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The Sufficiency of Single Tax Revenue:

Rent Resource Taxation Would Affect Expenses and Productivity

By GARY B. BUURMAN*

ABSTRACT. Statements claiming that the *single tax* would raise insufficient *revenue* to support modern *governments* have been damaging to *Henry George's* proposal to *tax the rent of land*. It is argued that these claims are a misleading way of assessing George's proposal. Firstly, it is shown that estimates of rent usually underestimate the revenue that would have been raised under the single tax. Secondly, the idea of a counterfactual proposition is used to show that government expenditure would have been lower subsequently had George's proposal been adopted. The conclusion is that there are generally errors of omission in estimating the sufficiency of single tax revenue.

I

Introduction

A MAJOR CRITICISM of Henry George's economic system is that the single tax would not raise sufficient revenue to support the functions of government. Thus his proposal is dismissed as unworkable as a single tax and the principle of taxing rent is damaged. Claims of insufficient revenue can be approached on two levels; firstly, as to the amount of revenue raised had the tax been imposed when George wanted it adopted, and secondly, whether tax revenue would be adequate to support present day governments ('present day' referring to any time such a claim was made after 1900).

Statements made on the first level need not concern us here. They are due either to error, lack of familiarity with what George meant by rent or unspecified data concerning other countries. There is ample evidence that the single tax would have raised adequate revenue in the United States in George's time. For example, Oser and Blanchfield stated:

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According to the *Statistical Abstract of the United States*, in 1900 all the privately held land in the United States, excluding subsoil wealth, was worth about \$27 billion. If we assume that the land has generated a 6 percent return on its value, the single tax would have produced about \$1.6 billion of revenue each year. This is exactly what all levels of government—federal, state and local—were spending per year. The “single tax” would have worked even as late as 1900.¹

The \$1.6 billion is an underestimate of revenue according to George and his followers for reasons mentioned below. Ironically, one criticism of George by contemporaries was that tax revenue would be excessive. Cord reported that conservatives, such as Justice David Dudley Field, estimated that the single tax might produce four times the necessary government expenditure.² George mentioned figures estimated by Atkinson (an opponent of the single tax) for 1880 which showed that the tax would raise \$700 million when required revenue was \$580 million.³

This note considers statements made on the second level. Section II surveys recent examples and argues that the criticisms are not based on George’s definition of rent. Section III uses the idea of a counterfactual proposition popularized in economic history by Fogel and Conrad among others⁴ to illustrate the possible effect on subsequent government expenditure had George’s proposal been implemented late in the 19th century. It is interesting that Bruchey, in citing the following passage from George, gives him credit for recognizing the part played by counterfactual propositions in causal explanations.

And although in the domain of political economy [George wrote] we cannot test out theories by artificially produced combinations or conditions, yet we can apply tests no less conclusive, by comparing societies in which different conditions exist, or by, in imagination, separating, combining, adding or eliminating forces or factors of known direction.⁵

II

Why the Criticisms Underestimate Single Tax Revenue

CLAIMS THAT SINGLE TAX REVENUE would be inadequate to meet government expenditure today occur commonly in the histories of economic thought and in first year university economic principles texts. Examples of the former include works by Schumpeter, Pribram and Heilbroner respectively:

The proposal itself, . . . is not *economically* unsound, except that it involves an unwarranted optimism concerning the yield of such a tax.⁶

It could be easily argued that George had overestimated the share of the landlord in the national dividend, that land rent fulfilled important functions in the organization of agricultural production and in the real estate market and that rents derived from the soil were but a fraction of unearned incomes received in innumerable cases in which a productive factor other than labor was relatively scarce.⁷

And then the rent problem is not so drastic as viewed by Henry George. . . . Suffice it to point out that rental income in the United States has shrunk from 6 percent of the national income in 1929 to less than 2 percent today.⁸

Statements in principles texts reach a wider audience and usually constitute a student's first acquaintance with George's ideas. Examples include the texts by Hailstones and Dodd; by McConnell; and by Gordon and Dawson:

Moreover, it is not probable that the funds from the tax would be sufficient to meet government needs. In today's economy, rental income comprises less than 3 percent of our national income, whereas total government spending is an amount equivalent to more than 20 percent of our national income. In 1963, for example, rental income was only \$12.1 billion compared to total government spending of \$125.1 billion. A single tax system would have left a large deficit.⁹

Critics of the single tax on land make these points: First, current levels of government spending are such that a land tax alone would clearly not bring in enough revenue; it cannot be considered realistically as a single tax.¹⁰

There are a number of obvious shortcomings to George's theory, such as the fact that rent provides less than 1 percent of national income and therefore is inadequate for our government's revenue needs.¹¹

These statements are a misleading way of assessing George's proposal because of errors of omission on both the revenue and expenditure sides of the budget. He planned to tax the economic rent of land through the process of assessing land values. Concerning the yield of George's tax, his followers pointed out correctly that the percentage of rental income in national income does not provide an accurate measure of the tax base. Compared to George's idea of rent, the national income figure is *overstated* by the inclusion of an imputed value for rent on owner-occupied houses, but *understated* by such serious omissions as the rental value of subsoil assets and the substantial underestimation of rent on land owned by corporations. The latter would be hidden in corporate balance sheets as accounting (not economic) profits, or as an interest payment in the case where a debt is secured by land.

