NINTH CONCURRENT CONFERENCE SESSION

PAST, PRESENT AND FUTURE INFLUENCES ON TAX POLICY

WEDNESDAY, OCTOBER 31, 1979, 2:00 P.M.

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PROGRESS AND POVERTY: ONE HUNDRED YEARS LATER

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In 1979, one full century after the first publication of *Progress and Poverty*, direct evidence of the influence of Henry George's ideas on tax policy is difficult to discover. With relatively few exceptions, American governments today do not depend on taxes which focus on the site value of land or even on the value of land apart from its improvements. Such a measure of the influence of Henry George may, however, be rather too narrow and restrictive. His ideas, including not only his single-tax proposals but also his treatment of the problem of monopoly, may have had an impact on tax policy that cannot be captured by a simple logging of the instances of extensive reliance on site value taxation. There was, over a long period of time, especially between the appearance of *Progress and Poverty* and World War I, an infusion of George's ideas into the discussion of social choice. Historians have often observed the influence of George on the intellectual development of the "progressive" generation. This influence may have shifted tax policy in ways which are now obscure but which a historical assessment of George's impact can elucidate.[1]

The story of the influence of the single-tax concept can move quickly from 1879 into the twentieth century. During the period between 1879 and George's death in 1897, his appeal rested not so much upon the single-tax but upon what Charles Barker, Stuart Bruchey, and others have described as his ethical message.[2] This was the injunction that society should not deny people the fruits of their labor and should instead, contrary to the fatalistic prescriptions of Herbert Spencer, invoke intelligence to adapt the social organism to natural laws. Further, much of the early interest in George's economics was superficial, stemming from sympathy with the assault which George had launched on the British in Ireland. In New York, the popularity of his pamphlet, *The Irish Land Question*, published in 1880, actually preceeded that of *Progress and Poverty*. George's ethical message had a decided impact on the labor movement in the late nineteenth-century, but single-tax reformers within the labor movement achieved no control over the political process of taxation. If George exercised any direct influence on taxation during this early period, it was through the enthusiasm he helped generate for free trade and the support he lent to President Grover Cleveland's anti-protectionist tariff policies.

Only when a broad, middle-class movement to reform the general property tax gathered force in the 1890's did the concept of single-taxation begin to exercise any serious influence on tax policy. The main lines of this reform movement were (1) the adoption of regularized, professionalized assessment procedures based on an effort to determine the market value of assessed property; (2) classification both formal and informal of property according to ease of assessment—a process which included the elimination of most personal property, especially "intangibles" from the tax rolls; and (3) the exodus of states from the use of property taxation.

The single-tax movement reinforced in a positive fashion all of these lines of reform. In a wide range of urban areas, particularly in New York, Ohio, and California, tax professionals, whose influence on the shape of tax legislation and administration was growing, had, during the 1880s and 1890s, received a strong dose of Henry George in their regimen of economics education. Prominent among them was Lawson Purdy, president of New York City's Commissioners of Taxes and Assessments and one of the founders of the New York Tax Reform Association and the National Tax Association itself.[3] He was deeply committed in principle to single taxation and in practice to what was known as the "single tax, limited"—a tax on the site value of land as the major but not the sole source of local revenue. Assisted by like-minded associates, Purdy lent direction to a wide range of modifications of New York City's property tax system. These reforms included the fuller description of real estate through the use of tax maps, the separate listing of the valuations assigned to land, the clarification of the boundary between real and personal property, the gradual elimination of personal property from local taxation, and the equalization of local property assessments for county and state taxation. Moreover, in his administrative career, Purdy systematized assessment procedures, augmented the use of rental data, and enhanced the treatment of obsolescence in the valuation of buildings. All such efforts contributed to the accurate valuation of land and, as such, found support among both single-taxers and proponents of taxation of land's full capital value. In the process of cooperation, experts like Purdy earned the respect of and influenced even vigorous opponents of single taxation such as New York's Edwin R. A. Seligman. In 1915, when single-tax pressures were greatest in New York City, Seligman, despite his primary objective of defeating single-tax measures, achieved the appointment of Purdy to his powerful committee advising the Mayor on tax alternatives. He confided privately that opponents of single taxation "must be careful about him" but that he supported his appointment because "I think so highly of his critical ability."[4]

