

The bafflegabbers

Willford I. King believed that land is equally distributed. The Editors of the august *Journal of Political Economy* let him prove this, in an attack on Harry G. Brown, by publishing the following (in which he is sarcastically referring to himself in the third person). "He states that in a certain village with which he is familiar there are about a hundred families of somewhat equal wealth who all own their homes" (King, 1924). Critics of George and his advocate, Harry G. Brown, were not held to very strict standards of scholarship in the Chicago house organ.

The *JPE* did give Harry G. Brown a good deal of space, it is true, but reading the kind of reply they let King publish tells one they were just baiting Brown. King's 1924 article is sarcastic, contemptuous, unedited rhetoric from beginning to end, with no shred of support for its wild-swinging allegations and reactionary value judgments. Brown was a neo-classically trained economist who used neo-classical tools to plead the Georgist case before other NCEists. He projected his own conscientious sincerity onto others. He thought he could reach them through reason, using their own tools and concepts. He was a very capable theorist; he pretty well failed. In one exchange, a critic is said to have written "Brown's mind is as twisted as his leg" (Brown was crippled).⁶³

Elitist as Pareto, King is capable of this: "... the man who saves and invests his savings in such property (land) is a citizen worthy of emulation and .. the thriftless man who does not accumulate such 'vested rights' is an object for scorn, derision, or contempt ..." (King, 1924: 608).

King sees the rise of land value as part of the return to capital (1921), hence an incentive payment to stimulate saving and investing in real capital. That is not good investment theory, by today's standards. Today we would

call this a “rent-seeking” explanation, and most economists would agree, I believe correctly, that such rent-seeking, where it works out as King posits, diverts investing out of its “natural channels” (as Spahr would have put it). They would also agree that in equilibrium, arbitrage pushes up the purchase price of land at the beginning of the investment cycle such that the land buyer receives only a market return on this price. In the Chicago creed, no opportunity for arbitrage goes unexploited.

The net result is to raise the overall credit requirement for being in business. To a NCEist that means no effect at all, but to small, marginal businessmen and renters of all kinds it is a large effect. It screens out many who otherwise would have enough capital to enter or remain in business - a matter of distressingly little concern to modern economists who, like Stigler, measure success solely by survival (what is it about Chicago that blinds people to circular reasoning?). It forces business owners to be tenants. The writer has developed this point in “Land as a Unique Factor of Production,” published elsewhere in this CIT series (1994), in 1973, and in 1993b.

Carl C. Plehn was not a general in the war against George, but a colonel with an important regional command. As such, he is emblematic of many other minor figures, and will be taken as typical. He graduated from Hopkins under Ely, then held the fort at Berkeley from 1896 for about 35 years, as Dean of Commerce and Professor of Public Finance. His *Introduction to Public Finance* ran to five editions, 1896-26. California and some other states “utilized his ideas in the formation of their tax systems” (Cookingham, 1988: 277). Just what those ideas are takes a little inferring. His style is equivocating and divagating: one sentence often seems not to follow from another, but to swap subjects and premises (“bafflegab” and “doubletalk” are popular expressions for it). Here are some of the relevant points in his basic text, 1896 version. I have paraphrased liberally, to “cut to the chase”. The impression of chaos and confusion is not injected, but substantially lessened from the original.

Initial street improvements may be charged to the benefited landowners, but all later costs should be charged “to the people” (p.66).

“No nation has ever found it feasible to adopt any single tax as the sole source of its income” (p.105). George’s proposal is a “scheme” with an “ulterior” purpose: “he aims, like the socialists, at a new distribution of

property" (p.106). This is "unjust," "inexpedient" (no reasons are given), and "not feasible". It is unjust because "The value of land, like that of other wealth, depends on the use to which it may be put". This is one of Plehn's many non-sequiturs, without further explanation.

The land tax is not feasible because "in no case would the scheme yield sufficient revenue". "It has been estimated" (no source is given) that the land rent of England is inadequate (p.108). No data are offered (nor could be, since England lacked a valuation of its land; the constitutional crisis of 1909 was precipitated over a proposal to value land, thus exposing it to taxation). In the United States, according to Plehn, data are *not* available to separate land from building values (p.108). (He seems to have this completely backwards. In fact, in California at that time, land and buildings were valued separately.)

