

they are now compelled to pay to the money power a toll which continually increases until, through the exhaustion of exchange facilities and the overwhelming accumulation of debt, industry is brought to a halt.

359. **The Single Tax.**—The proposition to abolish all taxes save that on land, urged by various thinkers at various times, has been made the central idea of the so-called "single tax" propaganda, popularized by Henry George and formulated in his noteworthy work "Progress and Poverty." During George's lifetime this movement made rapid strides and gained many followers, but since his death its progress has been slow. This is no doubt due to the fact that the reasoning by which he seeks to prove that the measure which he proposes as a remedy for low wages is open to question. The main line of his thesis is sound and the faults of the present system of land tenure are clearly set forth; but at the same time the nature of both capital and interest is wholly misconceived. Nevertheless, the work of Henry George has borne good fruit. His presentation of the land tax doctrine has left an indelible impression on modern economic thought. In various countries, as in Australia and New Zealand, and in individual localities, as in parts of Germany and of British Columbia, some initial steps have been taken toward incorporating the tenets of the single tax into law. The effect of these measures on industrial conditions has, however, fallen far short of those benefits that must have accrued if the single tax were indeed a cure for poverty, as George and his followers have maintained.

The aim of the single tax proposition, briefly stated, is the absorption of the entire economic rent by the state through taxation, leaving to the owner of the land no portion of the rent as such, but only a due compensation for his services as agent in the process of collecting the rent for the government. All other taxes would then become superfluous and would consequently be abolished. It is proposed to start by taxing only the land and not the improvements thereon, and to gradually increase the tax until the value of the land disappears.

This measure is advocated on the ground that the value of

land is not due to any effort on part of the landowner, but arises from the growth of population and from the improvements made on the surrounding land. Land has not been produced by labor and, being the inheritance of all alike, it cannot rightfully become private property.

Henry George recognized that his proposed remedy would be of no avail if the landlord, on being called upon to pay a tax equal to the economic rent, could add this charge to the price of the produce of the land in case he cultivates it himself, or to the stipulated rent in case the land is let to a tenant. This author therefore reiterated Ricardo's demonstration that the imposition of this tax could not affect the value of the things produced on the land, nor could the landlord raise the rent on the tenant. The rent depends on the price of the produce and not *vice versa* (172). By the confiscation of the rent no burden is placed on the marginal producer, for he gains no rent and pays no tax, and the price of the product is determined by cost at the margin.

This proposition can be illustrated by the diagram Fig. 20. Let us single out the element q' , which is produced at a cost equal to $q's'$. By imposing a tax equal to $s'r'$ on the production of this element, the gross cost of its production rises to $q'r'$. Treating every element in the same way, the effect will be that the gross cost of all elements is equalized, and the price qa remains unaffected.

360. Ethical Status of Land Ownership.—That the economic rent of land should properly accrue to the community through taxation is confirmed by our investigation, although we reached the conclusion by a distinctly different line of reasoning. But the inference that, as a result of such taxation, the value of land would shrink to the vanishing point does not agree with our conclusion on the subject and is evidently derived from the erroneous assumption that land can have a market value only if it returns a continuous income, an assumption which is on a par with the unwarranted supposition, sometimes set forth, that money has a value only by reason of its power to command interest (65, 107).

In view of the fact that the author of "Progress and Pov-

erty" considers capital interest, as altogether right and proper, it was but natural that he believed the value of land would disappear through taxing it to the extent of the entire economic rent. According to his premises the proposed reform would be not only a confiscation of the rent, but of the value of the land as well. Recognizing that this outcome of the proposed measure has the appearance of injustice, especially to those landowners who acquired their title by purchase, he proceeds to justify his proposition as follows:

Beginning with the premise that land is not a product of labor, but a gift of the Creator to the entire community of mankind, he argues that land cannot, in the nature of things, rightfully become private property. Those who first obtained control of the land as private property virtually robbed the community of it. Applying the same rule as that which gives to the original owner of a stolen thing the right of recovery, even from an innocent purchaser, George concludes that depriving land of its market value through the appropriation of the economic rent by the community is but a restoration of the value of the land to the community and therefore not in conflict with justice.

But this is not a true parallel. The holders of land have not obtained their possessions by way of theft or robbery, but by preemption or by way of gift from the controlling power. In either case the ownership of land must be viewed as resulting through an agreement between the land holder and the state, taking the form of law. Whether the state exists in the form of an autocracy, an aristocracy or a democracy is here immaterial. That these agreements and the laws which define them have developed inequitable features, unforeseen at first, is no reason for proceeding, at a later date, to confiscate whatever value the land may have acquired. The fact remains that our ancestors, in their ignorance of what the future had in store, have permitted some individuals to acquire private ownership of land without imposing such conditions as alone would make such ownership equitable, and we are bound by their action, morally as well as legally. A bargain made in good faith, however unwise it may be, must stand; that it

subsequently is found to have been ill advised affords no right to repudiate it. All that may reasonably be done is to allow the landowners to keep the value that has legally become theirs and to take such measures as will for the future deprive land ownership of its present power to bring unearned incomes to the owners.

