

# PART V

## FORGOTTEN CHAPTERS IN U.S. HISTORY

“IT TOOK THOUSANDS OF YEARS for our man-made laws to recognize the rights of the individual and to abolish slavery. Let us hope it will not take so long to recognize the rights of the community to collect what it produces.” Thus John C. Lincoln concluded his short 72-page book, *Ground Rent, Not Taxes: The Natural Source of Revenue for the Government*.<sup>1</sup>

I had the privilege of knowing Lincoln, an inventor, industrialist and social reformer who stressed the moral imperative of collecting socially produced land values.

A broad-brush look at America’s history sheds light on where our nation now stands and how we got here. The following accounts, with special attention to land issues, are intentionally selective, pointing to economic and social matters that tend to be omitted or glossed over. Uncovering these neglected aspects of our past has the felicitous outcome of pointing to ways that can help restore the health of our economic system.

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### NOTE

1. Exposition Press, New York, 1957.

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## America's Big Attraction

SCHOOLCHILDREN ARE TAUGHT that Europeans settled our country so they could freely practise their religions. This was certainly true for many colonists. Yet, according to letters and reports of those who came to America from the 1600s through the 1800s, an even greater lure induced multitudes to flee from places where their families had lived for generations, to cross the often treacherous Atlantic, to leave behind family members, and to give up familiar foods, customs, and cultures.

That big lure was *land*. Not just any land. Europe has abundant land. America's attraction was *free* or *cheap land*, lots and lots of it that was readily available to satisfy the immigrants' land hunger. To those who arrived on our shores, the contrast between Old World and New was striking.

In the Old World, farm hands typically received wages only sufficient to keep them strong enough to continue working for estate owners. No matter how long or skilfully they produced, they and their offspring looked forward, generation after generation, to remaining as servants to the lords of the lands on which they labored. Escape from their lowly status was rare.

In the New World, newcomers, including even indentured servants, were invigorated by the fact that the longer and smarter they worked, the more they prospered. Unlike their forebears, who had to pay steep rents for the "privilege" of working and eating, the immigrants kept the fruits of their labor. Settlers wrote with amazement about the abundant land that was within reach and rich

beyond imagination – rich in great forests, fertile soils, fish and game, streams for navigation and water power – and, yes, rich in beauty to nourish the soul.

Pioneer life in America's early years was difficult, even perilous, almost unbearably so by modern standards, and romanticizing that life would be a serious distortion of history and a disrespect of the pioneers' hardships – except in comparison to what they and their families had left behind.

### **The Work Ethic**

At the time of America's settlement, most people in the rest of the world toiled long and hard just to survive amid suffering and misery. Unfortunately, it takes no stretch of our imaginations to visualize those conditions. Those conditions still persist today in the world's areas of deep poverty.

The American work ethic became famous because it really paid to work. Americans took pride in standing on their own feet and in being able to see their families flourish. They took pride in all kinds of work. A current notion that some work is menial, beneath one's dignity, would have seemed bizarre to them. Without today's labor-saving devices, people had to work long at exceedingly arduous tasks. Yet every sort of work was glorified because it became obvious that those with good work habits and normal aptitude could advance themselves rather quickly. Nobody was siphoning off their earnings and savings. Society and individuals advanced together. As workers rose up the economic ladder, they enriched their communities as well.

Referring to this syndrome as the "Protestant work ethic" suggests that the work attitudes and practices were due to religious teachings. Perhaps so. But is it not likely that it was also the other way around? That is to say, the working atmosphere contributed to positive religious sentiments. Working on one's own land enabled people to reap what they sowed, without paying any overlord or royalty. Juxtaposed against Old World subservience and social immobility, the settlers' sense that they could control their own destinies led to a feeling that life was good, that all was right with the world. This fostered the can-do spirit and optimism that became dominant features of the American character. After centuries of stultifying feudalism, their liberating opportunities made it easier

for early Americans to revere a Creator that enabled such a just social order to prevail.

### **Let the Liberty Bell Ring**

Land not only spelled opportunity. It spelled liberty as well. "*Proclaim liberty throughout the land and to all the people thereof.*" Our land-hungry forebears inscribed these words on America's famous icon, that cracked bell in Philadelphia. The settlers, well-versed in the Bible, knew that this inscription from Leviticus 25 was no mere praise for an abstract concept of liberty. They understood that it was a mandate *to free people smothered by debt and to preserve for everyone their birthright to a fair portion of land.*

"Proclaim liberty" was Moses' injunction to institute a Jubilee every fifty years to assure genuine liberty to a people that had endured an extended period of landlessness and slavery in Egypt. The call to proclaim liberty is followed in the Bible by specific instructions for how Israelites were to apportion the Promised Land once they reached it. Each tribe and each family within the tribe was to have its allotment of land.

Once that was done, why require another Jubilee every half century? Unlike philosophers who hypothesize Utopias populated with near-perfect humans, Moses anticipated that families could lose their lands due to poor harvests, personal misfortunes, mismanagement, stupidity, or wickedness. But he did not want human weakness or disasters to condemn future generations to a loss of their liberty. To forestall lands ending up in the hands of a few, as in the Egypt from which they had escaped, Moses devised a Jubilee land redistribution plan to restore equity and liberty to generation after generation. This land system as a basis for social justice proved effective for centuries.<sup>1</sup> The world would greatly profit from taking seriously Moses' prescriptions. No healing of economic ills is possible short of honoring his injunction to ensure that a powerful few do not take for themselves land rights that belong equally to all.

