

CHAPTER 3

Evaluation of Progress and Poverty

In the previous chapter we summarized *Progress and Poverty* in the spirit of Henry George, without evaluating his arguments. In this chapter the author presents his judgments on the validity of George's analysis. In the next chapter we shall look at the public's reception of *Progress and Poverty* and George's views in general.

The Validity of Progress and Poverty

George was perceptive in denying the wages-fund theory. John Stuart Mill had already repudiated that doctrine in a British journal a few years earlier, but George undoubtedly was unaware of Mill's change of mind. It is not true that wages must make up a fixed and rigid part of the total capital available for investment. The theory was used as an anti-union argument. If the total sum available for wages is fixed, if some workers can win an increase of pay, less money will be available for other workers; therefore wage increases are gained, not at the expense of capitalists or landlords, but at the expense of other workers. But if the dividing line between wages and other incomes is changeable within certain limits, then workers as a whole can get a larger or smaller share of the national income, depending on their organized strength and bargaining position. George's attack on the wages-fund theory helped discredit a doctrine that was scientifically untenable and biased in favor of the class interests of employers.

George was correct in accepting and building upon the law of rent as developed by David Ricardo in 1815. He understood that rent arises from the extra productivity of the better soil compared with the marginal land, which pays no rent. The landowner is in a position to benefit from the surplus return of the more productive land. It is not

high rents that produce high prices of goods, but high prices of goods that result in high rents. High rents in turn result in high prices of land.

George also appreciated, more than Ricardo did, that significant increases in land prices and rents in urban areas overshadow by far agricultural rents. A store on the outskirts of a city might yield its owner a modest return. If it were located in the center of the city, suppose it would yield an extra \$16,000 per year because of the larger concentration of shoppers. If eight percent were considered a reasonable return on such an investment in land, the land on which the store is built would be worth \$200,000. Society will have created this value without any effort or wisdom exhibited by the owner of the land. The store owner renting this land would receive only the average rate of return, with the extra productivity of the land due to its location going to the owner. If the store owner also owned the land, his income would be partly rent, partly interest on his capital, partly wages for his labor, and partly profit.

As land is a free gift of nature to society, the landowner as landowner does nothing to earn his income. If he develops his own land, then he is entitled to the earnings of his labor and capital. But in his role as landowner he contributes nothing.

George was correct in showing that a one hundred percent tax on economic rent need not interfere with production at all. In fact, land resources would be used more fully and sooner under his scheme. Suppose a person owns a mansion on an acre of land in the center of a city, and he refuses to let anyone else use it. It could be determined by competitive bidding or by comparing this land with adjacent land in use that someone would give \$100,000 a year to use this acre for business purposes. The landowner would have to pay a tax of \$100,000 *per annum*. He would be free to continue to use that acre for his own exclusive pleasure, but he would have to pay its full rental value to the government. This would combine the maximum of individual freedom with the concept of justice and equity. In addition, few individuals would refuse to allow their land to be used because they did not like the new rules of Henry George's game. Their annual tax would be levied, not according to the economic rent actually produced by the land, but according to the economic rent it would generate if it were put to the highest use. Withholding land from use would be an expensive protest on the part of landowners.

This withholding urban land from use is more widespread than most people realize. The speculators hope to see large increases in land prices by leaving their land idle. Thus in the crowded city of San Francisco 23 percent of the usable land was undeveloped in 1955. In Los Angeles 65 percent of the suitable land was undeveloped for urban use in the same year. In Brooklyn the figure was 44 percent.¹

George was right in saying that taxing away all economic rent need not interfere with production. Since land and other natural resources are a free gift of nature, and as their supply cannot be augmented or reduced (except through depletion or erosion), the same amount will be available for society's use whether it is taxed or not. George pointed out that large investments are made on rented land. This practice has reached the point where some large buildings are erected on rented land on 99-year leases. Who will own such a building when the lease on the land expires? The landowner, of course. Why is the tenant willing to accept such a situation and build on someone else's land? For two reasons. First, the building he puts up may be worthless after 99 years. Second, even if it is valuable, the power of compound interest, or the power of discounting future values to the present, is such that the present value of a payment due in 99 years is negligible.

