

The Mind Benders

We have given some flavor of the ideas of Clark, Seligman, Marshall, Wicksteed, and Walker. Here we itemize some other economists who attacked George, or who sought to undermine his ideas more subtly. We summarize their points, and put them in the context of their matrices.

CHARLES SPAHR

Charles Spahr (1891) in a short article anticipated many of the points later elaborated by and identified with others. His main points are these.

1) The supply of capital is inelastic. "There is no vast fund of wealth in the air which can be brought to earth by the touch of Mr. George's magic wand" (p.632). This was a phrase borrowed without credit and repeated for forty years in successive editions by Seligman. It follows that taxes on capital are borne by the owner of capital, which Spahr believed. Consistently, the University of Chicago's tax specialist, Arnold Harberger, took that position (Harberger, 1968).

2) "Land is the only form of wealth in America whose possession is widely and well distributed". The allegation is unsupported (and unsupported). He does not refer to the then-celebrated debate between Walker and George on the subject.

3) The value of land is the value of capital incorporated in it (1891: 627). Public capital has been paid for by past taxes on landowners, who have thus been put upon. That line of thought presupposes each landowner had an entitlement to both the land plus public works to serve it, paid by someone else. That seems extreme for the times, and was perhaps beyond what Spahr

intended. It is, however, in keeping with what NCEists are claiming for landowners today, when they are presumed to have entitlements to receive services far costlier than they pay for.

Consistently with that, Spahr warns that the single tax would turn investment "out of its natural channel" (1891: 632). By "natural channel" in this context he must mean public works. Considering that he lived in a century of insanely emulative bursts of overexuberant public works building, that suggests a blind spot (Cornick, 1938; Hoyt, 1933; Goodrich, 1960).

4) Marginal communities have no land value, hence no land value tax base. This is consistent with his belief that taxes on capital are borne by the owner of capital, a position also taken by Seligman of the Chicago School now. The correct position is, I believe, that all local taxes in a small open economy are shifted so that they must come out of land values. Happily, this "Physiocratic" view is now shared by David F. Bradford and others (Bogart, *et al.*, 1992: 11).

5) land values per head are higher in rich than poor jurisdictions. That is certainly true, but would seem not to argue *per se* against taxing land values. Rather, it argues against limiting such taxes to the local level. Inconsistently, Spahr favored an emphasis on state and local taxation. George had his sights on the national level. He wrote *Protection or Free Trade?* in 1886 only incidentally to promote free trade in the conventional sense. His main idea was to cut off federal excise revenues, forcing Congress to turn to land revenues instead. Alfred Marshall, discussed above, made a similar point, but did more consistently favor using land taxes nationally.

6) "Taxation should be in proportion to wealth" (1891: 633). Spahr is not against taxing property, as one might surmise. He actually supports the property tax vigorously, as well as death duties and land-gains taxes. It is just that he wants to tax all property, which he feels belongs partly to the state. Exempting capital from tax "would impoverish society, by depriving it of the part-ownership which it now holds in every form of wealth, ..". (1891: 625). He does not score George for being socialistic, but for being "the most extreme of individualists".

In a later book (1896: 157), he shows that the taxable property of families ranked by income rises much faster than their incomes. That much

is certainly true, although forgotten today by those who call the property tax regressive. However, George proposed taxing land, not income. This writer has shown that the taxable *land* of families ranked by income (or by property, either one) rises much faster than their wealth (Gaffney 1970, 1971, 1992, 1993).

In spite of some nativist and racist slurs, Spahr is a strong redistributionist. Low incomes are insufficient for healthful and decent living, while high incomes and properties are “morally perilous to their possessors” (1896: 159). “... the ability to pay taxes increases faster than the private fortune” (1896: 160). George would surely have agreed. It was probably this populist leveling tendency (he also supported free silver) that caused Spahr to fade into namelessness among the other NCEists whom he otherwise anticipated, and who should have credited him.

ALVIN S. JOHNSON

To understand Johnson, it helps first to understand his matrix, Cornell University. Cornell was named for and in part funded by Ezra Cornell, the creator of the new Western Union monopoly (Gates, 1943: 97), and its appendage, the AP news monopoly. These organizations had victimized a San Francisco journalist, Henry George. He, in turn, had attacked them bitterly. Cornell’s attitude toward George may be surmised from the fact that George in 1869 campaigned to have Western Union socialized (Barker, 1955: 118-19 *et passim*). Ezra Cornell was its major owner.

