Herbert Davenport on the Single Tax: A Second Look

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ABSTRACT. Despite a recent claim to the contrary, Herbert J. Davenport was firmly against the Henry George proposal to try to raise all public funds from a tax on land. This is evidenced by two papers he wrote on the subject. Davenport argued that the single tax on land would prompt the inefficient use of substitutes for land, that it would tend to destroy the base upon which the tax was levied, and that it would offend our sense of justice, or the equal treatment principle. The most important and effective of his arguments appears to be the first. It was, more specifically, that in the event of a land tax, individuals would economize on land. They would farm more intensively, they would construct higher buildings, and they would exploit potential underground living space. This paper describes Davenport's arguments and shows why they have been misinterpreted in the past as supporting Henry George's tax theory.

I

Introduction

HERBERT J. DAVENPORT (1861–1931) was one of the most active professional economists of the first two decades of this century of American economics. In 1920, he was elected president of the American Economic Association. Elsewhere I have detailed Davenport's contribution to the theory of value and cost and to capital theory (Gunning 1997a; 1997b). He also had an interest in public finance especially tax incidence theory, war finance, and the shifting of the tax burdens between generations (Davenport 1910; 1911; 1914; 1919; 1921). He wrote two papers specifically on the single tax proposal derived from Henry George's work (Davenport 1910; 1917). This paper is intended to describe his view of the proposal.

Despite a number of complimentary statements on the aims sought by

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the single taxers, Davenport was firmly opposed to the single tax plan because he did not believe it would work and if it did, it would be both unjust and distortionary. This is best illustrated on the last page of his second paper on the subject:

> No ordinary tax is bad or good unless as part of a system. . . Ideally all ordinary incomes, property or other, should participate in contributing to the public revenue—but as incomes, not as property bases of incomes. Nothing can be more unwise than the relative freedom of personal property [i.e., non-land] incomes from public burdens. The personal property tax should disappear only with the disappearance of the property tax in general (Davenport, 1917: 30).

In other words, a property tax, including a tax on land, should be no different from any other tax on income. The idea that taxes should consist totally of a single tax on land is entirely inconsistent with Davenport's conclusion. One basis for his conclusion is the principle of tax neutrality, or minimum sacrifice.

> There is no such thing as justice between properties; but it is nevertheless important that investments be by taxation so equally affected in their incomes that the distribution of investment shall not by fiscal policies be fostered in some directions and impeded in others—unless, of course, it be for specific reasons desirable to discourage certain lines of investment. (Davenport: 27–8).

The purpose of this paper is to present Davenport's critique in greater detail and to assess Aaron Fuller's 1989 claim that Davenport was not a "theoretical critic" of Henry George. The paper begins by showing why one might regard Davenport as being sympathetic to the single-tax program, then it describes Davenport's criticism of the single-tax proposals. Finally, it argues that Fuller misinterpreted Davenport's meaning.

II

The Inheritance Tax and Subjective Capital

A casual reader of Davenport's works is likely to come away with the belief that Davenport had a great deal of affinity with the single-tax proposal. A prime example is Davenport's scathing attack on professional economics that ended his 1914 magnum opus. He asserted that the prevailing tendency among most economists to confuse private wealth with social wealth led them to promote policies that, in effect, justified predation and privilege.[1] Davenport estimated that roughly half to two-thirds of the wealth in the United States consisted of capitalized predation and privilege (1914:

519–21). It follows, he argued, that there are grounds for trying to conceive of government action to rectify the injustices of the past. His meager offering, however, was an inheritance tax (*ibid.*: 528; 1911: 331).

His argument for an inheritance tax was based partly on his analysis of three "different cases of property income iniquitous in origin and productive of innumerable abominations": (1) capitalized bounty of nature (cases "where rent is collected upon a really productive item of property; where, therefore, the only question is as to the right of receipt of the income"), (2) capitalized privilege (as in the case of a toll road or railroad franchise), and (3) capitalized predation (various legalized extortion rackets and burglary, for example) (*ibid.*: 526–7; 1911: 330–331). Referring to the high amount of income that supports these capitalizations, Davenport thought of the single taxer. He said that "[t]he single taxer is thus fundamentally right in his declaration that public revenue should be derived so far as is possible from the social estates," that is, from incomes not due to individual effort in the production of social service. Yet, instead of taxing these sources of unearned gains, the current tax system taxes consumption. "Wages that are inadequate at the best buy still less through the consumption taxes to which these wages are subjected (1914: 527). He went on to say that if "we" cannot or will not tax or appropriate (1) vested rights in land wealth, (2) franchise rents, and (3) the collection of tribute, then "we might at least experiment awhile with serious inheritance taxes."

