

The Message of Henry George

A SOCIAL PHILOSOPHER'S INDICTMENT OF MONOPOLY AND PRIVILEGE AS CAUSES OF POVERTY

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"HE was born with the gift of laughter and the sense that the world was mad." Thus does Raphael Sabatini describe his unforgettable character Scaramouche. We might paraphrase Sabatini's words and say of Henry George—"He was born with the gift of poetry and a sense that economics was mad." For surely the world of economics had no sane answer for the query raised by Henry George, namely, why the increase in wealth as civilisation advanced did not bring about an alleviation from the grinding poverty and recurring industrial paroxysms that unnerved, crippled, and demoralized so much of the world's population. And to the passionate questions of Henry George the answers from the economists of his day seem little short of mad, as do many of the answers advanced today.

In 1879 Henry George's *Progress and Poverty* recorded in flaming letters his sincere investigation into the causes of poverty and industrial depressions and suggested a remedy. Overnight the position of Henry George as philosopher and political economist was secure for all time.

We must emphasize that Henry George cried out against poverty—and poverty, we know, does something to the intellect and to the soul. One has either known poverty or has not suffered from it. There is no middle ground. You do not learn about poverty from observation of selected social cases, or by reading about it, but only by living with it. You know about it by consuming potato soup and bread and looking upon meat as a luxury. You know about it by nightly changing the cardboard

placed to protect your feet from the elements due to the holes in your shoes. You know about it from the fact that you know to a penny what your treasured ring and watch will bring at the pawn shop. You know about it from the feeling of wild joy at finding temporary employment at wages that mean only a bare—and temporary—subsistence. There are a hundred small items and emotions that the man who has known poverty is keenly aware of, which would never enter the mind of one who has not known what it is to suffer want.

And we must also emphasize that Henry George knew poverty. We have but to read his diary to ascertain this fact. What proof do we need beyond the despair of the following words, "Am in very desperate plight, Courage." And of another poignant entry which reads, "Don't know what to do." However, if more proof is desired the reader need but refer to Anna George de Mille's biography of her father⁽¹⁾. Henry George's main objective was to explain how poverty and wealth both increased, side by side, "as the village grows to the city, and the march of development brings the advantages of the improved methods of production and exchange." This association George endeavoured to prove through the medium of political economy. This is our main position. We must not be misled as the skirmish lines advance and fall back, and as patrols reconnoitre and explore our front and flanks. Have we abolished poverty? Do we have in existence in our modern world what Henry George calls "a class just able to live?" If we have abolished poverty there is no need to pursue our inquiry further.

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Today hunger and want exist in half the world. Judged by American standards, the level of subsistence is everywhere low. The average

annual income in Kenya is \$163. How can you visualize the level of living achieved by such a figure?

In our own affluent nation hunger and cold are among the realities of life. Charles H. Dow, the financial journalist, wrote over 70 years ago that "the margin between the proceeds of the day's work and the cost of the day's living is so small in a vast number of cases that very small curtailment in the sale of labor must bring immediate curtailment in consumption." This statement is as true today as when Dow wrote it.

So we see poverty is still very much with us. Like Henry George we too have seen the cities of the world where side by side with the giant monolithic palaces which rise as monuments to the ingenuity of man we have seen in the shadows the squalid hovels that testify to man's stupidity and callousness.

And all this in spite of the marked advance of civilization!

It will be recalled that Henry George marvelled at the steamship replacing the sailing vessel, and the railroad train the wagon, and asked what a man of vision of the 18th century would have thought social conditions in the 19th century would be like had he but seen the "hundred thousand improvements" which that latter century would bring to mankind. Now we have added the airplane to the steamship, and the automobile to the railroad train; and our own 20th century has brought another "hundred thousand improvements" to add to those of the century that preceded it.

Still we recite the endless story of poverty. And what is more brutal than the cloak of poverty spreading over the shoulders of natural ability? How many dexterous fingers have tended the looms in dismal cotton mills, or grasped the pick of the unskilled laborer, when but for poverty they could have performed adroitly the marvelous manipulations of the

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greatest surgeons? All mankind wishes, with Henry George, that the capeadores of the future seize first the cloak of poverty. The voice of Henry George will be heard as long as poverty exists.