The pattern of cooperation between single taxers and defenders of the traditional real-estate tax was not limited to New York City. It was common within almost all large cities, especially in states whose constitutions permitted local government the flexibility required for the fuller taxation of land values. In its early years, the National Tax Association fostered such cooperation with a leadership that contained a significant contingent of single-taxers and became united in support of the modernization of real estate assessment.

The reform of the general property tax, however, might well have come to fruition even without the involvement of single-tax champions. The public's attachment to the principle of the taxation of the full value of *all* assets remained strong. Widespread demand for reform of the general property tax resulted not from loss of enthusiasm for its objectives (or from attacks by single-taxers) but from the high costs of its effective administration in an industrial democracy. The property tax, even when limited to real estate, continued to attract wide support because of the characteristics of the tax which had lent it high standing since the early days of the republic: its responsiveness to democratic control, its broad base (given the relatively wide diffusion of real property), and its effectiveness in generating opposition to public spending. Beginning in the late nineteenth-century, supporters of property taxation looked for ways to enhance the revenue capacity of the tax and to reduce taxpayer resistance. They settled on the intensified and rationalized taxation of real estate that has persisted as the core of local taxation to the present day. Almost certainly, property tax reformers would have implemented this solution, although, ironically, not so effectively, without the support of those marching under the flag of Henry George. To the extent that single-taxers reinforced the reform of general property taxation by lending their technical expertise, they contributed to the longevity of the taxation of the full capital value of real estate.

Single-tax advocates like Lawson Purdy found that the day-to-day push and pull of municipal bureaucracy conditioned them to accept existing political conditions and to embrace the appropriateness of a very gradual process of movement toward single taxation. Others, however, especially those from more rural states and those less closely associated with the governmental bureaucracy emerging before World War I, were less patient. Stimulated by the financial incentives provided by Joseph Fels, they attempted to accelerate the pace of change, especially through constitutional initiatives permitting classification of property and local option in property taxation. They were convinced that if they could revise constitutions to allow classification and local option, the competitive economic advantage communities would gain by adopting site-value taxation would promote the rapid diffusion of single-tax policy.[5]

The resulting campaigns, waged with considerable heat in a number of states, largely between 1910 and 1914, yielded the nation's most intense debate over the worth of Henry George's policy prescriptions. The political verdict was, however, disappointing to the single taxers. With the exception of a local-option victory in Oregon in 1910, which was reversed in 1912, none of the measures supported by the single-tax campaigners won public acceptance. Moreover, the campaigns often seemed to impede, in the states in which they were waged, efforts to improve the efficiency of real-estate taxation. In rural districts, the single-taxers met farmers whose tax burdens had declined significantly since the 1890s and who feared, as a consequence of single taxation, a return to the depression conditions of that decade and even confiscation of private property. This latter brush tarred not only the single-taxers but all experts, particularly University economists, who supported a more rational assessment process. After the Missouri single-tax referendum of 1912, one disheartened economist at the University of Missouri who opposed the referendum reported "angry farmers demanding the resignation of professors preaching the confiscation of private property."[6] In these initiative campaigns, the farm vote consistently overwhelmed an urban vote that was often favorable. Going down to defeat were not only obvious single-tax proposals but also constitutional amendments permitting classification of property and separation of state and local revenues. In Missouri in 1913, Allyn A. Young, a proponent of the effective taxation of real estate at its full value, complained that "the single tax campaign has indefinitely postponed the possibility of scientific tax reform in this state."[7]