To illustrate this idea, suppose a tenant is about to rent a piece of land for 99 years. He plans to put up an office building for twenty million dollars, and he guesses that at the end of the lease it will still be worth a million. He is about to sign the lease when the shadow of a doubt crosses his mind, and he says to the landowner: "Why should my descendants give your descendants a million-dollar property 99 years from now? I demand compensation for the building that I will put up and the owner of the land will then get for nothing."

The landowner may well reply: "I agree that your building will be worth a million dollars in 99 years. But the present value of this future sum, discounted at a reasonable six percent, is only \$3,124. I'll give you that sum now. If you put it away at six percent compounded annually, it will be worth a million dollars in 99 years."

This is the situation that makes feasible the large investments that are being made on rented land. The ownership of land is not a prerequisite to its development.

The validity of George's view can be seen in the fact that the land under Number One Wall Street in New York City has sold for \$700 a

1. U. S. Department of Agriculture, *Land. The Yearbook of Agriculture, 1958* (Washington, D. C.: Government Printing Office, 1958), p. 515.

square foot or 30.5 million dollars an acre. Land in downtown Tokyo was worth \$200 a square foot in 1971. The Disney interests secretly acquired 27,500 acres in Florida for their Disney World and related enterprises for an average of \$185 an acre. Since then commercial interests have paid up to \$300,000 an acre for the best locations close to the Disney gates. Even the air can be sold; an option on air over the Pennsylvania Railroad tracks in New York City was worth more than three million dollars an acre in 1955. A Times Square billboard brings in 15 thousand dollars a year. These examples illustrate society's tribute to the landowners who do nothing as landowners to satisfy the needs of society; they extract tribute under the protection of the law.

An average acre of cultivated farmland was worth \$11 in 1850, \$20 in 1900, \$65 in 1950, and \$195 in November 1970.²

Let us look at the total value of all the privately held land in the United States excluding Hawaii and Alaska. Unfortunately these figures are not available for the years before 1900, and they exclude the value of subsoil assets, which are considerable. We find that in 1900 the land was worth 27 billion dollars. By 1958 it was worth almost 11 times as much—290 billions. By 1968 privately held land almost doubled again in value, to 571 billion dollars.³ This trend can be expected to continue.

No wonder Adam Smith in his *Wealth of Nations* (1776) said that landlords "love to reap where they never sowed."

Is the Landlords' Share Rising and Labor's Falling?

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.

As we noted above, in 1900 the value of the privately held land in the United States, excluding subsoil assets, was 27 billion dollars; the gross national product (GNP) was 17 billions. This means that the value of the land amounted to 159 percent of GNP. In 1958 the land was worth 290 billions and the GNP was 444 billions; the value of land

2. *Agricultural Situation*, Vol. 55, No. 4 (May 1971), 5.

3. U. S. Department of Commerce, *Historical Statistics of the United States, Colonial Times to 1957* (Washington, D. C.: Government Printing Office, 1960), p. 151; U. S. Department of Commerce, *Statistical Abstract of the United States, 1971* (Washington, D. C.: Government Printing Office, 1971), p. 328.

added up to 65 percent of GNP. In 1968 the land was worth 571 billion dollars, and the GNP was 865 billions; therefore the land was worth 66 percent of GNP. The value of land depends on the annual economic rent that it yields plus the speculative anticipation of future increases in rent; it is therefore safe to say that if the value of land as a percentage of the nation's income is not rising, the share of income going to landlords is not rising.