Is Jubilee outdated? The Mosaic mechanisms, yes. The concept of equal access to nature's earth, no. In a primitive agrarian society it was feasible to require people to pull up stakes and move their few belongings to different plots of farmland. To try to redistribute equal shares of land today, when people's factories, skyscrapers and

homes – their private property – are firmly planted on the land, would involve severe injustices. Modern society requires new forms to achieve the goal of equalizing land rights. There are appropriate mechanisms applicable for modern society, as described in other chapters.

If ancient societies could discern how to form a just society, and how to deal with injustices that creep into societal processes, should not today's society with all the accumulated learning of the ages and all the modern investigative techniques know what needs to be done and how to do it?

The answer would be a resounding "Yes!" except for at least two factors. One is that old thinking and institutional arrangements have a momentum that is difficult in the extreme to reverse. A more potent factor is that those who enjoy wealth and control under outmoded arrangements work tirelessly to oppose change. It is a measure of their power to impede action that they have for so long succeeded in keeping necessary reforms out of the public spotlight.

We still need to hear the Liberty Bell ring.

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#### NOTE

1. Some question whether the Jubilee system actually operated. John Kelly of Peoria, in his forthcoming book, *The Other Law of Moses*, offers convincing evidence that land restorations persisted for at least five hundred years and that, when prophets referred to liberty and justice, it was understood they were often talking specifically about Jubilee laws. Theologian Walter Brueggeman, discussing the Jubilee in *Land: The Foundation of Humanness*, wrote: "A crucial aspect of Jesus' mission was the reassertion of the land rights of the poor and displaced."

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## Old World Baggage

TOM PAINE WROTE: "Men did not make the earth. It is the value of the improvement only, and not the earth itself, that is individual property."<sup>1</sup>

When Paine was playing a leading role in generating popular support for American independence, his views about land were as ground-breaking as his opposition to the divine right of kings. Colonists at that time were enjoying opportunities that stemmed from access to America's natural bounties. This was *not* because they were taking Paine's advice to stop giving special privileges to landholders. They reaped these benefits *in spite of* inequitable feudalistic land practices that immigrants brought with them and then incorporated into rules of the colonies and the new republic.

Since European rules about landownership did not seriously impede America's dramatic growth, why even mention this Old World baggage? The contents of this baggage have gradually and stealthily crept back to endanger us. It is now critical to confront that particular baggage.

### **Many Rejected Institutions and Practices**

We should be eternally grateful that our early leaders discarded a remarkable amount of baggage. They deserve boundless credit for the outmoded and unfair institutions they left behind, such as the following few examples.

**Primogeniture** was European law for some five hundred years. Under this law only the oldest sons could inherit a family's land.

**Entail** involved laws designed to prevent the breaking up of large estates, to keep them in the same family and to perpetuate a landed aristocracy.

**Royal prerogatives** included the deference and tribute owed to hereditary rulers.

Even though landowners predominated in the constitutional convention, they had the wisdom to avoid retaining those foundations of a rigid landowning class. Jefferson, John Adams, Madison, and Paine were instrumental in blocking "landed possessions" from becoming a qualification for voting or for election to Congress. Thanks to their unobstructed access to the earth's resources, our early pioneers and settlers became so self-sufficient and self-confident that the notion of bowing and scraping before kings, dukes, or other landed gentry struck them as ridiculous.

Earlier, when the first settlers arrived, natives shared their superb survival skills, enabling the pioneers to learn new ways of farming and hunting to stave off starvation. Europeans shared their more advanced material goods that often gave the Indians better lives. The initial examples of accommodation, with many Indians and settlers living peacefully near each other, and with land enough for all, suggests that the onset of an era of perpetual warfare was not as inevitable as the cowboy and Indian stories would have us believe. An opportunity to marry the two distinct cultures was missed to the detriment of both.

### **Land Rights, Land Wrongs**

To whom did America's land belong? Since the time of Columbus, people rested their claims on the basis of various contradictory precepts – rights by virtue of authority, rights of discovery, rights by conquest, rights by rebellions, rights by purchase. (In all of these cases, "rights" should be understood as *assertion* of rights, without ascribing to them ethical justification.)

**Rights by authority.** No sooner was the New World discovered than Pope Alexander VI, in 1493, gave the entire New World to Spain.

A year later, still having little sense of the geography, the pope signed another papal bull, ceding what is now Brazil to Portugal. Conveniently ignored, of course, were the inhabitants with ancient roots in these territories.

British, French, and Dutch monarchs, also acting as if it never occurred to them that the Indians might have rights, granted North American lands to chartered merchant groups like the East India, Plymouth, and Hudson Bay Companies. Crowned heads carved out huge chunks of territory to favored individuals. William Penn was given Pennsylvania and Lord Ashley Cooper the Carolinas. King Charles II gave New Jersey to his brother James, who then sold absolute ownership to Sir George Carteret and John Lord Berkeley. Maryland was granted to Cecil Calvert, the first Lord Baltimore, who offered to any "adventurer" two thousand acres "for himself and his heirs forever" if he would bring five men to work the land and pay Lord Baltimore 400 pounds of "good wheat" annually.

**Rights of discovery.** Nations chose to ignore papal dictates and claimed territory wherever they were able to plant their flags. Finders keepers, in other words.

**Rights by conquest.** When flags and bulls were not respected, warfare ensued. Nations whose armies prevailed felt justified in holding on to the territories they won. Under this rule, one conquest did not preclude further conquests. Prized Caribbean islands, for example, changed hands multiple times. Might makes right.

**Rights by rebellion.** Our Declaration of Independence – plus winning the Revolutionary War – set the standard for this approach. People rose up, defying existing authorities, to say the land was theirs to control. America's rebellion inspired subjugated peoples elsewhere. European nations did not appreciate this standard when they lost colonies, and in the United States the North did not appreciate it when the South rebelled.