The work of the single-taxers both inside and outside the tax bureaucracy had another unintended, ironic impact on the course of tax reform. It stimulated an intensified search for alternatives to property taxation, particularly income taxation and the special taxation of corporations. In particular, advocates of special low-rate taxation of intangible property, worrying that they might inadvertently turn classification into the opening wedge for single taxation, abandoned this approach in favor of new taxes. In New York City, for example, Alfred E. Holcomb, a founder of the National Tax Association, one of the leading exponents of classified property taxation, and a bitter opponent of site value taxation, embraced a proposal for state income taxation when he became convinced that its adoption was the only means of defeating the single-taxers' effort to exempt improvements from taxation. In a similar fashion, Charles A. Bullock in Massachusetts, a supporter of classification and an opponent of single taxation, became an advocate for state income taxation and special corporate taxes. Holcomb, Bullock, and others, like Edwin Seligman, had rather stern reservations about state income taxation but dropped them in large part because of their fear of single taxation.[8]

The movement toward income taxation, especially at the federal level, received indirect support from the single-tax movement in two other ways. First, some nationally-prominent single-taxers, like Louis Post (Assistant Secretary of Labor in Woodrow Wilson's administration), lent their support to income taxation as a means of providing new federal revenues and, thus, speeding the progress of free trade.[9] Second, and more importantly, the single-tax movement promoted, indirectly and inadvertently, doctrines that helped advance the income tax movement. The possible redistributional effects of the single-tax aroused widespread concern, given the uncertainty of the effects, the wide distribution of land ownership, and the centrality of land ownership in American culture. But, the essential justification for the single tax in fact squared with an interpretation of income taxation that emphasized redistribution and that shaped the early experiments with the tax. The idea was that income taxation, particularly when applied to corporate income, would tax, almost exclusively, the returns from the exercise of monopoly power. Behind this interpretation was the assumption that profits were unearned and composed of economic rent. Thus, George's example of land monopolists receiving an unearned increment lent support to those who argued that income taxation would tax away the tribute of all monopolists. Even in Wisconsin, where the strength of agricultural interests in the progressive movement ruled out a strong single-tax movement, the anti-monopoly ideas of single-taxers contributed to the adoption of high rates of corporate taxation in the state's 1911 income tax law. With the passage of Wisconsin's model law and the ratification of the federal income tax amendment in 1913, the income tax had clearly supplanted the single-tax as the most popular vehicle for redistributional taxation.[10]

The fact that the single-tax movement reached its zenith only in the years before World War I, a full generation after the appearance of *Progress and Poverty,* is explained not only by the association of the movement with other efforts to reform property taxation but also by the coming to of maturity of a general critique of the role of monopoly in American life. It is no coincidence that the years, 1912–1913, in which the single-taxers reached their widest audience also marked the high-water of anti-monopolist progressivism—the progressivism expressed in Woodrow Wilson's New Freedom. Like the single tax, Wilson's program aimed to curb monopoly power, to return America to a condition more closely resembling agrarians, pre-industrial ideals. It is important to understand the significance of anti-monopoly enthusiasms, especially in the years before World War I, to the popularity of the single-tax in order to comprehend why the single-tax movement declined so precipitously during and after World War I.

Whatever appeal the single tax had before the war evaporated largely because Wilsonian anti-monopolist thought did not survive World War I, with its close association of corporate power and progressive government. Victorious during World War I and the 1920's was New Nationalism of Theodore Roosevelt and Herbert Croly, which accepted the modern corporation as a necessary and desirable element of modern life but sought to subject corporate behavior to government regulation that, at least in theory, represented the public interest. Henceforth, those for whom Henry George's political economy had provided a philosophic and moral base were faced with an impossible choice: either accepting the modern regulatory state or urging movement toward the embrace of collectivist solutions more extreme than socialization of the unearned increment. These seemed the only practical choices. George, however, had scorned both, predicting the capture of regulatory state by monopoly interests and valuing a genuinely competitive marketplace. Before World War I, the appeal of the single-tax system to many progressives had been its promise to steer between regulation and socialism. Once the nation was firmly committed to the regulatory state—a commitment clearly established during World War I, George's social message could no longer serve to fuel a single-tax movement. However, the irony of *Progress and Poverty* itself undermining the single-tax movement appears again. There is no doubt that the anti-monopoly component of George's analysis and his ethics reinforced the earlier growth of public responsibilities that formed the foundation for the modern state.