Note that in this discussion that he says that he agrees with the *normative* judgment of the single taxer. However, he says nothing about the practicality of the plan to tax land or land rents. It will be shown below why this is so. For the moment, it is worth recognizing that his purpose for identifying the three capitalizations was to demonstrate the extreme difference between the usual economic definition of capital and the "correct" private definition of capital. In the *private* definition of capital, which he believed is the only definition that should be used in the analysis of everyday business, any property that an individual regards as capable of yielding an income counts as capital. This includes, for example, a person's evaluation of the privileges he expects to receive as a consequence of a large contribution to a political campaign. Today, we would replace Davenport's term "private" with "subjective." Davenport believed that subjective capital was the only concept of capital that is suitable for proper economic analysis and, therefore, for making policy judgments.[2]

As Davenport saw it, economists gave public policy advice on taxes and other issues on the basis of a *social* definition of capital. This definition was constructed by using an image of a socialist system that was planned entirely by a single individual. In the socialist system, capital is productive if it is regarded as productive by the socialist planner. However, in the competitive price system of everyday life, capital may be productive to the individual but unproductive from a social point of view. "Noting that some [capital] is good, we have inferred that all of it is good." (1911: 332)

III

Davenport's Papers on the Single Tax

LOUIS WASSERMAN DESCRIBED the argument of Henry George's *Progress and Poverty* in one sentence: "that the natural land ought everywhere to be regarded as a community, rather than as a private resource, and that its rental value should accordingly be recaptured as public revenue by the community, thereby eliminating the need of any taxes upon productive enterprise" (Wasserman 1979: 30). In order for natural land to have rental value, its initial zero price must be augmented. This occurs by means of a process Wasserman called "social creation." "[A]s the community grows and prospers, as it diversifies its functions, augments its output, widens its markets and expands its public services, the value of the land within its jurisdiction increase[s]" (*ibid.*: 33–34). Because the quantity of land is fixed, increases in its value come entirely from demand. There are three sources, according to George: (1) population growth, (2) continuous improvement of industrial technique, and (3) land speculation (*ibid.*: 35). Believing that each person "should receive the full reward of his individual production," George proposed the confiscation of rental on private property in land (*ibid.*: 36).

George believed that the land rental tax would conform to what he called the four canons of taxation. The first is that the government should not tax productivity. The second is that a tax should be simple to collect. The third is that a tax should be certain in its incidence. And the fourth is that it should be borne equally by all (*ibid.*: 37).

To a competent subjectivist economist, the impracticality of George's land rental tax is evident. Stated in the simplest terms, it is first that because land is almost totally a factor of production with substitute uses, and not a consumer good; to collect tax only on the ownership or income derived from using the land would violate the principle of tax neutrality, or minimum sacrifice. It would reduce the use of land and raise the use of other instruments of production in the satisfaction of consumer wants. Second, it would offend our sense of justice. In terms of the canons of taxation stated in the last paragraph, it would necessarily violate numbers one and four. Moreover, the plan is self-defeating. The following discussion follows Davenport in showing first that it violates the canon of equality, second that it is self-defeating, and third that it taxes productivity.

IV

Violation of the Fourth Canon

DAVENPORT'S ARGUMENT THAT THE LAND RENTAL TAX would violate the fourth cannon is based on the recognition that the purchase of land is prospective. "[S]o long as there is no established policy of appropriation, purchasers must be proceeding in the confidence—or speculating in the hope—that appropriation will never take place." To suddenly tax their purchased property is confiscation.

> To permit undue present earnings is to lead investors to part with their funds in the hope of the continuance of these earnings. To intervene later in order to bring an end to what ought never to have had a beginning amounts to the sudden confiscation of value long generally traded in but now lodged deflated in the hands of those investors least shrewd of political forecast" (Davenport, 1917: 6; see also 1910, 284).

Such confiscation is unjust.

> The minimization of social sacrifice does not prescribe or permit the expropriation of the few, but only the spreading of the burden widely, as the theory of insurance should easily suffice to prove. Largely viewed, land may be and doubtless is a bounty of nature, whatever that may mean. But to its actual present owner it represents something quite other, a property into which have flowed income and savings of indefinitely various sources—most of them forms of wealth about which the single taxer draws his sacred circle (Davenport, 1917: 10).