It has been observed that the share of the nation's income going to labor is quite stable from decade to decade. There can be no doubt that the absolute income of workers, measured by the purchasing power of their wages, is rising. In this it keeps pace with the growing efficiency of production. We can feel much dissatisfaction with the distribution of income, with the extremes of poverty and wealth, with how the national income is spent, with the disadvantages of a mindless concentration on growth, and so on. But George, like Marx before him, was wrong in believing that the absolute impoverishment of the workers was likely to occur, and that the relative impoverishment (compared to other groups) was inevitable.

How did George stumble into this erroneous analysis? It was easy: it stemmed from his mistaken notion that landowners are monopolists. If this were true, the landowner, with all the force of law and order imposed by the government, could say to the workers: "If you wish to use my land, I will allow you enough for you and your family to subsist. If you refuse my terms, you will starve to death. If your output increases, I will take the increase and leave you your minimal subsistence share."

But the landowners are not monopolists, even though they would like to be. There are literally millions of them in the United States and in other rich countries, and they are subject to competition among themselves as well as competing with buyers and renters of land. The next section will show how the landowners' share could fall with the growing efficiency of production.

Landowners, however, do act like monopolists in most countries in Asia, Africa and Latin America. They have a preponderance of economic and political power, and they use it to rackrent and exploit the peasantry. The majority of the people have few alternatives for earning a living, and they must work the land they do not own or they will starve. In addition to exorbitant rent, the ruling elite charge the peasants usurious interest rates on the credit they need. Prices for the goods that tenant farmers or sharecroppers buy and sell are manip-

ulated to their disadvantage. In such countries Henry George's program would be like a breath of fresh air in an oppressive and stifling atmosphere. (But it will take more than persuasion and a majority of the ballots to break the power of the dominant oligarchy.)

*George's Confusion of the Law of Diminishing Returns,
Increasing Returns to Scale, and Growing Efficiency*

It is understandable that George, writing almost a hundred years ago, confused these concepts which then were not very well understood.

It simply is not true, as George claimed, that the earth could support a thousand billion people as easily as one billion. He was confusing increasing returns to scale and growing efficiency with the law of diminishing returns. These three principles are valid, and the first two offset the third to a considerable extent. We shall treat them separately in order to analyze how they work.

We shall first look at the law of diminishing returns. Assume a fixed quantity of land and a state of technology that does not change. Suppose the labor of one worker and \$100 of capital are applied to grow 10 acres of wheat. The yield is, say, 100 bushels. If there were no law of diminishing returns, two workers and \$200 of capital could produce 200 bushels on the same 10 acres. A thousand workers and \$100,000 of capital could produce 100,000 bushels. A million workers and \$100 million of capital could produce 100 million bushels of wheat. If there were no law of diminishing returns, all the wheat for the whole world could be grown on the 10 acres of land. This, of course, is preposterous. As labor and capital are added to a fixed quantity of land, the total output will increase, but the average output per unit of labor and of capital will fall.

The law of diminishing returns is offset but not refuted by improvements in technology and growing efficiency. Suppose in the above example this year one worker and \$100 of capital produce 100 bushels of wheat on 10 acres. Next year a new and better variety of wheat is planted, and two workers and \$200 of capital produce 300 bushels. In the third year a new method of fertilization is developed, and three workers and \$300 of capital produce 500 bushels. With each improvement the average output per worker and per \$100 of capital rises. This is the trend that refuted the Malthusian pessimism about overpopulation.

But does improving technology invalidate the law of diminishing

returns? It does not. Within the framework of any technology, the law of diminishing returns operates. In the above example, suppose we take the third year, when three workers and \$300 of capital produced 500 bushels of wheat. To keep technology constant, let us consider different alternatives during that third year. Perhaps one worker and \$100 of capital could produce 250 bushels; two workers and \$200 of capital could produce 400 bushels; three workers and \$300 of capital could produce 500 bushels; four workers and \$400 of capital could produce 550 bushels. This illustrates increasing total output and falling average output as labor and capital are increased on a fixed quantity of land.