**Rights by purchase.** Those who claimed land by all these means often found it advantageous to exchange their holdings for a price. Grantees and trading companies often sold land in rather small parcels to attract people and, more than incidentally, to make the lands they retained more valuable. Massive property exchanges



between nations included the 1803 Louisiana Purchase by the Jefferson administration from France, and the 1867 purchase of Alaska from Russia. Alaska was dubbed "Seward's Folly" until discovery there of gold, and later of oil, revealed what a bargain Secretary of State Seward had achieved.

## TRINKETS AND TRICKERY

The standard tale is that Peter Minuit of the Dutch West Indies Company bought the island of Manhattan for a handful of beads worth only \$24. Even if \$24 was not a piddling amount in those days, they supposedly put one over on naïve Indians – in a friendly way, but highway robbery nevertheless.

Here's an alternative version of the event. Buying and selling land were alien concepts to the Algonquians. They were given rare beads, the likes of which they had never seen, for an island to which they never believed they held exclusive rights. Far from feeling robbed, the Algonquians found themselves akin to those legendary New Yorkers who, centuries later, coined the term "selling the Brooklyn Bridge" to describe selling something they didn't own to visiting country bumpkins.

Maybe the Dutch got the short end of the deal?

With hindsight it appears that Native Americans had a clearer sense of land rights than the immigrants who brought feudal values to their shores. Ironically, Indians became indoctrinated to the European model and now demand compensation for territories from which their ancestors were driven off, territories which their forebears never believed they owned in a monetary or exclusive sense.

Over time, right of purchase became the widely accepted norm and created a necessary and useful sense of order. It sanctified by law property deeds that, if traced back too far, would be questionable or worse. While the law provided a substantial degree of

stability, the other side of the story is that, in practice, claims for the most treasured lands and resources were often obtained by trickery, scams, thievery, and other forms of lawlessness.

An especially bad part of the feudal baggage was the notion that individuals could properly amass as much land and resources as possible. Large landholdings became accepted as a fair measure of a person's or family's social worth. Those who monopolized strategically located lands found it easy to rationalize their control over fellow humans who needed access to "their lands" to survive.

**Right of creation.** Going not too far back, many American land claims are found to be based on force or fraud. Of course, if one goes all the way back, as title searchers would have us think they do, who is the original landowner of our America? Not even the Indians.

The underlying justification of *private* ownership is that property belongs to whoever creates it. By this measure, God or Nature is the rightful owner of the earth and its cornucopia of resources. As the Bible expresses it, "the Earth is the Lord's". From the times of the earliest settlers to this day, Americans have been inclined to keep this truth from influencing their behavior. The economic and environmental distortions stemming from not coming to grips with this truth have come home to roost, challenging us to change our ways.

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#### NOTE

1. *Agrarian Justice*, 1797.

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## Land Grabbing, Land Abuse

THEOLOGIAN CHARLES AVILA WROTE: "The concentration of property in private hands began very early in Rome, based on legitimizing the absolute, exclusive individual ownership in land. Modern civilization has not yet discarded this antiquated ownership concept. This is one of the main roots of the present global crisis."<sup>1</sup>

In Europe, landholding was the pathway to power, wealth, and prestige. Being locked out of this pathway motivated many people to leave for America. Once here, however, many of them imitated their former overlords. Significant numbers tried to enrich themselves, not by work but by acquiring land, far more land than they could ever use.

The Dutch patroons in the Hudson River region got grants from the West India Company. Some of their manors embraced hundreds of thousands of acres.

Many Founding Fathers, George Washington among them, were avid land speculators. About three hundred miles from Mount Vernon, my adopted "Aunt" Henrietta lived on Washington Farms, so called because our first president as a young man claimed this huge tract on the hills above the Ohio River near Wheeling. He later gave this holding to his half-brother Lawrence.

Land monopolization and absentee ownership took root early in the colonial era, leaving no room for thinking about ways to share the land equally with the Indians. The land-grabbing frenzy and the rapid expansion of the newcomer population were major factors

in driving natives off territories they had occupied for centuries, sparking a long, sad period of warfare.

Plantation owners, meanwhile, were hard pressed to meet foreign and domestic demand for cotton, tobacco, and other crops. To turn out more produce than they could generate by themselves and their local farm hands, they imported slaves. Future generations will find it harder and harder to believe how long it took before it became abundantly evident that slavery violated the most basic ideals and ethical guidelines that our nation proudly proclaimed.

A bloody and wrenching Civil War was sparked less by human rights issues than by North-South differences over state rights, tariffs, and economic issues. In the end, however, it did result in banishing slavery. America still has not fully recovered from the consequences of that inhumane institution. Challenges to erase racial animosities and inequities remain, notwithstanding the milestone election of a black President in 2008:

Alexander Hamilton led the push for government expansion of public works, especially canals for barge traffic and turnpikes for stagecoaches, horses and wagons to connect remote areas and spark trade. Steam-powered factories, boats, and trains were among the inventions that transformed manufacturing and transportation. The placid farm-based society of the pre-Revolutionary period soon gave way to a flurry of industrial activity. This was marked with ups and downs.

Those who were surprised by the 2008 economic meltdown were not paying attention to America's history of repetitive business cycles. Journalist-economist Fred Harrison of Britain<sup>2</sup> and investment advisor Phillip J. Anderson of Australia<sup>3</sup> have both carefully documented the U.S. economy's periodic troughs and peaks that occurred with uncanny regularity.