He goes on to declare that the (erroneous) belief that the current owner of land ought to pay a higher tax than other income earners and owners of other property is tantamount to a primitive superstition—a belief in magic and taboo (*ibid.*: 11).

> The general condemnation—my condemnation also—of the single-tax demand for the confiscation of past increments rests on the conviction that an institutional situa-

tion—long established and generally recognized rules of the competitive game—should constitute a social obligation to protect that player who proceeds in conformity with the rule and in reliance on it (Davenport: 7).

V

The Land Rental Tax Is Self-Defeating

DAVENPORT POINTS OUT THAT ANY TAX on rental income is self-defeating. He says: "We start with the value of a given tract of land standing at zero. Now let it be provided that whenever this land shall come to command a rental, and this rental to express itself in the market guise of a selling price, an annual tax shall be imposed equivalent to the rental income." But he goes on to ask: "Is it not clear that on these terms no market value can ever arise?" (1910: 284–285). Such a program amounts to sawing "off the limb upon which the single-taxer has elected to sit—to eat the honey and still expect to bait bear traps with it." Or it is like the kitten trying to catch its tail. The best that can be done is to estimate the future land rental and then impose a tax that is somewhat lower than that estimated rental. And with respect to this plan, he points out: "By the fraction that the net income is reduced, the market value disappears" (*ibid*.: 286).

VI

Violation of the First Canon

DAVENPORT'S ARGUMENT TO THE EFFECT that the land rental tax violates the first canon (taxing productivity) is tied in with his analysis of the shifting and incidence of the tax. He begins by discussing agricultural lands. Wise farmers, he points out, are always engaged in the job of renewing the fertility and other characteristics of their lands. A tax on one parcel of land will simply cause farmers to abandon it and to prepare and fertilize other untaxed land. And a tax on all agricultural land will simply be a tax on farm goods relative to other goods and will reduce the amount of land on which crops are grown. To give the greatest advantage to those who argue for the single tax, one must consider the urban lands. Urban lands contain what he calls "position rents." "It is only *position rents* that really conform to the Ricardian description of the 'original and indestructible powers of the soil' " (1917: 13, italics added). It follows, he argues, that the "theoretical merits or demerits of the single tax will, therefore, be best examined in connection with urban conditions" (*ibid.*). And:

> It is, in fact, precisely the enormous increase in urban rents that leaves safe Henry George's argument that improvements in transportation and improvements in the arts of production, together with all influences of progress in general, make for the growth of ground rent (Davenport: 13).

In his analysis of urban rents, he points out that a tax on position rents will not reduce ground rents. However, it will cause investment in lands to either disappear or diminish and, correspondingly to increase the investment in other lines of business (*ibid.*: 14). He shows the ultimate effect by imagining a situation in which

> all towns followed in equal degree and by similar methods the single tax principle. . . [T]his process of setting all other property free of tax would also mean the freedom of future improvements. . . Building would go higher and extend more widely—more *house room* for the money and a larger consumption of house room relatively to other goods (Davenport: 29, italics added).

Note his use of the term *house room.* So far as I can tell, house room is the service on which position rents have their greatest effect. His point, which he does not make clearly in the author's opinion, is that in the city, house room and land are substitute methods of supplying position services (i.e., of allowing a person to live near others in the city). If there is a higher tax on city land, producers will use less land and more house room. In order to accomplish this they would build higher skyscapers and use underground space. It follows that the tax on city land will cause producers of position services to shift to a method of providing those services that requires a greater sacrifice.

This point is emphasized in his conclusion. He says:

> In the past, under the actual working of the general property tax, improvements have been subjected to especially heavy burdens, investment in buildings therefore relatively retarded, and house room thereby made especially dear. Any remedy to be applied should be carefully guarded against undue emphasis in the opposite direction (Davenport: 30).

VII

The Single-Tax Proposal in England

In his 1910 paper, Davenport describes George-based proposals in England as follows: (1) no tax on already existing property values, (2) immediate assessments of land along with a recording of the assessments, and (3) the prospect of a 20% tax on capital gains in land at some future time if politicians decide to impose it. At the time of Davenport's writing, he believed that there was only the *prospect* of an unknown future capital gains tax on changes in land price. If the tax is ever imposed, however, he believed that it would (1) become immediately reflected in the current land prices and (2) reduce land sales.

> The effect on the actual sellers, therefore, is that of immediate expropriation rather than the mere menace or promise of a future burden. . . If the new proprietors are ever called upon to feel any burden it must be solely by the fact that they have mistakenly appraised the degree of the menace (Davenport 1910: 289).