Cornell (both Ezra and his University) also speculated in western lands on a massive scale (Gates). The major obstacle to their financial success was that local governments taxed their lands, something they fought hard for decades. Ezra Cornell “located more than half a million acres of rich lumber (sic) lands in the Northwest with New York Agricultural College scrip” (Hacker, 1947: 394, citing Gates, 1943). To the robber baron, a state University with land scrip was an integral part of the basic business of seizing public domain, the chicane on which George had been first to blow the whistle (George, 1871).

Cornell University was molded by its wealthy first President Andrew Dickson White (q.v., below). Young Richard T. Ely, being scouted by White in Germany, “was interested in his psychology and the way he worked cleverly with Ezra Cornell and with Mr. Sage,⁴⁴ a benefactor, and

one of the trustees of Cornell University” (Ely, 1938: 57). Western Union - AP was not only the source of Cornell’s fortune, it was an instrument of thought control, used for planting stories and bending news, including news about itself (Myers, 1907: 493). We would underestimate Mr. Cornell to imagine he did not understand his University could be used the same way. If he did not, President Andrew Dickson White certainly did.

The power of controlling higher education is greater than merely slanting news stories. The “silver cord” draws us back to love and support *alma mater*. She becomes a thing of worship and purity, a secular Virgin Mary that rises above human failings. She symbolizes our best ideals and aspirations. She is the scene of newly opening vistas, society at a higher level, sparkling friendships, tender sentiments, exciting memories, lifelong loyalties formed “High above Cayuga’s Waters” or “Neath the Elms” or at “Alt Heidelberg,” singing “Thy Sons Shall Ne’er Forget,” “A Song by the Fire,” “Stand, Navy down the field,” “Going Back to Old Nassau,” “*Gaudeamus Igitur*,” “To the Blue and Gold,” “Fair Harvard,” “Lord Jeffrey Amherst,” and, in the donative years, croaking out “Golden Days, full of innocence and full of truth”. Woe to the messenger bringing news that The Virgin of our Golden Memories was procured to condition our minds for the gain of another. Yet, that is what we must do to understand who created NCE, and why. Truth is also a positive value. It is not always pleasant nor pretty; it is just what shall make you free.

The Morrill Act of 1862 gave land scrip to the states in proportion to their populations, so New York State got the most. Most states sold their scrip for quick cash, but not New York (Gates, 1943: 245). State land offices were quite corrupt, even for that tainted era, so New York handled its scrip in a very clubby way. New York sold Ezra Cornell (E.C.) its scrip at somewhat less than market price. E.C. agreed to use it to enter lands to benefit a Morrill Act College (Agricultural and Mechanical).⁴⁵ In general, he seemed to merge and identify his interests with the college. By 1867 he had more agricultural college scrip than any other individual: 500,000 acres (Gates, 1943: 31). The figure later rose to a million acres.

E.C. was, among his other interests, an Ithaca real estate promoter, investing in railways to boost the town. Very likely he had a sincere interest in promoting education, as he professed, but good works and self-interest need not be at odds: he also understood the effect on Ithaca land prices of

snaring the new Morrill Act funds. So did rivals around the state, but E.C. had an edge: he was loaded with money from the Western Union monopoly he had created. He gave \$500,000 to start the college, and thus secure the Morrill scrip for Ithaca, under his control.

New York State Senator Andrew Dickson White had wanted Syracuse to be the place. He and E.C. both regarded the Morrill scrip inadequate for more than one campus. E.C. won White to the Ithaca site by his large donation of cash (Gates, 1943: 52,55). White then became President of Cornell University. Would we be too cynical to suspect that was part of the deal? E.C. had not forged the Western Union monopoly without mastering David Harum's credo, "If you can't lick 'em, j'ine 'em".

In 1867 E.C. was preparing to sell some scrip, but paused to join with other states to "manipulate the market" to raise the price first (Gates, 1943: 58). Monopoly was in his reflexes. He retained most of the scrip, however, and slowly bought up western lands. He specialized in pine lands in northwestern Wisconsin. His purpose was to create - again - a monopoly (Gates, 1943: 95, 97). This was not to be a monopoly of production - there were no mills, no timber culture, no roads built, no river drives - but just a regional monopoly of virgin timber and timberland held for sale at advanced prices. E.C. was a pure speculator and land monopolist, without exception or apology - the very antithesis of Henry George. Gates rates him as a weak business administrator because some of his funds leaked away to grafting agents, but he seems to have understood synergy: everything he did supported everything else. land speculation and monopoly and higher education went hand in hand.

