New lessons from the best-selling political philosopher of the 19th century.

Progress and Poverty Continued

by David Hapgood

Henry George was an obscure California printer-journalist when he sent off to publishers in New York a lengthy manuscript on political economy. After two rejections, George decided to publish the book himself. With the help of friends, he put out a small edition in San Francisco 100 years ago. This time the book attracted a New York publisher, and soon it came out in a commercial edition under the title *Progress and Poverty*.

Progress and Poverty was a publishing phenomenon. It became a worldwide best-seller, far outselling other contemporary books on political economy, including *Das Kapital*. George's ideas won illustrious converts such as Shaw, Tolstoy and Sun Yat-sen. They formed the basis for a political movement that was a significant though not successful force in American politics for several decades. George died in 1897, in the midst of his second campaign for mayor of New York City. The movement did not long outlive him, though a small Georgist cult persists to this day.

But George's concerns with taxes and with allocation of natural resources both have a modern ring. George began by asking: why is increasing wealth accompanied by deepening poverty? His question was evoked by the opulence and misery he found in New York City, and the same city a century later evokes the same question. The answer, George came to believe, lies in the role of the resource owner: those who hold title to the land and other gifts of nature. (Today we think of oil before land.) In George's view, the resource owner is an unproductive parasite who deprives both labor and capital of the just return on their productive efforts.

George questioned the resource owner's title to his property. This person holds one of the two factors from which all the goods we use are made. The other, of course, is human effort. No one this side of the Emancipation Proclamation would question the right of each of us to the products of our own labor, or the compensation we get for selling our labor. But the resource owner, unlike the laborer, did not make his property. The gifts of nature were not made by anyone—no one human, anyway. No landowner ever created an acre of real estate, and no Saudi ever made a barrel of crude oil. Of course, people farm land and build houses and factories on it, and others lift oil from the ground and refine it for our ultimate use. But that's human effort, and distinct from the ownership of the original resources.

Nor, George argued, does the resource owner give his property its value. The resources of nature in themselves have no economic value. When land is abundant beyond our needs as, for example, in the early days of European settlement in the New World—land has no market value at all. Even today one natural resource, the air we breathe, is so abundant that there is no market for it, though given enough pollution we may one day sprout a class of airlords.

The value of natural resources, and therefore their owner's income, rises not through any effort of his but because a growing population needs more of them, while the resources are forever fixed in quantity. The Manhattan real estate that once went for $24 is now worth billions to its owners; yet it's the same land. The only change is in the numbers of people who want to use that land.

The value of natural resources, then, is created by the public. And if we created that value, George said, are we not entitled to whatever return it brings? This may sound like a case for government ownership of resources, but this was not what George had in mind. George was a devout believer in Adam Smith's free market. He thought free individuals could manage property better than government, and he distrusted concentration of power in the state as much as in private hands. George believed that the public need not hold title to the resources of nature in order to collect the value that is the public's by right. George proposed that if we simply view the resource owner as a tenant on our commons—the commons being the value we created—we can treat him as any landlord would: make him pay the rent, in the form of taxes.

The resources tax would be the unearned income the owner of natural resources collects by the mere fact of ownership, as distinct from any return he earns through his own efforts. For example, take a piece of land suddenly made valuable because the public has paid for a highway that passes by the property. If the owner alertly puts up a fast-food stand, he's entitled to what he earns from the business he created. But we are entitled to a return on the property value *we* created with the highway: that's the rent we would charge him.

In the Georgist perspective this is the fairest of all taxes. Indeed, it is scarcely a tax at all, since society is just collecting the return on value it has created itself. A tax on the earnings of labor seems unjust by comparison, because it deprives the individual of what is rightfully his, the fruits of his own efforts. The same is true of a tax on the return to capital, to the extent that capital represents the unspent return of past labor and initiative.

Equally important—and here orthodox economics agrees with George—a natural resources "rental charge" is the rare tax that improves rather than distorts people's incentives. Tax labor, and people work less. Tax savings, and savings diminish. But tax land, and the supply remains the same, while the owner is forced to put it to more productive use.

George believed his social contract with nature would produce both equity and efficiency. We often are told these two elusive goals are contradictory, but George believed they are complementary. Most obviously, collecting the rent on resources would capture for society the greatest source of unearned income. Over human history, most great fortunes have been based, not on new ideas or productive effort, but on the mere ownership of resources needed by the rest of us. The prime symbol of unearned wealth has always been the large landowner snoozing away in the castle or plantation house while his slaves or serfs or tenants did all the work. Today the lords of oil have replaced him as the most spectacular resource hogs. Once that source of unearned wealth was cut off by the resource tax, George believed, our economic life would become far more equitable.