Which of these opposing tendencies will predominate? Either, depending on the circumstances. If population is growing very rapidly and if technology is improving slowly, the law of diminishing returns will predominate; food prices will rise, rents will rise, and wages will be at the minimum of subsistence or below. If, however, population increases slowly and technological advances are rapid, food prices and rents will not rise much. This is what has happened in agriculture in the United States. It helps explain why we spent 27.9 percent of our disposable personal income on food in 1909, 23.5 percent in 1929, 24.8 percent in 1957, and 15.9 percent in March 1972.⁴

Of course we would expect people to spend a smaller share of their incomes on food as their incomes rise. In addition, farmers produce nonfood commodities as well. Let us compare the change in prices of all the goods and services farmers buy and the change in prices of all the things they sell. We find that taking 1910-14 as 100, the farmers were paying an average of 415 for the things they bought in November 1971; they were receiving 290 for the things they sold. That is, the cost of their purchases rose 315 percent, while the price of their farm products rose 190 percent. This means that in November, 1971, a typical basket of farm products could buy 70 percent of what it would have bought in 1910-14. This tells us that farm products are relatively cheaper than they used to be and that rents are not absorbing the economic surplus as George thought they would.

The following tables will explain further the law of diminishing returns, the effects of improved technology, and how rent arises.

Assume that we have a small isolated community that has 100 acres

4. Computed from *Historical Statistics of the United States, Colonial Times to 1957*, pp. 139, 178, 179; *Agricultural Situation*, Vol. 56, No. 5 (June 1972), 14.

of each grade of land A through D, as shown in Table 1 below. If we were to treat all the land in the same way, we would get 20 bushels per acre of grade A land, 15 bushels on grade B, and so on.

We define the \$10 input for each acre as that return which will give the tenant farmer an average rate of return that is adequate enough to keep him in farming. Ten dollars will cover the cost of his seed, fertilizer, wear and tear on his machinery, and so on; the sum will also compensate him for his labor, interest on his invested capital, and profit for being a risk-taker in his farm enterprise.

As long as the population and the demand for wheat are small, only the best land will be used, the price of wheat will be 50¢ per bushel, and there will be no rent, as shown in line 1 of the table. With the growth of population, 2,000 bushels are produced on the 100 acres of grade A land, and this becomes inadequate to meet the demand. The price therefore rises to 66 2/3¢ as seen in line 2 of Table 1, and now it pays to work grade B land, which yields 15 bushels per acre. This land produces no rent because it is marginal land that just barely

TABLE 1

Rent Measured from the Extensive Margin of
Cultivation

Price of Wheat per Bushel	Rent per Acre Derived from Each Grade of Land			
	A	B	C	D
	Input \$10 Yield 20 bu./acre	Input \$10 Yield 15 bu./acre	Input \$10 Yield 10 bu./acre	Input \$10 Yield 5 bu./acre
\$.50	0			
\$.66 2/3	\$3.33	0		
\$1.00	10.00	\$5.00	0	
\$2.00	30.00	20.00	\$10.00	0

compensates the tenant farmer for his efforts and investment. But grade A land now produces a surplus, yielding \$13.33 per acre. Tenants will be eager to rent grade A land for the extra return it will produce. Competition among them will lead to a rental payment to the landowner of \$3.33.

We now have 2,000 bushels being produced on the 100 acres of grade A land, and 1,500 bushels on grade B land when all of those 100 acres are used. As population grows, they require more wheat, and the price rises to \$1 per bushel. Now grade C land can be worked as the marginal no-rent land, as is apparent in line 3 of Table 1. Grade B land produces a surplus of \$5 per acre which goes to the landowner as rent, leaving the tenant farmer with the average rate of return. The wheat from grade A land also sells for a dollar a bushel, and the rent is \$10 per acre.