A speculator's ultimate goal is to sell, but some prefer quick gains, even though small, while others favor big gains, even though slow. E.C. was the second kind. His fortune had come from hanging onto telegraph stock for the long pull (Gates, 1943: 97), and he applied the same model speculating in Wisconsin land.

This way of investing University funds brought E.C. into intense, prolonged conflict with new towns and counties in Wisconsin. It was not just an adversary but a hostile, emotional relationship, with a high level of dishonesty and self-righteousness on both sides. Georgism was not invented by Henry George, it was endemic throughout the middle border, as Gates' many books have brought out. Local taxes "threatened to swallow up the

enterprise" (Gates, 1943: 106). These local property taxes were pure land taxes because land is all E.C. owned in Wisconsin. Gates devotes a full chapter: 137-76, to "Tax Warfare" between E.C. and Wisconsin. Apparently Cornell won out: "in proportion to the price for which its lands were held the taxes were exceedingly light" (Gates, 1943: 175).

If E.C. won out, it was because back in Ithaca it was an obsession:

When high taxes were threatened ... Cornell's (sic) university's officials acted promptly to protect its rights. Cornell's interests were identical with those of other large holders of pine land, and frequently they all worked together ... the greatest concern of the Cornell officials was the burden of taxation on the property ... (Gates, 1943: 137-38).

That is the atmosphere that prevailed in the Cornell administration in an era when administrators hired and promoted and fired with no checks and balances whatever. It is most unlikely that President Andrew Dickson White or his immediate successors would have tolerated any professor of economics who defended the Wisconsin towns and counties; it is most likely they would have hired someone to defend their position as absentee land speculators. Such a person was Alvin S. Johnson of Columbia, a student of and personal secretary to J.B. Clark.

Alvin S. Johnson (1902) expounded the new definition of rent that NCEists were substituting for the original. As part of this shift, the unit of analysis used in economic theory was shifted to "the firm," or at largest "the industry". The society and the economy as a whole got lost. Formerly, rent was simply the return to land. NCEists redefined it as the surplus over opportunity cost of any resource at any time, thus removing any difference of land from labor or capital. It would have been courteous had they chosen a new word, since they were talking about something different, but courtesy was not the idea. The idea was to remove from land the dangerous stigma of yielding unearned values, targetable as taxable surpluses. (We dispose of this issue below, under Pareto.)

Further to the end, in 1914 Johnson published "The Case against the Single Tax" in *The Atlantic Monthly*. The influential, topical *Atlantic* would not have been devoting its scarce space to such an arcane topic unless it were alive and impendent at the time. This sea was rising, and Alvin Johnson put his finger in the dike. His theorizing was highly supportive of

his political position. That is not uncommon, *per se*, nor necessarily unproductive. At least his ideas, like those of Adam Smith, Ricardo, and Keynes, were relevant to a real issue, unlike most of what is published today. Rather, we should not remain innocent of why NCE is what it is, and what it has done to us.

Was it *really* a live topic? Belittling, even sneering allusions have become standard, suggesting otherwise. In fact, single-tax initiatives were run and running in several western states. A few cities (Bellingham, Pueblo, and Houston, for example) moved to levy property taxes exclusively on land. In California, a "pure single-tax" initiative won 31% of the votes in 1916 (*Large landholdings in Southern California*, 1919). The Manhattan Single Tax League was knocking on the door (Marling, 1916), and was to get part-way in the door in 1921 (see below under Ely). Cleveland elected two single-tax mayors, over a string of terms, roughly synchronized with the Liberal Party string of Governments in Edwardian England. The first, Tom Johnson, was Henry George's chief political lieutenant and financial angel. The second, Newton D. Baker, was to become a power and Secretary of War in Woodrow Wilson's Cabinet. Toledo, Ohio, had two single-tax Mayors, Samuel "Golden Rule" Jones, and Brand Whitlock. Pennsylvania's Legislature opened the door for Pittsburgh's enduring "graded tax plan," initiated in 1913 (Jorgensen, 1925: 162). Four western provinces of Canada were won over almost completely, helping, among other things, to make Vancouver and Victoria two of the most beautiful cities in the world. Sydney, Brisbane, Wellington, Johannesburg, and other cities were exempting capital completely from the property tax, raising all their local revenues from land alone (Madsen, 1936). The American Academy of Political and Social Science (AAPSS) devoted 78 pages to it (1915); the National Tax Association devoted 64 (1915); *Great Debates in American History* (1913) devoted 51. Robert Murray Haig delivered his three reports on it in 1915; the Committee on Taxation of the City of New York delivered its final report (Marling, 1916). California's Georgist irrigation districts were revolutionizing state and national agriculture. Yes, it was a hot wire.⁴⁶

Johnson's major theme is that the single tax is "a device for the spoliation of the middle class" (1914: 30), because they own most of the urban land, and all the farmland. Like Willford King later, Johnson's image of America is an idyllic small town, unnamed, where everyone owns the same amount

of land.

