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Among the notable fiscal and social movements of recent years has been the tendency to lay increasing burdens of taxation on land. The hotly contested campaign resulting in the passage of the Lloyd-George budget attracted world-wide interest. Under this law 20 per cent. of the increment in the value of land will be payable as a tax at each transfer of title. The increment tax is making considerable headway among the municipalities of Germany. Of the forty-one German cities with a population of more than 100,000 fifteen had such a tax in July, 1909.[1] Some counties (Kreise) have also introduced the tax. The chief motive for the new taxes in the old countries seems to have been the necessity for additional revenue.

In the newer countries of Australia and Canada laws have been passed which show a still more radical tendency to increase land taxes. Under some of these laws taxes are assessed on the basis of value of the land irrespective of the improvements thereon, while under others a higher rate of taxes is laid on unimproved than on improved real estate. The forces leading to this legislation have been a desire to attract the investment of capital by the promise of light taxation on this form of wealth and probably also a wider acceptance in the new countries of the Single-Tax doctrine.[2]

[1] A. N. Holcombe, *Quarterly Journal of Economics,* XXIV, 194.

[2] In South Australia and New Zealand the state land tax is assessed on the basis of unimproved value. In both these states and also in New South Wales municipal rates may also be levied on the basis of the unimproved value of land if a local referendum so decides. In 1906, 43 of the 113 boroughs of New Zealand assessed rates on this basis (*Papers Relating to the Working of Taxation of Unimproved Value of Land in New Zealand, New South Wales, and South Australia,* November, 1906 [Cd. 3191], pp. 24, 25, 45; and *Papers Relative to the Working of Taxation of the Unimproved Value of Land in New South Wales* [Cd. 3761], September, 1907, p. 5). In British Columbia there is a provincial tax of three-fifths of 1 per cent. on improved property and of 4 per cent. on unimproved property. Of real estate within the bounds of municipalities there is a separate valuation of lands and improvements. Improvements are

These developments in the field of actual legislation naturally reawaken interest in the Single Tax and in the now classic book which contains the explanation and defense of that theory. *Progress and Poverty,* however, is more than a discussion of the Single Tax. George carries the reader through more than three hundred pages before he even makes a statement of the policy of taxation which he proposes. The exposition of the general principles of political economy here found is still loyally accepted by many Single Taxers.

The chief quality of the system of political economy found in *Progress and Poverty* is that it is built up to support and harmonize with George's leading thought, that the main source of our economic ills is the private appropriation of rent, and that the consequent remedy is the Single Tax on land. An examination of this system will show that Single Tax is its *terminus a quo* as well as its *terminus ad quem.* How from this standpoint George treats the subject of Malthusianism and the law of diminishing returns, the relation of capital to wages, the law of wage and of interest, and the theory of crises will be briefly discussed.

I

George opposes the Malthusian doctrine because it "parries the demand for reform and shelters selfishness from question and from conscience by the interposition of an inevitable necessity. It furnishes a philosophy by which Dives as he feasts can shut out the image of Lazarus who faints with hunger at his door."[3] The real cause of want in Ireland and India and China, he says, has been "the rapacity of man, not the niggardliness of nature." "It is not dense population, but the causes which prevent social

assessed at most at only 50 per cent. of their value and at the discretion of the council this percentage may be less. Of thirty-three municipalities which are reported in 1907 eleven laid no tax on improvements. Since then the city of Vancouver has removed all taxes on improvements, which it formerly assessed at 25 per cent. of their value. The principle of taxation on the basis of unimproved land value is also applied in some of the villages of Alberta. (*Papers Relative to the Working of Taxation of Unimproved Value of Land in Canada,* September, 1907 [Cd. 3740], pp. 7, 12, 15).

[3] Henry George, *Progress and Poverty,* 99.

organization from taking natural development and labor from securing its full returns that keeps millions on the verge of starvation and every now and then forces millions beyond it."[4]

He denies that an increase of mankind leads to a pressure against the means of subsistence, but admits that this holds true of plants and animals.[5] He then says:

> Does not the fact that all of the things which furnish means of subsistence have the power to multiply many fold, some of them many thousand fold, and some of them many million fold or even billion fold, while he is only doubling his numbers, show that, let human beings increase to the full of their reproductive power, the increase of population can never exceed subsistence?[6]

The inconsistency of this reasoning is easily seen. It is indeed true that, favorable conditions being given, plants and animals which furnish food for man can be multiplied more rapidly than man himself. But as soon as the plants and animals begin to press on their means of subsistence it is evident that a limit to population is set beyond which the same will be true of mankind. Let "human beings increase to the full of their reproductive power" for a few centuries, and they would become so numerous that not all the land in the world could furnish enough room for the growth of the plants and animals necessary to the sustenance of this vast population. The difficulty thus lies in the very thing he admits—the pressure of plants and animals on their means of subsistence.