Growing commerce and industry gave the country innumerable constructive results. But corruption, destruction and waste marked their exploitation of natural resources. Timber barons had their lumbermen clear-cut magnificent forests farther than the eye could see. Agents of the coal barons tricked Appalachian homesteaders into practically giving away titles to the coal under their properties, and with fine print that gave the residents no legal recourse if the mines polluted their wells or caused surface acres to collapse. Large corporate combines cornered the rights to minerals, oil, and gas, stifling competition.

Land was a major factor in the rise and demise of the great railroads. The government gave away vast amounts of the public domain to railroad companies to spur their westward expansion. Many railroad empires then milked and neglected their rail operations while they concentrated on real estate deals.

Laws were stretched to condone or overlook the reckless plunder of our resources, not surprising in light of the exploiters' practice of padding the pockets of high officials. Public outcry to curb these abuses increased after the Teapot Dome scandal revealed bribery and corruption in the federal leasing of rights to exploit vast oil reserves. The Sherman Antitrust Act and other measures were enacted with the aim of preventing unbridled desecration of our natural bounty by monopolists.

Despite reform attempts, the continuing destructive maneuvers by huge business conglomerates looked like a sure-fire formula for undoing America's remarkable growth. The next chapter explores why America, in the face of these hurtful practices, continued to grow and prosper.

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#### NOTES

1. *Ownership: Early Christian Teachings*, Orbis Books, Maryknoll, NY, 1983.
2. *The Power in the Land*, Shepheard-Walwyn, London, 1983.
3. *The Secret Life of Real Estate*, Shepheard-Walwyn, London, 2008.

# 25

## Three Saving Graces

GIVEN THE CHAOTIC RECORD of land claims based on force and chicanery, given the successful efforts of numerous colonists to become landed gentry in the Old World manner, and given the reckless abuse of natural resources, how did the newly independent America manage to forge a new burst of freedom and prosperity that amazed and inspired the rest of the world? Three factors combined to stave off disaster – land taxation, the frontier, and a market that was still basically highly competitive.

### **One – A Marvelous Source of Public Revenue**

Revolutionary Americans hated despots but they were not opposed to government. Their new civilization required a full deck of public amenities, and the sooner the better. They needed a justice system with sheriffs, judges, courts, and jails to control unscrupulous and rowdy elements; schoolhouses and teachers for the children; public water supplies for health and sanitation; dams for water power to keep the mills running; and ports, canals, and roads to facilitate commerce and to keep people connected throughout their largely rural and small-town nation.

How would the infant republic finance local governments to carry out these tasks?

Note the emphasis on *local* government. Unlike today, the federal government initially took responsibility for far fewer functions and it met its unbelievably low budgets largely from customs

duties. Citizens had become accustomed in the colonial era to local rule. People they knew ran the state assemblies. In their town meetings, ordinary citizens like themselves ran the show at the community level. After independence, Americans almost automatically continued to look to their cities, counties, and states for meeting most of their public needs.

Revolutionary Americans wanted effective self-government. The property tax was their chosen instrument to provide public revenue. This was a monumentally important choice.

The constant drumbeat of attacks on the property tax over the past half century precondition people to have a knee-jerk reaction against believing anything good about this tax. Those who condemn the tax are half right. Taxing homes and other buildings discourages their construction and maintenance, far from desirable goals. But they are also half wrong – exceedingly wrong – not to praise and support the taxing of socially created land values.

The colonial and post-Revolutionary property tax was not a pure land tax. Nevertheless, considering that the bulk of improvements in those days tended to be humble shops, dwellings and farm buildings, the revenue came overwhelmingly from the location value of the land itself.<sup>1</sup> Land owners accepted their duty to pay for the privilege their holdings conveyed, so the tax did not appear to be unpopular. It had many virtues that deserve to be underscored:

- The land tax served as an *opportunity equalizer*. Those with the most productive and desirable sites paid more, those with poorer parcels paid less.
- The tax *avored small holdings*. The fiscal burden imposed on people “stuck” with large holdings restrained the concentration of landownership to a considerable degree.
- The tax was not sufficiently steep to halt all land grabbing, but it prodded estate holders to sell off excess unused lands and thus *prevented land scarcity*. “Scarcity” of land is an odd term because the quantity does not change. But when owners refuse to sell to those who need it, the land available for use appears scarce. A tax that results in bringing land on the market adds to the *effective supply*.
- The land tax *rendered land speculation less profitable* by discouraging land hoarding.

Land taxation set the stage for economic progress. Few accounts of America's stunning economic growth give adequate credit to the way the land tax contributed to this phenomenon. Its role may be clarified by comparing development in South America and the United States.

Latin American colonization had a big head start of about a century. Conquistadores took dominion over vast territories of Central and South America in the 1500s. Portuguese and Spanish colonists converted natives into a servant class and put them to work building cathedrals, forts, and attractive towns. How could the infant United States of the 1700s and early 1800s with its crude buildings, primitive towns, and scattered homesteads catch up to, let alone surpass, these impressive colonies to their south? In today's terminology, the United States was Third World compared to "developed" and "advanced" Latin nations.

South America's landholding class had virtually no land taxes for several centuries. With no restraint against land monopoly, their countries became locked into feudal systems. Small oligarchies at the top grew exceedingly affluent, rarely by being enterprising but usually by exacting rents and forced labor from the large and very poor class at the bottom of the scale.

This arrangement caused economic stagnation at the time the United States economy began to gather steam. The hard-working Latino underclass, without their own farms or workshop sites, could not begin to match the ingenuity and vitality of the people to the north whose access to land gave them a liberating sense of mobility and let them become their own masters. Land taxation made a difference.

