

HENRY GEORGE, HIS ENDURING CONTRIBUTION TO PROGRESS

BY

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George tried to build on a foundation which today could be characterized as more emotion and assertion than solid economic analysis and fact. After reading the responses of two leading economists of the time -- E.R.A. Seligman of Columbia University and Alfred Marshall of England -- and the account in Stephen Cord's book, Henry George, Dreamer or Realist, I see one reason why George alienated professional economists. He insisted upon being wrong. Had his mind been more open and receptive, his great talents for persuasion might have utilized arguments that would have enlisted support from the economics profession.

He could have constructed a case solidly based for improving the condition of mankind.* But on the basis of the best economic analysis he should not, I believe, have advocated so much as he did -- financing all of the governmental expenditures of his era by a tax on land values, (1) a tax that could have been justified on moral and ethical bases and (2) that would have left reasonably adequate incentives for effective and efficient direction of land use.**

Landowners in their own interest will compete for (good) workers and for capital. If all land were owned by one person or a cohesive group, then some of the results he predicts would come about. But outside Communist lands, such is not the case. Land ownership is widely distributed. The classical theory on which George relies may seem to imply that there is no incentive or need for the owners of land to compete for occupants -- business, residential, farming. But even casual knowledge of the processes of decisions on land will reveal that change goes on. Owners of parcels

* George also impugned the integrity of academic economists. Their positions on land taxation, he wrote, represented the economic interest of groups supporting colleges as well as the privileged generally.

** Adequate statistics are not available so far as I know. Alfred Marshall's estimates for Great Britain leave little doubt that the highest totals there would have fallen short, even without allowance for compensation that would have been essential to meet legitimate claims of owners who had sacrificed "from the sweat of the brow" to acquire land.

of urban and rural land as well as potential users compete. The landowner may play an active role -- anything but the passive role which George seemed to have in mind -- in competing to attract the users who can pay the most.

The point here is not to deny the possibility of landowners getting rich while sleeping. Rather, the point is to help explain why over the years the earnings of employees and of suppliers of capital have risen rather than being kept essentially stagnant, as George expected, with landowners getting so nearly all of the fruits of progress.

Capital and Interest

A striking difference between Henry George's views and modern economics will be found in his understanding -- or misunderstanding -- as to capital and interest.*

He was aware of the improvements from advancing technology. He must have seen that the growth of the stock of capital would increase the ability to produce and also total output. But he failed to appreciate the benefits for the common man.

He appears to have confused the "price" of capital in the sense of interest with the income produced. But if the stock of capital rises from year to year while the rate of interest remains unchanged, the total income for suppliers of capital goes up. It does not remain stable as does the interest rate. I find difficulty in believing that George failed to see this inevitability. Yet his conclusions appear to assume the stagnation of total returns to capital.

Central to his argument was a belief that landowners were in an essentially monopoly position to syphon off a large part of the total benefit from capital. But the record tells another story. Over the years we have seen wide distribution of the fruits.

Capital as he saw it consisted of a combination of labor and land (the latter conceived as including all natural resources) -- "labor stored up in matter." Using this concept, he was in what might be said to have been the "mainstream" of mid-century economics, in this respect including Marx. Yet years before the end of his career George had access to writings which had carried the understanding of capital formation and of the nature of capital and interest farther than he seemed to grasp.

* One reason for such lack of understanding was the absence of statistics of the kind we take for granted. The availability of data today provides us with ability to measure and interpret our world to an extent never dreamed of in the nineteenth century.

Nor is he clear. Let me quote a paragraph: "Capital, therefore, does not limit industry ... the only limit to industry being the access to natural material. But capital may limit the form of industry and the productiveness of industry, by limiting the use of tools and the division of labor." I find this confusing. And when George says, "capital ... is not required for the payment of wages or the support of labor during production" his view of economic processes seems less than clear.

The amount of capital does impose limits.

Capital consists of more than labor and matter in their customary senses. There are also (1) abstinence and (2) waiting. True, the term abstinence can be a source of ridicule; some saving does occur without any apparent deprivation. And, as George notes, abstinence alone (if it leads to hoarding only) will not lead to payment of interest. But the fundamental concept has validity because capital formation requires that human beings abstain from some of the consumption their income will permit. They must save. But both the ability and the willingness to save are limited. Saving is scarce. So is the capital formation which it permits.

The resources made available by saving -- the portion of income not consumed -- can be used to make capital goods. The latter can be productive. By having the capital goods, more can be produced than without them.

Now we come to the second element which the argument overlooks -- waiting. For the capital to continue to exist -- not so much each item of capital good but the total stock of capital -- the suppliers of capital must continue to refrain from demanding the return of their savings to use in consumption. Waiting is as essential as the original abstinence. Human beings do both. (Sometimes, of course, they do so in groups, the chief example being corporations which retain some of their earnings rather than distributing all as dividends.) The action is human -- but not labor.

The productivity of capital goods makes it possible for the users of capital goods to pay the suppliers of capital for the services of abstinence and waiting. The productivity of capital also creates a willingness to pay interest or dividends for capital. Rising income for the suppliers of capital can accompany the rising income of labor. The accumulation of capital provides a key to the improvement of man's economic condition. George attaches much too little importance to the role of capital and its expansion. Space limits, however, prevent further discussion. Enough has been said, I believe, to indicate some of the inadequacies of George as an economist.

Yet his major proposal for action had -- and has -- much merit.