Johnson's image of egalitarian landowners is projected without benefit of data, and without referring to the earlier well-known exchange between George and Walker. It overlooked the fact that his own employer, Cornell University, had for years sat on over half a million acres of western lands, completely idle. The level of scholarship demanded by NCE editors of those who derided George is seen in the following.

The Single Tax philosophy originated with a city man, ... a sound agriculture is based on ... the farmer, his ... love of the countryside, the jollity of the country picnic and dance, the fresh checked maidens who eagerly accept the role of sweethearts of country boys and develop into contented farmers' wives. (Johnson, 1927: 224).

This publication was sponsored by the American Economic Association. The publication committee consisted of E.R.A. Seligman, R.T. Ely, J. Hollander, B.M. Anderson, Jr., and J.M. Clark (son of J.B. Clark). It was reprinted in 1967: apparently the leaders of The American Economic Association still considered it exemplary scholarship.

Johnson is the link between Clark and Frank Knight. Johnson was a student of, and personal secretary to J.B. Clark. He was soon to be the mentor of Frank Knight at Cornell. One finds "much of Knight's mature thought" in his 1916 Cornell thesis (Stigler, 1987), with extensive credit given to J.B. Clark (Dewey, 1987). The title of Knight's popular 1953 article, "The Fallacies in the Single Tax," is interchangeable with Johnson's 1914 title. Even the "fresh checked maidens" of Johnson show up in Knight, who, in turn, molded the Chicago Department in his image. The chain is unbroken from Seelye to Clark to Johnson to Knight to Stigler, Friedman, Harberger, and now thousands of Chicago-oriented economists. They dominate much of current doctrine and policy, metastasizing through government posts, high banking, academia, editorial boards, granting agencies, and the burgeoning think tanks subsidized by rent-takers to mold opinion for the deepest and most generic of their "deep lobbying".

FRANK A. FETTER

Another Cornell economist, contemporary with Alvin Johnson, was Frank A. Fetter. He graduated from Cornell, took advanced work in

Bismarckian Germany, then taught at Cornell, 1901-11, before moving to a new career at Princeton. He was very much the insider: President of the American Economic Association in 1913, consultant to New York State on taxation, Chair at Princeton, frequent author in establishment journals. Seligman chose him to write key articles on Rent, and on Capital for his *Encyclopedia of the Social Sciences*. He was picked to eulogize Ely and Clark, and to write key reviews of dozens of new books. He received all this peer-recognition without adding really anything to economic thought except an extreme, urgent, repetitive insistence that Clark was right and George was wrong, and Marshall was wrong to compromise as he did between the old (Ricardo) and the new (demand-determined value). Fetter insisted that all the "old lumber" of Ricardian thought be "broken up for kindling". In 1901a he declared it had happened; in 1901b he predicted it was going to happen; in 1927 he lamented that it hadn't yet completely happened; but always he insisted it should happen.

From 1900-14 he wrote on capital, interest, and rent. Murray Rothbard and The Institute for Humane Studies have brought these together in one volume, whose paging is used for citations here.

Everything Fetter wrote points towards one objective: to undercut the Georgist case. His basic style is overgeneralized and abstracted to opacity, in a failed and painful attempt to be philosophical. A clearer and shorter-than-normal Fetter sentence reads, "As the truly scientific stage is reached, the concern of the thinker is with the qualities and aspects of things, rather than with the concrete objects themselves" (1917: 357). However, he combines this with a sense of urgency that forces him to lapse occasionally into clarity. From these lapses, and his admiration for J.B. Clark, we can pick up his drift. "... rent is the usufruct attributable to any material agent" (1904: 207). He contributes little that is original, but his interpretations of certain NCE innovations are insightful.

