that you were in a privileged position as compared with us?”

“Of course, especially if I were allowed to keep all the rent. I’d be fabulously wealthy without having to do a lick of work.”

“Allowed to keep the rent? If you owned the whole country, it’s a safe bet you would control the government and most of the legislation. I presume you would see to it that the laws allowed you to keep most of the rent.”

“I suppose you’re right about that. But what’s this got to do with the situation in this country? You know as well as I that one man doesn’t own it all.”

“Suppose two men owned it all ... or 100 men ... or 1,000 men ... or anything less than all of us?”

“Now I see what you’re getting at. You’re saying that if each of us has an equal right to be in this country, then each has an equal right to the country, and therefore an equal right to its rental value. Is that it?”

“Exactly. Our land is our common heritage. It was here long before people existed. If any part of the rental value of our country—the land only—is privately pocketed, our common rights are being violated and privilege exists. But

don't get me wrong. I heartily approve of granting individuals exclusive use of part of our common heritage so long as each pays into a common fund the annual rental value of his or her privilege. How else can we be true to Jefferson's principle?"

"I don't know. Frankly I never looked at it this way before."

"Perhaps you should. Now let's carry this a little further. The total ground rent of this country naturally increases as our population increases. The rental value of land in the center of cities increases enormously. That means we have a source of public revenue that automatically increases as needed."

"Are you suggesting that our government wouldn't have to have any other revenue if it would just collect the rental value of land from all landholders?"

"Yes. Not our present government. But the kind of government we ought to have ... much smaller than the existing government."

"What a fascinating idea."

"It's been around for a long time. William Penn suggested the same thing clear back in 1693. In 1775 Adam Smith gave very good reasons why ground rent is the best source of public revenue. In 1850 Herbert Spencer, while developing his famous 'Law of Equal Freedom', argued substantially as I did about the equal right to be in a country. And twenty-nine years later, Henry George rediscovered the idea for himself and wrote his famous book *Progress and Poverty*."

"Henry George? That name rings a bell. Wasn't he known as the 'Single Taxer'?"

“Yes. He wanted to abolish all taxes except the tax on land value.”

“That’s the fellow. I didn’t realize so many other famous men had the same idea before him. At any rate, I thought George’s proposal had been pretty thoroughly discredited. Wasn’t he a socialist?”

“Certainly not. He believed in free enterprise. It’s true, of course, he stressed the importance of the common ownership of land. But he also believed in private tenure—which is really all we have today.”

“What do you mean by that?”

“If any landholder doesn’t pay his taxes, the land reverts to the government. He is assured of his right to use that part of our common heritage only so long as his taxes are paid.”

“So it really wouldn’t be any different from what we have today?”

“That’s right—except that George wanted landholders to pay—in taxes—the full rental value of their land so that taxes on our homes, income, sales, etc. can be done away with. Such a shift of taxes—off Labor and Capital and their products, and onto Land—would assure a more equitable distribution of wealth.”

“Would a landholder still be able to sell his land or bequeath it to his children as he can today?”

“Certainly. It would still be the same. And as long as the taxes are paid, the right to private tenure would be protected by the government. But of still greater importance, it would then be unnecessary for the government to violate our right to keep what we earn. Income taxes, sales taxes, gasoline taxes, taxes on our homes, factories, ma-

chinery, etc., all violate our property rights.”

“But doesn’t a tax on land violate our property rights also?”

“No. Land is our common property—not private property. We have private tenure—but that’s all. So when the government collects the rental value of land via taxation, it is merely recovering a value that rightfully belongs to all of us. That does not violate anyone’s property right. And by so doing, it actually makes it possible to fully protect our property rights in the wealth we create.”

“I follow your line of reasoning all right. But you certainly have a different way of looking at things.”

“Don’t you think it’s a better way? Does it make sense for the government to violate our right to keep and enjoy the fruits of our efforts just because it failed to assure us our equal right to be in this country? Wouldn’t it make more sense to *protect* both rights instead of *violating* both rights?”