More aspects, beneficial ones, from the general policy we associate with Henry George could be cited. For the United States, Canada, and possibly other countries let me underscore a powerful reason for making property tax as good as possible. George would have had no occasion to see this point because it grows out of conditions which did not exist when he last wrote. There is direct connection between a productive property tax and the relative vitality of local government. Pressures come from various directions to reduce the strength of local decision-making and authority and to increase that of state and national government. Yet localities will continue to have roles of importance. Without lapsing into romantic praise for human beings as they operate their local governments, I believe that to a considerable extent we shall do better by supporting and utilizing the political process "close to home" as against more distant and centralized location of power.

To do so, to achieve effective local independence and authority, there must be control over sources of revenue. Taxes on site values provide the epitome of local independence. Taxes on other forms of real estate and on tangible personal property provide somewhat less true independence. Capital has mobility. Site values are extraordinarily appropriate as a base for financing local government.

Ethics and Natural Law

George's writings contain a powerful element of emotion. His concern with the goals of social policy as he sees them shines through. He sees things that are wrong. He believes that they should be corrected. And he had a proposal for doing so. He felt strongly and used these feelings to try to influence action.

"Natural law" appears frequently in George's writing. He cites it as authorization for what he advocates. But what lies at the base of his confidence that he knows what natural law would be as applied to contemporary conditions then? He proposes to take existing land values no matter how obtained with no compensation. He would defend such action as "just." Nature made this land. Slave-owners were not compensated.

This extreme position strikes me without justification even though ending of taxes on improvements would have brought benefits. True, the ramifications of the sweeping change he advocated differ only in degree from the more gradual and prospective program I have long favored. To distinguish them on the basis of principle may be impossible. Yet George's insensitivity to established positions seems to me indefensible on ethical grounds.

So far as I know, he never attempted to measure just how large the actual changes would have been. Untaxing improvements would have produced benefits. If total governmental expenditures and taxes were not changed by the shift, then for many taxpayers the net effect on asset worth would have been modest. But some large "wipeouts" and "windfalls" would have been likely.

Land is Different

What we offer to pay -- for shoes or a repair service or the loan of funds or for the myriads of other things we consume -- constitutes the inducement that brings out supply. Land as the product of nature, however, is different. The payment does not create the land; the payment is not needed to get the supply created in the normal sense. But payment does serve a useful purpose -- to allocate the limited supply more, rather than less, effectively.

The best results for users require that the payment provide incentive for making as good use as possible. The owner must have positive inducement. And pressure of tax payment -- a sort of negative inducement -- will work in the same direction. Private ownership of land if it includes an opportunity for the owner to benefit from finding a better use of his property can bring the community the advantages of effort, imagination, vision, and successful risk-taking. A site value tax will not be able to distinguish between active and passive ownership. But land prices can depend upon what the owner does or fails to do. Hope for capital gain can have positive influence as an incentive to get the most productive use of land. The general public can through taxation take a substantial fraction of the annual benefits collected from users -- but not all.

An alternative sometimes suggested is governmental ownership. The fruits of community growth would then all go to "the public." But on the basis of my reading of history and observation of politics-bureaucracy, I submit that in the absence of private ownership there would be less true progress (growth) in the management of land. As regards land "we" can get the advantages of private ownership as a force for the best use of resources while much of the yield goes to pay for governmental services.

My copies of PROGRESS AND POVERTY and THE SCIENCE OF POLITICAL ECONOMY contain no index references to what is today an important issue of "land." The omissions are readily understandable. I refer to minerals.

Where there is enormous difference between the market worth of a resource -- petroleum products -- and the cost of bringing some (discovered) supplies to the market, who "should" get the difference? The present inhabitants of the Middle East did not put the oil underground. By what right does the accident of their location accord them power to exact huge sums from the consumers of Europe, Asia, and other parts of the world? What would George with his hatred of monopoly write about OPEC?

Closer home and less striking, one may wonder about the relatively few residents of Alaska (and, I believe, one subgroup of Alaskans, the Indians) now able to exact tribute for petroleum products deposited millenia ago. Other cases could be ranged in a continuum blending into those for which any "economic surplus" is tiny. And the realities of experience include many cases of loss. What will induce risk-taking to get the new supplies we need? The prospect of a large benefit from the sale of a product of nature can provide incentive for undertaking risk.

History has many examples of "true believers" so wrapped up in a single mission as to overlook other values. The advocate, citing "right" and "justice" and high moral basis, holds a conviction that cannot recognize others. But other considerations also have ethical merit. Goerge's failure to enlist enough support to get his proposals adopted probably resulted in part from the extremity of his position. Landowners were naturally reluctant to see their wealth substantially reduced. Here there was, I believe, a serious weakness in both the advocacy of confiscation of property on more than a minor scale and the pragmatic strategy for getting acceptance of a program having enormous merit.

Conclusion

Great insights can have enduring value. The human experience amply underscores this conclusion. Henry George must be associated with such an insight even though he did not originate it.

But except as one may believe in the authority of revelation resting on the power of religion, critical re-examination will always be in order -- for two contrasting reasons. (1) Important extensions of an older truth, broadening applications into newer areas, deeper penetrations, such changes Ours is a world in which no sunrise will find conditions exactly like those the day before. (2) Some parts of doctrines once fully valid may have been made obsolete by changing conditions; or in the light of present knowledge portions once accepted may never have been correct.

In most respects that would seem relevant today, the economic analysis in Henry George's writings has long been superseded. But the major policy he advocated seems to me to deserve continuing and vigorous support.