Malthus thinks that an increase in general wealth will almost inevitably lead to an increase in population. George does not accept this, and herein is the main difference between them. "Give more food, open fuller conditions of life, and the vegetable can but multiply; the man will develop."[7] He holds that the tendency of population to "increase weakens" just as the high development of the individual becomes possible and the perpetuity of the race is assured.[8]

It is quite interesting to note George's treatment of the law of diminishing returns of land. So far as this law is useful in showing that an increase of rent results from an increase in

[4] *Ibid.*, 121.

[5] *Ibid.*, 129. [6] *Ibid.*, 130. [7] *Ibid.*, 136. [8] *Ibid.*, 138.

population, it suits his purpose and has his approval. He endeavors, however, to avoid its corollary—that an increase of population will cause a pressure on the means of subsistence.

He represents the doctrine as though it ascribed the diminishing productivity of the soil in response to additional applications of labor and capital to the abstraction and removal from the soil of elements of fertility.[9] He thinks that he has disproved the law as applied to the whole world by pointing out that according to the scientific laws of the indestructibility of matter and the conservation of energy the elements of fertility cannot be destroyed but are still somewhere in the earth.[10] So far as contributing to the production of subsistence is concerned, the carrying-away of soil and its products to the bottom of the sea amounts practically to their destruction. However, even if the soil could be preserved from the rain which washes it and the wind which blows it away, even if the products of the soil were restored to it and there were no loss of fertility, the soil would still give diminishing returns, beyond a certain point of cultivation, to additional applications of labor and capital. This manifest misrepresentation of the doctrine of diminishing returns shows how distasteful to George was this economic law.

George quotes from John Stuart Mill: "A greater number of people cannot, in any given state of civilization, be collectively so well provided for as a smaller. The niggardliness of nature, not the injustice of society, is the cause of the penalty attached to overpopulation. . . . ."[11] With reference to this he says:

> All this I deny. I assert that the very reverse of these propositions is true. I assert that in any given state of civilization a greater number of

[9] *Ibid.*, 133.

[10] According to the doctrine of the conservation of forces it is the sum-total of forces in the universe that remains unchanged—not the sum of the forces which operate in and on the earth. Hence it may ultimately be true that at some remote period in the future little or no life can be maintained on this globe. It is interesting moreover to note that the scientists no longer agree in teaching that there is a conservation of energy. See Henry Adams, *A Letter to American Teachers of History*, 1 ff.

[11] John Stuart Mill, *Principles of Political Economy*, Book I, chap. xiii, § 2.

people can collectively be better provided for than a smaller. I assert that the injustice of society, not the niggardliness of nature, is the cause of the want and misery which the current theory attributes to overpopulation. I assert that the new mouths which an increasing population calls into existence require no more food than the old ones, while the hands they bring with them can in the natural order of things produce more. I assert that, other things being equal, the greater the population, the greater the comfort which an equitable distribution of wealth would give to each individual. I assert that in a state of equality the natural increase of population would constantly tend to make every individual richer instead of poorer.[12]

In support of this he appeals to the examples furnished by England and the United States. But this does not prove what he assumes it to do. "I assert," he says, "that in any given state of civilization a greater number of people can collectively be better provided for than a smaller." The state of civilization in the United States and England has been far from remaining the same. No previous century witnessed so many improvements in the arts of producing wealth as the first in the history of the United States. (*Progress and Poverty* was written only three years after our Centennial celebration.) Yet George takes no account of this, and ascribes the increased per-capita production to an increase in population. An increase in per-capita production has indeed gone along with an increase in population, but *post hoc* is not *propter hoc*. Rather it is the increase in the per-capita production which has made possible the increase in population without lowering the standard of life.

To support his proposition George appeals also to a comparison at the present time of the wealth of densely and of sparsely populated communities.

Where will you find wealth devoted with most lavishness to non-productive use—costly buildings, fine furniture, luxurious equipages, statues, pictures, pleasure gardens, and yachts? Is it not where population is densest rather than where it is sparsest? . . . . These things conclusively show that wealth is greatest where population is densest; that the production of wealth to a given amount of labor increases as population increases.[13]

To this argument the same objection as before may be given. Because great wealth is found where there is a dense

[12] Henry George, *Progress and Poverty*, 142.

[13] *Ibid.*, 143, 144.

population, it does not follow that mere increase in numbers will by itself cause a large per-capita production. For reasons easy to explain, the most capable workers resort to the city. The less capable workers remain in the country to do the simpler and ruder work which is there required. Again, men of great wealth, whether landlords or capitalists, are naturally to be found in the city, on account of its superior social and commercial advantages. These simple considerations show how unreasonable it is to ascribe the greater per-capita wealth and income of the cities to mere density of population.