In 1900 Fetter faults Clark for failing to keep repeating that his "capital" includes land. "In his earlier utterances, such things are in plain words included. In the later articles ... a reader new to the author's doctrine would find no specific statement to this effect ... " (1900: 40). Dogma must be pure, and repeated every Sunday to satisfy Fetter. The fault of Clark's thought "was rather that it changed the old view too little than too much" (1907: 109). It seems likely that Fetter was differentiating his product by

posturing as more Roman than The Pope. He really had no substantial difference with Clark.

Fetter likes the marginal utility (demand-side) explanation of value because it puts all values (land and capital) on the same footing (1901b: 77). No longer may we say that capital is stored-up labor, and so differs from land. We may not even say capital includes stored-up inputs from land and capitalized interest (as Wicksell did). That is because now "we have recognized utility, regardless of the origin of the good, as the measure of value. ... When the utility theory displaced the cost-of-production theory of value, this change of the capital concept (to include land, rather than be limited to stored-up labor, etc.) became a logical necessity" (1901b: 77-78).

This gives us some useful insight into the use to which rent-takers and their spokespersons put the new demand-side value theory. It helps us see why they insisted on it so fervidly, and tried to stampede others into "making kindling of the old lumber," and resented Marshall's efforts to synthesize the old with the new. In truth, there was nothing new about the idea of diminishing marginal utility: Adam Smith had expounded it clearly, in his remarks explaining why the price of diamonds exceeds the price of water. What was novel in the 1890s was the use of demand-side value theory to distract attention from the fact that land has value without ever having had to be produced by man.

Fetter applauds Clark for establishing that "Land in all its forms is a part of concrete capital; all concrete goods yield rents; and all pure capital yields interest" (1927: 137). Clark conceived of interest as rent "expressed as a percentage of the value of abstract capital. Thus interest ... did not consist of ... incomes other than those composing rents, but simply was rent, expressed as a price in relation to the price of the instruments that embody the fund" (*ibid*). In other words, ground rent becomes interest, the earning of saved capital, by virtue of being expressed as a fraction of the price of land - never mind that the price of land is originally derived by capitalizing the rent! In 1904: 207, he had said the same. "A more or less durable agent represents a series of rents" (1904: 208).

This was swallowed holus bolus into NCE, where it remains. Thus originated the purely circular element in NCE capital theory that proved so pathetically vulnerable and indefensible in the recent "Cambridge Controversy," even though the critics in this case were weakly based too -

another story in itself. The point here is that NCE had rendered itself helpless against the otherwise weak Sraffian onslaught by a crude sophistry. The sophistry originated as part of an effort to undercut Henry George.

Fetter rejects any notion of social capital as opposed to individual capital. Like Frank Knight (a Cornell Ph.D.) he fully embraces the fallacy of composition that social capital is simply the sum of individual claims on resources. Economics, to Fetter, is properly the study of private "business" (i.e. property). Economic theory should stop being "remote from actual business usage. ... How long must it continue ... ? Ambiguity must be banished from economic terminology. ... Capital is essentially an individual acquisitive, financial, investment ownership concept.⁴⁷ It is not coextensive with wealth as physical objects, but rather with legal rights as claims to uses and incomes. It is or should be a concept relating unequivocally (sic) to private property ... Social capital is but a mischievous name ... When will (the admission of these truths) be made frankly and clearly? When will the dead hand of Ricardianism be lifted from our economic texts?" (1927: 155-56). O, tempora; O, mores! How long, O Lord?

Land in an unimproved state is almost unknown. land must be continually repaired, just like capital (1904: 202, 206). Separating land from capital "must transcend human power ... " (p.203). The line is vague because " ... money and artificial agents measured as 'capital' can be and are so often invested in land." Any distinction is "out of harmony with business usage" (p.203). "This fog is lifted when the sources of rent and of interest cease to be considered as physically distinct and objectively differing kinds of goods, and are seen to be simply the same body of income yielders, differently viewed, calculated and expressed for theoretical and practical purposes" (p.206).

There are "varying grades" of capital goods, just like land. Once you measure land by value, rather than acres, there are no different grades of land. The supposed difference of land and capital is merely the result of the convention that land is measured by acres (pp.196,207). Fetter's own words at the points cited are so long, pedantic and impenetrable that I will not risk losing the reader by citing or refuting them. They are there for those who want to read them. The point here is that central tenets of NCE were planted therein for the express purpose of refuting Henry George. Fetter's reasoning may be obscure and forced, but his anti-Georgist purpose is

always transparent, and his professional acceptance is painfully obvious to all who have been afflicted by having to work with NCE.