George's resource tax would put natural resources in the hands of people who could put them to the most efficient use. This would happen because it would no longer pay to hoard the gifts of nature. The resource tax would make it unprofitable for anyone to own more resources—more land or mines or oil wells—than he could productively use; the hoarder would lose his shirt. The property would go to someone who could use it better and therefore could afford to pay the rent.

The tax burden would shift dramatically, and this would cause us to use more of what we have in surplus, labor, and less of what's short, resources. Today the United States tax system collects only a tiny fraction of the rent on resources. If the full rent were collected, *all* taxes on productive human enterprise—on wages, on business, on buildings—could be drastically reduced. (Henry George thought that *all* other taxes could be abolished. That's why his cause is often referred to as the "single tax" movement. But that was a few wars ago.) Most people—everybody who earns a living by work and isn't sitting on a lot of unused resources—would be much better off. People who work would take home more of their earnings, entrepreneurs would lose less of their profits to taxes, businesses would be motivated to hire more employees, and, at the end of the line, the products of labor would be cheaper.

The cost of using natural resources would rise, and so would the price of products that make relatively heavy use of those resources. We would be motivated to use less petroleum, less land, less of all the irreplaceable gifts of nature. Thus the resource tax would exert a powerful force for conservation, and it could do so by acting on our incentives in a free market, without resorting to taxing gas guzzlers or subsidizing insulation or any of the other regulatory schemes that spawn like tadpoles in the Washington mud.

The most inviting target for Georgists today, as it was when Henry George wrote a century ago, is the American property tax. There really are two property taxes. One, the tax on buildings and other improvements, is a tax on the products of human effort. The other, the tax on the land itself, is a tax on the owner's use of our commons. (The distinction between the two parts of the property tax is seldom made. Certainly it was absent during the California debate over Proposition 13.) In practice, two-thirds or more of the total property tax falls on the buildings, not the land. But under George's sytem, the owner would be taxed the full rent on the land—the rent being how much he could get on the market if he rented it out empty—and much less, ideally nothing, on the buildings.

This simple if drastic change would radically affect how we use and misuse land. It would encourage the more intensive use of *less* land, reduce the suburban sprawl that is devouring the countryside, help small farmers, revive our ailing cities, lower the cost of shelter and, if uniformly applied, end the senseless wars among communities caused by the property tax. (Here again many traditional economists agree with George.) All this would come about thanks to the change in the landowner's incentives. Once the land rent was taxed away, owning land would no longer be profitable in itself. All that would pay would be the productive use of the land. Because people need only so much housing and factories and stores, the maximum use of the most valuable (because best located) land will result in less use of land overall.

Of course present landowners (and owners of other natural resources) bought their property for prices that reflected the scarcity value at the time. To wipe out that value overnight would not be fair. But a tax that appropriated future increase in value could have much the same effect in the long run.

Today speculation keeps the price of land high enough to deny many people, especially small farmers, its use. Small farmers sell out because of high land prices, and the buyer is likely to be Farmer ITT or some other speculator in overalls whose interest is in producing not food but capital gains on an eventual development. With a tax that collects the full rent, the speculator will drop out of the market, and the price will fall to what the land is worth for farming. If, as some evidence seems to show, small farmers use land better than do the agribusiness giants, we would see a revival of the family farm.

Now consider the urban slumlord who is holding on to a deteriorating property. Today if he improves the property, the tax bill will jump. Switch the tax to the land, and he can no longer afford merely to hang on without improving the property; take the tax off the buildings, and the owner can improve the property without being penalized.

The airwaves used for radio and television provide another opportunity to apply George's philosophy. Today government licenses access to the valuable frequencies. Henry George would point out that those airwaves are valuable only because they are scarce—limited by nature. George would auction those rights to the highest bidders, thereby recapturing substantial amounts for society—and taking government out of the business of deciding who shall have access to our eyes and ears.

Applying the gospel to fossil fuels, Henry George purists would insist that the resource should be taxed while it is still in the ground, which of course would motivate the owner to dig the stuff up and sell it. A modified version would be a tax on the resource when it actually is extracted. This tax, which already exists on a small scale, is called a severance tax.

With surprisingly little updating, Henry George, the self-taught American oddball, provides what could be a common platform for people now found at opposite ends of the ideological spectrum. Libertarians and socialists might both find attractive a doctrine that prizes equally the libertarian cause of freedom and the socialist cause of equity. Economic democracy is an attractive ideal that, as offered in our times, usually has come in a package that includes the prospect of bureaucratic tyranny. Henry George's social contract suggests a way to get from here to there with less, not more, governmental control over our working lives.

David Hapgood is the editor of *Focus*, the magazine of the American Geographical Society.