This alleged lack of US data does not deter Plehn, however, from stating with confidence and authority that the land base is too small. Getting into finer detail, George's "scheme" would shift taxes to farming lands. In the "professionalization of economic science," it seems, this paramount rule obtained: any stick will do to beat Henry George. (The revenue potential of land has been estimated in Gaffney, 1970, and is explored further in *Private Property and Public Finance*, a companion CIT volume.)

A high rate of land tax, necessitated by the small base, will "ruin the user of the land, and practically prohibit its cultivation" (p.109). (No support is given for this, but it certainly is frightening.) Some allege, writes Plehn, that untaxing capital will add to the taxable capacity of land, but that is untrue (no reasons are given) (p.109). Later he is to contradict this, noting that a property tax on the outstanding balance of mortgage loans is shifted to equity owners in higher interest rates (pp.225,249,252). According to the same logic, a tax on buildings is shifted into lower land prices. Consistency, however, was no problem for Plehn: he was the only authority within 1500 miles.

Every kind of economic wealth ... frequently ... yield(s) its owner an 'unearned' increment (p.109).

A single tax ... will ... defeat its own ends by repressing the existence of the phenomenon which forms the signal for its assessment (p.109).

The general property tax is a failure ... it will have to be abandoned. ... No words are too strong to express the iniquities of this tax (pp.218-19).

Property should be taxed on its income, not its value (p.219).

... modern economic theory does not regard rent as an inevitable surplus,
... (p.220)

Unlike the land tax the building tax is regularly assessed each year (p.223).

So few farms ... are rented that they need not be considered (p.254, n.1).

The land tax is partly shifted "when the land is used for agricultural purposes". This leads to a boom/bust cycle in which marginal farmers are often "ruined". In this way, the burden falls on "the farmers," even though the land tax may be shifted. Farmers are overtaxed by the land tax (pp.254-55). Taxes on urban buildings cannot be shifted; they are the same as land (p.255). Likewise, a tax on profits cannot be shifted (p.257).

Plehn's first edition, 1896, says little about income taxation. In his fifth edition (1926: 272, cit. Groves, 1946: 168, n.30) we do find an idea that is curiously missing from other early NCEists, but was just awaiting the 16th Amendment to surface. Plehn refers to unearned increments of land value as "capital gains," a camouflage that has of course become standard. He wants them exempt from income taxation on the grounds that it would be double-counting to consider both the anticipation and the realization of higher rents as income.⁶⁴ Harold Groves disposes of this tersely and nicely. Capital gains "arise not as a flow of income from the fountain, but from the sale of the fountain itself. ... If depreciation and obsolescence ... are (negative) income, ... appreciation ... seem(s) entitled to the same status (i.e. as positive income)" (Groves, 1946: 166,180). Amen.

Interestingly, Plehn's position, seemingly so *simpatico* to rent-takers, took a long time to work its way into NCE, and is not all the way home yet. Professors Haig of Columbia and Simons of Chicago gave their names to the doctrine that increases in a person's wealth are income and should be taxable; they have many followers. How explain this failure of NCEists to press an advantage for rent-takers? Half an answer lies in their recognition of the paramount importance of the doctrine of uniformity. If "capital" gains were not income, that would mean they were unearned and non-functional, hence liable to even higher taxation, or outright confiscation, outside the income tax framework. Another part of the answer is that it is possible, and even standard, to endorse Haig-Simons in principle, but then cop out with the claim that it cannot be administered, winning points with

both sides while leaving the money with the rent-takers. Study of NCEists has made us cynical, but the rest of the answer may lie in the actual sincerity of believers in income taxation.

Seligman is Plehn's ultimate authority: Plehn cites him many times, slavishly. The only apparent reason for using his own book instead of Seligman's was to collect the royalties. Nearly all his ideas are borrowed, and garbled in transcription. Plehn illustrates how a writer of practically no ability could hold down and sterilize an important outpost for forty years, contributing practically nothing, so long as he clucked forebodingly against land taxation in the approved NCE manner. Multiply Plehn by 100 or so, multiply that by the average number of students each such professor confused, bored, and twisted, and you have the tragedy of American higher education in economics.