2

The Essential Henry George

By LOUIS WASSERMAN

I agreed to undertake this assignment from motives practical and pedagogical, though not entirely without a touch of sentiment. There was an occasion in my undergraduate days when my academic progress depended upon a forty-minute report concerning an American philosopher. Through one of those fortuities that illumine the paths of even the dull-witted, I stumbled upon Henry George. Thereupon, as I remember, lights shone and bells rang. I proceeded to make myself the advocate of the single tax, and—since no one in class had heard of it before—my report was a resounding success. That was in the 1930s, and I have learned since how to temper my enthusiasms and moderate my aims. But such moments of discovery are to be treasured; they come far too seldom in academic life. Perhaps, then, the following summary of *Progress and Poverty* may serve to shine a light or to ring a bell for some student of this present generation.

It was the role of land in society that constituted the massive preoccupation of Henry George, and the fact that the publication of his major work in 1879 generated sympathetic rumblings throughout much of the world indicated that he had touched upon a fundamental theme of political economy. It is strange, then, that the subject of land economics, particularly in its theoretical aspects, receives such scant attention at present. Perhaps this is because of the inertia that attends upon a long-institutionalized social arrangement, as differentiated from the otherwise fluid elements of an industrial economy. But it may also be that economists have simply neglected that which seemed to George of such paramount concern: the relationship of land rent to fiscal policy and the impact of both upon industrial development, income distribution, urban growth, and the like.

The land, according to both Genesis and geology, preceded the advent of man into the world, and there is no doubt that landed wealth has enjoyed a more persistent history than any other form.

American Journal of Economics and Sociology, Vol. 62, No. 5 (November, 2003).

Even today, when a sophisticated economics has transmuted every kind of wealth into some variety of liquid capital, the land has continued to play its unique role. It is the very assumption upon which human existence is based, and the taken-for-granted foundation of all productive activity; it can be modified by man, but not created or destroyed except in tiny patches, and its essential qualities are impervious to either boom or depression.

If—as the dictum prescribes—a book should be so written that its message can be presented in a single sentence, the argument of *Progress and Poverty* might be stated thus: that the natural land ought everywhere to be regarded as a community, rather than as a private, resource and that its rental value should accordingly be recaptured as public revenue by the community, thereby eliminating the need of any taxes upon productive enterprise.

It is by no means adventitious that this statement combines an ethical proposition with an economic prescription. Henry George was primarily a social philosopher (the greatest this country has had, according to John Dewey) rather than a professional economist. But it was precisely the core of his conviction that the two realms of man's life, the moral and the material, must be brought into harmony. If men are degraded by the conditions of their labor, if their wages can buy no more than animal existence, or if some part of their effort is appropriated by nonproducers, then how, George asks, can such an economic system accord with either natural or human justice? He is confident that it is possible to find rational, and therefore just, principles that can be made to govern the production and distribution of wealth in society.

It is the search for such economic principles that George undertakes in his *Progress and Poverty.* In the course of nearly 600 pages he makes an exhaustive analysis of the principal economic categories of his time: wealth, value, labor, capital, interest, and land. His writing, it may be observed, shows evidence not only of an immense erudition but of an uncommon capacity for inductive observation and creative synthesis. His emphasis on the role of land resources in wealth production was not original—it had been formulated often since biblical days—but he gave to that theme perhaps its definitive statement. It would be difficult to discuss any aspect of land and its treatment today without touching upon the issues he raised.

The "sovereign remedy" that George proposed as the way to end poverty was to shift the entire burden of taxation from the products of labor and capital to the socially created rental value of land. Such a simplistic scheme was bound to repel many sober minds, and this fact doubtless contributed to consigning George's writings to near oblivion in economic circles. If so, it was an untimely fate. The full single tax is not a serious fiscal proposal today, if only because there are no political prospects for its adoption anywhere on a national scale. But George's central principle—that the incidence of taxation should bear on the value of land rather than upon productive enterprise and improvements—remains a lively issue of fiscal reform. Under the generic title of "land-value taxation" this principle has received wide application in such forms as the following: taxation of the land at a higher rate than the improvements thereon; full or partial exemption of improvements, the lost revenue being made up by an increased levy on the land; a surtax on absentee land-ownership; and, in the effort to reduce speculation, a high rate of tax on the profits derived from land sales. Such practices are common in Australia and New Zealand, with scattered local applications to be found in Western Canada, the Union of South Africa, and elsewhere. Denmark provides generous exemptions on improvements, offsetting this by both a higher rate on the land and a national tax on the increment of land values.[1]

