

Unbeatable model

NOW that socialists have thrown in the towel in the War of World Ideologies, even while capitalism is entering a phase of economic turbulence, the time for serious consideration of alternative forms of social and economic structures has arrived.

Viable alternatives are scarce. The Green movement is proposing fruitful approaches, which while incomplete are nonetheless forcing the Establishment to review prevailing perceptions (see Page 88). What is needed, however, is a comprehensive model that both defines the institutions and practices that require reform, and provides a framework for sustainable economic growth.

In my view, the specifications for such a model are provided by only one theorist: American social reformer Henry George, whose ghost has been waiting in the wings for the last century. Try hard as they may to disparage his fiscal perceptions, critics of Henry George have not been able to bury his vision of an economy that would liberate everyone in a civilized society.

His thesis is not uncontroversial. One of the central features of Henry George's analysis has now been challenged in a way that suggests a flaw in the theory.

And if the basic theory is defective, there are grave risks that the vision of a free and prosperous society that springs from it could not be realised – in just the same way as the theoretical formulations of Karl Marx failed to yield the substance of the dreams that clouded his mind as he burrowed in the books of the British Museum.

HENRY George maintained that the monopoly of land leads to the impoverishment of the population. Writing in the 1870s, just as the western frontier was closing, he predicted – on the

• *FOR one brief moment last summer, Washington DC was flirting with the idea of The End of History. A State Department official celebrated the victory of western liberal capitalism over socialism by concluding that the best of all possible socio-economic systems is now centre stage.*

• *Wrong, argues FRED HARRISON, who maintains that the end to the dangerous polarisation between socialism and capitalism has opened up an era of social and economic experiment. Its success depends on whether democracy is powerful enough to avoid the subordination of the liberty of the individual to the authoritarianism of the State and the standardisation that flows from the cartelisation of markets by corporations.*



basis of the Ricardian theory of rent – that the benefits of progress would be incorporated into higher land values.

Wrong, argues C. Lowell Harriss, professor emeritus of economics at Columbia University, New York, and a distinguished Executive Director of the Academy of Political Science.

In a paper presented to a conference in Philadelphia last August, to celebrate the 150th anniversary of the birth of Henry George, Prof. Harriss noted that in the past 100 years the living standards of millions of people have improved beyond the most fantastic dreams of Henry George's contemporaries – an outcome of economic progress which land monopolists have not been able to prevent.

Dr Claude Gruen, the principal economist of a San Francisco firm that specialises in the economics of real estate, also spotted this weakness in George's seminal text,¹ and he sought to explain why George got it wrong:

"Things did not work out in the

way George predicted because land markets did not become monopolies. The margins of urban development were constantly pushed back by expansions in infrastructure while local land-use policies rarely thwarted growth. Land markets were, therefore, competitive".²

No one can deny that millions of great-great grandsons of 19th century peasants now live in comfortable middle-class comfort; owning labour-saving gadgets in the home, driving powerful cars and enjoying vacations in exotic climes.

Nor would anybody deny that millions of people live in abject poverty; not knowing how to pay for their next meals, many of them unable to provide roofs over the heads of their children.

So the picture is a confused one, and Henry George, in the way he reformulated classical theory, did not allow for such ambiguity: the capitalist economy as he analysed it would evolve in a linear way, crushing the wages of workers and exposing the masses to the brutal exploitation of land monopolists.

Unless we can account for this

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anomaly in the analysis, the integrity of the Georgist critique – and the policy prescriptions that flow from it – would be difficult to defend in terms of providing a world-view capable of filling the vacuum left by socialism.

SINCE Henry George sincerely believed in his forecast, he cannot be accused of rhetorical assertions in order to bolster his favoured fiscal policy: a tax on the rent of land.

The efficacy of that tax is, even today, unchallengeable, a fact attested to even by Milton Friedman, the monetarist guru and one of the arch exponents of the free market and hands-off government.

There's a sense in which all taxes are antagonistic to free enterprise – and yet we need taxes So the question is, which are the least bad taxes? In my opinion the least bad tax is the property tax on the unimproved value of land, the Henry George argument of many, many years ago.

– quoted in *Human Events*, Nov. 18, 1978

But Henry George was not merely interested in devising efficient tax systems: he was a campaigner for social justice. The tax on land values was a means to an end – a libertarian society in which poverty was banished and individuals were



• Milton Friedman

free to flourish within a well-integrated community.

He was advocating the transformation of society; not by means of revolution, but his was not a piecemeal programme.

So far as he was concerned, the appropriate adjustments to the tax system would liberate people from the circumstances that nurtured murder, starvation and tyranny.