Note, however, that even if George be correct in claiming that the increase in the per-capita production to be found in the cities is due to a mere increase in numbers, this will not justify him in saying that an increase in population should make its support more easy. By so doing he confuses subsistence with wealth. "For the power of producing wealth in any form," he says, "is the power of producing subsistence—and the consumption of wealth in any form, or of wealth-producing power, is equivalent to the consumption of subsistence."[14] The question of subsistence for any individual or community which exchanges with the rest of the world may indeed be a question of producing wealth. This is not true, however, of the world as a whole. Suppose, for the sake of simplicity, a self-sufficing country living apart from the rest of the world. The population increases until the soil yields but little larger crops to the increased exertion of labor. Suppose now a change to take place in the ability and tastes of these people. They take the same wool and cotton, and out of them weave more elegant fabrics; they take the same wood, and from it make furniture and houses which are better designed and therefore more valuable. While this takes place the methods of cultivating the soil will probably make but little improvement. The wealth of the country measured in money has perhaps increased threefold; but it evidently does not follow that therefore the country could support three times or even double the population so well as before.

[14] *Ibid.*, 133.

The question of subsistence is largely a question of agricultural produce. Certain economies in the use of food and materials are possible, but, generally speaking, to feed and clothe more people it is necessary that the land yield larger crops. Less improvements in methods of agriculture, however, have been made than in manufactures, and the most notable inventions in agricultural machinery have been such as save labor without increasing the yield per acre.

It is plain that a manufacturing country with a wide commerce may greatly increase its wealth and population without any lessening of the average comfort so long as it can draw on its neighbors for subsistence and raw material. In discussing the general question of population the application of the law should evidently be to a complete industrial society.

It is interesting to note that George has tried to deny the law, or at least break its force, by making it apply to the whole earth.[15] Now he endeavors to do the same thing in another way, by confining attention to only a part of the industrial process—that which goes on at the center of population.

After all, however, George does not, in a sense, deny the law of diminishing returns. He believes that with the increase in population will come such a division of labor and increase in labor-efficiency as will more than compensate for the diminishing response on nature's part. He says:

> For even if the increase of population does reduce the power of the natural factor of wealth, by compelling a resort to poorer soils, etc., it yet so vastly increases the power of the human factor as more than to compensate. Twenty men working together will, where nature is niggardly, produce more than twenty times the wealth that one man can produce where nature is most bountiful. The denser the population, the more minute becomes the subdivision of labor, the greater the economies of production and distribution, and, hence, the very reverse of the Malthusian doctrine is true; and, within the limits in which we have reason to suppose increase would still go on, in any given state of civilization a greater number of people can produce a larger proportionate amount of wealth, and more fully supply their wants, than can a smaller number.[16]

In other words the mere increase of population will bring about a division of labor and cause it to be more productive.

[15] *Ibid.*, 133.

[16] *Ibid.*, pp. 149–150.

It is true that in certain work, as in the moving of heavy objects, two men might accomplish twice as much as one, but this kind of co-operation is relatively unimportant and its limits are soon reached. The proposition which George puts forth is clearly untenable. It is disproved not only by a prior reasoning but by an appeal to the facts. China and India are densely populated and yet the average amount of wealth produced by the inhabitants of these lands is notoriously small.

If the principle as announced by George were correct, it would be in the interest of a greater production for the larger part of the United States to be given up and for the population to crowd in on a smaller area, so as to make "greater the economies of production and distribution." To claim that production can be increased by a restriction of area is thus really to deny the law of diminishing returns. Moreover, this principle is inconsistent with the claim that the withholding of land from use by speculators lessens the total product.

Despite the curious and perverse treatment of diminishing returns which one finds in *Progress and Poverty,* it is interesting to note that in his *Science of Political Economy* George states a legitimate analogue or extension of this law. After observing that production takes place both in time and in space, he says:

> Now, from this necessary element or condition of all production, time, there result consequences similar to those which result from the necessary element or condition of all production, space. That is to say, there is a law governing and limiting the concentration of labor in time, as there is a law governing and limiting the concentration of labor in space. Thus there is in all forms of production a point at which the concentration of labor in time gives the largest proportionate result; after which the further concentration of labor in time tends to a diminution of proportionate result, and finally to prevent result.[17]

For example, if one is to build a warehouse of a given capacity there is a certain area on which this may be constructed with greatest advantage. If only half this area should be available, a greater amount of labor and capital would have to be expended in order to get a warehouse as satisfactory as the first. This is in accordance with what is called the law of

[17] Henry George, *Science of Political Economy,* 368–69.

diminishing returns with respect to land. Now there is a certain time within which the warehouse can be constructed with most advantage. If it should be required to do this same work in half the time, this would require, as George points out, a greater expenditure of labor and capital. This may be called the law of diminishing returns with respect to time.