When attempts are made to calculate single tax revenue by estimating total land values—in conformity with George's proposal—various problems are typically encountered. Corporate land may be underassessed for a variety of reasons.¹² Vacant lots might receive a lower unimproved land value assessment than the corresponding component for improved land. A high margin for error exists in estimating the land value of commercial properties (which tends to be the highest valued land). Again, the value of subsoil assets may be overlooked and government-owned land tends to be undervalued.¹³ Thus whichever method

is used to arrive at potential single tax revenue, a lower figure results than the rent which would actually have been collected under George's system.

Further, Andelson has shown that George's theoretical system "does not actually exclude the possibility of other benefit charges should the rent fund prove inadequate to meet such obvious legitimate expenses as the cost of public safety."¹⁴ On the other hand, had the single tax yielded excess revenue at its inception, there is the possibility of funds available for investment in human capital with the resulting infrastructure. Not only would this be expected to reduce poverty and unemployment but the infrastructure could be used later to generate additional revenue through user charges where appropriate.¹⁵

III

Government Expenditure Under the Single Tax

THE MOST SERIOUS ERROR in the above quoted statements on George is the failure to incorporate the expenditure side of the budget. The fact that the single tax would have raised enough revenue to support the functions of government in 1900 but not in the 1960s is not a relevant comparison. Had the single tax been implemented in 1900 instead of the actual system, it could be argued counterfactually that the subsequent development of government expenditure and of the economy might have been quite different for two main reasons.

Firstly, according to Oser and Blanchfield, George believed that:

In fairness to George it must be granted that he would not admit this simple-minded comparison of single tax revenues and current expenditures as valid. He believed that his fundamental reform would unleash productivity and growth, thereby increasing government revenues and decreasing expenses. Production would increase, poverty would disappear, wages would rise, full employment would be attained, prices of goods would fall, and so on. With a world at peace, military spending could be eliminated and the federal government would have saved \$81 billion out of the \$166 billion it had spent in 1968. George hoped that his reform would enable us to eliminate welfare expenditures, police, prisons, customs houses, most tax collectors, and so on. Rising wealth and reduced poverty would generate increased government revenues from the tax on rent, and reduced expenditures.¹⁶

Secondly, as an advocate of *laissez-faire*, George felt strongly about the excesses of government:

The single tax would destroy this vicious system. It would end the pressure to impose and maintain taxes and would enable us to dismiss a horde of officials and bring the Federal Government to its proper simplicity. What we mainly need a Federal Government for is the performance of general cooperative functions, such as the issuing of money, the carrying of mails, etc. These functions tend to increase, but they bring their own revenues. We have no more need for army and navy and coast defenses than Mr. Atkinson and I have for suits of armor and blunderbusses; no more need for diplomatic and consular services than he and I have for court dresses.¹⁷

George also despised the corrupting influences *on* government both by bureaucracies and by institutions in the private sector (the armed forces, railroads, banks, etc.).¹⁸

Collier has argued that:

In many ways the most common argument against the tax—that it would not generate enough revenue for large, expensive governments misses the point. George, who was always individualistic and conservative, was an advocate of *laissez-faire*. In an important sense it is unreasonable to criticize an advocate of *laissez-faire* for failing to provide the revenue for a government which violates the principle. More important, he maintained that government would simply have to learn to live within its budget.¹⁹

Hence it seems likely that had George's system been implemented in 1900, government expenditure would have been lower from that time notwithstanding the problems in constructing counterfactual models to demonstrate subsequent events.

Finally, it should be noted that George did not regard the "singleness" of his proposal to tax rent as its essential feature.²⁰ The following exchange took place after George's lecture at Oxford University in 1884:

Mr. Robinson (New College) . . . The taxation of the country at the present time, including Imperial and local, amounted to about one hundred millions per annum. Further, the economic and ground rent of this country, which Mr. George proposed to apply, according to the very best estimate they could get was but sixty millions per annum. He wanted Mr. George to tell them how these figures were to be squared?

Mr. George said let them suppose he had been too sanguine; *the principle was the same*. They would also gain economy of administration. They would not have to keep a cordon of custom officers round their shores, and very many other expenses might be saved.²¹

Thus to George, the question of the sufficiency of single tax revenue did not invalidate his proposal to tax the economic rent of land. The taxation of rent can be viewed as a component of a tax system. This point is invariably omitted in the type of statements considered here.