In the United States the common practice is to include a tax on the raw land as a component of the general property tax, which otherwise bears most heavily on improvements. Beyond this there is a scattering of "single-tax" enclaves in Delaware, New Jersey, and Alabama, and in the irrigation districts of California, as well as the graded tax plans of several cities in Pennsylvania.* A series of campaigns to enact land-value measures in several states of the Union during the first two decades of the twentieth century failed of success. Yet the movement

*The Alaska Permanent Fund, derived from oil revenue, represents another application of the principle that the value of natural resources should be captured by the public. (ed.)

to effect tax reform along some such lines continues to show an enduring vitality—nourished, at bottom, by the twin irritants of rising land costs and onerous taxes on production. What is typically sought by land-value taxers today is a modest advance along Georgist lines, such as the enactment of local option laws, which would enable municipalities to free from taxation some or all of the value of improvements by transferring the tax to the unimproved value of the land.

The statement of George's doctrine that follows will focus primarily upon that which distinguishes his work and that remains of contemporary interest—that is, his contribution to land economics and fiscal policy. Those sections of *Progress and Poverty* that treat at length of classical economic theories now outmoded or of little relevance will, accordingly, be touched upon but briefly.

The Problem

George's economic analysis is set in the context of America's industrial development of the late nineteenth century. The "paradox" of that development, as he saw it, lay in the persistence of widespread poverty in the face of an unparalleled increase of wealth. The use of machine technology had expanded production, cheapened costs, and multiplied gross income; for the first time in human history the prospect of material well-being for all had come within the range of possibility. But the actual consequence, wherever industry flourished, was to enhance the contrast between rich and poor: a small class lived in ostentatious luxury while the working class survived in wretched poverty. Despite long hours of work and rising productivity, the wages of labor rose little or not at all, and it was, unaccountably, in the oldest centers of manufacturing that the worst conditions prevailed. Industrial booms periodically gave way to industrial collapse, with workers and enterprisers alike suffering from the breakdown. Was it possible that poverty must inevitably accompany technical progress, or did the explanation lie in man's faulty provisions for the production and distribution of wealth?

George examined the prevailing economic doctrines of his day, in particular the wages-fund theory and the Malthusian thesis, but he found in them no satisfactory explanation of the problem. As opposed to the former, he contended that wages are produced, not out of a preexisting fund of capital, but by the labor for which they are paid. As opposed to the latter, he sought to demonstrate that there is no warrant, either in experience or analogy, for the assumption that there is any natural tendency in population to increase faster than subsistence. Moreover, he rejected entirely the argument that there existed an inherent conflict between labor and capital, or that either the growth of industrial monopoly or an excess of competition was responsible for the persistence of poverty.

The Rewards of Production

Following the pattern laid down by the classical economists, George proceeded to identify three factors of production: the land and its resources (as natural opportunity); labor (as every form of human effort, mental as well as physical); and capital (as wealth used to produce more wealth). Among these he found labor to be the primary active force; from its application to the resources of the land comes all that is tangibly produced, processed, and transported by man. Capital, though it may be identified as a separate factor of production, is actually the product of previously accomplished labor that has not been directly consumed but is stored up for further use. The forms assumed by capital are various—machinery, stocks of merchandise, warehouses, railway terminals, investment funds, and the like—but all are simply at one or more remove the products of prior human labor.

The production of goods and services, then, is wholly accomplished by the combination of labor and capital working on the land. But this third factor, the land, while it is indispensable to all human effort, is itself wholly a passive agent. The site upon which labor is performed does not engage in the process of production; it is rather the physical surface upon which human effort is enabled to move, build, mine, drill, fabricate, and harvest its products.

But what is the situation when the rewards of production come to be distributed? Although only labor and capital participate in the process, the income therefrom must be apportioned into three shares: as wages to labor, as interest to capital, and as rent to the landowner.

Yet, as George repeatedly points out, the landowner, simply as owner, contributes no effort to the product; he is paid for possession alone. Just as he did not, in the first instance, create the land to which he holds title, so he takes no part in that which the farmer, enterpriser, or laborer produces upon that site. Nevertheless, under existing conditions, it is the landowner who controls access to the physical basis of production, and it is only after his claim to ground rent has been satisfied that the remainder of what has been produced goes to labor and capital.