From the 1700s until the early 1900s, the property tax was virtually the sole support of U.S. state and local governments. To this day it remains the single most important revenue source for most cities, despite politicians who make the property tax their favorite whipping boy. The hundreds of billions worth of real estate taxes fund about 75 percent of local budgets. Taxes on improvements yield an estimated 60 percent of the annual property tax revenues; taxes on land yield around 40 percent of the total.<sup>2</sup>



## Two – Beyond the Horizon

The U.S. frontier meant many things. Hardy men, women, and children heading West in Conestoga wagons. Gold rushes. Vast prairies. Rugged Rocky Mountains. Romantic explorers. Cowboys and Indians. In economic terms, however, the frontier was America's *magnificent safety valve*. As famously described by historian Frederick Jackson Turner, the frontier moderated the impact of inequities and incongruities in our early land and economic policies.

When cheap land became harder to find along the Atlantic Seaboard, or when factory owners and shopkeepers paid too little to satisfy workers, people did not have to suffer. They could “go West, young man,” as Horace Greeley advised. Most people stayed put, but those employees who did take flight caught the bosses' attention, inducing them to boost wages to hold those who remained behind.<sup>3</sup>

If folks in the East yearned for adventure or a chance to start life afresh, they could head off to that expanse of open land. The knowledge of the frontier's escape hatch, whether used or not, became part of the American psyche and advanced better living conditions throughout the nation.

With access to land, labor was king. This does not imply that labor lived in the lap of luxury. Far from it. Life on the frontier was difficult, not idyllic. Wages on farms or in shops and factories should not be idealized as munificent either. Workers were kings in the sense that they could be independent, not easily led by others.<sup>4</sup> Available land became the *sine qua non*, the essential ingredient, of an equitable thriving society for everyone. For “everyone,” sad to say, provided you were of European stock and were not Indian, Black, Chinese, or otherwise an “outsider”.

The Homestead Acts, begun under President Abraham Lincoln during the Civil War, enabled those headed west to gain a foothold on the earth. Living and working on 160 acres for five years gave them title to that part of the vast public domain. Reflecting the then common sentiment that land monopolization obstructs job opportunities, Lincoln said, “The land, the earth God gave to man for his home, sustenance and support, should never be the possession of any man, corporation or society, any more than the air or water – if as much.”

### Three – “Fair” Capitalism

The blacksmith, printer, trapper, orchard grower, toolmaker, clothing shop owner, and all other producers kept for themselves what they earned in wages and profits. For a century most Americans paid no taxes on incomes, sales, gross profits, or investment earnings.<sup>5</sup>

Adam Smith published *The Wealth of Nations* in 1776, the year of the Declaration of Independence. America's infant democracy and the free market capitalism postulated in Smith's book were siblings growing up together. America put into practice the Scottish economist's theory of minimal governmental interference with production, opportunity for all, special privileges for none, and open competition. These elements were once hallmarks of liberalism. However, liberals and conservatives have switched positions so frequently that these labels tend to lose their meaning.

Smith's *laissez faire* concept of a largely unfettered economic system was in sharp contrast to the prevailing mercantilist policies under which European nations controlled production, trade, and labor. However, those who characterize Smith as favoring “anything goes” offer an inaccurate caricature of his proposals. Government, according to Smith, must set frameworks and limits. To use a baseball analogy, equitable rules and umpires to enforce them come first. After the umpire says, “Play ball,” he does not help or obstruct the athletes, provided they comply with the rules.

The father of capitalism was prescient about the threats to a free market. He criticized monopolies and other obstructions to genuine competition. He warned against oppression of laborers and farmers by business combines and powerful ecclesiasts and aristocrats.

Smith was particularly outspoken on the efficacy of taxing land values, which he referred to as “ground-rent” or “ordinary rent”. The following quotations from *The Wealth of Nations* may instruct and perhaps astound mainstream economists who, for several decades, have wrangled over how to improve our tax system without considering, or even mentioning, land tax alternatives:

Ground-rents are a still more proper subject of taxation than the rent of houses. A tax upon ground rents would not raise the rents

of houses. It would fall altogether upon the owner of the ground-rent, who acts always as a monopolist, and exacts the greatest rent which can be got for the use of his ground...

Both ground-rents and the ordinary rent of land are a species of revenue which the owner, in many cases, enjoys without any care or attention of his own. Though a part of this revenue should be taken from him in order to defray the expenses of the state, no discouragement will thereby be given to any sort of industry. The annual produce of the land and labour of the society, the real wealth and revenue of the great body of people, might be the same after such a tax as before. *Ground-rents, and the ordinary rent of land, are, therefore, perhaps the species of revenue which can best bear to have a peculiar tax imposed upon them* [emphasis added]... Nothing can be more reasonable than that a fund which owes its existence to the good government of the state, should be taxed peculiarly, or should contribute something more than the greater part of other funds, towards the support of that government.<sup>6</sup>

Unlike other taxes, a tax on land values reduces its selling price because, as Smith observes, "The more the inhabitant was obliged to pay for the tax, the less he would incline to pay for the ground." He thus affirmed why America's heavy taxation of land values throughout the 1800s was effective in keeping access to land affordable.

### Happy Confluence

Grassroots democracy thrived in this fortunate mix of land taxes, an open frontier, and free markets. Close-to-home governments kept order and provided essential services and facilities. Equality of opportunity was in large measure a consequence of the widespread availability of nature's gifts. Most people found free or cheap sites for their homes and work places and easy access to the resources needed for growing and manufacturing things. Vigorous competition promoted inventiveness and efficiency in the making, selling, and distribution of goods. Neither governments nor landlords were claiming big shares of the fruits of other people's labors.

The picture just painted reveals significant themes that predominated America's pioneering experiments in democracy. This was the America that people around the globe saw as a beacon of

hope. Lurking in the underbrush, however, was the exploitation of resources that was to become more threatening as time went on.