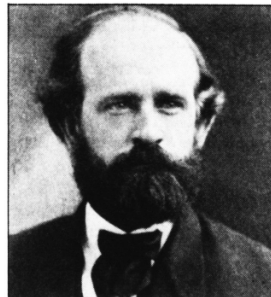
Can we retain faith in that vision, then, if the fundamental theory was wrong? Clearly, the answer must be "No" – if the theory was wrong. It wasn't, and this is the reason why:

Henry George could not have anticipated the demands which new scientific and technological breakthroughs would impose on the quality of the labour that would be needed to operate the economic system in the 20th century.

Employers had to have an educated workforce, to operate the systems of mass production that followed Ford; the working environment dictated the standards of health and cleanliness that were required of employees working in laboratories; the scale of operations in the industries that provided the raw materials, such as the coal mines, thrust new institutions (such as trades unions) on to employees, to provide some kind of order in the labour markets; the demographic density of urban environments compelled the establishment of new standards for public health and habitation.

In other words, it was in the interests of manufacturers to initiate reforms on behalf of employees if the factory system of production was going to operate profitably.

One way was to provide the finance for public baths and libraries in places like Manchester, the heart of the British manufacturing base. This Victorian *largesse*, then, was not so much



• Henry George

philanthropy (the interpretation placed on it by Margaret Thatcher) as self-interest. (Some individuals were undoubtedly moved by compassion, but I believe that the dynamics of Victorian charity have yet to be properly analysed).

In the main, however, the capitalists of industry were not going to finance the standards of health, education and welfare required by the new manufacturing processes out of their pockets. This is not a matter for censure. Under competitive conditions, they could not do so: profit margins were reduced to the minimum acceptable to investors.

There was only one place from which the cash resources could be obtained, to raise the quality of life of individuals and the community: rent. And that could only be accomplished by a determined programme of political action by governments.

IT IS not surprising that in Britain it was the Liberal Party, which represented the industrial class, which originated the programme of welfare, passing the laws which established an embryonic welfare state in the early years of this century.

The Liberals wanted to finance this programme out of rental income. The landlords – represented by the Conservatives – resisted. They lost the political battle (thereby creating

MARX'S MISSED CHANCE

KARL MARX knew that there was one thing only that would save capitalism: a tax on land values. In a number of letters, he informed friends that this fiscal policy was the "last ditch" of the capitalist system. But the armchair revolutionary fervently believed that the proletariat would overcome any attempt by the capitalists to preserve the free market economy.

In fact, the proletariat are now in the process of actively overthrowing systems that were created in the name of Marxism: witness the events in the Soviet Union, Poland and Hungary. The reactionary agents of communism - in countries like China and Albania - are still using the gun to suppress the proletariat, but they will eventually get theirs, as well.

Meanwhile, it is poetic justice - and, in a curious way, historically inevitable - that interest in land value taxation has been revived. In that context, it is worth recalling the words of Marx.

In one letter, written in 1881, just after he received three copies of *Progress and Poverty* from various sources, he wrote that Henry George was a "backnumber": "His fundamental dogma is that order would prevail were ground rent paid to the state."

Marx reviewed the history of the fiscal policy, tracing it through David Ricardo and James Mill and others, and recalled that he had previously written that they "have demanded that rent be turned over to the state to the end of removing taxation. This is the frank expression of hatred which the industrial capitalist entertains for the landowner who seems to him a useless and superfluous

entity in the scheme of bourgeois or capitalist production."

Ridiculing those European writers who thought they were promoting socialism through the adoption of land value taxation, Marx noted that they believed that "by the conversion of the ground rent into a state tax all the ills of the capitalist system of production would vanish of their own accord. In other words, the whole thing is simply an attempt, drenched with socialism, to rescue the rule of capitalism, in fact, to rear it anew upon a firmer basis than its present one."

As for Henry George, Marx wrote that he was a "huckster of panaceas." Well, we now know that Marx - no mean huckster, himself - has been rejected by his ardent followers; and that his solution to the defects in 19th century capitalism has been exposed as a panacea.

It is not surprising that Marx was virulent about Henry George. He could see that land value taxation would, indeed, solve the problems with capitalism. Had such a system been adopted 100 years ago, the need for the experiment in communism would never have arisen. And the world would now be more peaceful and prosperous.

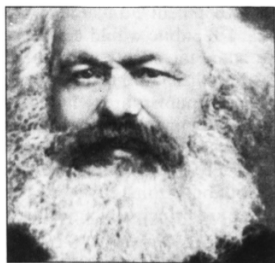
Instead, Soviet citizens, as they queue at the doors of empty food shops in Moscow, presumably realise that they are back to where they started from: 1917.