IV

Conclusion

THE PRECEDING DISCUSSION is not an attempt to show that George's proposal would have resulted in sufficient government revenue in recent times. Rather it is a claim for a fairer or at least fuller treatment of George's system, especially in principles texts. The statements analyzed are biased in that they link the taxation of rent to massive government deficits. Then, despite any praiseworthy comments, the efficacy of George's fundamental reform is damaged by association. The key point is that the single tax would have yielded sufficient revenue

in George's time and would have ensured lower government expenditure in subsequent years. Can his system be held responsible for not predicting huge increases in government expenditure in the absence of its adoption?

An interesting line of inquiry would be to compare how principles texts have dealt with George and Marx over time, since Rose claimed that George might have been the most influential and important speaker for the non-Marxist left²² and the two are linked by the massive increases in expenditure of modern governments.²³ A working hypothesis is that space devoted to Marx is increasing and the treatment is becoming more sympathetic, while less space is being used to discuss George and inaccuracies still abound. For example, Fischer and Dornbusch have stated:

But the modern economies of the United States, Germany, and France, for example, are different from the pure capitalist economies Marx was analyzing. The State has assumed increasing responsibility for economic stability and is playing a bigger role in economic life. The *mixed economy* is a modern development, and it is the mixed economies that have shown that the Marxist predictions were wrong.²⁴

This passage appears to excuse Marx for lack of foresight. Recent principles texts contain the following on George:

He proposed that all existing taxes be abolished and that they be replaced by a single tax on the economic earnings of urban land (but not building or improvements on the land).²⁵

Henry George proposed a single tax of 10 percent on land rent on just these grounds.²⁶

A fuller treatment of George might force prospective authors to at least become better acquainted with his proposal.

Present day followers of Henry George have not made the Single Tax their goal for more than a half century. The singleness of the tax George advocated they regard (as a matter of fact, as George did) as a false issue. In George's day a land value tax, statisticians agree, could have substituted for all other taxes, federal, state and local. Today the data are not available for a logically compelling finding; but there is no doubt that the revenue from land value taxes could substitute for the worst current taxes. However, since the discussion of the fiscal adequacy of the land value tax is still couched in terms of the single tax, that form of land value tax will be taken as the basis of the present investigation.²⁷

Notes

1. Jacob Oser and William C. Blanchfield, *The Evolution of Economic Thought*, 3rd ed. (New York: Harcourt, 1975), p. 358.

2. David Dudley Field vs. Henry George, "Land and Taxation," *North American Review* (July, 1885), pp. 8-9. Cited in Steven B. Cord, *Henry George: Dreamer or Realist?* (Philadelphia: Univ. of Pennsylvania Press, 1965), pp. 38-39.

3. Henry George, "A Single Tax on Land Values: Mr. George's Reply to Mr. Atkinson," *The Century Magazine*, 40 (July, 1890). Reprinted in *Economic Thought: A Historical Anthology*, ed. James A. Gherity (New York: Random House, 1965), pp. 502–03.

4. Lance E. Davis, "'And It Will Never be Literature' The New Economic History: A Critique," *The New Economic History: Recent Papers on Methodology*, ed. Ralph L. Andreano (New York: Wiley, 1970), p. 75. The idea of a counterfactual proposition entails investigating what might have happened had a historical event not taken place. A next best alternative (subject in part to the researcher's discretion) is substituted for the actual event to estimate its contribution to economic activity.

5. Henry George, *Progress and Poverty* (New York: Robert Schalkenbach Foundation, 1954, 75th anniversary edition), p. 11. Cited in Stuart Bruchey, "The Twice 'Forgotten' Man: Henry George," *American Journal of Economics and Sociology*, 31 (April, 1972), p. 126.

6. Joseph A. Schumpeter, *History of Economic Analysis* (New York: Oxford Univ. Press, 1961), p. 865. Interestingly, Schumpeter cannot seem to make up his mind about George's proposal. On page 231, he stated that the Physiocrats' proposal carried sense, "sense that cannot be claimed for later proposals of a similar nature, such as Henry George's." On page 865, referring to George, "In any case, it should not be put down as nonsense."

7. Karl Pribram, *A History of Economic Reasoning* (Baltimore: Johns Hopkins, 1983), p. 207.

8. Robert L. Heilbroner, *The Worldly Philosophers: The Lives, Times and Ideas of the Great Economic Thinkers*, 5th ed. (New York: Simon and Schuster, 1980), p. 187.

9. Thomas J. Hailstones and J. Harvey Dodd, *Economics: An Analysis of Principles and Policy*, 5th ed. (Cincinnati: South-Western, 1965), p. 298.