Analysis of the elements responsible for our nation's early vitality points to the kinds of policies needed to replicate those elements to meet today's challenges.

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#### NOTES

1. John Adams, Jefferson, and Paine proposed heftier taxes on large landholdings. Paine argued strenuously for taxing land values *only* and for removing taxes on improvements.
2. For a comprehensive analysis of the role of the U.S. property tax, including historical statistics, see W. Rybeck, "United States" chapter in *Land Value Taxation Around the World*, 3rd edition, R.V. Andelson, ed., Blackwell Publishers, Malden, MA, 2000.
3. Adam Smith observed in 1776 that North American wages were considerably higher than in technically advanced Britain where "the landlord demands a share of almost all the produce which the labourer can either raise or collect". *The Wealth of Nations*, Random House, New York, 1937, p.65.
4. It seems likely that one reason European workers were quicker to unionize and plea for welfare measures was their lack of a frontier and access to land, which would have empowered them.
5. Some states did expand what they called the "general property tax" to try to tax accumulated wealth. The federal budget remained relatively picayune until it expanded to finance the Civil War.
6. Adam Smith, *The Wealth of Nations*, Random House edition, 1937, pp.795-6.

# 26

## Fundamentals Forgotten

WHAT MADE AMERICA DEPART from elements that produced a level of prosperity the world had never seen? The country had enjoyed a rare degree of upward mobility that freed citizenry from a constricting sense of class. Boldly independent, people nevertheless united in pride of their country and its democratic institutions.

Key elements behind this success, to recapitulate, included reliance on land taxes, a competitive market system, and a near absence of taxes on labor and capital. These ingredients have so faded from the public dialogue that the bulk of economists and policymakers appear to suffer from a case of mass amnesia.

Feudal land policies, as noted, initially were neutralized by an abundance of richly endowed lands that served as a banquet table for the sparse population of the early republic. But the Old World baggage caught up with us. Pursuit of wealth, not from enterprise but from landholding, proved damaging as floods of new immigrants came to enjoy America's "streets paved with gold". Of course, immigrants who took this literally were shocked to find streets like rivers of mud when wet and full of choking dust when dry. Their living quarters and public amenities often were inferior to those they had left behind. Yet such disappointments tended to be forgotten as they breathed the fresh air of freedom.

### **All Fenced In**

What about our frontier, the potent economic escape hatch that held unemployment in check and acted as a countercheck to the tendency to set wages excessively low? By around 1900 the most desirable and productive public lands were either doled out or retained in permanent federal preserves. The vanishing frontier marked a substantial weakening of the economy's resilience and a weakening of labor's bargaining power.

Land-grabbers became absentee owners after fraudulently amassing large quantities of public domain lands that were originally dispensed under the Homestead Act of 1862, the Timber Culture Act of 1873, and the Desert Land Act of 1877. Congress designed all of these acts to benefit genuine small farmers of the type visualized by Jefferson and Lincoln.

### **Rape of the Land**

In the mid and late 1800s, corporations denuded whole counties and states of their primeval forests. They used shady methods to acquire rights to coal, oil, natural gas, iron, and other minerals.

Looking back, if states had put fair market values on these resources and taxed them accordingly, such practices might have been averted and America could have husbanded its natural gifts in a manner environmentalists now endorse. That did not happen for at least three reasons:

**First**, the interests that were ruthlessly depleting resources helped elect and finance key governors and legislators. Plunder of resources went unchecked, as did the exploitation of lumberjacks, drillers, rail builders, and miners, who did the dirty work.

**Second**, people had become so used to the abundance of resources that they overlooked the excesses of the land-grabbers and tended to admire them for their resourcefulness, to use a bad pun. The differences between common property and private property, and the different responsibilities they entail, were absent from the vocabulary.

**Third**, human nature led many to hope that someday they too could

become land-grabbers. Others were not sufficiently aroused to push for regulating or prosecuting those who were raping the land.

### **Land Booms, Land Busts**

Land speculation did not prosper until rapid population growth occurred across America. As demand for choice sites heated up, land speculators could buy locations in the path of growth and exact tolls from people needing those sites. This pushed up land prices to the point where production was stymied, touching off one of the country's first major economic crises, the Panic of 1837.

Recovery began when land prices subsided. Further panics, depressions, or recessions occurred about once every generation. Land booms begat land busts. The Great Depression left indelible memories, but Americans have exhibited a strange loss of memory about the frequency of these recurring crises. Each bust wipes out the savings and jobs of innocent victims who were not involved in speculative activities. Each bust chips away at public confidence in the market system, leading people who are suffering to call for – or more often to demand – government intervention and aid.

When Illinois Senator Paul H. Douglas headed the National Commission on Urban Problems, he addressed the land speculation scenario:

The owners of the land can go to Hawaii and rest languidly on the beaches or make prolonged safaris into the innermost regions of Africa. They may study Shakespearian literature at Stratford on Avon, or Zen Buddhism in Japan, or ponder urban problems in Washington. They can go up in space capsules or down a hole in the ground. They will become richer and richer without toil or sweat.

### **Bigger and Bigger**

With the technical advances of the Industrial Revolution, the manufacturing sector outpaced agriculture, changing the nation from a rural to an urban society. Americans still romanticize family farms and mom-and-pop businesses, but these were relegated to the minor leagues as corporate farms and gigantic corporations rose to dominance by gobbling up small enterprises. Corporations often confronted rivals, not by trying to out-compete them but by buying them up. They monopolized the finished products and acquired

## PERILS OF A 'GOOD' DEPRESSION

When government and the people are borrowing too heavily and spending recklessly, some are heard to say that we need a "good depression" to knock sense into our officials and citizens.

