

HENRY GEORGE a Prophet Whose Time has Come

ROBERT V. ANDELSON, *Professor of Philosophy Emeritus, Auburn University, Alabama, reviews the contemporary relevance of the American social reformer whose philosophy is now assuming new significance*

IF THE collapse of Marxism is to be seen as a triumphant vindication of capitalism, one would expect the economies of substantially capitalist nations to be vibrantly successful and overwhelmingly popular. Yet this is not the case. Their performance in virtually the entire Western world has become lackluster at best, and even the economic dynamism of Japan has given way to stagnation and retrenchment. With the end of the Cold War has come a general mood of disillusionment and disaffection.

Under these circumstances it is not surprising that the ideas of Henry George (1839-1897), the self-taught American political economist and social philosopher whose masterwork, *Progress and Poverty* (1879), was for perhaps half a century the world's best-selling book in economics, are now being examined with new appreciation. For it was George who, while affirming the equity and efficiency of genuine free markets, uniquely isolated the chief debilitating flaw in "Capitalism" as it typically exists in practice, at the same time pointing the way to its remediation. Although set in the context of late 19th century America, his analysis is universal in its scope, and its relevance today even greater than when it was initially propounded.

His Life and Influence

George learned to set type as a youth in Philadelphia. Moving west to seek his fortune, he earned a precarious living as a journeyman printer in San Francisco, then became a newspaper

reporter, editor, and eventually the publisher of his own daily. After the publication of *Progress and Poverty*, he settled in New York City and spent the remainder of his life lecturing (frequently abroad) and writing, producing six more books: *The [Irish] Land Question* (1881), *Social Problems* (1883), *Protection or Free Trade?* (1885), *The Condition of Labour* (1891), *A Perplexed Philosopher* (1892), and *The Science of Political Economy* (unfinished but published posthumously in 1897). His literary style has seldom been matched in force or clarity.

In 1885, George ran for mayor of New York City on a reform ticket. While he had no real ambition to hold public office, he saw this as a means of focusing attention on his beliefs. According to most authorities, he actually received the most votes, yet, since the official count was rigged by the Democratic Party machine, he came in second, ahead of the Republican candidate and future president, Theodore Roosevelt. He was prevailed upon to run again in 1897, but was felled by a fatal stroke five days before the balloting. George was literally a martyr to his cause, for his doctors had warned that his frail health could not withstand the rigors of another campaign. His funeral was marked by an outpouring of public grief unprecedented in the city's history. Even those who opposed his ideas applauded his motives and acknowledged the nobility of his character.

After his lifetime, George's influence was eclipsed by that of Marx and Keynes, but his avowed disciples have

included many eminent figures. Leo Tolstoy tried to persuade the tsar to adopt his reform. Shortly before Sun Yat-sen's death, the father of the Chinese republic declared his intention of implementing it there. Even Winston Churchill was for several years an ardent advocate of the position, and never ceased to believe in it although political considerations militated against his continued championship.

With certain notable exceptions, academic economists have until rather recently tended to ignore or to dismiss George - this despite the fact that Joseph Schumpeter, the magisterial historian of economic theory, unambiguously affirms his technical competence. But today American economists throughout the political spectrum, from Milton Friedman and Arthur Laffer to Kenneth Boulding and William Vickrey, have publicly espoused key elements of George's thought. Vickrey was last year's president of the American Economic Association. He was among the distinguished scholars (including three Nobel laureates in economics) who signed a letter (Nov 7, 1990) urging then Soviet President Gorbachev to institute a land plan along basically Georgist lines.

His System

George is best known for the theory that most of the market value of land exclusive of improvements ("economic rent") should be appropriated by society and applied to general public purposes, with corresponding

abolition of taxation on the fruits of human effort.

His system rests upon the Lockean premise that private property is ultimately justified by the right of an individual to his labor as an extension of himself. Since land is not created by human labor but by God as a fund of opportunity for the use of all, the argument for private ownership cannot apply to it. Economic rent constitutes an exact measure of the disadvantage sustained by those who are denied the chance to use a site or natural resource on equal terms because of its preemption by the owner; therefore, it should be taken by the community as an indemnity to them, subsidizing protective and other social services that would otherwise have to be paid for by a levy on the produce of their labor.

