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Oser: Reservations of a Friendly Commentator

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In 1974 Twayne Publishers, which six years before had brought out Edward J. Rose's biography of Henry George, issued, as part of its "Great Thinkers Series," a study of George by Jacob Oser, professor of economics at Utica College of Syracuse University and author of several well-known books on the history of economic thought. While also largely biographical, this work contains a chapter devoted to the critical analysis of the arguments in *Progress and Poverty*, George's magnum opus.

Oser's approach is generally sympathetic, and the chapter in question begins with a section endorsing George's rejection of the wages-fund theory, his development of Ricardo's Law of Rent, his contention that the landowner as landowner does nothing to earn his income, and his insistence that to tax away all economic rent would stimulate rather than retard production. However, Oser then goes on to find George's thinking defective in the following ways: (1) he was wrong in believing that the landlord's share of national income would rise and that of labor would fall with industrial progress; (2) he confused the law of diminishing returns, increasing returns to scale, and growing efficiency; (3) he was naively optimistic as to the fiscal adequacy of a single tax on land rent; (4) he misconceived the nature of capitalism, failing to realize that the private ownership of capital is a more powerful cause than is the private ownership of land in explaining the uneven distribution of income in industrial societies.

There is merit in some of Oser's criticism. Quite properly, he observes that George's generalization that wages and interest tend to rise and fall together is a dubious one. But issue must be taken with much of his analysis.

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Does Industrial Progress Raise Rent at the Expense of Wages?

Oser contends that "George was wrong in believing that wages probably would fall as society progresses, and the percentage of the nation's income that goes to labor certainly would fall; he was just as wrong in believing that the share going to landowners would increase."[1] As proof he quotes data supplied by the U.S. Department of Commerce that list the value of privately held land in the United States to have been $27 billion in 1900, and indicate that its value as a percentage of Gross National Product decreased from 159 percent in 1900 to 66 percent in 1968, when its value was said to have been $571 billion. Although popular today in economic circles, the use of statistics to prove or disprove economic principles is a questionable technique. Ludwig von Mises, the celebrated economist of the Austrian School, in his attack on the substitution of "quantitative economics" for "qualitative economics," pointed out that "statistical figures referring to economic events are historical data. They tell us what happened in a non-repeatable historical case."[2] No doubt statistics may be useful in developing some corroborative evidence in analyzing a particular problem, but even in such an instance they must be treated with great circumspection. Controlled economic experiments being seldom possible, the statistics in use are rarely of the type that induce great confidence. Men, in their activities, do not bother to set down all the precise factors influencing their actions, hence the statistics that economists are forced to utilize, particularly if they are in terms of money, often are little better than proxies for what actually may have occurred.

In the ideal society, however, the real point at issue is not whether labor's share tends to decrease and the landlord's share to increase as society progresses. After all, if George's remedy were to be put into operation, the rent would all accrue to the people either indirectly through the provision of a multiplicity of services or directly through a per capita division. Under those conditions the division of income between labor and landlord (since the landlord, in effect, would be the people themselves) would probably not be nearly so important as it is today.

Now, however, since for all practical purposes the land, particularly in the Western world, is all enclosed, the real issue is that of the point at which a tendency to stabilization comes to exist, for this will determine how impoverished the mass of the people will be. That point tends to be where labor's share is at its subsistence level. Above this point it cannot remain, for competition among laborers for access to land will bring it down. Below this it cannot fall, for labor will starve or revolt.

Although Oser does not think it is possible, the absolute impoverishment of workers can occur if their subsistence point is low enough. In nations such as India the subsistence level is so low that many people actually starve. But the subsistence level in other nations, such as the United States, is far from being at that point. Long before starvation is reached, labor revolts. It may take the actual form of revolution, but often, instead of a bloody convulsion, the revolt is a demand for governmental interference to mitigate the effects of labor's decreasing share of the production pie. But this does not mean that George's analysis was in error, any more than the erection of a dam disproves the principle that water tends to flow downward.