When old Uncle Stanley is eating all the wrong things and not exercising, does his family say he needs a good heart attack? It might make him change his ways, but then again it might prove fatal.

Economic heart attacks are perilous too. Citizens who suffer losses are demoralized, especially when those who helped cause the crash emerge unscathed or even richer. Demagogues and hate-mongers have a field day. Desperate people cry out for food and shelter. Responding to pleas for help at any cost, officials put prudence, traditional safeguards, and civil liberties on hold as they try to provide relief. Some who escape the suffering heartlessly object to rescue efforts and argue that massive failure – a good depression? – is a necessary corrective. A safer and saner route is to resurrect the "secret" formula from earlier days to restore the conditions that put America on the road to prosperity.

the raw resources and the entire chain of production, literally from the ground up.

"Trust busting" began in earnest under President Teddy Roosevelt and during the early 1900s, the heyday of investigative reporters known as muckrakers. Congress during the Great Depression created new laws and new federal agencies to try to further constrain giant combines and prevent obstructions to competition.

Yet the march of monopoly has not slowed. Almost no attention has been given to the anti-competitive aspects of land and resource acquisition on a large scale. Resulting high land prices sap the vitality of small businesses and block the entry of new ventures.



Speculators who “farm” land values in rural areas force out real farmers.

A curiosity is that the business and manufacturing lobbies that rail against the inefficiencies, waste, and cross purposes of large government bureaucracies never seem to recognize or admit that large businesses are prone to these same defects.

### **Shift from Local to Federal Power**

The Civil War preserved the Union and ended slavery, but its high financial costs became a rationale for instituting the income tax.

Those who decry the steady shift of power from localities and states to Washington tend to ascribe this to an ideological or socialistic conspiracy. The fact is that mobilizing for wars moved us in this direction. The Great Depression pushed us further. When local governments were incapable of helping families meet their most basic needs, the federal government stepped up to the plate. It did so, not conspiratorially, but to rescue the hungry and the jobless, and to stave off riots or rebellion, fear of which was not unrealistic when everything was collapsing for millions.

Why were local governments not up to the task? One major reason was the transformation of the property tax. It had evolved to become primarily a tax on residential, commercial, and industrial structures as opposed to its earlier role as a force to recoup community-created land values. Although the constructive part of the property tax, on land values, persists and gives America a leg up on nations that do not tax land at all, the good it does is greatly diminished by the destructive effects of the tax on improvements. This made the tax increasingly unpopular and put a ceiling on how much revenue local officials could derive from it.

Instead of modernizing their property tax, states and cities turned to new taxes on wages, profits, sales, and anything else they could think of. Many of these, along with relatively low taxes on land values, contributed to the decline of cities. This in turn led local governments to join the clamor for help from Washington. To repeat, the federal government kept growing in response to pleas from the home front, not, as the John Birch Society, many Tea Party voices and strident talk show commentators insist, from a sinister ideological conspiracy.

After out-of-control land prices helped plunge the nation and countries around the world into economic disaster, one would have expected to see a spotlight on land policy. One would also expect this issue to come to the front burner when the natural resources we use – and how we use them – are involved in the global warming crisis. Despite the convergence of these land issues, our federal and local governments lack a policy framework for getting on top of these problems.

This is where the pragmatic and ethical ideas of Henry George re-enter the picture.

# 27

## Competing Philosophies

“I PROPOSE,” WROTE HENRY GEORGE, “to seek the law which associates poverty with progress, and increases want with advancing wealth; and I believe that in the explanation of this paradox we shall find the explanation of those recurring seasons of industrial and commercial paralysis which, viewed independently of their relations to more general phenomena, seem so inexplicable.”

Keen observer, painstaking analyst, brilliant intellect, powerful writer and orator, original economist, moralist to the core, this was George. His fascinating life was quintessentially American.<sup>1</sup> In his day, his call for justice with an essentially pro-enterprise slant created an international sensation, but it was soon overshadowed by the anti-capitalist thesis of Karl Marx and, later, by the government-directed correctives urged by John Maynard Keynes and others.

George undoubtedly will in good time be appreciated as one of America's finest. If the enterprise system is again to become free and vibrant, enabling democracy to live up to its high ideals, it will happen in no small part because George's philosophy and prescriptions will be put into play.

### **Ahead of His Time**

In 1879, when George's *Progress and Poverty* thrilled workers with its vision of social equity, American critics could still ask seriously, “What land problem?” Viable expanses of the frontier still existed. Cities were not yet sprawled over the countryside. Farmland and

forests seemed to go on forever. And reasonable people could expect that the natural resources feeding our burgeoning industrial machine were ushering in a new era of well-being for all. An era of prosperity did follow but a rising standard of living camouflaged the fact that prosperity was not "for all".

The subtitle of George's book, "An Inquiry into the Causes of Industrial Depressions and of Increase of Want with Increase of Wealth ... the Remedy", also raised questions. Despite periodic panics, the post-Civil-War citizenry did not agree that the capitalist system was in trouble. Andrew Carnegie, the Scottish native who rose to become America's top steel magnate-monopolist and then philanthropist, propounded the comforting belief that civilization was on a permanent upward climb.

The optimism ingrained in our national character supported this faith in Progress with a capital "P". None could deny the low wages, unemployment, and misery that George portrayed. However, so many American families had extricated themselves from poverty that they were more likely to blame the poor than imperfections in the economic order.

### **Vested Interests**

While the mass of Americans had no awareness of the connection between land policies and the economic opportunities available to them, the importance of land was neither forgotten nor ignored by the upper-upper class.