“When you put it that way, yes. But if you’re right about this, why was George’s proposal so thoroughly discredited?”

“It wasn’t. It has been maligned, misrepresented, and misunderstood, but never proven wrong. As a matter of fact, by 1907 there was so much interest in Henry George’s proposal that it was discussed at the annual meeting of the American Economic Association and there was overwhelming agreement on the soundness of the principles on which George’s proposal was based.”

“Then why wasn’t something done about it?”

“It’s not all that easy to make a change of this sort. Some scholars have even said it is too late to do it . . . too unsettling

for society.”

“You disagree?”

“Can it ever be too late to establish justice? Hasn’t that been the goal of humanity for thousands of years? Sometimes it’s very difficult to take the next step toward that goal. But, as Herbert Spencer once said of this reform: ‘*Equity sternly commands that it be done.*’ ... You still agree, don’t you, that every citizen in our country should have the same right as every other citizen to be here?”

“Yes, but ...” He didn’t seem to know what to say.

“And you realize now that because we permit landholders to pocket most of the ground rent, vast fortunes have fallen into the hands of a privileged few while the economy suffers from a host of burdensome taxes that deprive millions of people of what ought to belong to them.”

“Everybody has always hated taxes. But I’m not sure I understand how this other system would work. How would we get from here to there?”

“First we need to modify the existing property tax so that it falls only on what economists call the ‘site value’ of land. No improvements would be taxed. Then increase the tax on land so it equals the rental value of each site—the land only. And while doing that we should abolish the taxes on all buildings, homes, incomes, sales, gasoline, and all other taxes. Those taxes are robbing us of what ought to belong to us.”

“And you think that would provide enough revenue to support all levels of government?”

“As I said before it wouldn’t support the kind of government we have now—that’s for sure! But we wouldn’t need such a big government if our economy were function-

ing smoothly—as it soon would be if we had a sound tax system and a sound banking system. There would always be plenty of jobs for everybody at good wages. Our distribution of income would no longer be so unfair. We would no longer have the poverty and slums, drug use and violent crime, homeless and needy, that plague our large cities today. By going to the root of our problems the costs of local, state, and federal governments would decrease enormously.”

“But suppose there were not enough revenue?”

“All right ... suppose there wasn't. Would that be any excuse for not using all the ground rent before resorting to other kinds of taxes? Isn't it important to try to establish equal rights for all—special privileges for none?”

“Yes, you've got me there.” Another long pause. “What about all those who own no land? Wouldn't it be unfair for them to pay no taxes at all?”

“They will still be paying the full ground rent of the land to their landlords just as they are today. They can't escape that. That's what makes the present system so unfair. Today, all those who pay rent also pay a host of direct and indirect taxes in addition to the ground rent they have to pay their landlords. That's double taxation with a vengeance! The government has robbed them to such an extent that many require charity or public welfare to survive. From the standpoint of fairness, nothing could be more unfair than the present system. Also nothing could be more fair than the proposed system because every citizen would be contributing equally toward the cost of government.”

“How do you figure that?”

“The rental value of this country rightfully belongs to

all of us—share and share alike. After collecting that value from each landholder, we could have the government distribute it equally to all of us. If, instead of that, we all agree to leave our equal shares with the government so that no other taxes need be levied, then we'll each be contributing the same amount toward the cost of government. Right?"

"Sounds logical. But I'm not so sure I like the idea of everyone contributing the same amount toward the cost of government."

"Why not?"

"It seems to me that those who make more should pay more. They can certainly afford it."