As the cost of land rises, moreover, the tribute paid to the landowner increases, thus serving to reduce the gains that labor and capital might expect through improved technology and productivity, ". . . hence, no matter what be the increase in productive power, if the increase in rent keeps pace with it, neither wages nor interest can increase."[2] Put alternatively: only to the extent that the rate of technical progress succeeds in outstripping the rise in land values will labor and capital be able to benefit from their increased productivity.

In summary, then, George finds the clue to the persistence of poverty in the improper distribution of production income; the fault, his analysis reveals, lies in the privilege granted to landowners to share in the rewards of production without themselves having contributed to that process.

The Special Character of Land as a Factor of Production

George defines the term *land* broadly to embrace the whole of man's natural physical environment: it includes not only the cultivable soil but the solid earth everywhere, fertile or infertile; all building sites, residential, commercial, and industrial; the natural resources of the earth, including minerals, petroleum, forests, and wildlife; the waterfronts with their natural beaches and harbors; the oceans, lakes, and rivers and all the natural goods therein; and even air space and air waves.[3] (It is in this broadly conceived sense that the term *land* will accordingly be used.)

All this, as George perceives it, is the gratuitous gift of nature to mankind, and the common endowment of the community that occupies it. In its natural state the land embodies no human labor and no capital investment. Rather, it represents economic and social opportunity, the indispensable condition upon which human beings are enabled to live, to build, to manufacture the needs of life—and beyond that, to create the amenities of their civilization. George's concept of the land is ecological in character; he views it as the natural milieu in which communities exist in interrelationship with the surrounding environment, animate and inanimate. The atmosphere, sunlight, and water—alike the gifts of nature—are contributing elements.

It is of the essence of George's argument to distinguish clearly between (a) the raw land, the physical endowment described above, and (b) the works of man that have been wrought upon the face of the earth. The first, be it repeated, is the common heritage, antecedent to man and provided for his benefit. But the works of man are, by contrast, the things of his own creation: the crops he has cultivated; the houses, barns, shops, theaters, office buildings, and industrial plants he has built; the railroads, mine shafts, piers, refineries, and the multitude of other goods with which he has adorned his civilization. All these products and "improvements" are the fruit of human labor, of man's mind and muscle, exerted individually or in cooperation with his fellow men. George summarizes thus the critical distinction he makes between human production and the raw land:

> The essential character of the one class of things [man-made products] is that they embody labor, are brought into being by human exertion, their existence or non-existence, their increase or diminution, depending on man. The essential character of the other class of things [land] is that they do not embody labor, exist irrespective of human exertion and irrespective of man; they are the field or environment in which man finds himself, the storehouse from which his needs must be supplied, the raw material upon which and the forces with which alone his labor can act.[4]

Further, whereas human productivity is potentially unlimited, subject only to man's creative efforts, the amount of land, except for minor changes, is fixed and nonreproducible. (Technically, according to George, "made land" is not really land but wealth—and usually that form of wealth defined as capital.)

Land Value as a Social Creation

What is it that gives value to a piece of natural land? It is, George asserts, the result of the growth and development of the aggregate community. Without a population to occupy an area, to cultivate and build upon it or to utilize its products, there is no value in land; an isolated cultivator can do no more than wrest a subsistence from it. But as the community grows and prospers, as it diversifies its functions, augments its output, widens its markets, and expands its public services, the value of the land within its jurisdiction increases. A growing population means an enhanced demand for property, whether for homes, offices, markets, oil wells, or manufacturing—thus causing land prices to rise and marginal areas to be brought into profitable use. An acre in a remote farming district might be valued at only $200, but a plot of equal size in more populous centers would show a scale of comparative values something like this: in a nearby town, $5,000; in an urban residential section $20–50,000; in the same city's business center, perhaps $100,000 to $1 million. The wide range of site costs within a community's borders derives from such special factors as location, use, zoning provisions, available utilities, street improvements, transportation facilities, growth expectations, and the like—but these are all aspects of the community at large, the level of its population, and the opportunities it presents for residence and livelihood.

"The value of land," George asserts, "expresses in exact and tangible form the right of the community in land held by an individual."[5] It is the collective product of the community, to which all its constituent members have jointly contributed. The landowner, simply as legal title holder, has no control over the process of land-value creation—the acreage he owns will find its price level as surely when he is physically absent as present. (He may, of course, by speculative withholding, help to give his land an artificial value.) If he is a worker or enterpriser as well, however, he contributes to production in the same manner as other individuals, and like them deserves to receive the full yield of his efforts.