We have already observed that Henry George considered the interest-bearing power of capital as natural and just. For this reason he did not realize that the absorption of the entire rent through taxation can be brought about by a reform of the currency, and this without the elimination of the value of land (328).

361. Henry George's Theory of Business Fluctuation.—

Convinced that the existing system of private land ownership is the prime cause of all the greater evils that afflict the social organism, it was but natural that Henry George should have proposed the single tax as a cure for business depression and as a means for raising wages to the highest possible level. He therefore felt impelled to trace business depressions to the present system of land tenure, and here follows in brief what he says on this subject:

As a rule, the current value of land is in excess of what can be accounted for by the present capacity of the land for returning rent. This excess is the speculative value which is due to the expectation of a future increase of its rent (183), an expectation based on general experience. In anticipation of this future development, land which is not yet within the margin of cultivation is appropriated and held for the rise.

As population increases, the man who sets out in search for the margin must therefore pass for long distances through half-tilled farms before he reaches a point where land can be had free of rent. When he settles, he will in turn take up land, and those who follow are forced farther on, carrying the margin of cultivation to still more remote points. Through these speculative appropriations the margin is pushed out and the rent thus increased, crowding down wages and interest to a point below which labor cannot exist nor capital be maintained. Production, therefore, begins to stop and the paralysis is com-

municated through all the interlacings of industry and commerce.

The period of depression thus ensuing will continue until either (1) the speculative advance in rent has been lost; or (2) the increase in the efficiency of labor, owing to progress of improvement, has enabled the normal rent line to overtake the speculative rent line; or (3) labor and capital become reconciled to smaller returns. The rent will begin to advance again, a speculative advance will again take place, production will be checked, and the same round be gone over.¹⁰⁷

362. **Analysis of This Theory.**—This explanation of business fluctuation is based upon premises which cannot be sustained. The assertion that land is deliberately held out of use by the landowner while he is waiting for a rise is not generally true. The display of human nature as here presented is unnatural and unreal.

There can be no question but that it is the desire for acquiring wealth which impels the acquisition of land by those who do not purpose using it themselves. In view of the fact that land yields gains in two ways, namely through *rent* and through *increase of its value*, it would obviously be to the interest of landowners to make both sources of gain available. But in George's theory it is assumed that the average landowner will neglect getting the *rent*, while his heart is set on getting the *increment*. This assumption is manifestly not tenable as a basis of economic theory. It is not necessary to hold land out of use for the purpose of gaining the unearned increment; nor will this increment become greater by allowing the land to lie idle. The landowner has in fact no inducement to hold the land out of use; on the contrary, he has every reason for putting it to the best possible use under the circumstances, so as to obtain *the rent in addition to the increment*. Even though land has been appropriated, it is not for that reason held idle, but is generally obtainable for use in return for the economic rent, that is, in return for a rent which the highest bidder is willing to pay. Nor could these terms of

¹⁰⁷ Cf. George, pp. 184 ff.

occupancy be improved by enacting the single tax proposition into law, for land could not be obtained for use on more favorable terms under that system.

In all these considerations we can deal only with general tendencies, to which, in the nature of things, exceptions constantly occur. These exceptions afforded Henry George occasion copiously to illustrate his thesis. But the comparatively few instances of land being held out of use for speculative reasons are far outnumbered by the many in which the land-owners strive to put their holdings to the best possible use, either through their own efforts or through leasing it to others. It is therefore illogical to conclude, as he does, that the speculative holding of land has a tendency to remove the margin of used land beyond the normal rent line. That there is always some unused land within the margin and some used land beyond is inevitable in the course of things. But the average condition is not affected by such instances, which are comparable to the crests and troughs of the waves in a storm-tossed sea. There are rises and falls on the surface of the water, but its average level is not affected by the storm.

Where large tracts of land are used as private preserves, the conclusion that the actual margin is thereby pushed out is undoubtedly correct. But such abstraction of land from economic use is not due to speculation, and it is safe to say that it occurs mainly where the owner derives unearned income from other land rented to tenants, or from capital in some other form. Such abstraction of land will therefore come to an end when capital loses its power to command an unearned income.

It often happens that in the midst of highly cultivated surroundings or in central locations of cities some plots of land are put to a less advantageous use than the situation would warrant, and it appears that Henry George, observing such cases and thinking that they confirmed his theory, attributed them to sheer speculation on the part of the owners. An illustration will suffice to show that such cases are unavoidable in the normal course of events, especially in rapidly progressing communities.