When the 100 acres of grade C land is all farmed, it produces 1,000 bushels. When the total demand for wheat at \$1 per bushel exceeds 4,500 bushels, the price of wheat in this example rises to \$2, making it just barely profitable to work grade D land. The rent rises, as shown in the bottom line of Table 1, to \$30 per acre on grade A land, \$20 on grade B, and \$10 on grade C. Thus do landowners grow rich.

Let us assume now that through improved technology we can produce twice as much wheat as before with the same expenditure of labor and capital. This is illustrated in Table 2. We can now produce 4,000 bushels on the 100 acres of grade A land, 3,000 bushels on grade B land, and 2,000 bushels on grade C land, or 9,000 bushels in all, excluding grade D. In Table 1 we assumed a demand for up to 5,000 bushels at \$2 per bushel, and all four grades of land will be worked. In Table 2 we see that with improved technology the price of wheat drops to 50¢. While more wheat will be wanted at the lower price, there is room for increased production from 5,000 bushels under the old conditions at \$2 to 9,000 bushels under the new conditions at 50¢. The total rent in line 4 of Table 1 is \$3,000 for 100 acres of grade A land, \$2,000 for 100 acres of grade B land, and \$1,000 for 100 acres of grade C land, or \$6,000 in all. Under the new conditions assumed in Table 2, total rent has fallen to \$1,000 on grade A land and \$500 on grade B, or a total of \$1,500. This illustrates what had prevented landowners from getting an ever-increasing share of the nation's income as predicted erroneously by Henry George. Since there are no known limits to the improvement of efficiency, this can be expected to continue in the future. His analysis was based on the assumption that the landowners act as a monopoly. If we abandon this assumption, his analysis becomes fallacious. Rents tend to rise with the growing demand for farm products, and they tend to fall with the growing efficiency of production.

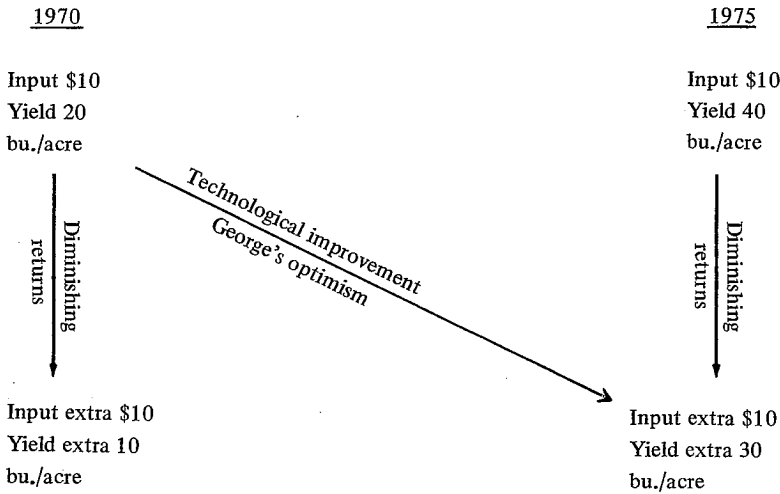
TABLE 2
Rent Measured from the Extensive Margin of Cultivation
with Improved Technology

Price of Wheat per Bushel	Rent per Acre Derived from Each Grade of Land		
	A	B	C
	Input \$10 Yield 40 <u>bu./acre</u>	Input \$10 Yield 30 <u>bu./acre</u>	Input \$10 Yield 20 <u>bu./acre</u>
\$0.50	\$10	\$5	0

We can combine Tables 1 and 2 in hypothetical Table 3, which illustrates both the Malthusian pessimism based on the law of diminishing returns and George's optimism based on improved technology. Here we are looking only at grade A land, which is subject to diminishing returns as the land is worked more intensively by investing more labor and capital per acre.