The Nature of Land Rent

George employs the term *rent* in a precise and explicit sense, to designate only that portion of income that accrues to landowners by virtue of their title to the raw land (or, if the site yields no income, what they would have to pay another for its use if they did not hold title to it).[6] He is at pains here to distinguish clearly between two kinds of payments that, in popular parlance, are usually combined. When an apartment-house tenant, for example, speaks of paying $200 a month "rent" to his landlord, he is in reality making two distinct payments at once: one part, say $140, is for use of the apartment itself, which is the "improvement" erected on the land; the remaining $60 is payment for the use of raw land, the ground site, and this alone is what George refers to by the term *rent.* If the apartment-house owner happens to own the land as well, he will retain the entire $200; if he does not, he must remit the $60 portion to the landowner as part of his payment for leasing the land. In either event it is possible to ascertain the share of the ground rent alone by determining what return the land site, if it were not built upon, would yield when leased to the highest bidder.

The only kind of rent George is concerned with, then, is ground rent, that which derives from the land alone. How does such rental value come about? George gives his full endorsement to the formulation expressed by the economist Ricardo: "The rent of land is determined by the excess of its produce over that which the same application [of labor and/or capital] can secure from the least productive land in use."[7] Production use is, of course, not limited to agriculture; every commercial and industrial activity must be performed upon some land site, for the use of which a ground rental must be paid its owner. Since the supply of land is limited and nonreproducible, this rental value depends upon what its users are required to pay for it in relation to marginal areas.

Land rent, accordingly, is established entirely by demand, irrespective of its inherent qualities. "Wherever land has an exchange value there is rent in the economic meaning of the term."[8] If the demand for a particular piece of land increases, its rent will increase.

(George notes that this is not always the case with goods that are produced by labor: commodity prices may sometimes go down as well as up, depending upon the conditions of supply coupled with an elastic demand.)

George elaborates three principal factors that conduce to rent increase. The most important is that of population growth, which not only exerts demand pressure upon central and marginal areas but also carries with it a qualitative enrichment of community life. A second factor is the continuous improvement of industrial techniques, whose effect is to expand the production of wealth, to broaden the potential markets for goods and services, and thus to enhance the value of available land sites. Finally, there is the artificially induced factor of land speculation, the withholding of land from use in the expectation of higher sale price. This, George was convinced, was the principal cause of the disastrous boom-and-depression cycles that afflicted the economy:

> Given a progressive community, in which population is increasing and one improvement succeeds another . . . land must constantly increase in value. This steady increase naturally leads to speculation in which future increase is anticipated, and land values are carried beyond the point at which, under the existing conditions of production, their accustomed returns would be left to labor and capital. Production, therefore, begins to stop . . . owing to the failure of new increments of labor and capital to find employment at the accustomed rates.[9]

In brief, the practice of land speculation serves to compound the existing injustice: to the share already extracted by the landowner from the produce of labor and capital is added a bonus that discounts the rewards of future production. The effect of land speculation is that of enforcing "a lockout of labor and capital by landowners."[10]

The Sources of Taxation

It is notably in the field of fiscal policy, George contends, that the private appropriation of land rent is seen in its most mischievous form. Public revenue must somehow be obtained to support government services, but it is of the utmost consequence that the burden be assessed with equity and with the least detriment to the economy.

Yet existing tax systems, George finds, perversely impose the heaviest burdens upon those who labor to produce, while at the same time bearing lightly upon the nonproducing landowners.

When workers and enterprisers combine their skills, savings, and inventiveness to produce goods and services, these are precisely the efforts that are penalized by current fiscal policies. If new machinery is obtained to speed production, or a swamp drained to build upon, or a house modernized to make it more livable, the tax collector levies upon the improvement as if it were a public nuisance. The result is that enterprise is discouraged, workers denied employment, improvements postponed, and land often debarred from its highest use. Symbolically as well as actually, the tenement appears a more attractive investment than a new structure.

By contrast, the landowner is treated with undeserved solicitude. He adds nothing to production, yet is taxed but lightly on the ground rent that the community has generated for him. And if he chooses to withhold his land from use, he is abetted in this by a lighter assessment.