Of course, the fact that there may be millions of landlords in a country does not mean that they do not act like monopolists, any more than the fact that there may be millions of patent holders prevents them from acting as monopolists. Just as each inventor holding a patent has a monopoly on the particular product involved, so the millions of landowners have a monopoly on the particular pieces of land they own. Ask any entrepreneur wishing to erect an office building on Wall Street in New York City if the owner of the land on which he wishes to construct the building acts as a monopolist when the entrepreneur approaches him with a request for the terms of sale.

Returns to Scale and Growing Efficiency, or Diminishing Returns?

Oser rebuts George's refutation of Malthus's theory on the grounds that George "was confusing increasing returns to scale and growing efficiency with the law of diminishing returns."[3] But he weakens his own charge subsequently, for toward the end of his book, in commenting on *The Science of Political Economy*, he notes that George was ahead of the orthodox economic thinking of his time in emphasizing that the law of diminishing returns applied to industry as well as to agriculture. And if book 3, chapter 7 of the cited work is read, one of the clearest and best explanations of the law of diminishing returns ever written will be found. As for the principle that has now come to be known as "increasing returns to scale," Oser himself points out that George noted that one hundred men will produce more than one hundred times what one man can produce. In view of all this, it is a mystery why Oser asserts that George confused these laws.

Oser appears to make a practice of vitiating his own criticisms, for after scorning "George's preposterous statement that the earth could support a thousand billion people as easily as one billion," he immediately goes on to say: "Only phenomenal, and as yet unseen, improvements in technology could make this possible."[4] Apparently, then, while the notion of the existence of a trillion people on the earth is an absurdity, it is still possible if technology develops sufficiently. No one, of course, knows whether a trillion people could be supported or not. But we do know that in America, under the impetus of the partially free economy existing, highly sophisticated machinery was invented in the nineteenth century (for example, the McCormick reaper) that enabled the United States to produce phenomenal amounts of food products. Just as no one in the seventeenth or eighteenth centuries could have foreseen such technological improvements, so we cannot foresee what new improvements may be made if needed and desired.

But the burden of George's attack on the Malthusian doctrine had nothing really to do with the maximum number of people who could possibly exist on our finite globe. The principal reason for attacking this theory was that it beclouded the whole issue of man's relationship to the land. It implied that an imbalance existed between man's sexual proclivities and his ability to produce. This imbalance was the cause of poverty amidst plenty and, because it was Mother Nature who was responsible, there was little man could do to remedy the situation.

Such an assumption was eminently satisfying to those possessing special privileges, such as landlords, particularly at the time that

Malthus wrote, when people were beginning to question the absurdity of poverty amidst plenty. It is doubtful that George was particularly concerned with how many people could exist on the earth. What he wanted was to upset the theory, so comforting to privileged interests, that nature was to blame for the growing poverty with increasing productivity and to redirect men's attention to attempting to discover what institutional arrangements might be the cause of this enigma.

Would Economic Rent Provide Enough Public Revenue?

Oser questions George's contention that a 100 percent collection of economic rent would be sufficient to defray the expenses of government without the imposition of other taxes, claiming that while it was true in George's day, it is not so today. Again he resorts to statistics to prove his point, noting the fantastic increase in governmental expenditures within the past generation. But after doing so he undermines his own argument by noting that George believed that his fundamental reform would not only unleash productivity and growth, but would also result in a decrease in governmental functions. For example, in a peaceful world military expenditures would be unnecessary.

If an argument is to be leveled against the adequacy of the so-called single tax as a resource for governmental revenues, it would appear that logically one should first specify what the true functions of government are. If government is expected to supply every possible need or want of the people, then no amount of revenue, not even total confiscation of all income generated, would be sufficient. If the socialists are correct in holding that all revenue, and not merely land rent, belongs rightfully to the state, then the question of the sufficiency or insufficiency of a tax on land values becomes meaningless. On the other hand, if the anarchists are correct in holding that no government is necessary, then whatever revenues are garnered would be actually superfluous.