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Let us turn our attention to another fact of Henry George's thought. Let us consider what George Soule calls "an original contribution which has stood the test of time." This is Henry George's assertion that land values increase, in the main, not with respect to fertility of the soil but rather in relation to the growth and advancement of the locality in which the land is situated. "To get rich," says Soule, "buy not the best farm land, but a tract which will turn out to be near the center of a growing city" (2). This thought is effectively presented by George when he says:

Take now . . . some hard-headed business man, who has no theories, but knows how to make money. Say to him: "Here is a little village; in ten years it will be a great city—in ten years the railroad will have taken the place of the stage coach, the electric light of the candle; it will abound with all the machinery and improvements that so enormously multiply the effective power of labor. Will, in ten years, interest be any higher?"

He will tell you, "No!"

"Will the wages of common labor be any higher; will it be easier for a man who has nothing but his labor to make an independent living?"

He will tell you, "No; the wages of common labor will not be any higher; on the contrary, all the chances are that they will be lower; it will not be easier for the mere laborer to make an independent living; the chances are that it will be harder."

"What, then, will be higher?"



"Rent; the value of land. Go, get yourself a piece of ground and hold possession."

And if, under such circumstances, you take his advice, you need do nothing more. You may sit

down and smoke your pipe; you may lie around like the lazzaroni of Naples or the leperos of Mexico; you may go up in a balloon, or down a hole in the ground; and without doing one stroke of work, without adding one iota to the wealth of the community, in ten years you will be rich! In the new city you may have a luxurious mansion; but among its public buildings will be an almshouse(3).

Today the phenomenon of land values increasing with the growth of population in a given locality is accepted as fact, since the repeated occurrence of this event has sufficiently impressed not only economists but the general population as well. Ask the man in Long Island, New York, who has seen potato farms transmuted into veritable cities overnight about the alchemy whereby soil is turned into gold. Seek out the men who have seen the population grow in Texas, Florida, and California and ask them if Henry George's assumption is a correct one. Does the sand of Palm Springs, California, differ sufficiently from that of the Carrizo wash to account for the price of the latter to be measured in pennies and the former in thousands of dollars per building lot?

If we turn to our text book we find Professors Bye and Hewett advising:

This unearned increment, as it has been called, is conspicuous in the case of city building sites. As the population of a growing city increases, good locations suitable for business purposes in the central section become more and more valuable. The paving of streets, the construction of railroads, and other improvements made by the community, increase also the values of land near to such centers, and these influences may extend for many miles out into the country. In time, the business possibilities of central urban sites become so great, due to the presence of large numbers of people in a small area, that the lands in such locations soar to fabulous prices. The owners of such sites can lease them for enormous yearly rentals, which they cannot be said to have earned, for these values are created by the general growth of the community(4).

By far the most cogent item is gleaned from a leading United States news magazine. Here are no academic phrases, but a glow-

ing account of modern alchemy in action. Here the philosopher's stone has performed its magic and demonstrated its power of trans-



muting the baser metals into gold in a modern fashion. The account follows:

Near Orlando, Fla., a grove owner sold 30 acres of land 15 miles from Disney World last spring for \$285,000. Two weeks later the buyer resold it for \$375,000. One week later a subdivision developer bought it for \$525,000. Several months later the developer turned down an offer of \$750,000 for the property, upon which he is now constructing apartments (5).

We rest our case and say with George Soule, "Who knows anything about the agricultural value of the corner lot at Broad and Wall Street, New York?"

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Now that we have established what Henry George said with respect to poverty, and the increase in land values due to the development of the community wherein the land is situated, it is time for us to examine his theory of distribution. Let us see what he said about wages, interest, rent, and profits, as this has a direct bearing upon his views on land taxation.

As our first step it seems fitting to view his position on capital and wages. The prevalent theory of wages that the academic world held out to Henry George was none other than the "wages-fund theory" of John Stuart Mill which originated with Adam Smith and was accepted by Malthus and Ricardo to form one of the pillars of classical economics. The theory envisioned a set fund—the capital out of which wages were paid. Thus the level of wages was determined by (a) the amount of the fund and (b) the number of persons offering their services as laborers. This was a comforting theory to those who viewed the misery about them with a certain remorse since it explained, coupled with the Malthusian doctrine, the "iron law of wages," i.e., real wages could never rise much above the

level of mere subsistence.

But soon rough hands beat here and there on the wages-fund theory. From Germany F. B. von Hermann pummelled mightily. W. T. Thornton's blows, although not crushing, were of an annoying nature. Finally Francis Walker destroyed the wages-fund theory for the academicians and Henry George demolished it for the entire world.

Henry George held that both the wages-fund theory and the Malthusian doctrine were in error, hence the "iron law of wages" was not caused by either the limitations of a wages fund or the pressure of population as such.