After World War I, supporters of the single-tax faced not only a sentiment in the nation that George's political economy had become irrelevant but also the problem that the old objections to the tax had gained even more appeal. Most important, as the revenue needs of the public sector increased through the New Deal and into the post-war era, reliance on the site-value tax as a central instrument for revenue, even on the local level, appeared increasingly unrealistic. This was so not simply because of the dramatic growth in the scale of government relative to national product. It was also because of the introduction of technological changes—including the automobile, the telephone, and the electrification of the factory, that promoted suburbanization and consequently reduced the share of property value accounted for by land, especially in the nation's metropolitan areas.[11] These structural changes in economic life had several ramifications. First, declining in the 1920's was the pressure for site-value taxation by those who had been preoccupied with urban congestion and the high price of land. Second, with suburbanization in the 1920's came the proliferation of real estate, banking, and agricultural interests focused on the urban fringe and stringently opposed to heavier taxation of land. Third, the revenue demands to meet the needs of the new suburban population (for education and highways, in particular) grew far more rapidly than site value. By the 1920's, it became clear that in financing their huge new investments in social overhead local and state governments paralleled the efforts of large corporations to develop steady, predictable flows of resources through their organizations. This strategic objective led local and state governments to rely upon taxes that had a proven revenue potential, reinforcing them in an incremental fashion to enhance their productivity, and to eschew experiments, especially with redistributional measures that had uncertain revenue capacity. (Such conservatism impeded the adoption of even income taxation. The income tax, advertised before World War I as primarily redistributional in its character and seemingly plagued by administrative flaws, made no great headway at the state and local level until after World War II. It is not surprising, then, that even the "single tax, limited" failed to gain support.) Finally, the agricultural depression of the 1920's and 1930's augmented rural resistance to taxation of land values at fixed rates—a resistance that was effective because of the distribution of power in state legislatures and because of continuing restriction of local tax options by state constitutions.

Thus, after World War I, the single-tax movement became a casualty of those long-term forces, political and economic, which fueled the accelerating growth of the public sector. The process of public-sector growth, which involved the development of a bureaucracy of tax officials with a stake in complex, multi-faceted revenue systems, involved the assumption that taxation's prime function was to provide maximum revenue expansion with a minimum of political resistance.[12] The leaders of the single-tax movement, however, had stressed the redistributional, rather than the revenue-getting quality of the tax, thereby blunting whatever appeal the single tax might have had to the interest groups which sought new or augmented public services.

In the 1970's, more than fifty years later, site-value taxation has again surfaced to receive favorable notices, perhaps in part because of growing skepticism of the size and character of the public sector.[13] The positive incentive effects of site-value taxation on investment are emphasized and the concerns about revenue loss are waning. (Perhaps we are now in better position to read *Progress and Poverty* objectively, recognizing its emphasis on the competitive marketplace, than were students in the late nineteenth-century.[14]) The same conservative mood of the nation has encouraged the tax revolts represented by Proposition 13. What is fascinating is that the option of land-value taxation is discussed so rarely in connection with these revolts. Such land-value taxation seems uniquely suited to their central purposes, at least in principle, of upholding capitalist virtue and of rolling back the public sector. Perhaps the explanation is, in part, that just as during the movement to reform the general property tax, those who led efforts to reform property taxes are among those *least* interested in resting the property tax squarely on the site value of land. Perhaps, too, it is simply that, more than fifty years after the peak of single-tax enthusiasm, the issue of site value taxation lacks, despite the "new conservative" movement, the ideological exictement to occupy a central place in popular discourse over taxation. However, this lack of visibility may be a virtue, allowing incremental changes toward site value taxation to take place without the counter-productive controversy which before World War I diverted the single-tax movement into a debate over whether the single tax threatened the integrity of private property. Indeed, because of this lack of visibility, it might be that if the current tax-limitation movement founders on the rocks of bureaucratic power, the movement toward site-value taxation could assume salience for those who wish to reduce the deleterious impact of the public sector on economic productivity.