George's strictures upon landlordism, however, do not indicate his primary concern. The thrust of his argument is that each man should receive the full reward of his individual production, however that share is competitively determined, and that no part of what he has produced should be taken from him in the form of taxation. The obverse of this is that no individual has the right to appropriate privately that which is the product of the collective community—namely, the rental value and increment of the land. Placing the two principles in conjunction, George concludes that the only tax that will not penalize individual effort and that will bear equitably upon all is a full (or nearly full) recapture tax on the common product of community development, the value of its land.

The Single-Tax Remedy

He puts the matter concisely thus: "What I, therefore, propose . . . is—*to appropriate rent by taxation*. . . . [and] *To abolish all taxation save that upon land values*."[11] There is no need, George declares, to nationalize the land; it would neither be purchased nor expropriated by the state. Private titles would remain undisturbed, no owner or tenant would be dispossessed, and no limit would be put upon the amount of land that could be held by anyone.

> I do not propose either to purchase or to confiscate private property in land. The first would be unjust; the second, needless. Let the individuals who now hold it still retain, if they want to, possession of what they are pleased to call *their* land. Let them continue to call it *their* land. Let them buy and sell, and bequeath and devise it. . . . *It is not necessary to confiscate land; it is only necessary to confiscate rent.*[12]

The machinery of property assessment and taxation, George points out, is already everywhere at hand. In those states where the value of land is now assessed separately from its improvements, no further preparation is needed; elsewhere, a separate assessment would be undertaken as the first step. Then, in accordance with the enacted legislation, the tax rate on the raw land would be increased by stages until, on completion of the program, approximately the full annual ground rent would thus be recaptured as public revenue. (In order to minimize the administrative costs and dislocation that might accompany the new system, George suggests a practical expedient: that the landowners retain title to their land, and in return for their collection services be given "a percentage of rent which would probably be less than the cost and loss involved in attempting to rent lands through State agency. . . ."[13]) Coordinately with each stage, other existing taxes—those on improvements, personal property, commodities and services, private and corporate income, and so on—would be commensurately reduced until they were eliminated entirely.

The Canons of Taxation

George proceeds to test the validity of his proposal against four accepted "canons of taxation." Any measure that seeks to raise public revenue, he asserts, should conform as closely as may be feasible to these requirements: (1) that the tax fall as lightly as possible upon productivity; (2) that it be simply and inexpensively collected; (3) that it be certain in its incidence; and (4) that it bear equally upon all. He finds the tax on ground rent confirmed in each case.

With respect to (1): it would not only put no burden on production but also serve to remove those burdens presently imposed by other taxes:

> Tax manufactures, and the effect is to check manufacturing; tax improvements, and the effect is to lessen improvement; tax commerce, and the effect is to prevent exchange; tax capital, and the effect is to drive it away. But the whole value of land may be taken in taxation and the only effect will be to stimulate industry, to open new opportunities to capital, and to increase the production of wealth.[14]

Land value, which is itself a reflection of community development, neither increases nor decreases the rate of production. Consequently, since a tax on land value cannot be shifted but must be absorbed by the owner, it can be imposed up to the point of the land's annual rental return without penalizing either wages or capital. Indeed, the imposition of the tax will act to create added opportunities for productive enterprise by making unimproved land available for use.

(2) Ease and cheapness of collection would be assured. The machinery of land assessment and tax collection being already a part of every fiscal system, it would be no more difficult to collect the full revenue of the land than just a portion of it as at present. Moreover, as other tax-gathering agencies were eliminated, the community would benefit from large savings in the costs of administration.

(3) Certainty of collection could be expected "with a definiteness that partakes of the immovable and unconcealable character of the land itself."[15] Periodic assessments of the land would be based on the ground rental value of each site, and the tax would be collected from the registered owner or—if the land is held by the community—from the lessee. The land tax is also more certain, George declares, because (since land cannot be moved away or hidden) it is less subject to the iniquities that accompany other forms of taxation, such as evasion, fraud, smuggling, and the bribery of officials.

(4) Finally, the land tax would bear equally upon all members of the community, since it would be drawn from the social product to which all had contributed in common. This condition, George asserts, is true only of land values. All other taxes bear unequally, either because they cannot be apportioned to the actual social benefits of those who pay them, or because they lack precision in

discriminating between the rewards of productive effort and those of unearned appropriation.