George had too much respect for man's ingenuity and inventiveness to accept the thesis that population pressed so firmly against the limits of subsistence that common misery was the reward of progress. Man is not a brute animal but differs from the beasts in that "unlike that of any other living thing, the increase of man involves the increase of his food. . . . Here is the difference between the animal and the man. Both the jayhawk and the man eat chickens, but the more jayhawks, the fewer the chickens, while the more men, the more chickens."

In his conclusion the burning, optimistic words of Henry George provide a startling contrast when held against the pessimistic background of classical economic theory.

Thus Henry George held that an unjust system of distribution, not the natural laws of the classical economists, was the cause of riches for the few and poverty for the many. And, in short, to what did Henry George ascribe this unbalance in the distributive process? Was it due to profits? No. Profits—consisting of the wages of superintendence, compensation for risk, and return on capital—Henry George discards as neither fish nor fowl, reducing his factors of production to those of Adam Smith, namely, land, labor, and capital. Was it due then to inflated returns to capital? No—for Henry George saw that "interest depends on the margin of cultivation, falling as it falls and rising as it rises." Certainly it

was not due to wages which likewise "depend on the margin of cultivation, falling as it falls and rising as it rises." Therefore, rent must contain the explanation for the phenomenon of want and



plenty, castles and hovels, rags and velvet robes, Dives and Lazarus.

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George, once reaching this conclusion, defines rent with great care. And what do we find? Not something new or startling—but instead Ricardo's law of rent which Henry George believed "has the self-evident character of a geometric axiom." Here again George's view is the classical one, for with Mill he accepts the "*pons asinorum* of political economy," namely, "The rent of land is determined by the excess of its produce over that which the same application can secure from the least productive land in use." This law, we recall, caused Richardo to believe that the landowner profited at the expense of the capitalist. George felt more than this resulted; for, after all, labor as well as capital must utilize land in any process of production. With the ability of land to yield rent, was not labor penalized as well as capital? Certainly, and George showed the result in the form of an algebraic expression " $\text{Product} - \text{Rent} = \text{Wages} + \text{Interest}$."

Once the simplicity of George's presentation is grasped, it is easy to follow his thesis that an increase in rent accompanying an increase in total product could hold wages and interest stationary or even force them to decline. What then sets the rate of wages and interest? The main factor, says Henry George, is the value of land. "Wherever the value of land is relatively low, wages and interest are relatively high; wherever land is relatively high, wages and interest are relatively low."

As population grows, more and more land is brought into use and rents rise. This causes land to be

purchased for speculative purposes and to be held vacant for a rise in price. As this additional land is taken from the amount available for use, the margin of cultivation, as well as the margin of building, is pushed to more remote points than it would normally reach without land speculation. This process contains within itself one of the main causes of industrial depression as "the speculative advance in land values cuts down the earnings of labor and capital and checks production."

Here in brief form is the basic economic reasoning of Henry George. We hear our readers complain that this is nothing but classical economics. Of course it is classical economics. Henry George's economics is the economics of Adam Smith, Ricardo, and John Stuart Mill. It is not socialism—either of the Utopian or of the scientific variety—but a restatement of classical economics. Beyond this, Henry George's method was the same combination of inductive and deductive reasoning that Adam Smith employed. This may come as a surprise to some; but, after all, this history of economic thought is full of surprises.

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Now to Henry George's remedy, or solution, to the problem. It is almost suspect by its very simplicity. Land is a gift from the Creator and as such belongs to all mankind. We are but tenants on an orb that we possess lightly from generation to generation. Human production implies the right of ownership, and improvements to land rightly belong to the improver. Land, however, must belong to all; and land rent—the unearned increment—must likewise belong to all. We must be careful, however, to explain that Henry George does not advocate "common ownership in land," or "land nationalization," and in fact repudiates these concepts. His reasoning is that the essential point is achieved simply by channeling the unearned increment of land rent from private hands into a common fund to meet the cost of public services.

George proposes his famous solution in the following words:

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. We may safely leave them the shell, if we take the kernel. *It is not necessary to confiscate land; it is only necessary to confiscate rent. . . .*

So far we have said nothing about the single tax, the "*impôt unique*" of Quesnay and the Physiocrats, with which the name of Henry George is invariably coupled. "This," says George, "is the secret which would transform the little village into the great city." It is George's contention that the tax on the unearned increment of land rent—the single tax—would suffice to cover the expenses of government, so that all other taxation "which, acting and reacting, now hampers every wheel of exchange and presses upon every form of industry" could be abolished. Thus the onerous burden of taxation would be shifted "from production and exchange to the value or rent of land." And what, says Henry George would result?