II

George makes a vigorous attack upon the wages-fund doctrine, according to which the rate of wages is determined by the ratio of this fund to the number of laborers. He claims that the laborer is paid from the product of his labor and that what really keeps down this remuneration is the bad system of distribution. He likens the process of production to the pouring of water into a curved pipe already filled. "If a quantity of water is poured in at one end a like quantity is released at the other. It is not identically the same water, but is its equivalent. And so they who do the work of production put in as they take out—they receive in subsistence and wages but the produce of their labor."[18]

To John Stuart Mill a good part of capital consists of means of subsistence. Since real wages consist of commodities received by the laborer it is evident that with this use of terms wages are drawn from capital. George devotes a whole chapter to showing the incorrectness of this proposition, but to do so he really uses the terms in a different sense. To George "wages are that part of the produce of his labor obtained by the laborer,"[19] and he gives such a definition of capital as to exclude means of subsistence already in the hands of the laborer. He defines capital as "wealth in course of exchange," but he would have exchange include "such transformations as occur when the reproductive or transforming forces of nature are utilized for the increase of wealth."[20] When he defines

[18] J. B. Clark uses practically the same simile to illustrate the same idea. See *Distribution of Wealth,* 313.

[19] Henry George, *Progress and Poverty,* 80.

[20] *Ibid.,* 46.

capital as wealth in course of exchange the test is pecuniary; when he makes exchange include the transformations wrought by the forces of nature he introduces a technological test. A sewing-machine used by a woman for the making of her own clothes is not capital since it is not in course of exchange; however, it is a means whereby the transforming forces of nature are used in the increase of wealth. Although he says that such a machine is excluded from the category of capital,[21] he includes the tree the fruit of which is enjoyed by the owner.[22] Here is an evident inconsistency. Had he made a slight change in his definition of capital so as to make it include wealth in the course of exchange (including in this consumption goods whose use bring in an income to the owner) and wealth used in the production of wealth which is to be exchanged, his conception of capital would have been that of the business man.

III

It is George's purpose in *Progress and Poverty* to show that there is an identity of interests between the laborer and the capitalist, but an opposition of interests between the laborer and the capitalist on the one hand and the landlord on the other. As tending to obscure these relations he criticizes the classical definition of profits which includes under one term incomes of different nature and origin. He says,

> Of the three parts into which profits are divided by political economists—namely, compensation for risk, wages of superintendence, and return for the use of capital—the latter falls under the term interest, which includes all the returns for the use of capital, and excludes everything else; wages of superintendence falls under the term wages, which includes all returns for human exertion, and excludes everything else; and compensation for risk has no place whatever, as risk is eliminated when all the transactions of a community are taken together.[23]

No objection is offered to the definition which makes wages include "all return to human exertion," but it should not be forgotten that this would cause the organizers and captains of industry to be included among laborers. In speaking further on

[21] *Ibid.*, 45. [22] *Ibid.*, 188.

[23] Henry George, *Progress and Poverty*, 161.

of the poor condition of the laborer and of the tendency of wages to be forced to a minimum of subsistence he forgets his inclusive definition and has in mind the class of manual laborers. George also speaks as though labor were homogeneous, as if there were a general market rate of wages, so that a rise in this rate would benefit all laborers just as a rise in the price of wheat benefits the wheat-growers. Now it is evident that there are many classes of laborers and that their interests are not identical. The manager of an industry is, by George's definition, a laborer, yet he sometimes finds the reward of his exertion in keeping down the wages of his employees.

Moreover, the question of risk is not disposed of by simply saying it has no place "since it is eliminated when all the transactions of a community are taken together." Risk-taking is, in fact, a distinct element in business and has its reward. If George's position is correct there is no reason, from a financial point of view, why a man should not as readily take the risks of gambling as those of industry. An insurance company does not assume risks without a reasonable expectation of gain, and the same is true of the business man. There are more gains than losses and hence the inducement for honest and sagacious men to engage in business.

It is easy to see how this scheme of distribution according to which the income of society is divided into rent, interest, and wages suits George's purpose. By his peculiar theory of the relation of capital and labor he finds that wages and interest rise and fall together. This enables him to reach the conclusion for which he was preparing, that the opposition of interests is that of the landlord against all the other members of society.

George's conception of capital and its relation to labor may be seen from the following passage:

> For labor and capital are but different forms of the same thing—human exertion. Capital is produced by labor; it is, in fact, but labor impressed upon matter—labor stored up in matter, to be released again as needed, as the heat of the sun stored up in coal is released in the furnace. The use of capital in production is, therefore, but a mode of labor."[24]

[24] *Ibid.*, p. 198.