Let us imagine a block of buildings near the centre of a growing city, buildings which were erected when the city was yet but a town and which are little more than shanties. The growth of population calls for better and more commodious buildings, and such are growing up in the new sections of the city. Many smaller houses in the old parts of the town are still in use, and for the time it pays better to build new residences on the outlying empty lots than to demolish the older dwellings nearer the centre and replace them by more modern structures. Meantime the business centre of the city expands. In some streets stores appear with attractive show windows. In other quarters factories spring up. Here large office buildings arise, and there theatres or bank buildings make their appearance.

Returning to our block of antiquated buildings, we find their owner observing the changes going on in all directions. He also desires to improve his lots, but how? He may be ready to meet any real demand for improvements, but who knows whether the location, in the midst of progressive changes, will warrant the erection of dwellings, or of stores, or of factories? A mistake of judgment in this respect might entail a loss far exceeding the loss of rent while waiting for development. Thus the old buildings remain standing in and about the centre section of the city for an indefinite space of time, only to give way finally to buildings which will put the various sites to their most economic use.

There is every reason to suppose that similar conditions would prevail under any proposed application of the single tax principle. The assumption that land which is not put to its most economic use is being deliberately held down by the owner in calm anticipation of the unearned increment is largely a figment of the imagination, and while there are indeed here and there exceptional instances of such holdings, these exceptions are too insignificant to make the explanation of business stagnation offered by Henry George at all reasonable.

363. Discrepancy between that Theory and Facts.—The inadequacy of the theory on which business depressions are

traced to the private ownership of land is further apparent from the discrepancy between the theory and the facts. If it were true that it is the holding of land out of use that hampers business, then periods of depression would be marked by the impossibility of obtaining raw material in sufficient quantity to meet the demand. We know, however, that this is not the case.

While Henry George realizes that—

All trade is the exchange of commodities for commodities, and hence the cessation of demand for some commodities, which marks the depression of trade, is really a cessation of the supply of other commodities.¹⁰⁸

he fails to point out any commodity of which, as he says, the supply has ceased. Surely, there are no facts to indicate that the supply of products obtained directly from land is insufficient during periods of industrial depression. On the contrary, as noted above, there is no scarcity of raw products generally during such periods. If there were such scarcity, the excessive demand would *at once* drive up the prices of these raw products, stimulate the cultivation of land and increase rent. Landowners would eagerly put their land to profitable use, and stagnation could not drag on for years, as it does. Obviously, the theory does not agree with the facts of the case.

Suppose the water supply in some one quarter of a town is deficient. An expert, seeking to locate and correct the trouble, examines the pressure of water at a number of accessible points in the locality and finds the water pressure high at one point and low at the next. He therefore naturally concludes that the conduit is choked somewhere between. Let us apply this test to trade stagnation. In the hands of the manufacturers and merchants we find the supply of goods congested to such a degree that the condition is generally designated as "over-production." They all want to sell. The obstruction which we are to locate is not to be looked for at an earlier point in the process of production. It must be at a point beyond.

¹⁰⁸ George, p. 193.

On the other hand, the consumers, particularly the workmen, are in need because they cannot buy. There are too many sellers and too few buyers. On the one side of the point of sale we find congestion or excessive accumulation; on the other side we find deficiency and want. Evidently, the obstruction lies somewhere between; the impediment is in the channels of exchange. The commodity, in the supply of which a "cessation" has occurred, is not, as Henry George supposed, the produce of land, but something very different, namely the medium of exchange. And so long as the law puts arbitrary limitations on the use of assured credit as a medium of exchange, the under-supply cannot be remedied, and numbers of workmen must remain unemployed.

364. Single Tax not a Remedy.—While the fundamental object of the single tax, namely the acquisition of the economic rent by the community instead of by the individual landowner, is justifiable in every respect, the measure would be practically useless as a means of correcting the most serious of our industrial ills. The power of money to acquire unearned wealth, the power without which land ownership could not afford unearned acquisitions, would still remain in force. Experience shows plainly that the landowner as well as the producer is subject to the dominance of this power. Business enterprises, especially those of large magnitude, fall gradually under the control, not of the owners of land, but of so-called "financiers," manipulators of money and monetized credit (338). If the tax on land were to replace all other taxes, and the ideal of the advocates of the single tax were realized, it would soon become apparent that the economic evils from which we are suffering had not thereby been cured, and that the working classes had not been benefited. Another reform would still be needed, namely that of doing away with the existing obstacles in the process of exchange (329). On the other hand, were these obstacles first overcome, the landowners would find themselves unable, under the dominance of competition, to retain any portion of the economic rent (328), and the aim of the single tax would thus be incidentally attained.