But the question of the adequacy or inadequacy of the single tax for the raising of governmental revenues is not germane to what George was attempting to do. George was not interested in proposing a tax reform by means of which government might indulge itself in every form of do-goodism. Rather, he wished to establish those conditions predicated on the principles of justice wherein involuntary poverty would not exist and wherein the individual would attain his maximum potential. He wished people to be free to tread whatever paths they wished in order to give expression to the capacities with which they were born.

Man comes into this world with nothing but the ability to expend his physical and mental energy. But on what? Initially, in economic terms, the only thing in existence outside of man is land. If man is denied access to land, he is denied the opportunity to utilize his inborn talents to the utmost. Above all else, *Progress and Poverty* is a paean to justice and freedom, that even after a century, still has the power to quicken the hearts and kindle the souls of those who hold these values dear.

Misconceptions about Capitalism?

Oser believes that George suffered from misconceptions about the nature of capitalism. Regrettably, because Oser does not explicitly state what he himself means by capitalism, much less capital, a comparison between his and George's views cannot be made directly. He does state that to George "capital includes those things that are not either land or labor . . . capital covers such things as buildings, cattle, tools, machinery—man-made goods used for further production."[5]

Although he derides George's assertion that labor is the actual employer of capital, the definition of capital that he attributes to George clearly implies that labor is the employer. If the above quotation is reduced to its simplest terms, does it not state that capital is but a synonym for tools? And who uses tools but labor? Oser scorns the idea of a workman's telling the chairman of General Motors that he, the laborer, is the employer of capital. But such is unnecessary. The chairman has learned from sad experience that the workers are the actual employers, for when they go out on strike the capital lies idle awaiting their return.

In contending that George had mistaken notions about the nature of capitalism, Oser asserts that George was looking backward to a

Jeffersonian agrarian democracy and not ahead to the problems of an industrial society. This presumption that George's view of the ideal society revolved around small-scale producers and craftsmen is an error that has been repeated over and over again and, no doubt, will be time and again in the future. It may be that this is because of the simple examples George used to explain his points; because he was writing for general consumption, naturally he kept his illustrations as elementary as possible. But to imply, as Oser does, that George was blind to the startling growth of business and industry and what effect it might have, is to assume that George was not only insensible to his surroundings but was lacking in a grasp of the fundamentals involved. Oser himself states that in the introductory chapter of *Progress and Poverty* George noted the prodigious increase in wealth-producing power. This monumental increase in man's ability to produce wealth was part of the perplexing paradox he had determined to elucidate. Presumably, not only the necessities of life but luxuries undreamed of in previous times should be at the disposal of all with but a modicum of effort. Instead, horrendous poverty existed and was growing rather than decreasing as the mountains of wealth spewed forth from the gigantic industrial machine that man was building. It was this enigma that led George to focus his attention on economic phenomena.

That business and industry were increasing in complexity, requiring greater time and distances to accomplish their aims, did not becloud George's comprehension of the fundamentals in operation. Such growth did not affect the principles at work in the least any more than a twentieth-century jet liner is, in principle, different from the primitive plane of the Wright brothers, which for the first time enabled man to realize his centuries-old dream of emulating the birds in flight. Oser believes that the great distances and time involved in modern production have made a difference—the difference being the importance of accumulating capital in advance. Implied in this assertion is that capital is money. It may well be that because this appears to be the major ingredient in his conception of capital, he attacks George's contention that wages are drawn from the product of labor and not capital. Parenthetically, it should be remarked that Oser's attack seems strange coming from one who earlier lauded George's perception in denying the wages-fund theory.[6]

Yet George does not restrict his definition of capital to the one attributed to him by Oser. George also included goods in the process of production and exchange. Thus he claims that in building a ship capital is being produced, and wages represent the purchase by the entrepreneur of the additional capital that the laborers had created. Since Oser apparently equates capital with money, he takes the position that, on the contrary, it is necessary first to have accumulated capital in order to finance the vessel's construction.