Anticipated Benefits of the Land-Value Tax

The remedy he proposed was simple but its favorable effects, George was confident, would reach into every sector of the economy. No longer would industrial enterprise be forced to undergo the chain reaction set up by heavy taxes on production—the sequence of increased costs that led to lessened demand, reduced output, and fewer jobs with lower wages for labor. Production would at last be free to respond with its full resources to the burgeoning needs of the population. The prices of goods and services could be expected to fall to the extent that the taxes upon them were removed, thus leading to an increase in purchasing power. Labor and capital alike would receive the full reward of their contribution to production, minus only that share that would be deducted by government in the form of land tax—and this share would be returned to all in the form of public services.

Since there would be little or no profit to be had through land speculation, this major cause of economic imbalance would be removed. House builders and businessmen would no longer need to invest heavy outlays of capital to purchase land, since secure possession and use could be managed simply by payment of the annual land tax. Capital thus liberated would be available to build upon a wide range of land sites, including those that speculators no longer found it profitable to hold out of use. A marked upswing in building construction could therefore be anticipated. New housing and other improvements, free of taxation, would tend to replace the tenements and other outmoded structures that now persist only because of their low tax liability.

But George expected even more than these tangible economic results—and here it is necessary to venture into the wider reaches of his social philosophy. The "progress" he was concerned with in his long search was not simply economic growth, much less mere fiscal reform.[16] What he was seeking was rather the means by which the human being could best realize his intellectual and moral capacities.

It was this that led him inescapably to the realm of economics. Man can fulfill himself as a human being, George believed, only within the context of his social and material life—it is first necessary to live, before one can aspire to live well. In a condition of poverty not only is man deprived of his opportunity to develop, but also he must use up so much of his energy in the sheer struggle for existence that little of it remains to express his higher potentialities.

An economic system can be successful only when it does justice to human incentives and capabilities. This requires that opportunities to produce shall be equally available to all, that each worker receives the full return of his work, and that no one profits from special privilege. But each of these conditions George found to be violated through the private appropriation of land rent.

The socialization of rent would therefore finally bring about a harmony of economic development and human progress. Free of both the tax collector and the land monopolist, each man would be able to labor to his capacity and to reap the full reward of his effort. The community, in its turn, having created its own value in the form of ground rent, would collect that income and use it for community needs. In such a situation no individual is any longer penalized and none is unjustly enriched. Ethical rightness becomes merged with economic efficiency, to their mutual benefit and support. Upon such a firm base, George concludes, human beings will be able to exercise their highest moral and intellectual capacities.

Effect upon Particular Groups

What effect would the proposed socialization of ground rent have upon particular income groups of the community?

Clearly, the overall consequence would be that all who received rental income from landholdings would henceforth lose all but a small percentage of that income. Therefore the land would cease to have speculative value. It would, however, retain use value, reflected in its rent, which would go almost entirely to the community. Legal title would not be affected: the owner would retain his title as long as he paid his land-tax.

A. The home owner, possessing his house and lot: in market terms, the selling value of his lot would diminish, like that of every other plot of land. But his possession and use, or sale, of his property, would remain unaltered. In exchange for the annual tax on the value of his lot, he would be free from taxation on his house, personal property, private earnings, and other tax levies. If he should wish to buy or build another dwelling he could, of course, expect to receive relatively little from the sale of his original lot apart from its improvements; but he would not have to invest a large sum in a new lot, since land could be purchased cheaply by anyone willing to pay most of its ground rent to the community.

B. THE FARMER: at present he carries a disproportionately heavy burden, George believes, because of the high ratio of visible property upon which he is taxed—his crops, dwellings, barns, livestock, machinery, and the like. All that makes his production possible is now levied upon, directly and indirectly. When he improves his land he is taxed more heavily for it, even while high-priced but unimproved land in the towns is assessed at a minimum. The farmer would benefit under George's proposal in two principal ways: first, by being liberated from the oppressive levies upon his production and improvements; and second, because his land would normally be assessed at a low rental value, being on the margin of the demand area. Moreover, since the purchase of the land he works would no longer require a large investment, he could engage in farming with much less capital and use his earnings to improve his (tax-free) buildings, equipment, and livestock.