Now if it be true that capital is nothing more than stored-up labor to be released as needed, there is no explanation or justification of interest possible. A cask of wine represents, let us say, a certain amount of stored-up labor. After it has lain in the cellar of the wine merchant for several years, it has a greater capital value, but it cannot be said that the difference is due to additional labor bestowed on it. The heat of the sun is in a sense stored up in coal, but its combustion today will produce no more heat than if it had been burned many years ago. If a hundred gallons of water be stored in a tank, no more than this amount can be withdrawn, whether you wait a day or a year. If capital were, as George says, only stored-up labor, it could be of use only by a lessening of this labor-fund. We know, however, that it is the quality of capital to yield an income and at the same time to maintain unimpaired the original fund of wealth. Capital, in fact, represents not merely labor that has been embodied in material form, but also the costs due to waiting and abstinence and the advantage that comes from having present rather than future goods. The idea that capital is merely stored-up labor allows no explanation of the difference in value due to a difference in time. It arises from a confusion of the hire paid for the use of perishable capital goods with interest paid for the use of an unimpaired capital fund.[25]

George says that the rate of interest must be such that "the reward of capital and the reward of labor will be equal—that is to say, will give an equally attractive result for the exertion or sacrifice involved."[26] As above quoted, he speaks of labor and

[25] Besides this view of interest which regards it as paid for the release and use of stored-up labor, George has another and more famous theory of interest according to which he attempts to explain this phenomenon by reference to the reproductive vital forces of nature. R. S. Moffat (*Mr. Henry George the Orthodox,* 152) speaks of this as "one of the purest and most original of the efforts of Mr. George's genius as an economical reasoner." This much is certainly to his credit, that he recognizes that there is an interest problem. "What is the reason and justification of interest? Why should the borrower pay back more to the lender than he received?" (Henry George, *Progress and Poverty,* 175). These questions some economists have hardly thought it necessary to ask. For criticism of this theory see Böhm-Bawerk, *Capital and Interest,* 413–20, and Fisher, *The Rate of Interest,* 22, 23.

[26] Henry George, *Poverty and Progress,* 198.

capital as "but different forms of the same thing—human exertion." Now it is not true that wages and interest are paid for the same thing. From the laborer's point of view, wages are paid for human exertion. From the point of view of the capitalist, interest is paid for the postponement of consumption, for waiting or abstinence. If a laborer in a wagon factory should receive a wagon for his month's labor, this would constitute his wages, the reward for his exertion.[27] If in place of exchanging the wages for present consumption goods he should hire the wagon for ten dollars a year, this interest would be paid to him as a capitalist, and for waiting, or abstinence, and would not be paid to him as a laborer in compensation for his exertion.

Speaking of this natural relation between interest and wages —this equilibrium at which both will represent equal returns to equal exertions—George says:

> And this relation fixed, it is evident that interest and wages must rise and fall together, and that interest cannot be increased without increasing wages; nor wages lowered without depressing interest. For if wages fall, interest must also fall in proportion, else it becomes more profitable to turn labor into capital than to apply it directly; while, if interest falls, wages must likewise proportionately fall, or else the increment of capital would be checked.[28]

It is easy to show that this reasoning is fallacious. Let us suppose that our laborer-capitalist receives one hundred dollars a month for his labor and that he may, if he pleases, exchange this amount of money for a perpetual annuity of six dollars. Assume further that this establishes what George calls the equilibrium between wages and interest—but what should be more truly called the equilibrium between present and future goods. If now wages should fall so that he receives only fifty dollars a month, George says that interest must also fall in proportion, else it becomes more profitable to turn labor into capital than to apply it directly. If by this he means that when wages fall to one-half their former amount a month's wages will exchange for a perpetual annuity of only three dollars, this may be granted.

[27] It would not constitute, of course, his real wages, since these are the consumption goods that he ultimately receives for his exertion.

[28] *Ibid.*, 199.

Certainly if the month's wages could be still exchanged for an annuity of six dollars, the labor-capitalist would, under the hypothesis, accept his reward in this form rather than in consumption goods. If he has counted such an annuity equal to one hundred dollars in present goods, it is of course to be preferred to half this amount.

George, however, really means that a fall in wages will cause a similar fall in interest, not as an absolute amount, but as a percentage. This may be clearly seen from the following quotation:

> Is it not true that wherever there has been a general rise or fall in wages there has been at the same time a similar rise or fall in interest? In California, for instance, when wages were higher than anywhere else in the world, so also was interest higher. Wages and interest have in California gone down together. When common wages were $5 a day, the ordinary bank rate of interest was 24 per cent. per annum. Now that common wages are $2.00 to $2.50 a day, the ordinary bank rate is from 10 to 12 per cent.[29]

Let us apply then this principle of George to the supposed condition in which the laborer-capitalist finds an equal reward in accepting for his wages one hundred dollars in present goods or an annuity of six dollars. If wages fall to fifty dollars, or one-half, George says the rate of interest will fall in the same ratio, i.e., from 6 to 3 per cent. Now 3 per cent. of fifty dollars is one dollar and a half. If the wages fall one-half, the annuity for which the wages can exchange will fall to one-fourth! The smaller the wages of our laborer-capitalist, the less the rate at which he will be willing and able to lend! By the same principle, if wages should double, the annuity for which they would exchange would quadruple.