"That is true in some cases in our present system in which privileged interests can get huge incomes without doing a lick of work. But if we eliminate privilege ... as we should in order to establish equal rights for all ... differences in income would merely reflect differences in the contribution each of us makes toward society. For example, suppose there are two equally-skilled surgeons working at the same hospital but one puts in an eight-hour day whereas the other prefers to work only five hours a day so he can have more leisure time to do as he pleases. Would it be fair to make the doctor who worked the hardest pay more toward the cost of government? Wouldn't that discourage him from working so hard? And wouldn't society be the loser if he cut back on his workday because of being "fined", so to speak, for working harder?"

"O.K. You have made your point." He was quiet for a minute. "What about home-owners? Wouldn't this tax reform be pretty rough on them?"

"Why?"

“Wouldn’t their land be taxed so heavily they’d lose their homes?”

“No. You’re forgetting that homeowners would no longer be paying any taxes on their homes ... no more income taxes, no sales taxes, etc. Also the government would not be allowed to tax any piece of land more than the market indicates is fair. And every landholder would have the right of appeal just as he does under today’s property tax.”

“Isn’t it difficult for an assessor to distinguish between the value of the land and the value of improvements?”

“They are already doing it. But I’ll admit some of them do a very poor job. The point is that no matter how difficult it may be to distinguish between values that rightfully belong to the individual and values that should belong to society, we must make the effort to do so. It makes absolutely no sense to throw up our hands and let the government deliberately levy taxes on both kinds of value. Our homes shouldn’t be taxed at all. And there shouldn’t be any income tax nor sales tax. Such taxes violate our property rights. They also inhibit productive activity by depriving us of the fruits of our efforts. A tax on the rental value of land, however, doesn’t violate anyone’s property right. It is merely a payment for the privilege of exclusive use of part of our common heritage ... thus protecting everybody’s rights. And such a tax—unlike all others—actually encourages rather than discourages productive activity.”

“Why is that?”

“It forces land speculators and investors to either improve their property or sell it to someone who will. There’s no disagreement among economists on that.”

"Wouldn't that lead to over-development?"

"Not at all. We want run-down housing and slums improved, don't we?"

"Of course. But I'm thinking of the need for parks, open spaces, and wilderness areas."

"This tax reform will make it much easier to have them."

"How so?"

"The price of land will fall. So it will be easier for us to acquire what we want for a park. Today we have to pay higher and higher prices to land speculators if we wish to buy their land for a park or open spaces. In a sound system, all we need to do is pay for any improvements on the property. The price of the land would be very little, if any ... assuming of course, the assessor has been doing a good job. Government will lose income from that land, of course, because it will no longer be on the tax rolls."

"Seems to me you're being inconsistent."

"How so?"

"Earlier, you claimed there would be plenty of revenue to support all levels of government if this tax reform were made. Now you say that revenue would go down as newly-created parks come off the tax rolls."

"That decrease would be more than offset by an increase in revenue from all land remaining on the tax roll."

"How so?"

"By creating parks where needed, we make our country a more desirable place in which to live. We gladly pay more in order to live near parks and open spaces."

He was quiet for a minute. Then, "What about those who invested in real estate as a hedge against inflation?"

Seems to me it would be unfair to them if this reform were to cause the price of land to fall.”

“You’re forgetting that the owner of improved real estate will no longer be paying taxes on the improvements. Remember?”

“But suppose it’s unimproved land? Surely it wouldn’t be fair for them to have to pay heavier taxes.”

“How else can we establish each citizen’s equal right to be here?”

“I don’t know.”

“Don’t get me wrong. I recognize that land has been one of the best hedges against inflation. My wife and I have bought land solely for that reason. But we recognize that although it helps to protect us, it is not good for the rest of the community.”

“Why not?”

“That land is being withheld from use. It’s badly needed by builders. But we intend to continue holding it idle because we know the population pressure in that area will cause it to become more and more valuable as the years go by. We know of no better way to protect the value of our savings in these inflationary times. But when many people in our position are all doing the same thing, the result is an enormous quantity of good land being held idle while the price goes so high that builders finally get priced out of the market. That is not good for the economy.”