C. THE LARGE PROPORTION OF THE POPULATION WHO POSSESS NO LAND AT ALL: they would have no taxes to pay directly. They would, however, absorb, in the price of the goods and services they buy, that share of production costs that represents the ground rent of the producing enterprise. But two changes would have taken place: first, the ground rent would have become public revenue instead of landowners' income, and would, accordingly, be utilized to pay for the costs of government; second, the price of goods and services would no longer be burdened with the multitude of taxes upon production that were hitherto passed on to consumers.

D. THE GROUP OF LARGE LANDOWNERS WHOSE INCOMES ARE DERIVED SOLELY OR PREDOMINANTLY FROM THEIR HOLDINGS OF LAND AND SUCH NATURAL

RESOURCES AS MINERAL OR PETROLEUM DEPOSITS: would thus bear the major loss resulting from the transition. Their deprivation would be measured roughly by the extent to which their rent income is a greater share than the other elements of their total income. The capital value of their landed investments would be wholly, or almost wholly, forfeited. However, as George contends, all landowners, great and small, would benefit directly from the abolition of taxes on improvements, personal income, investments in productive enterprise, and the like. He asserts that even the largest landowners, though they will suffer immediate loss of ground rent, will profit in common with all other groups in the long-run advantages of the reform.

Despite this, the question is raised, on ethical as well as material grounds, whether landowners should not be compensated for the loss of their investment in land. George recognizes not only that the practice of private landownership has long enjoyed legal and social sanction, but also that present owners have in numerous cases purchased their holdings with capital acquired by acceptable means. But he answers to this that "if landowners are to lose nothing of their special privileges, the people at large can gain nothing," and that "to buy up individual property rights would merely be to give the landholders in another form a claim of the same kind and amount that their possession of land now gives them."[17] The practical difficulties involved in such a proceeding would likewise be formidable, chiefly because the market value of land generally incorporates a factor of projected future increment.

But the issue as George sees it is much more fundamental. If taken on an ethical basis, the private appropriation of land values constituted from the beginning an unnatural and pernicious act against the community. Private land ownership itself, George reminds us, originated in force, fraud, and conquest, and it was perpetuated by those who inherited or acquired this private power to exact rent as tribute from others. Many of the greatest fortunes in America, as elsewhere, trace their roots to the alienation of the public domain by predatory seizures, doubtful grants of title, and subsequent political connivance in such acts.[18] Even though ownership today has been acquired by appropriate payment, there is still no ethical right to its earnings. The community creates land value and the whole community should reap its benefits. The fact that private appropriation has been long sanctioned by society is no more final, George argues, than that chattel slavery was for many generations an approved practice. When an established social institution is found to be morally injurious, it is the duty as well as the right of society to correct it.

Furthermore, if the matter be considered on practical grounds, it will be seen that the effect of private appropriation has been to enrich nonproducers, to deny labor its rightful earnings, and to hold back normal economic growth. It is possible to regard every form of tax as a partial confiscation of the income upon which it is imposed. The tax that is now levied everywhere upon the raw land, whatever its rate, reduces the capital value of that land to some extent. An increase in rate would utilize the same principle, except that a correspondingly larger part of the capital value would revert from the landowner to the community. In such an event, George believes, the most appropriate form of compensation would be the benefit that all of society would obtain from the reform.

George's Replies to Certain Objections

OBJECTION: that ground rental and increased land values are not the only form of "unearned income" in our economy; why then single out the land and landowners exclusively?

George concedes that it may be possible to identify other elements of unearned income, but he insists that, even if this is so, the increment of land value remains a unique phenomenon. Each form of investment capital, even if inherited rather than earned, is engaged in producing reproducible things or services by means of human labor and equipment; thereby it earns a return, large or small, reflecting the economic decisions of producers and consumers. But the natural land, unlike capital, does not constitute either immediate or stored-up labor; it is not a manufactured product; it is not reproducible; and its unimproved value does not depend in any way upon the decisions of the owner. The value of landed property derives from the socially created opportunities it affords for production and residence. As such, the return it yields represents social, rather than private, increment. Accordingly, even if it were possible to isolate other forms of capital income as unearned, this might provide a case for suitable fiscal measures, but it would in no way lessen the propriety of recapturing land values.

OBJECTION: that it is often difficult, if not impossible, to separate the value of the raw land from the improvements made upon it.

George denies that this presents any untoward difficulties. Many states already provide separate assessments of the land and its improvements, even though the two are often merged for imposition of a uniform tax rate. The cost of buildings and other man-made additions is generally known; the balance of the assessed value of the property is that which represents the bare land.