TABLE 3

Diminishing Returns and Improved Technology



In any one year, keeping technology constant, the more labor and capital we invest per acre, the larger the total output but the smaller the average output per unit of labor and capital invested. But with technological improvement over a period of time, the average output per unit of labor and capital tends to increase. That is how we can feed a growing population better than in the past. George was perceptive in predicting this trend, but he was wrong in thinking it would necessarily tend to increase rents.

There remains one further point to discuss in this section. That is George's view that

increased population, of itself, and without any advance in the arts, implies an increase in the productive power of labor. The labor of 100 men, other things being equal, will produce much more than one hundred times as much as the labor of one man, and the labor of 1,000 men much more than ten times as much as the labor of 100 men; and, so, with every additional pair of hands which increasing population brings, there is a more than proportionate addition to the productive power of labor.⁵

This idea, which has been developed more fully since George's day, has come to be called "increasing returns to scale." It tells us that if all factors of production are increased together, the efficiency of production increases. It is very obvious in certain types of economic activity. A large circulation of newspapers and books, for example, lowers the cost per copy. A large radio and television audience is cheaper to serve per 1,000 listeners or viewers than is a small audience. The growth of population increases the efficiency of a railroad up to a certain point. It is also true of manufacturing. Large factories are more efficient than small ones. Suppose you have a factory with 100 workers and a million dollars of capital. If you increase labor and capital by 10, you will increase output by more than 10. But this process cannot go on indefinitely. If we had a factory as large as a county, it would be terribly inefficient.

There probably are increasing returns to scale in agriculture up to a certain point, for large farms are more efficient than small farms. But a farm the size of a whole state would be very inefficient, for beyond a

5. *Progress and Poverty*, p. 232.

certain point there is nothing to be gained from increased size, and much to be lost. There is another difference between agriculture and industry that vitiates George's analysis. In industry one can increase all factors of production. In agriculture, once all the land is taken into use, labor and capital can be expanded but not land. That is where the law of diminishing returns becomes significant. If one factor—land—is kept constant, and the other factors have increased, the *average* output per unit of increasing factor must eventually decrease. Had George understood this, he would not have made the preposterous statement that the earth could support a thousand billion people as easily as one billion. Only phenomenal, and as yet unseen, improvements in technology could make this possible.

We shall now look at whether or not the single tax would be adequate for all government expenditures.

The Inadequacy of the "Single Tax"

Henry George contended that if a 100 percent tax on economic rent were enacted, no other taxes would be necessary; the government would have ample funds to meet its expenses and to expand social services. This was certainly true in his day. But what has happened since then?

As we saw above, in 1900 all the privately held land in the United States, excluding subsoil wealth, was worth 27 billion dollars. If we assume that land generated a six percent return on its value, the single tax would have produced 1.6 billion dollars of revenue each year. This is exactly what all levels of government—federal, state and local—were spending per year. The "single tax" would have worked even as late as 1900.

In 1968 the privately held land was worth 571 billion dollars. At six percent return, this means that all levels of government would have had 34 billion dollars to spend in 1968. The federal government actually spent 166 billion dollars that year, and state and local governments spent 116 billions, bringing the total to 282 billion dollars. Apparently the tax on economic rent would have generated only 12 percent of government requirements.

In fairness to George it must be granted that he would not admit this

simple-minded comparison of single tax revenues and current expenditures as valid. He believed that his fundamental reform would unleash productivity and growth, thereby increasing government revenues and decreasing expenses. Production would increase, poverty would disappear, wages would rise, full employment would be attained, prices of goods would fall, and so on. With a world at peace, military spending could be eliminated and the federal government would have saved 81 billion dollars out of the 166 billions it spent in 1968. George hoped that his reform would enable us to eliminate welfare expenditures, police, prisons, customs houses, most tax collectors, and so on. Rising wealth and reduced poverty would generate increased government revenues from the tax on rent, and reduced expenditures.