There are no reasons based on theory which would lead us to believe that there is any such connection between wages and interest, and an examination of statistics likewise fails to reveal it. A. L. Bowley estimates that the average real wages in England for the years 1850, 1860, 1870, 1880, 1890 were in proportion to the numbers 50, 55, 60, 70, 84, where the bank

[29] *Ibid.*, 19, 20; see also p. 199.

rates for those years were £2 10*s* 1*d*, £4 3*s* 7*d*, £3 2*s* 0*d*, £2 15*s* 4*d*, £4 10*s* 3*d* per £100 respectively.[30]

That wages and interest fall and rise together and in the same ratio is thus a proposition in support of which little can be said. George reaches the result by arbitrary and illogical methods. It finds a place in his system because it can be used to show an identity of interest between laborer and capitalist; and if their interests are one, it is the more easy to unite them against their common foe, the landlord.

The law of wages at which George arrives is:

> Wages depend upon the margin of cultivation or upon the produce which labor can obtain at the highest point of natural productiveness open to it without the payment of rent.[31]

By the highest point of natural productiveness open without the payment of rent he means the best quality of no-rent land.

George's statement of the law of interest is similar to that of the law of wages:

> . . . . So may we put the law of interest in a form which directly connects it with the law of rent, by saying that the general rate of interest will be determined by the return to capital upon the poorest land to which capital is freely applied—that is to say, upon the best land open to it without the payment of rent.[32]

In another place he says:

> This natural relation between interest and wages—this equilibrium at which both will represent equal returns to equal exertions—may be stated in a form which suggests a relation of opposition; but this opposition is only apparent. In a partnership between Dick and Harry, the statement that Dick receives a certain proportion of the profits implies that the portion of Harry is less or greater as Dick's is greater or less; but where, as in this case, each gets only what he adds to the common fund, the increase of the portion of the one does not decrease what the other receives.[33]

George thus announces that wages are determined by the productivity of labor upon no-rent land; that the rate of interest is determined by the return to capital upon this same marginal

[30] A. L. Bowley, *Statistical Studies Relating to National Progress in Wealth and Trade Since 1882*, 33.

[31] Henry George, *Progress and Poverty*, 213.

[32] *Ibid.*, 201.

[33] *Ibid.*, 199.

land; that capital and labor each gets what it adds to the total product of industry. This is very interesting, since it contains a suggestion of the theory of the specific productivity of the separate factors of production.

It must be admitted, however, that George did not have a definite comprehension of the principle of the marginal productivity of the separate factors. His habit of conceiving of the product of industry as the product of labor would preclude such an understanding. Moreover, although we can find passages, as above given, in which he states that capital and labor each gets what it produces, he does not show how the product of labor can be distinguished from the product of capital. It is evident that in normal modern industry every product is a joint product, and that there is no product of capital or of labor in and by itself. In a recent French work the author says:

> M. Clark dans sa *Distribution of Wealth* déclare avoir emprunté à George l'idée de la méthode par laquelle il s'efforce de déterminer la productivité propre de chaque facteur de la production.[34]

A casual reader of Clark is not likely to recognize any such admission. He refers to George's theory "with all its absurdity." He does write, however:

> The theory that makes them [the gains of the laborer cultivating no-rent land] set the standard of all wages has the great merit of pointing out a method by which the product of bare work may be disentangled from all other products, and made to stand by itself and to be separately measured.[35]

The failure of George to recognize any other marginal field for labor than no-rent land led him to erroneous conclusions. Thus he says:

> Where land is subject to ownership and rent arises, wages will be fixed by what labor could secure from the highest natural opportunities open to it without the payment of rent.
>
> Where natural opportunities are all monopolized, wages may be forced by the competition among laborers to the minimum at which laborers will consent to reproduce.[36]

[34] Gide et Rist's *Historie des doctrines économiques depuis les physiocrates jusqu'à nos jours* (1909), 645–46.

[35] Clark, *The Distribution of Wealth,* 88.

[36] Henry George, *Progress and Poverty,* 213.