“Is that the main cause of inflation and depression?”

“Some people think so. I don’t. There is no question that the present tax system adds to inflationary pressures and aggravates our so-called business cycle. But inflation itself is caused by our unsound banking system. In other

words, if we reformed our tax system and kept our unsound banking system, we'd still have the problem of inflation and unemployment even though less severe than before. The tax system, as I see it, is the main cause of our very inequitable distribution of wealth, whereas the banking system is the main cause of inflation and depression. ... But let's stick to the tax system for the present. Won't you agree it needs changing?"

"I can see it's a bad system all right. But I'm not sure of all the consequences of changing it. What about you and your wife and the land you've bought? If the full rental value of that land is recovered by the government, the price of your land would go way down, wouldn't it?"

"Yes."

"So you'd be worse off, wouldn't you? And wouldn't a drastic fall in the price of land hurt the economy?"

"Quite to the contrary—it would help the economy enormously. There are thousands of builders looking for lower-priced land so they can build homes at prices the public can afford to pay. And there are millions of persons who would like to have jobs and homes of their own. This tax shift will provide them with jobs and the purchasing power to buy homes. The entire economy would benefit."

"But what about you and your wife—and other investors like you. You would all lose the value of your investments in land. Right?"

"Yes ... but in most cases that loss would be more than offset by the elimination of all the other taxes we've been paying."

"But you would have destroyed your best hedge against inflation."

“True enough. That’s why we must have banking reform also. As a matter of fact I doubt it would ever be politically feasible to put in the tax reform we need until inflation has been stopped and our banks put on a sound basis. And that won’t happen without banking reform.”

“With or without banking reform, the fact remains that investments in land would be wiped out. Won’t that lead to demands for compensation?”

“I’ve already pointed out that most landholders—especially those with improved property—will be adequately compensated by the elimination of all the other taxes they have been paying. As for the others, does the government compensate those who invest in stocks and bonds when their prices fall? Of course not. So why should it compensate the land speculator?”

“I still don’t like the idea of the government deliberately confiscating that one type of investment.”

“Why not? If the rental value of land ought to belong to all of us, and if the values created by each individual ought to belong to the individual, then doesn’t it make sense to have landholders return to the community what belongs to all of us so that the community can stop levying taxes on that which ought to belong to each of us?”

“But you will admit, won’t you, that a few people may be hit pretty hard by a change of this sort?”

“Undoubtedly. But there’s no question that an overwhelming majority would benefit.”

“That bothers me. I’ve always believed our Constitution was set up to protect the rights of a minority.”

“You’re absolutely correct. The question is: *What are our rights?* Do we or don’t we have an equal right to be here?”

Should some of us have a greater right to be here than others? Shouldn't each person have the same right to enjoy the fruits of his or her productive activities without being taxed? Should any person have the right to pocket the rental value of land—our common heritage? Isn't it about time we made a living reality of Jefferson's principle: Equal rights for all; special privileges for none?"

"But I still feel an injustice would be done to some people who had invested in land."

"Look ... was an injustice done to the slave-holders when the slaves were freed?"

"No."

"Then what's your problem? The slaveholders had paid for their slaves ... and landholders have paid for their land. Justice required that the slaves be freed. And justice requires that every person in this country be granted his equal right to be here. Doesn't the same basic principle apply in both cases?"

"Yes, but wouldn't it at least be wise to make a change like this gradually ... say over a five or ten-year period instead of all at once?"

"Slavery wasn't abolished that way. I find it difficult to believe that when a great majority of the voters finally understand what their rights are, they will be content to take five or ten years to secure those rights. When people finally realize that the income tax, the sales tax, and taxes on their homes, etc. are violations of their property rights, I doubt they will be willing to wait ten years to have such legalized robbery stopped completely. Can you imagine our forefathers telling King George that our Declaration of Independence—which spelled out our rights as conceived

at that time—was to be fully applicable five or ten years hence? ... that England's exploitation of us was to be eliminated gradually over ten years? I can't."