It is very doubtful whether George's panacea would solve most of the problems of poverty and the maldistribution of income. The private ownership of capital is a more powerful cause than the private ownership of land in explaining the uneven distribution of income in industrial societies. In the next section we shall analyze his peculiar views of capitalism that led to his conclusion that his reform would turn laissez-faire capitalism into a utopia.

George's Misconceptions About the Nature of Capitalism

As shown early in Chapter 2 of this book, George argued that wages are drawn from the product of labor and not from capital. What are the implications and consequences of this view?

Writing *Progress and Poverty* during 1877-79, George developed his ideas at the very beginning of the epoch of big business in the United States. Instead of looking at the new situation that was arising around him, he looked backward at a society of craftsmen, small scale producers who were serving mainly local markets. A shoemaker draws his wages from the sale of his shoes in the village. A carpenter is paid by his neighbors for whom he works.

With the development of commercial and industrial capitalism, however, a greater length of time and greater distances are required between the production of raw materials and the sale of the finished products. The construction of a shoe factory or a steel mill does require

a large outlay of capital to erect buildings, buy machinery, pay workers, stock inventory, and fill orders on perhaps 30 days' credit before any receipts are realized. We are all aware of the importance of accumulating capital in order to expand production.⁶

How could George overlook such an important principle? Aside from viewing producers as primarily small craftsmen using very little capital, he made another major error; this can be seen in the following quotation:

In short, as the payment of wages is always conditioned upon the rendering of labor, the payment of wages in production, no matter how long the process, never involves any advance of capital, or even temporarily lessens capital. It may take a year, or even years, to build a ship, but the creation of value of which the finished ship will be the sum goes on day by day, and hour by hour, from the time the keel is laid or even the ground is cleared. Nor by the payment of wages before the ship is completed, does the master builder lessen either his capital or the capital of the community, for the value of the partially completed ship stands in place of the value paid out in wages. There is no advance of capital in this payment of wages, for the labor of the workmen during the week or month creates and renders to the builder more capital than is paid back to them at the end of the week or month, as is shown by the fact that if the builder were at any stage of the construction asked to sell a partially completed ship he would expect a profit.⁷

George's error lay in his failure to distinguish between the *creation of value* by the worker and the *conversion of value into cash* by the capitalist through the sale of the product. Of course the worker has to produce, to increase value, before he is paid. But if years will elapse

6. In fairness to George, it should be pointed out that in a work published four years after *Progress and Poverty* he wrote that large farms are displacing small family farms, just as large businesses are displacing small craftsmen. See his *Social Problems*, Robert Schalkenbach Foundation, 1966, pp. 227-228. [Originally published in 1883.] He also referred to large-scale agriculture pushing people out of farming, as seen in Chapter 2 above in the quotation from pages 252-253 of *Progress and Poverty*. His ideal society seemed to be one in which a working man could establish himself on a small farm and make a living. In that sense he was looking backward at a Jeffersonian agrarian democracy and not ahead at the problems of industrial society.

7. *Progress and Poverty*, p. 67.

before the worker's product is sold for cash, then capital is required to finance the investment, including the means of subsistence for the worker and his family.

George held that Adam Smith misled political economy into the idea that capital employs labor and pays wages:

But when we consider the origin and natural sequence of things, this order is reversed; and capital instead of first is last; instead of being the employer of labor, it is in reality employed by labor. There must be land before labor can be exerted, and labor must be exerted before capital can be produced. Capital is a result of labor, and is used by labor to assist it in further production. Labor is the active and initial force, and labor is therefore the employer of capital.⁸

Can we imagine a wage earner working for General Motors or Du Pont or International Business Machines telling the chairman of the board that he, the worker, is employing capital? That the role of capital is insignificant? That there is a harmony of interest between both sides? And that their mutual antagonist is the owner of the land on which the factory is built?