And later:

> One man will not work for another for less than his labor will really yield, when he can go upon the next quarter-section and take up a farm for himself. It is only as land becomes monopolized and these natural opportunities are shut off from labor, that laborers are obliged to compete with each other for employment, and it becomes possible for the farmer to hire hands to do his work while he maintains himself on the difference between what their labor produces and what he pays them for it.[37]

As a matter of fact, there is an intensive as well as an extensive margin of cultivation. This no-rent margin exists even though every acre in the country should be subject to private ownership and yield a handsome rent. If as is the case in most industries the addition of a laborer will result in an increase in the total product, there will be competition among the employers for his services. The tendency will be for his wages to equal the present worth of the increase in the product of industry which results from his addition to the number of laborers. This intensive margin of cultivation is as real as that of no-rent land. It is indeed possible that when all the land is privately owned an effective combination of land-owners to force down wages might work as George says, but such combinations are almost, if not quite, impossible to create, and certainly do not exist.

Moreover, the laborer will directly receive as much wages on this margin under the system of private ownership of land as he would under the Single-Tax system. If that system would help the laboring man, it would be by a change in the incidence of taxation rather than by a direct increase in wages.

IV

The full title of George's famous book, *Progress and Poverty, an Inquiry into the Causes of Industrial Depression and of Increase of Want with Increase of Wealth, the Remedy,* shows that he attached considerable importance to his explanation of crises. The discussion of industrial depressions is perhaps the weakest part of his book and it affords a warning example of the deductive method when it is not checked and tested by an appeal to plain facts.

[37] *Ibid.*, 214–15.

His theory can be simply stated. Speculation in land increases rent and consequently forces down wages and interest. The laborers and capitalists naturally resist this movement, production is interfered with, people are not all able to buy the goods that are made, and hence industrial crises with the phenomena of apparent over-production and under-consumption.[38] This assumes that speculation in land causes it to have a higher value and that this leads to inceased rent. Now it is rent that determines the value of land and not the value of land that determines the rent. Speculation is based on estimates of the future rentals of land. Rent charges in the present will be increased by speculation only so far as it withdraws land from use or has an indirect and psychological effect in stimulating demand. It is evidently the case that the owner of land will usually be desirous of renting the land even if he does not sell it. Herein is a difference between speculation in commodities and speculation in land. Grain, for example, can be used only once and those who have large quantities sometimes withhold it from the market to force up the price. Land can be used continuously. He who buys it hoping to reap a gain in an increased value in the future is usually glad to rent it in the meantime, since otherwise he would lose so much income.

By common consent, George further argues, the lack of adjustment between production and consumption is due to speculation. But speculation in what? Not in the products of labor, for, as is well known, such speculation tends to steady the relation of production to consumption, to equalize supply or demand. Therefore the hurtful speculation must be in that which is not the product of labor and yet is necessary to production—that is land.[39] This sort of a priori reasoning is characteristic of George's treatment of crises.

He further argues that "this check to production, which shows itself in decreased purchasing power we must ultimately find . . . . in some obstacle which checks labor in expending itself on land. And that obstacle, it is clear, is the speculative advance in rent, or the value of land, which produces the same

[38] *Ibid.*, 262. [39] *Ibid.*, 265.

effects as, as in fact it is, a lock-out of labor and capital by landowners."[40] Expressing the same thought he says a little farther on: "The land is the source of all wealth. . . . . And, hence, when labor cannot satisfy its wants, may we not with certainty infer that it can be from no other cause than that labor is denied access to land?"[41]

Evidently the wish is father to the thought. George sees in private ownership of land a great economic evil and he wishes to trace to it as many of our ills as possible. It is conceivable that there may be in certain localities, as was perhaps true of San Francisco just before 1873, such a craze of speculation in land as to amount to a lock-out there of labor and capital, but such phenomena are quite local and capital can find employment elsewhere. One cannot find a satisfactory explanation of a general crisis in causes so limited in their operation. George ignores the fact that in time of industrial depression and preceding it the landowners are as anxious as the capitalists to get income from their property. Indeed one hears more in time of depression of timid capitalists than of timid landowners. Would you therefore conclude that there is a lock-out of land and labor by capital? George offers no evidence of the existence of a "lock-out of labor and capital by landowners" either during or preceding a panic. Indeed since the capitalists or *entrepreneurs* usually own as much land as they need for the carrying-on of their business it is difficult to see how such a lock-out could occur.

As a further example of George's reasoning take the following:

> Yet that there is a connection between the rapid construction of railroads and industrial depression, anyone who understands what increased land-values mean, and who has noticed the effect which the construction of railroads has upon land-speculation can easily see. Wherever a railroad was built or projected, lands sprang up in value under the influence of speculation, and thousands of millions of dollars were added to the nominal values which capital and labor were asked to pay outright, or to pay in installments, as the price of being allowed to go to work and produce wealth. The inevitable result was to check production and this check to

[40] *Ibid.*, 267–68.