"The Marxist critique of Henry George is fully explored by Fred Harrison in R.V. Andelson (Editor), Critics of Henry George, Fairleigh Dickinson UP, 1979.

the constitutional crisis of 1909) but won the war (the tax on land values was never levied).

Or did they?

The principle of funding social expenditure out of a direct levy on rent was lost, but the dynamics of the industrial economy compelled redistributive action in favour of enhancing education and providing employees with the level of social and economic security that enabled them - or, put



• Karl Marx

another way, enabled the capital of their employers - to function.

Thus was born the welfare state. The Conservatives in Britain did not like it; nor did the Republicans in the USA. But the welfare state was something they had to swallow, for the sake of

social stability and economic progress.

And so we now know why Henry George was wrong; he did not anticipate the pressures that would lead to the creation of interventionist governments that would champion the citizen.

Free market governments throughout the world emulated this model; they financed welfare out of higher taxes on people's incomes - taxes which, through the pricing system, were passed on down the line until they eventually fell where they belonged (in the view of Henry George): on rental income.

This was appropriation of

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REFERENCES

1. *Progress and Poverty* (1879); New York: Robert Schalkenbach Foundation.
2. "Wealth for only a few," *Northern California Real Estate Journal*, July 31-Aug 13, 1989.

the community, she is less effective in asserting that those of us who strive to be individuals also rely on the community. The reality is the collective, not the individual. We are born into a family and into the community. Even those among us who attain riches do so in the context of the community, and rely on the community – its military, its police, its moral restraints – to protect us so that we can live rich as well, within the safety generated by the community.

She makes clear that capitalism works in the West, because it was modified by the moral principles of the Judeo-Christian religions. But religion has receded in importance and the emphasis since the '60s has been more on a personal experience of God, particularly in the evangelical sects. Instead

of doing good for others in charity as defined by St. Paul and demonstrated in our times by a Dorothy Day or Mother Theresa we have the amorphous "thousand points of light." Capitalism thus has lost much of the restraints on its greed and self-centredness.

DESPITE Lappé's full understanding of the impact of land monopoly on hunger and poverty, she makes only passing mention of land in her book. In *Christian Century* magazine she writes that "the most obvious concentration of economic power is in the form of land", but her arguments about land have no power in this book.

Her omission is even more startling since she quotes Adam Smith frequently. Adam Smith divided the world into the owners of land, labour and capi-

tal. But her discussions about property do not even distinguish land and capital – as he did. He warned in *Wealth of Nations* that "landlords seek to reap where they have not sown." Surprisingly land is not even cited in the table of contents. These are major flaws in the book.

If her work challenges us to delve into our personal and our nation's values then her work will be well done. Reading *Rediscovering America's Values* might even encourage some of us to dust off our Hobbes, Smith, George, Galbraith, Friedman and others. As one reviewer stated, "if more Americans had Lappé's willingness to subject her moral and political convictions to such searching scrutiny we would be a less divided, more moderate and more thoughtful nation."

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rental income by stealth: a process which landowners and policy-makers failed to understand. But it worked! As a result, many people found themselves trained to high levels, deploying skills that were commensurately rewarded.

True, the business cycle created periodic havoc with the labor and capital markets, reminding everyone that they could not take security for granted for too long.

Even so, many people enjoyed standards of living that their ancestors would have found impossible to imagine.

And yet.....

We now know that, despite the ability to send men to the moon, interventionist governments were not able to banish poverty from our midst. That is the perplexing feature of contemporary society that orthodox economists cannot explain.

Henry George can; he would

argue that the land market has not enjoyed the competitive dynamism alluded to by Dr Gruen in the statement quoted above. But disregarding the past, let's look at what Dr Gruen foresees for the future: he warns that, unless the supply of land is now increased, "and soon, Henry George's failed predictions of increasing poverty in the 20th century may turn out to be valid for the 21st century."

IN MY view, the land market continued to exercise a baleful influence over the industrial economy throughout the past 100 years: it was the single major structural defect that caused the booms (through periodic bouts of land speculation) and the slumps.

Henry George provided a theory of business cycles that can teach us far more than all the econometric models that have been constructed in the past few years, the authors of

which have received Nobel Prizes but have yet to demonstrate a capacity to solve the substantial problems of the real world.

The elevation of living standards for a part of the community has been accomplished by the erosion of individual liberty, by the necessary compliance with an authoritarian form of democracy. This acceptance of a less than perfect democracy was necessary (we can now see, in retrospect) for the sake of challenging the powerful class that could not be challenged head-on: the landowners who contributed nothing in return for their claim on a portion of the income that was produced by labour and capital. This created a politics based on social conflict, the costs of which have been enormous.

Nonetheless, the historic possibilities of a transformation to a civilized social and economic system are now before us. Will they be grasped this time?