George characterized this as "the taking by the community for the use of the community of that value which is the creation of the community" (*Progress and Poverty*, Book VIII, Chap.3), for he contended that rent (when not artificially inflated by land withholding, speculative or otherwise) is essentially a social product—the result of population, public demand, government services, and the aggregate improvements and activities of all individuals in a given area, not the result of anything the owner, as such, may do to a particular site.

Since he advocated the use of the tax mechanism to collect economic rent for society, his proposal is popularly known as the "Single Tax," but it is really not so much a tax as a public fee, notwithstanding the fact that it eminently satisfied all of Adam Smith's "Canons of Taxation." Although he thought, probably correctly in his day, that this source would be more than adequate to support all legitimate government functions, his position would not necessarily preclude other benefit fees if economic rent should prove inadequate. A small percentage of the rent would be left to the owner as an agency commission and an inducement to retain title. Inasmuch as he would be liable

for the remainder of the rent regardless of how his land were used, the owner would have an irresistible incentive either to put it to its optimum use or make it available to someone who would. He would have no motive for speculation.

George's program, although radical in the sense of attacking the root cause of economic maladjustment as he saw it, is conservative in accepting self-interest as the normative economic motive, and in avoiding drastic methods that might rend the social fabric. (It would be implemented in gradual stages.) As Schumpeter remarks, "he was careful to frame his 'remedy' in such a manner as to cause minimum injury to the efficacy of the private enterprise economy" (*History of Economic Analysis* [1954], p.865). In fact, its object was to enhance that efficiency.

Partial but substantial applications of his approach in Australia, Denmark, Taiwan, and elsewhere have tended to stimulate production, improve land use, and encourage better and more affordable housing.

The social utility of Australia's limited but significant land-value tax is revealed in a survey comparing the three states that have much heavier land-value taxes and much lower improvement taxes with the other three. During the half-century covered by the survey, the first group (Queensland, New South Wales, and Western Australia) saw far more land put under crops, while the second group (South Australia, Victoria, and Tasmania) experienced decreases. The value of improvements as compared to land was 151% in the first group as against only 79% in the second; it was highest of all, 198%, in Queensland, which collected the highest proportion of economic rent.

The first group enjoyed higher factory wages, more purchasing power, a greater volume of retail sales, higher capital investment in plant and machinery, more housing construction, and greater increases in assets of financial institutions and cooperative societies. The flow of population from the second group to

the first showed that people found superior opportunities where taxes were derived to a greater extent from land values than from production. Again, Queensland showed the heaviest inflow of people. (A.R. Hutchinson, et al., *Public Charges Upon Land Values* [Melbourne: Land Values Research Group, 1961].)

More recent research confirms the continued thrust and pertinence of the survey's remarkable findings. (A.R. Hutchinson, et al., *Natural Resources Rental Taxation in Australia* [Melbourne: Land Values Research Group, 1977], especially pp.18-19.)

Denmark derives almost its entire local real estate tax from the value of land alone. There is no longer any local tax on residential buildings, and the land-value tax applies to all but church, park, defense, and transport sites. While the taxation of real estate has sharply declined as a percentage of the general level of taxation in Denmark over the past 40 years, as an absolute amount land-value taxes are still high enough to make speculative withholding of developable urban sites "almost non-existent." (Personal communication to David Richards from Anders Muller, economist at the Danish Inland Revenue Directorate, and author of studies on the property tax in Denmark.) In the agricultural sector, the effect of the system has been to replace farm tenancy with independent small-holding.