"But wouldn't you at least favor some sort of government aid for the few who would be hurt by the change?"

"That depends. There may be some who can no longer work and whose sole source of income has been from ground rent. And although they would have no legal claim against society, I do think they should be cared for adequately. It will certainly be much easier for us to help those few than it is for us to continue trying to care for the increasing millions of citizens who are driven into poverty by our present tax system."

"I still think there must be something wrong with all this."

"What makes you so doubtful?"

"I guess the main reason is that I keep thinking something would have been done sooner if it had been practical."

"The reason it hasn't been practical so far is that it hasn't been politically feasible. And it won't be politically feasible until more people understand the nature of rights and privileges. These things take time. Have you any idea how long it was before the Copernican theory was accepted?"

"No."

"About one hundred years after Copernicus died. Henry George died in 1897. He was the first one to really make a push for tax reform."

"But why should these things take so long?"

"A combination of factors. Perhaps the two most important are a confused public, and powerful privileged interests. The very questions you have raised are proof of

the confusion that exists. I assure you that if you will take the time to explore this in depth ... consider it from all angles ... you will come to the conclusion, as others have, that the idea is sound. And never forget the basic issue—the Jeffersonian principle of equal rights for all and special privileges for none. There are moral questions involved here that simply cannot be ignored much longer. Many of our problems have arisen because we have not been true to Jefferson's principle. We simply cannot violate such a basic principle without suffering the consequences. We've already lost some of our rights, and we will most assuredly lose the rest of them unless we protect all of them. *Our rights are interdependent. They stand or fall together. Never forget that.*"

"I like your emphasis on rights."

"That's fundamental. That's what this country is all about ... or was intended to be anyway. But as yet not very many of our citizens understand what their basic rights are."

"Your emphasis on rights makes me think of the Libertarians. Yet I know they do not share your views about taxation."

"To a very large extent we do agree. Many of them say that *all* taxation is robbery. I say that all *except* a tax on ground rent is robbery. That certainly reflects far more agreement than disagreement."

"I can't argue with that." He was silent for quite awhile. "Now what about our bankers? Why did you call them privileged?"

"Because they are allowed to create most of what we use as money. And they get interest on the money they create."

Wouldn't you call that a powerful privilege?"

"Of course, if it's true."

"It is. Most of what we use as money consists of nothing but a lot of bookkeeping entries bankers create when they make loans. We draw checks against those bookkeeping entries."

"Are you saying that the checks we all use as money are not backed by real money ... hard cash?"

"That's exactly what I am saying. Bankers are not required to maintain 100% cash reserves behind their deposits that are withdrawable on demand. They are permitted to use most of those deposits for their own interest and profit. And they do. That's why we've had so many bank failures and panics throughout our history. And that's the root cause of the monetary and fiscal problems facing us today."

"Whew." He looked at his watch. "I sure wish I had more time to discuss all this with you further—but I've got to head for home. Have you written anything on these subjects?"

"Yes. I had several articles in the *Commercial and Financial Chronicle* of New York. The one about our tax system should clear up any doubts you may still have on that subject. The other articles dealt with our banking system. Each had to stand on its own, of course. But each contained important points that are not in the others. So I'll just send you excerpts from them."

"That's great. I'll be particularly interested in what you propose to do about the Federal Deposit Insurance Corporation and our banks. That situation has everybody worried."

“Of course it has. I’ll also send you excerpts from a paper I submitted to the Federal Reserve Bank of San Francisco many years ago that has become more and more relevant as our banking troubles have increased. Had they paid attention to it when I first submitted it—and had we reformed our tax system along the lines we’ve been talking about—I am confident we wouldn’t be in such a mess today.”

“That’s saying an awful lot.”

“I realize that. But after you have read what I send you I think you will agree that we simply must make these changes.”

He gave me his address, and departed.