George's view that labor was independent of capital fitted well with his predilection in favor of solving all of labor's problems with the single tax. He believed that under his scheme every worker could, if he wanted to, establish himself on the land, which would no longer be monopolized. Employers would then have to offer high wages to attract workers. This optimism was negated by George's own view that farms were increasing in size because the larger farms were more efficient. George overlooked the fact that a certain amount of capital was necessary even to establish a small farm. After the Homestead Act was passed during the Civil War, settlers in the west could each get 160 acres free except for some filing fees. Few urban wage earners took advantage of this opportunity. It typically required \$1,000 or more to acquire livestock and equipment and to feed a family for a year until the first crop came in; few workers could save that much out of the 10 or 15 dollars a week they earned. It is most unlikely that George's single tax would solve labor's problems so suddenly and completely. But if he

8. *Ibid.*, p. 163.

admitted that labor is ineffective without an accumulation of capital with which to work, his remedy would be weakened considerably.

As shown in Chapter 2 above, George manipulated his equation on the distribution of income to show a harmony of interest between labor and capital:

$$\text{Produce} - \text{Rent} = \text{Wages} + \text{Interest}$$

He could just as easily have shown the antagonism between labor on one side and landlords and capitalists on the other:

$$\text{Produce} - (\text{Rent} + \text{Interest}) = \text{Wages}$$

Had he chosen not to ignore profit, he might have written:

$$\text{Produce} - (\text{Rent} + \text{Interest} + \text{Profit}) = \text{Wages}$$

But this equation would not have suited his view of society. It implies the concepts of class struggle and anticapitalism, both of which George rejected.

George's naive optimism concerning the beneficence of his plan can be seen in his own words:

The monopoly of the land gone, there need be no fear of large fortunes. For then the riches of any individual must consist of wealth, properly so-called—of wealth, which is the product of labor, and which constantly tends to dissipation, for national debts, I imagine, would not long survive the abolition of the system from which they spring. All fear of great fortunes might be dismissed, for when every one gets what he fairly earns, no one can get more than he fairly earns. How many men are there who fairly earn a million dollars?⁹

Perhaps George is right: few men fairly earn a million dollars (*per annum?*). But wealth begets wealth through interest, profits and capital gains; the second million dollars are more easily acquired than the first. Without unions, which George did not believe to be very effective or desirable, and without government intervention in the economy, the

⁹ *Ibid.*, p. 453.

gap between rich and poor would grow wider. The ownership of capital gives far more wealth and power to a small group of people than the ownership of land. George was attacking one aspect of our great social problems while neglecting the others.

One of George's key theses was that high wages and high interest occur together, as do also low wages and low interest. This is a dubious generalization. One difficulty in testing this proposition is that the rate of interest should include only the reward for saving and not the payment to compensate for the riskiness of investment; this may be difficult to ascertain. Apparently in most of the poor counties wage rates are low and interest rates are high; this condition can be attributed to the abundance of labor, the scarcity of capital, and the fact that economic and political power is concentrated in the hands of the wealthy. The interest rates in Great Britain were higher and wage rates lower in the eighteenth century than in the twentieth century. The United States may have been unique in that wages and interest were both high early in our history because labor and capital were both scarce while natural resource supplies were abundant. In the depressed 1930's both wages and interest were low because both labor and capital were unemployed.

Voltaire's criticism of a single tax on rent is also appropriate to George's idea. The French physiocratic school advocated a one-third tax on rent because they believed only agriculture is productive enough to produce a surplus, an increase in value. Any other tax would be passed on to the landowner who would ultimately pay it. Voltaire, in his satire *The Man with Forty Crowns*, which was translated and published in English in 1768, pictured the wealthy merchant escaping all taxes; his poor nephew who owned his own land had to pay taxes on the 40 crowns (\$25) annual income he had from the rent received from the land. Voltaire has the uncle saying to the nephew, "Pay then you, my friend, who enjoy quietly the net and clear revenue of forty crowns; serve your country well, and come now and then to dine with my servants."