It is, of course, recognized that certain modifications of the land itself, such as swamp drainage, hill terracing, and the like, become eventually indistinguishable from the original site. Improvements of this sort, effected by human effort and capital, would be exempted for an interval of time from taxation; ultimately they would be considered as having fused into the site of the land itself.

OBJECTION: that the increased tax on land would simply be shifted to tenants or consumers in the form of higher rents or commodity prices.

George replies that this would not occur, because land is not a man-made product subject to greater or lesser output. The amount of land available is fixed in extent; hence the effect of an added tax is to decrease the net rental retained by the landowner. To support his position, George cites the then (and now) prevailing view of economists that a land tax (unlike other taxes) cannot be shifted by the owner, that he must absorb the increase himself.

OBJECTION: that an exclusive tax upon land would be too inelastic to provide for the changing requirements of public revenue, particularly in the light of extraordinary expenditures for defense and welfare purposes.

At the time he wrote, George calculated that a single tax on land values would yield a sufficient revenue for all the purposes of government, local, state, and national.[19] He contended, moreover, that the land tax was inherently elastic because its amount would increase directly with the growth of population and the concomitant enhancement of land values. He was confident, as well, that his remedy would so strongly stimulate business, employment, and real income that the heavy welfare costs of government would be sharply diminished or eliminated.

OBJECTION: that the full land tax would, in effect, put an end to the individual ownership of land, erase the sense of security that comes from such possession, and thus destroy the incentive to care for the land and put it to its best use.

George reiterates that neither the title nor the use of the land would be disturbed as long as the annual land-value tax was paid. The situation would remain unchanged except that all but a fraction of the rental income would flow from either the owner or user to the community, instead of to the landowner. The user of the land is always motivated to put the property to its best use, since that is the surest way to make it profitable for himself; this is less the case with the landowner who, if his tax rate is low, may choose to keep his property unimproved until it will fetch a higher price.

The security and incentive that people really want, George concludes, is the assurance that what they cultivate and build and earn by their own efforts will not be taken from them. This the land-value tax would effectuate through the removal of all other taxes.

Forty years after my first encounter with *Progress and Poverty* I continue to find its message enduringly sane and timely. During that period taxes have multiplied, the public debt has grown inexorably, and proud states have approached the edge of insolvency—yet with little or no effort made to correct that most palpable of inequities, the indulgence of landownership at the expense of production. The thought occurs: what if one of the newly emergent nations of our time had had the foresight to install the single tax on land as its public revenue source—how would its people have responded? Would their opportunity and enterprise have been encouraged thereby? Would their tax-free crops and industries have burgeoned? their arts and sciences have flourished? their rewards made commensurate to their efforts? land speculation quashed? the government and bureaucracy confined to their income?

Henry George would have been confident of the result. And how instructive such an example would be to his critics and advocates alike!

Notes

1. For a detailed survey of this topic, see R. V. Andelson, ed., *Land-Value Taxation Around the World* (3rd edition, Malden, MA and Oxford, UK: Blackwell Publishers, 2000). (ed.)

2. Henry George, *Progress and Poverty*, 75th anniversary ed. (New York: Robert Schalkenbach Foundation, 1954), p. 171.

3. Ibid., p. 38.

4. Ibid., pp. 337–38.

5. Ibid., p. 344.

6. Ibid., pp. 165–66.

7. Ibid., p. 168.

8. Ibid., p. 166.

9. Ibid., p. 264.

10. Ibid., p. 270.

11. Ibid., pp. 405–06. Some have made the point that what George proposes is not a tax at all in the traditional sense, and that it should rather be construed as a process by which the community would collect annually the social increment that it alone is capable of producing and would use to defray its own expenses. This, it is contended, involves no levy at all upon the productive powers of labor.

12. George, *Progress and Poverty*, p. 405.

13. Ibid.

14. Ibid., p. 414.

15. Ibid., p. 418.

16. This concern, central to George's philosophy, is developed at length in bk. 10 of *Progress and Poverty*.

17. George, *Progress and Poverty*, p. 360.

18. George deals with this issue at some length in bk. 7, chap. 4, "Property in Land Historically Considered," and chap. 5, "Of Property in Land in the United States."

19. George, *Progress and Poverty*, p. 406. Some Georgists today are prepared to approve inheritance and income taxes as supplementary sources of revenue in the event the land tax is inadequate for legitimate and necessary purposes. George himself said nothing about this.