Unlike many speculators who bought land to sell later at a profit, John Jacob Astor acquired Manhattan parcels to hold on to in order that, as specified in his will, his family could forever garner the increasing rental values from leaseholders. William Ogden, Chicago's first mayor, worked to make his city a rail center to bolster the value of his own real estate holdings. How well he succeeded is revealed in his diary, which noted that a property he bought in 1845 for \$15,000 grew in value to \$10 million by 1865; and that another he purchased in 1844 for \$8,000 sold eight years later for \$3 million.<sup>2</sup>

Nobody can credibly suppose that the riches from landholding were not uppermost in the minds of coal barons who sent agents out to Appalachia to buy coal rights out from under poor homesteaders at roughly a dollar an acre.

By the end of the 1800s, a single company, the United States Steel Corporation, had acquired ownership or control through leases of most of the iron ore ranges of the Great Lakes area.

The point is that wealthy families and corporations were enriching themselves by monopolizing enormous quantities of prime urban sites, fertile farmland, forests, natural gas, oil, and other raw materials. Imagine their reaction when Henry George insisted that the gifts of nature belonged not to a select few but to society in general. When his book became a worldwide bestseller and land taxers grew to such an extent that political action seemed imminent, landed interests fought back.

These vested interests succeeded in getting many states to specifically prohibit land value taxation. Ironically, while posing as protectors of private property, they supported shifting taxes on to genuine private property – homes, office buildings, industrial plants, wages, and the rest – in order to retain their ability to siphon off the common property of society.

Prominent economists whose theories George punctured also fought back defensively. Men with large fortunes, delighted to find opponents of George in academic circles, made sure these anti-Georgists gained prominent seats in the economics departments of the universities they endowed. A plethora of books, articles, speeches, and courses denouncing George gradually succeeded in painting him as an idealistic crank whose ideas were unworkable and dangerous.<sup>3</sup>

To circumvent the logic of George's analysis and proposals, his academic opponents chose a bizarre path. *They took land out of their theories of economics!* Classical economists, whatever their many differences, recognized as self-evident that the basic factors in the creation of wealth are land, labor, and capital. George built on this solid classical foundation, adding new insights.

When neoclassical theorists decreed that land as a distinct factor no longer existed, they redefined land as a category of capital. It recalls Lincoln's quip: "If you call a tail a leg, how many legs does a dog have?" Land is no more capital than a tail is a leg. This false definition left economic toolkits devoid of essential land policy instruments. Policymakers slid down slippery slopes as they denied the following clear distinctions between land and capital:

- Humans create capital. Humans do not and cannot create land.

- Capital is wealth, used to create more wealth. Land cannot be used to create more land, but it is the source from which labor and capital create wealth.
- The supply of capital can vary. The supply of land is essentially fixed. As Will Rogers famously advised, “Buy land, they ain’t making any more.”
- Increased demand for capital tends to lead to more capital, often at lower prices, assuming open competition. Increased demand for land leads to no additional land but simply raises the rental value or price of land.
- Taxing capital raises its selling price. Taxing land reduces its selling price.

The collapse of totalitarian communism in the Soviet Union and the failings of many other communist regimes may make it difficult now for younger generations to understand Marxism’s appeal and its initial ability to nearly eclipse the Georgist movement.

Karl Marx, like George, was appalled by the social ills of his times, and many of his criticisms rang true. Their approaches for treating the failings could not have been more divergent. Marx wanted to tear down and replace the entire capitalist structure. George wanted to repair the structure and make it work equitably. Marx favored revolution, George evolution.

From a salesmanship perspective, moreover, Marxism had a clear advantage. It gave exploited and angry people a villain – the capitalists – to blame for all their problems. In contrast, long before cartoonist Walt Kelly had Pogo say in a comic strip, “We have met the enemy and he is us,” George concluded that the people themselves had to change their own thinking and use democratic machinery to correct social ills, a position that did not lend itself to demagoguery.

Marxism attracted single-minded zealots willing to conspire through secret cells, follow orders from above, adhere to a strict party line, and overlook evil behavior by their leaders in the belief that the ends justified the means. Georgism attracted individualists who pursued their own varied strategies, eschewed party discipline, and put their faith in education, the free market of ideas and democratic processes.

### Under the Radar

While communist regimes were racking up failures, the validity and potency of the Georgist approach was being demonstrated where its style of reforms had been adopted. These examples of constructive land tax applications have attracted surprisingly little publicity outside the land economics community. The next section therefore spotlights a number of these success stories.

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### NOTES

1. Biographies include: Charles A. Barker, *Henry George*, Oxford University Press, New York, 1955; Henry George, Jr., *Life of Henry George*, Doubleday & McClure, New York, 1900 (republished by Chelsea House, New York and London, 1981); George Geiger, *The Philosophy of Henry George*, McMillan, New York, 1933; Steven B. Cord, *Henry George: Dreamer or Realist*, University of Pennsylvania Press, Philadelphia, 1965. For a typical distortion and belittling of George's views, see the chapter about him in Gerald W. Johnson, *Lunatic Fringe*, Lippincott, Philadelphia, 1957. For a thorough discussion of arguments opposing George's views, see Robert V. Andelson, ed., *Critics of Henry George*, Associated University Presses, Cranbury, NJ, 1979. For more complimentary views, see Will and Dorothy Burnham Lissner, eds, *George and the Scholars*, Robert Schalkenbach, New York, 1991.
2. Quoted in Aaron M. Sakolski, *Land Tenure and Land Taxation in America*, Schalkenbach, New York, 1957.
3. For accounts of attacks on George by professional economists and their wealthy backers, see Mason Gaffney and Fred Harrison, *The Corruption of Economics*, Shephard-Walwyn, London, 1994.