[41] *Ibid.*, 270.

production propagated itself in a cessation of demand, which checked production to the farthest verge of the wide circle of exchanges, operating with accumulated force in the centers of the great industrial commonwealth into which commerce links the civilized world.[42]

The railroads of which he writes passed for the most part through districts sparsely settled or not inhabited at all. Here land-values were increased. But how could production be checked when there was no production or almost none before the railroads came? Again, those who do not themselves cultivate land and do not care to sell it are in nearly all cases glad to rent it and on conditions which do not call for the payment of rent until a crop has been made. It is thus not correct to say that capital and labor are required to pay out vast sums "as the price of being allowed to go to work and produce wealth." Even if the man who uses the land buys the title by the payment of capital this sale need occasion no loss to industry since in the hands of the new owner this wealth may be and in most cases will be put to new uses. Lastly, some of the capital spent in the construction of railroads was overflow and surplus capital, and its use in the West caused no lessening of production in the quarters from which it came. It is indeed maintained that vast expenditures of labor and capital sunk in railroads which run through new territory do often result in an immediate lessening of the income of the community, just as would be produced by an undue amount of unproductive consumption. This, however, is not the argument of George. He would have it that there is a check to production where there is, and because of, the increase in land-values.

V

In previously quoted passages George states that low wages are due to the monopolization of land. It is true that, if a commodity is made of three materials A, B, and C, and if A is subject to monopoly control while B and C are freely producible under competitive conditions, the monopolist of A will be able to absorb all the gains due to an increase in the value of the commodity. George really applies this principle to commodities in general,

[42] *Ibid.*, 272–73.

the products of land, labor, and capital. Land is a "monopoly," capital and labor are not, and hence the landlord absorbs all the gains of progress. The fallacy consists in the use of the word monopoly in two senses. The material A is monopolized when its supply is subject to substantial unity of control. Land is called a monoply because limited in amount, but there exists no unity in its control and the landlords have consequently no power to absorb all differential gains.[43]

Following the adage which recommends giving a dog a bad name in order that he may be killed George gives such a definition of wealth as to exclude land and makes an illogical defense of the proposed innovation which showed that he confused land with land-titles.[44] He puts forward the labor theory of property rights, since this does not justify the ownership of land.[45] This theory leads naturally to another erroneous doctrine, the labor theory of value.[46]

In treating of land his constant purpose is to minimize it as an agent in production and to magnify it as a factor in distribution. He says,

> It [rent or land-value] in no wise represents any help or advantage given to production, but simply the power of securing a part of the results of production.[47]

If rent represented no help or advantage in production the producer would do without the use of land. Rent "represents" help or advantage in production in the same way that wages do. The payment of wages is not in itself an advantage but it represents that which is such—labor.

On the whole George's system of economics is in many places so fallacious and his doctrines so untenable that *Progress and Poverty* will doubtless cease to be the Bible of the Single Taxers, if, indeed, this is not true already. Some of these economic errors, as, for example, the explanation of the nature of interest, have nothing to do with the land tax. Others, such as his theory

[43] For different definitions and uses of the word "monopoly" see Ely, *Monopolies and Trusts,* chap. i.

[44] Henry George, *Progress and Poverty,* 38, 39.

[45] *Ibid.,* 332–35. [46] *Ibid.,* 40, 142. [47] *Ibid.,* 166.

of crises and his doctrine that rent absorbs all the gains of progress, spring from a desire to make the case against the present system as strong as possible.

Whatever of truth there may be in the Single Tax contentions flows from the facts that land is the gift of nature rather than the product of human toil, that its value is due to the activities of the community rather than of the owner, and that a tax upon it is not, generally speaking, a burden on industry.

At bottom the principle which underlies George's doctrine of taxation is that the government should be supported by the appropriation of unearned income. Besides the rent of land there are three other conspicuous examples of such incomes—those due to special franchise, to the tariff, and to inheritance. Special franchises, e.g., the permission to use the streets of the city by an electric railway company, usually depend on the use of land, and whatever remedies need to be effected can be accomplished through the power to exact a rent charge. One who accepts George's doctrines believes that the just ownership of property carries with it a natural and perfect right to transmit it untaxed to another, but this doctrine now properly finds little acceptance.

Radical reformers of the present day may for the most part be divided into two classes—those who believe that the state should undertake to carry on the production and distribution of wealth and those who by taxation and otherwise would destroy all kinds of special privilege,[48] leaving the production and distribution of wealth to be determined by the forces of competition and extending the functions of government by a larger service of the people through the provision of better educational facilities, parks, playgrounds, etc., and by such regulations as may be needed to secure fair and proper conditions of competition. The Socialists represent one of these groups and the Single Taxers the other.

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[48] The word privilege is one of which the recent Single Taxers make much use. Henry George, Jr., has written *The Menace of Privilege,* and the title of a recent book by F. C. Howe is *Privilege and Democracy in America.*