10. Campbell R. McConnell, *Economics: Principles, Problems and Policies*, 8th ed. (New York: McGraw-Hill, 1981), p. 630.

11. Sanford D. Gordon and George G. Dawson, *Introductory Economics*, 6th ed. (Lexington, Mass.; D. C. Heath, 1987), p. 191.

12. For example, land may be included in balance sheets under real estate or its book value may be outdated and bear little relationship to market value.

13. These points are mainly a summary of Robert Clancy's criticisms of a report published by the National Bureau of Economic Research. The report showed that the percent of land to total wealth in the U.S.A. fell from 38.6% in 1896 to 17% in 1948. Clancy's criticisms are mostly in Faculty Letters of the Henry George School (circa 1952). The NBER Report was, *U.S. National Wealth 1896–1948*, compiled by Raymond Goldsmith. For a fuller treatment of this discussion, see Cord, op. cit., pp. 190–95. See also Mason Gaffney, "Adequacy of Land as a Tax Base," *The Assessment of Land Value*, ed. Daniel M. Holland (Madison: Univ. Wisconsin Press, 1970), pp. 176–80. The NBER report had assumed that vacant lots have a somewhat lower value than improved land. In places the report was based on earlier data or rough estimates and it conceded that the margin of error was highest in estimating the value of commercial property. However, possibly Clancy's most telling criticism was in citing an estimate for the value of farm land in 1952 at \$70 billion. The NBER had a value for all land in the U.S.A. at \$157 billion current dollars in 1948. Clearly reliable estimates of a nation's land values are difficult. See Steven Cord "How Much Revenue Would a Full Land Value Tax Yield?" *American Journal of Economics and Sociology*, 44 (July, 1985), pp. 279ff.

14. Robert V. Andelson, "Where Society's Claim Stops: An Evaluation of Seligman's Ethical Critique of Henry George," *American Journal of Economics and Sociology*, 27 (January, 1968), p. 48.

15. When discussing how single tax revenue could be spent, George mentioned any number of possibilities which fit into this category; museums, libraries, universities, technical schools

and the area of research and development. The government would also operate enterprises which tended to generate monopoly power; railroads, the post office, electricity, etc. Also mentioned were public baths, lecture rooms, shooting galleries and music halls. See George, *Progress and Poverty*, p. 456. The welfare implications of user charges applied to 'social' or public goods are beyond the scope of this paper. For a brief discussion, see Richard A. Musgrave and Peggy B. Musgrave, *Public Finance in Theory and Practice*, 3rd ed. (Tokyo: McGraw-Hill Kogakusha, 1980), pp. 54–87.

16. Oser and Blanchfield, *op. cit.*, pp. 358–59.

17. George, "A Single Tax on Land Values," *Economic Thought*, p. 506.

18. Bruchey, *op. cit.*, p. 120.

19. Charles Collier, "Henry George's System of Political Economy," *History of Political Economy*, 11 (Spring, 1979), pp. 87–88.

20. Andelson, *op. cit.*, p. 43.

21. Alfred Marshall, "Three Lectures on Progress and Poverty," ed. George J. Stigler, *Journal of Law and Economics*, 12 (April, 1969), p. 225. My emphasis in George's reply.

22. Edward J. Rose, *Henry George* (New York: Twayne Publishers, 1968), p. 7.

23. Being linked by government expenditure is the more pertinent point. George has had his tax proposal discredited because of the increases in government expenditure as a percentage of GNP. One reason for Marx being discredited as a prophet is that increases in government expenditure eroded the possibility of a collapse of capitalism through insufficient levels of aggregate demand (although the extent to which 'underconsumption' is an element of Marx's system is debatable).

24. Stanley Fischer and Rudiger Dornbusch, *Economics* (New York: McGraw-Hill, 1983), p. 940.

25. Martin Bronfenbrenner, Wayland Gardner and Werner Sichel, *Economics*, 2nd ed. (Boston: Houghton Mifflin, 1987), p. 593.

26. Robert B. Ekelund Jr., and Robert D. Tollinson, *Economics*, 2nd ed. (Glenview, Ill.: Scott-Foresman, 1988), p. 360.

27. As tax reformers, Georgists believe that individual tax instruments can be evaluated in terms of various criteria agreed upon by supporters of a representative democratic society, including their effect on the redistribution of income and wealth, on the socially desirable and economically effective allocation of resources, and their incentive and disincentive effects, as well as their reliability as sources of revenue. With this evaluation, the worst taxes can be identified and eliminated.

International Union Conference

The International Union for Land-Value Taxation and Free Trade will hold its 19th conference on March 18-27, 1991 on Mount Scopus in Jerusalem at the Maierford Faculty Club of Hebrew University. Information may be obtained from The International Union, 177 Vauxhall Bridge Rd., London, SWIV IEU, England.