Taiwan's approach has been characterized as "the most successful of postwar land reforms." (Fred Harrison, *The Power in the Land* [London: Shephard-Walwyn, and New York: Universe Books, 1983].) In addition to large-scale redistribution, the system is marked by a tax on the unimproved value of land (based on self-assessment), with a separate tax at higher rates on vacant and underimproved sites. Also, a steeply graduated land-value increment tax is imposed on increases in value over a 10-year period and at time of sale. As early as 1967, 10 years before the plan went into full operation in its present form, C.F. Koo, president of

the Chinese National Association of Industry and Commerce, concluded that the first stages had already performed a critical role in encouraging the island's transformation. Before the reform, he explained, landlords had no incentive to invest in industry, for they could prosper by gouging tenants and by reaping unearned land values. The land reform, Koo said, vastly minimized both these forms of exploitation, "thus removing the obstacle that stood in the way of industrial development and creating a remarkable change in the social

economy." (F.F.Koo, "Land Reform and Its Impact on Industrial Development in Taiwan," in J.R.Brown and Sein Lin, eds., *Land Reform in Developing Countries* [Hartford, CT: University of Hartford Press, 1968], p. 375.)

Free Trade

George rigorously advocated free trade. He was a decentralist, an unremitting foe of Marxism, a staunch believer in Natural Law, and a devout though undogmatic Christian. His system represents a balance between

individualism and communitarianism, holding that for the individual to secure what rightfully belongs to him, the community must secure what rightfully belongs to it. It has contemporary implications that go beyond its original purview - e.g., ecological conservation through use of taxation to internalize pollution costs.

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SUN YAT SEN - REVOLUTIONARY LAND REFORMER

SUN YAT SEN (1866-1925), the republican liberator of China, led the coalition of forces which overthrew the Manchus, the last Imperial Dynasty. During the last few months of his life he wrote a manifesto which he called *San Min Chu I*, the Three Principles of the People. Central to the last principle is the necessity for land reform. He declared: "...to equalize the financial resources of Society. Our first aim is to be the solution of the land problem."

He then went on to show how this could be done: "...the government makes two regulations: first, that it will collect taxes according to the value, assessed by the landowners, of their land; secondly, that it can buy the land at the same price."

Sun Yat Sen put landowners in a dilemma: if they said that the land had a low value so as to pay a low tax, the government would purchase it. But if the land was valued at a high price, taxes would accordingly be higher, perhaps more than the land was really worth.

Either way the government was a winner and the landowners were drawn into being part of a controlled land market.

Sun Yat Sen then went further than this: "After land values have been fixed, we should have a regulation by law that, from that year on, all increases in land values, which in other countries means heavier taxes, shall

ALAN SPENCE, a socialist who advocates the philosophy of Henry George, suggests that socialist China - and capitalist Britain - should learn the lessons taught by Sun Yat Sen

revert to the community."

He took this fiscal method of raising public funds from the teachings of Henry George (1839-1897), the American land reformer. George's book, *Progress and Poverty*, had been studied by Dr Sun during his many visits to the West.

He also took to heart, and put into his manifesto, Henry George's view that "...increase in land values is due to improvement made by society and to the progress of industry and commerce." Thus, as land values increased, so would the revenue from taxes and Dr Sun saw this as a source of funds for building the "many Shanghai's" China required for its entry into the modern world.

SHORTLY after 1911 Sun Yat Sen lost power and did not regain it until 1922 when he was mainly occupied with subduing the many war lords who controlled parts of China's vast territory - a task he did not complete before his death in 1925.

During this period of power, he employed a German, Dr. Ludwig Schramier, to prepare land reform proposals based on outlines set out in *San Min Chu I*. Dr Schramier had

been governor of the German Colony of Kaio Chan which included the seaport of Tsingtao. The German Government had compelled the Chinese Emperor to lease this area to it in 1898 and controlled it until forced out by the Japanese in 1916.

During his period of governorship, Dr Schramier had raised revenue from his tiny colony (220 sq miles) by leasing land and drawing ground rent, imposing escalating penalties for land left unused. During the 18 years it was under his control, the colony made rapid progress in developing its infrastructure. This stopped when the Japanese occupied the territory and returned it to traditional landownership control.

Dr. Schramier was killed in a car crash a few weeks after Dr Sun's death and although the land reform statutes he was working on were within days of being completed they died with him. Instead, Chiang Kai Shek, who had assumed the mantle of leader, instigated a policy of repression.

Under Dr Sun the Communist Party had become more influential within his Kuomintang Party. This and the escalation of peasant and working class militancy alarmed the landowning and business classes and the mafia-like secret societies. Chiang, whose links with these interest groups had helped him to power, now turned