> In truth, if the Liberal statesmen of England were devising a scheme for guaranteeing the perpetuity of the landed gentry, nothing more effective than this could have been invented (Davenport: 290–1).

Eventually, Davenport came to ridicule the proposal. Speaking of the logic used by the British proponents, he says: "In the domain of unreason, reason is likely to prove a halting guide: in this house of tax dementia only the insane are fully at home" (*ibid.*: 292).

Unfortunately for future interpreters, Davenport did not end his discussion here. Instead at the end of the paper he drew what at first appears to be a very strange conclusion. After virtually demolishing the theory behind the single-tax proposal and the belief in its practicability, he concludes with a remarkable statement. He says: "The truth is with the single-taxers in principle but not in method" and that "the single-tax doctrine applies far more widely than merely to the unearned increment of land. . ." (*ibid.*: 292). A careful reader is led to ask what he could possibly have meant by this. To know, one has to return to an earlier discussion in which he makes the tongue-in-cheek statement that

> the single tax people fell into their one great error: they became single taxers. . . But obviously the ultimate purpose was merely to make effective the title of society to the social estates, and out of the rents from these estates to provide for the expenses of the commonwealth. Taxation was but a means. . . (Davenport 1910: 281).

Thus the "truth" of the single tax program concerns their goal of paying the expenses of the commonwealth out of the rents of the social estates. Even though their *theory* is wrong and even though their *proposed program* will not accomplish this goal, Davenport maintains, we should applaud their *goal*. Davenport seems to have intended his conclusion as irony.

VIII

Fuller's Claim

In an earlier volume on the critics of Henry George (1979), Aaron Fuller disputes George Geiger's claim that Davenport was a critic of George's single-tax proposal. Fuller believed this claim was important because Geiger represented Davenport as being "perhaps the most characteristic critic" (Fuller 1979: 293). Fuller goes on to criticize Geiger for not having properly interpreted Davenport's arguments. Fuller concludes his essay with the statement that Davenport "turns out not to be a theoretical critic of Henry George at all. . . The two articles in which Davenport does disagree with George are evidence of differing normative value judgments between them, not of opposing theoretical structures" (*ibid.*: 301).

The problem with this interpretation lies with the definition of terms. Since Davenport himself said he was not a theoretical critic, Fuller seems safe in his assessment. Davenport himself implied that he was not a critic of the single tax *in theory* (Davenport 1917: 8-9). However, when he used the term "in theory," he was referring to "the goal of paying the expenses of the commonwealth out of the rents of the social estates. "Thus, he was stating a normative proposition, not a theoretical one, as this term is usually understood today. Fuller uses the term "theoretical" in a more modern (and presumably more correct) sense. Thus he contrasts "theoretical" with "normative," suggesting that Davenport approved of George's economics but held different beliefs about whether revenue should be from the landed estates. However, Davenport agreed with the *ends* of the single-taxers; but he disagreed with their *means.* That is, he disagreed with the *theories* they proposed concerning how they might accomplish their ends.

My interpretation is fully consistent with Davenport's remark that he was a "single taxer of the looser observance," which Fuller used as the title of his paper. Davenport makes this statement at the end of his 1917 paper. His reference is to a discussion earlier in the paper in which he defined the "single taxer of the strict observance." In that discussion, he makes the argument by implication that the single-taxer is the opposite of the socialist. The single taxer bases the ethical right and duty to "socialize treasure trove, jetsam and flotsom, and estates without heirs" on the principle of individualism. Davenport agrees with this. However, he disputes the single taxer's claim that such socialization would yield enough revenue (*ibid.*: 8–9). This combined with his argument about house room in the taxation of urban rentals (see above) leads him to define himself as a single taxer of the looser observance (*ibid.*: 30).

The difference between George and Davenport can be stated in terms of a metaphor. Both imagined the possibility of a free public lunch—that a tax of minimum sacrifice on land rentals could be imposed that would replace all other taxes. However, one (George) believed that the free lunch was real. The other (Davenport) believed that because the free lunch was imaginary, economists had best tackle the practical problem of finding a real lunch.

Endnotes

1. Davenport had previously stated this argument in his 1910 paper.

2. He makes this point at the conclusion of his 1911 paper. In the 1914 book, however, where he repeats the same argument, he omits the conclusion, apparently because one of the main goals of the book was to present his definition of capital. For more on Davenport's definition of capital, see Gunning, 1997b.

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