Footnotes

[1] For historians who have suggested George's influence on progressives, see for example, Ransom E. Noble, "Henry George and the Progressive Movement," *The American Journal of Economics and Sociology*, 8 (April, 1949), pp. 259–70 and Otis L. Graham, Jr., *An Encore for Reform, The Old Progressives and the New Deal* (New York, 1967), especially pp. 76–77. However, historians of taxation who have surveyed large segments of American tax development have tended to discount George's impact on tax policy. See, for example, Sidney Ratner, *American Taxation, Its History as a Social Force in Democracy* (New York, 1942); Edwin R. A. Seligman, *The Income Tax* (New York, 1914); Paul Studenski and Herman E. Krooss, *Financial History of the United States* (New York, 1952); and C. K. Yearley, *The Money Machines: The Breakdown and Reform of Governmental and Party Finance in the North, 1860–1920* (Albany, N.Y., 1970).

[2] Charles A. Barker, *Henry George* (New York, 1955) and Stuart Bruchey, "The Twice 'Forgotten Man: Henry George," *The American Journal of Economics and Sociology*, 31 (April, 1972), pp. 113–138.

[3] See, especially, Philip H. Cornick, "Lawson Purdy's Career in Property Tax Reform," *The American Journal of Economics and Sociology*, 9 (January, 1947), pp. 7–24.

[4] Edwin R. A. Seligman to Robert E. Simon, August 14, 1915. Seligman Papers, Butler Library, Columbia University.

[5] On the campaigns of 1910–1914, see Arthur P. Dudden, *Joseph Fels and the Single-Tax Movement* (Philadelphia, 1971), pp. 199 ff. and Arthur N. Young, *The Single Tax Movement in the United States* (Princeton, 1916), pp. 163 ff.

[6] Charles P. Huse to Charles J. Bullock, March 18, 1913. Bullock Papers, Harvard University Archives, Harvard University.

[7] Allyn A. Young to Charles J. Bullock, March 27, 1913. Bullock Papers.

[8] Alfred E. Holcomb to Edwin R. A. Seligman, September 9, 1915, Seligman Papers; Charles J. Bullock, "A Classified Property Tax," *Proceedings of the National Tax Association*, 3 (1909), pp. 95–105; Charles J. Bullock, Testimony before Committee on Taxation, New York City, March 12, 1915, and Seligman to Holcomb, September 7, 1915, Seligman Papers.

[9] Dominic Candeloro, "From the Narrow Single Tax to Broad Progressivism: The Intellectual Development of Louis F. Post, 1898–1913," *The American Journal of Economics and Sociology*, 37 (July, 1978), pp. 325–336.

[10] On the Wisconsin income tax, see W. Elliot Brownlee, "Income Taxation and the Political Economy of Wisconsin, 1890–1930," *Wisconsin Magazine of History*, 59 (Summer, 1976), pp. 229–324.

[11] Suggestive of the relative rise in site value in metropolitan areas before those technical shifts is Alan D. Anderson, *The Origin and Resolution of an Urban Crisis: Baltimore, 1890–1930* (Baltimore, 1977).

[12] On the role of this bureaucracy, see W. Elliot Brownlee, "The Transformation of the Tax System and the Experts, 1870–1930," *National Tax Journal*, 32 (June, 1979), pp. 47–54.

[13] See, for example, Ronald B. Welch, "Property Tax Developments: Modernization, Classification, Site Value Taxation," *National Tax Journal*, 29 (September, 1976), pp. 322–327.

[14] For the classic discussion of this dimension of *Progress and Poverty*, see Albert Jay Nock, *Henry George* (New York, 1939).