Naturally, with the taking of land rent by the community, the selling price of land would fall and land speculation would disappear at the same time. Land would become available not only at the frontier but even within the city limits of the greatest cities of the world. And, continued the thesis, this one stroke would so encourage labor and capital—now comparatively free of taxation—that production would soar. No longer would it be economically feasible to hold land idle or to construct tenements in the place of comfortable homes, and land rent "instead of causing inequality would then promote equality."

Thus we have surveyed the marvelous fabric of the economic world of Henry George. And now we are asked, "What would Henry George say about land value taxation now?" What would he say? What else could he say that he has not already said? He forwarded his thesis, listed the possible objections to it and answered

them, and then told the world what would happen if his words were followed. Henry George would, I am certain, issue the same call today that he made during his lifetime; and he would refute his critics in the same manner (6).

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1. Henry George, *Citizen of the World* (Chapel Hill, N.C.: Univ. of North Carolina Press, 1950); cf. also Charles Albrow Barker, *Henry George* (New York: Oxford Univ. Press, 1955), p. 639.

2. George Henry Soule Jr., *The New Science of Economics* (1964); *ibid.*, *Economics: Measurements, Theories, Case Studies* (1961); and his earlier works, *Introduction to Economic Science* (1948),

Economic Forces in American History (1952), *Men, Wages and Employment in the Modern U.S. Economy* (1954).

3. Henry George's *Progress and Poverty* is available in the world's leading languages through the Robert Schalkenbach Foundation, 50 East 69th Street, New York, N.Y. 10021, U.S.A., and Land & Liberty Press, London, England, as are George's other major works and the principal commentaries on George's theories.

4. Raymond T. Bye and William W. Hewett, *The Economic Process: Its Principles and Problems* (New York: Appleton-Century-Crofts, 1952); *ibid.*, *Applied Economics* (New York: Knopf, 1928).

5. *Time Magazine*, New York, October 1, 1973.

6. An increasing number of economists is supporting land value taxation. For the modern case for the reform, see Dick Netzer, *Economics of the Property Tax* (Washington, D.C.: The Brookings Institution, 1966).

IS BRITAIN REPEATING GERMAN INFLATIONARY EXPERIENCE ?

BRITAIN is now accelerating along the road that led Germany to the disastrous hyperinflation of the early twenties. The bitterness of the expropriation of the middle-classes that led to political extremism in Germany could have unpleasant echoes in Britain.

These are points from *The Road to German Inflation: some lessons for Britain*, a study* published recently by Aims for Freedom and Enterprise. It is written by William Wolff, political and diplomatic writer, with the backing of original research into what happened in Germany fifty years ago.

"The German experience of prices soaring by thousands every hour is being dismissed as irrelevant to our predicament in Britain today," he says. "True, we have no reparation debts, no Ruhr or Rheinland and no French troops in occupation.

"But we do have an external debt of around £4,000 million.

Mr. Wolff quotes a prominent German who said in 1922 that Germany had chosen inflation after the 1914-18 war to provide work for four million returning soldiers. "Spurred by the same underlying belief, we are now accelerating down the same road as that along which the Germans once careered."

He recalls the events when in 1923 the wholesale price index

The Road to German Inflation: some lessons for Britain, by William Wolff; Aims for Freedom and Enterprise, 5 Plough Place, Fetter Lane, London EC4A 1AN; price 20p.

soared to 750,000 million, 150 printing firms had 2,000 presses running day and night "like newspapers changing editions", to supply the demand for more banknotes, and barter took over because traders found that whatever prices they charged they did not have enough to buy equivalent new stock.

"The most important lesson of the German experience" says Mr. Wolff, "was that inflation merely postponed unemployment. In the end it multiplied the number of jobless with a vengeance. The trauma of its destructive effects was so deep that to this day the Germans, faced with a choice between inflation and temporary unemployment, prefer unemployment as the lesser and more easily-cured evil."

The presentation of the economic problem as "a straight and inevitable choice between these two evils creates a false antithesis which has fatally and needlessly bedevilled policy making," he says. "Fundamentally the problem is one of linking a sane money policy to a programme for switching resources."

In calling for a Minister for Re-deployment and a programme to facilitate the switching of resources, Mr. Wolff seems to dismiss the possibility of the market system being allowed automatically to achieve the necessary switch. Of course, to the extent that more and more of industry is falling into the public domain and thus becoming less sensitive to economic pressures, one might unwillingly concede that he has a point.