But it is clear that such is not the case when it is appreciated that, theoretically, laborers could cooperate with one another to build a ship without the necessity of any previous financing whatever. They could spend part of their time constructing the ship and the rest producing the necessities and luxuries they desired. When completed, the ship would be their property, which they could offer for whatever they thought it was worth. Even the materials and tools employed by them could be produced on the same basis by other laborers. Thus if one were to trace the production of all the materials and tools back to the land, from which all wealth comes, it is patent that it is not necessary for money first to have been accumulated. This is the method the Indians used in building their war canoes, for they did not bother first to accumulate the wampum they used as money before they commenced construction.

What modern business does is to eliminate the need for such cumbersome arrangements, thus permitting laborers to concentrate all their working time and effort on such a project as a ship. Instead of selling it upon its completion, they sell the part they have produced bit by bit as it is being constructed and use the funds obtained to purchase the necessities and luxuries they desire. This is precisely the point George expounded in his discussion of the building of the ship. If one assumes that only tools constitute capital, then George's error was in assuming that the laborers were producing more capital as they built the vessel, when all they were doing was producing wealth in the form of a ship.*

*That the article as a ship may subsequently be used as a tool and thus constitutes capital when so employed does not negate the fact that while it is being built it is merely an article of wealth that is being produced.

Of course, even under modern business conditions, if a project is of long duration—say five years—while financial arrangements may all be completed in advance, the actual finances need not be in existence. Instead, those financing the project will gear their investments so that the finances will be available as required.

Oser believes that George's view that labor is independent of capital sprang from his ignoring the fact that a certain amount of capital is necessary to establish even a small farm. Thus the Homestead Act, which granted settlers in the West 160 acres free except for some filing fees, was of little use to urban laborers. This was because, typically, $1,000 was required to obtain the equipment and livestock needed to get started and to feed their families until the first crop came in. Because apparently capital is money to Oser, he assumes that George could not admit that labor was dependent on capital's first being accumulated, for to do so would weaken the remedy George suggested.

But as for the necessity to have an accumulation of capital first, ask the American pioneers who landed on the forbidding shores of this continent what capital they had. It was practically nothing. Yet out of the forest they hewed their farms with only the minutest amount of capital—the few tools they had brought with them such as axes, shovels, and hoes. To the degree that they had even these simple tools they were at a great advantage. But had they waded ashore with nothing but their bare hands, it would have been only a question of time before they made whatever capital they needed, using the raw materials they found in the land. Naturally, however, because Europe with its huge quantity of capital existed, they exchanged their produce for the tools they needed from the Old World.

Surprisingly, without offering proof, Oser states that "the ownership of capital gives more wealth and power to a small group of people than the ownership of land."[7] One would assume that after having made such a sweeping statement he would give at least some arguments in support, but he neglects to do so.

To many it would appear that George, purely on the basis of logic, had proved quite conclusively that it is control over land that gives wealth and power to small groups of people. But even if his reasoning had made little impact, certainly the actions of the OPEC states, which own the land from which much of the world's oil comes, gave dramatic pragmatic proof of where power lies. As is well known, some years ago they instituted a boycott, refusing to sell more than a trickle of their crude oil. If the ownership of capital gives more power than the ownership of land, why was it that the most powerful nation in the world, the United States, as well as Japan and all the nations of Western Europe, had almost to beg the OPEC states to end their boycott? As long as these nations did not wish to use military might, the fact that they owned most of the capital, that is, the refineries necessary to process the crude oil, meant nothing. Even if one considers money to be capital, they were helpless. The Western world no doubt has most of the world's money, but as long as the OPEC states refused to sell their oil, what power could money exert?

While Oser may thus be faulted for many of his criticisms, his evaluation of George is both objective and provocative.

Notes

1. Jacob Oser, *Henry George* (New York: Twayne Publishers, Inc., 1974), p. 54.
2. Ludwig von Mises, *Human Action* (New Haven, Conn.: Yale University Press, 1949), p. 56. [The statistics in this case are themselves questionable. See Mary M. Cleveland's chapter in the present volume (ed.)].
3. Oser, *Henry George*, p. 56.
4. Ibid., p. 62.
5. Ibid., p. 34.
6. Ibid., p. 51.
7. Ibid., p. 67.