AN ANALYSIS
OF
"THE SINGLE TAX"

(A Memorandum *By* Dr. Harley L. Lutz)

By Jos. S. Thompson

The memorandum, "The Single Tax" by Dr. Lutz, furnished to the Tax Committee of N.A.M., evinces such surprising prejudice and misconception that it invites a refutation by analysis.

It is regrettable that Dr. Lutz should look on the question of site rental as a personal quarrel with Henry George, a resentment which seems to be an emotional fixation on the part of many old-line economists. The memorandum is carelessly thrown together and laden with most unfortunate and astonishing acerbities and misstatements, some a contradiction of others.

In analyzing it, I quote Dr. Lutz in full in the parenthetical sentences for the convenience of the reader.

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(Dr. Lutz: There is no readily available critical discussion of the Single Tax doctrines of Henry George. Long ago, as I recall, one of Hart, Schaffner & Marx essays dealt with the subject, but it is long since out of print. I gave a short space to it in the earlier editions of my Public Finance, but finally eliminated all reference to the matter.)

To bring this into focus, let us replace the phrase, "The Single Tax Doctrines of Henry George," with "The Public Collection of Publicly Created Land Rental." Dr. Lutz says, "Rent is a social product, it is true," and the best reason why there is no readily available critical discussion is that Dr. Richard T. Ely and Dr. E. R. A. Seligman, possibly Dr. Lutz, and a host of others, have tried hard but have never been able to turn up a creditable refutation of the principle.

(Dr. Lutz: The George philosophy is more than a matter of taxation.)

The "George philosophy" is indeed more, but the principle of public collection of public revenue is distinctly a matter of taxation.

(Dr. Lutz: It is a utopian dream for the abolition of poverty, misery, and all other human ills by the one magic formula of the nationalization of all land.)

With regard to the public collection of publicly created income, the "George philosophy," far from being a utopian dream or magic formula, is a closely reasoned analysis of the source and basis of our economic evils. The public collection of land rental is infinitely greater than Henry George. Let us admit that Henry George wrote with deeper conviction and emotion than Adam Smith, John Stuart Mill, Herbert Spencer, Patrick Dove, Winston Churchill, Samuel Seabury, John C. Lincoln (of N.A.M.), or Lawson W. Purdy. The real point is, Has Dr. Lutz refuted his argument, supported as it is by the above authorities?

The horrendous bugaboo, "Nationalization of all the land," becomes very flat and tepid when you realize that if you fail to pay your taxes on your land (and on the improvements and contents), it revests to the state under the present laws.

If it is nationalizing the land to tax it, then we are nationalizing legitimate private earnings and the "tools of industry" (to quote the socialists) when we tax them today. The only way to stop the taxation of earned incomes is to tax land values.

(Dr. Lutz: Henry George made his own adaptation of the economic theorizing that had gone before, just as Marx, Rodbertus, and Engel did. The socialist version of the basic principle of distribution was that the capitalist was a monopolist who took everything from labor except a bare subsistence wage. Thus their formula for sharing the product was *Product Minus Profit Equals Wages.*)

Henry George made a monkey of Marx in analyzing that gem of fuzzy prejudice.

(Dr. Lutz: George selected the land owner as the villain, who squeezed both the workers and the capitalists. His distribution formula was *Product Minus Rent Equals Wages And Interest.*)

George did not "select" anyone as a "villain." He pointed out clearly that every achievement of human creativeness, management, and effort is private property and should remain in private hands exempt from taxation. He then pointed out that the progress of society increases the rental value of location (the land) and that this increment should be the public income. He was capable of distinguishing between "villainy" and stupid economics.

(Dr. Lutz: Thus, according to the socialists and to George, there is always a monopolist who is able, and inclined, to put the squeeze on the other economic factors of production. Neither formula was correct. It should be as follows: *Product Minus Wages And Interest Equals Profit.* In this version rent is expressible as interest on the capitalized value of the land.)

To associate George with the socialists seems like an attempt to discredit George. George did not share, he warmly combatted, the socialists' foggy illusion that those who save their money and put it to good use (capitalists) were in the same class with those to whom the law gives the privilege of collecting a public fund (landlords).

It is astonishing to find Dr. Lutz classifying rent as interest. He must know better. It is strange to have to tell Dr. Lutz that rent is the amount that a user will pay for the exclusive use of a location. It is the user who fixes the rent, as Dr. Lutz says himself a paragraph or so further on. If the user fixes the rent, what other basis is there for "the capitalized value of the land" except the rent? So one more equation or formula, if you like them, could be: *Rent Is The Interest On The Capitalized Value Of Itself!!* Manifestly, rent has to be offered or developed before it can be capitalized. How stupid, then, to say that the "capital" earns the rent as interest.

Now I will try my hand at this equation business:

Product Minus Land Rent (1) And Taxes (2) Leaves An Amount (3) Out Of Which Comes Wages, Interest, And (if Dr. Lutz wants to so describe the reward of risk, of good judgment, of good management, and good fortune in enterprise, extra compensation, higher than normally expectable interest and the like) *Profits.*

We Henry George "doctrinaires" would like to timidly suggest that to the degree that No. 1 was absorbed by the public and No. 2 were correspondingly abolished or reduced, No. 3 would be correspondingly improved. It's just a suggestion. It would be pleasant, too, to find that by so doing we had decreased the cost of production —which would be the case.

(Dr. Lutz: George assumed that the land owners fixed their rents, and, being, collectively, a monopoly as he saw it, they took plenty—in fact, all except a subsistence return for the works (?) and the owners of capital alike.)

Henry George assumed nothing. He knew, having carefully read Ricardo, that rent, as Dr. Lutz points out further on, "is fixed by the general demand and supply situation." And he didn't assume, because he knew as well as you and I do, that landlords would take all that the people needing land could offer. He called it the "higgling of the market."

(Dr. Lutz: This is a complete misconception of the source and nature of rent, as has been understood since Ricardo. Rent is a social product, it is true. It is the differential return that can be gotten from one piece of land over the return from some other piece. Even if there were a limitless supply of the most fertile land, the farms nearest the market could command a differential advantage over the farms farther away.)

True, this is a complete misconception. It is also a complete misconception to state that George "assumed" it. And if rent is a "social product," wouldn't it seem barely within the bounds of common sense to make it the social income, instead of fining industry?

And as manufacturers, let's not bother with "farms." Let's think in terms of locations that are valued at $10,000.00 per front foot. Let's think in terms of downtown business properties.

And let's supplant the terms, "farms" and "fertility," with the term, Desirable locations on which to transact business.

(DR. LUTZ: But it is not the landlord who determines the differential. That is fixed by the general supply and demand situation. True, the owner of a favorably situated parcel, or of a good farm, will take as rent all that he can get, but he does not really control the amount.)

Henry George knew this and said so many times. So it is acrimonious prejudice to say that "George selected the land owner as the villain."

(DR. LUTZ: The tax angle enters because George contended that if all economic rent were taken by the state, the tax load on wages and interest would be lightened by so much. I doubt if he was responsible for the idea that the total of rent would be sufficient to permit repeal of all other taxes. In any event, I do not recall that this particular point was stressed in Progress and Poverty. His emphasis was upon the lightening of other taxes.)

Don't we want the load on wages and interest lightened? George advocated the abolition of taxation on industry. Remember that eighty years ago, taxation had not mushroomed into the unbridled menace of today; yet George, even then, recognized that it was an unjust and improper means of replacing the true means of securing public revenue. He saw that the public has a right to collect what it creates: Economic rent. And that the public has no right to collect what individuals create: Their own earnings. Land rental has an economic limit, and while the question of adequacy was not stressed, it was somewhat taken for granted.

To question whether land rental would yield sufficient revenue is as foolish as to say, But if we arrest narcotic peddlers, would there be enough of them to fill our jails?

The sufficiency of the revenue is insignificant compared with the justice, logic, and practicality of collecting the value the public creates.

(Dr. Lutz: But the flaw in his logic was in failing to consider that the state would have to be as rapacious a landlord as he held land owners to be, in order to bring about this easing of other burdens. And according to his own formula, this rapacity has no limit short of a bare subsistence income for workers and capitalists.)

But the flaw in Dr. Lutz's logic shows glaringly in that he has just stated that rent is "fixed by the general supply and demand situation." So "rapacity" would appear to be incapable of manipulating it. That the state (the public) would collect the full rent is inexorably indicated by economic pressure, but the state would discontinue collecting the dishonest and disastrous tax burden on industry, service, and the home. This freeing of industry would increase land desirability and consequent rental values, but there would be only one power collecting public revenue where now two powers collect it, and there would be no penalty on its fullest use.

As to rapacity on the part of the government, it would be interesting to have Dr. Lutz compare the dangers of rapacity in collecting or nationalizing land rent with its ceiling fixed by the renter, and nationalizing, by taxation, the products of industry, its ceiling only being all that an industrious people can produce.

(Dr. Lutz: Henry George lived during the period in which there was a rapid growth of the large cities, following the development of sanitation and transportation that made such growth possible. He became obsessed with the idea that there was a grave social injustice in private land ownership. Again, he entirely overlooked the contribution which ownership made to the expenditures for improvement on the land, expenditures that would not have been made if the state had been the sole owner. At least, in order to stimulate them by individuals, such long-term leases would have been necessary as to have been, in effect, ownership.)

So do we live in such a period. Henry George did not become obsessed—(Obsess: To beset as an evil spirit or influence does; hence, to influence, as by a fixed idea, to an unreasonable degree). No one ever reasoned more clearly than Henry George. The animus toward him, on the part of many old-line economists, is probably based on their utter failure to refute him, which throws them back on the attempted expedient of contemptuous dismissal or of abuse.

It is Dr. Lutz who "entirely overlooks" the fact that (site, location) economic rental is one thing and "improvement on the land" is distinctly another. Improvements do not become part of site value, though the proximity of improvements and business activities enhances site desirability, and it is disheartening to see Dr. Lutz disregard an accepted economic fact. There would indeed be an analogy to long leases in the occupation of land parcels, and there are conspicuous examples where tremendous investments are confidently made on long lease sites. The one difference would be that periodically the land rental would be subject to adjustment, just as is now the case with ad valorem taxes.

(Dr. Lutz: While there have been some conspicuous instances of large fortunes based on land ownership, the experience of the last century is against this way to easy riches. At one time Harvard University engaged in buying parcels for some remote future use. As Bullock once put it, this was betting against compound interest, and the Board of Overseers presently discovered that it was not a profitable use of their available funds.)

Dr. Lutz should read Page 14 of Nation's Business, June '52. He would learn that the "conspicuous instances of large fortunes" still exist and continue to drain revenue from production, and that the "experience of the last century" is decidedly not "against this way to easy riches." In what cocoon has Dr. Lutz wrapped himself? And Bullock's quip sounds clever, but it really derides the business sagacity of the Board of Overseers, not the principle that site rental is public property.

(Dr. Lutz: Even if the tax angle were sound, it proves too much for comfort. Part of the value of Manhattan Island, as a chunk of land, is created by world trade, demand, and supply conditions. Hence, in the George theory, part of the economic rent would be apportioned to other countries if strict equity were to be observed.)

Dr. Lutz is here suggesting that the Patagonians and the Senegambians are part of the public. Well, if we find ourselves some day with a world government, they probably would be. But we can postpone that problem and remember that to the extent that other countries use the facilities of Manhattan Island, they would participate in facilities provided by the expenditure of public funds. Dr. Lutz should look up how much, now, Lord and Lady Astor "apportion to another country."

(Dr. Lutz: Because of the immense amount of capital funds that have gone into the improvements to land, it is now impossible to segregate, except arbitrarily, the return to capital from the pure economic rent of the land as such. Much of what is commonly called rent is actually interest on invested capital.)

This sentence reeks with misstatement. Capital funds go into improvements situated on land, not to land. It is certainly not impossible to segregate site value from improvement; it is done right now in New York and California and many other states. If Dr. Lutz will go back to his Adam Smith, he will re-learn that there is never any return to capital from economic rent. He will read that "Capital is wealth invested in the production of further wealth." One of the fuzziest fogs that prevents the grasping of this whole idea is the inability of people in general to distinguish between "room rent" and economic rent, but Dr. Lutz should attribute a little higher analytical ability to members of the Taxation Committee of the National Association of Manufacturers. Or, gentlemen, should he?

(Dr. Lutz: It is unnecessary to debate the adequacy of economic rent to cover the full requirements of modern budgets, even assuming that the government could make an exact determination of rent. The product of our economy results from the joint contributions of land, labor, capital, and management. Granted that government costs too much, it is still true that the proper way to cover this cost is by spreading the burden across the board instead of seeking to concentrate it on any one point.)

What we should be interested in is that it is necessary to collect land rental, not debate its adequacy. Since Dr. Lutz has just been shown to be so wrong on the ability of "government" to segregate or determine rent, no problem confronts us in "exact determination."

The product of our economy does not result from "contributions." It results from labor and capital applied to land. Hard work. Good tools. Dr. Lutz should know that "management" is labor. To say that land contributes is to suggest that the landlord, by supplying the location, is a contributor to our production. Dr. Lutz should and does know better. As to "spreading the burden across the board," if you will admit (and I would almost assume that you would by now) that site rental is public, and the reward of labor and capital is private, then what logic has this "across the board" phrase? Do you let other people collect your income while you "spread the burden" of your upkeep by borrowing, begging, and stealing? The government does. Does collecting your income mean "seeking to concentrate" on any one point? Would the public collection of the public income mean "seeking to concentrate"—or sound business sense? Does Dr. Lutz think that the charge for theater tickets is "seeking to concentrate" on theater-goers?

(DR. LUTZ: Finally, the major thesis and the major prophecy of Progress and Poverty have not been fulfilled. Like his communist predecessors, Marx and Engels, George forecast perpetual poverty for the masses as a result of the landlords' exactions. The communists made the same forecast as a result of private ownership of capital. History has upset both prophecies. The lot of the masses has steadily improved under private ownership of both land and capital. The places where this lot is still an unhappy one, with ever more dim prospects, are where there is the maximum of state ownership of the means of production, including both capital and land.)

George's major thesis was that the private collection of economic rent placed a burden on capital and labor. The burden rests on industry today, and while we may be able to afford it in money outlay, can we afford a creeping absorption of free enterprise by statism via the taxation and regulation route? Hadn't we better make the state the recipient of a tangible public revenue instead of the artificial, opinion-regulated, irresponsible, present forays on industry? As to the lot of the masses, it is grossly wrong to suggest that it is unhappy only where there is the maximum of state ownership. Their lot is surely unhappy in such states, but there are many others where the land is owned in tremendous area by private individuals, and often, as a result, the means of production (capital) is non-existent. There is utter misery in most of Asia, in Spain, in South America.

A thesis may break down, and prophecies are dangerous, but facts remain. Reference to Marx and Engels, two fuzzy old German doctrinaires, as George's "communist predecessors," would appear to be a move to discredit George. But Dr. Lutz, like his (chronological) communist predecessors, Marx and Engels, seems quite in accord with them in taxing industry. Marx urged the income tax, the inheritance tax, and the seizure of the tools of production by the state. A tax on the manufacturer's product is such a seizure. This Dr. Lutz favors.

It is unfortunate that a study of this vital subject should be degraded into a splenetic evidence of dislike of Henry George. The public collection of publicly created revenue is a subject that towers over any personalities. And it is this principle that should solely concern us.