15

The Single Tax and Laissez Faire

Henry George's attempt to remove the destabilising elements in the economy was a direct challenge to the distribution of power and patronage. That was why it was very necessary for the diehard enemies of the left and the right to take time off to attack him as a common foe, for he threatened their cosy entrenched interests.

On the right, landowners (indiscriminately categorised as 'capitalists') attacked George as a 'socialist' and 'communist'. Associating themselves with the attempt to discredit the American economist, the socialists, including Marx, sought to denigrate and dismiss George as an apologist for the capitalist system. This unholy coalition is the best proof that George held no brief for either of the conventional orthodoxies; that he in fact offered a genuine alternative to those which, through fair trial and repeated error, had successfully discredited themselves.

Henry George did not fit neatly into any of the established categories of political philosophy. He insisted that the private creation of wealth meant that capital could be individually owned. This located him on the right, in Marxist terms. Marx placed the burden of blame for the excesses of 19th century industrial society on capital (hence the title of his book, *Capital*). But George's uncompromising stand against the individual appropriation of the socially-created value of natural resources alienated him from the right, and appeared to lend some force to the argument that he was a socialist.

He did suggest that a full tax on land values, aligned with the removal of taxes on other sources of income, would produce a society that could be called socialism. But he was not an anarcho-socialist (it was Marx who proclaimed 'the withering away of the state'). George saw a continuing but benign role for government, which would collect land values and spend them for the collective good of the community.

> We should reach the ideal of the socialist, but not through government repression. Government would change its character, and would become the administration of a great co-operative society. It would become merely

> the agency by which the common property was administered for the common benefit.[1]

Even so, George was closer to the capitalist, for he ardently advocated the virtues of the free market (which, if permitted to operate freely, was nothing except the neutral mechanism for expressing the totality of preferences of people as consumers and wealth creators). He located the fundamental obstacle to this model in the land tenure system. Winston Churchill was to echo his critique in these terms.

> It is quite true that land monopoly is not the only monopoly which exists, but it is by far the greatest of monopolies — it is a perpetual monopoly, and it is the mother of all other forms of monopoly.[2]

Churchill, as President of the Board of Trade, delivered this scathing commentary on the Tory land monopolists at the hustings. He employed his oratorical talents to inform the people that 'the unearned increment in land is reaped by the land monopolist in exact proportion, not to the service but to the disservice done'. Churchill had no doubt how profoundly evil landlordism was and how it affected the economic system.

> It does not matter where you look or what examples you select, you will see that every form of enterprise, every step in material progress, is only undertaken after the land monopolist has skimmed the cream off for himself, and everywhere today the man or the public body who wishes to put land to its highest use is forced to pay a preliminary fine in land values to the man who is putting it to an inferior use, and in some cases to no use at all. All comes back to the land value...[3]

But was Henry George trying to get the best of both worlds? Was he utopian? Did he create a vision of a Great Society which could never be realised? No. His reforms were not so impractical and abstract as to safely enable people of all political persuasions to pay lip-service to the ideals while conveniently pursuing other courses of action.

George made great claims for the one major fiscal reform that he advocated. A single tax on land values was to accomplish more than income redistribution. It was also intended to lay the foundations of an enhanced moral and social life. Was he over-stating his case? In building up our examination of the charge that he was utopian, we must begin with single issue problems and then work up to the total picture. To this end, we can take as an issue a major contemporary problem, the quality and availability of housing.

Sociologists and psychologists have now documented sufficient evidence for us to take it as proven that poor housing contributes to a deterioration in both family life and the behaviour of individuals who are relegated to slums. Most societies aspire to the provision of good-quality homes for all their citizens in the belief that this is a human right. Yet this goal eludes even the technologically most advanced economies, which have the potential capacity for making such provisions. Can we seriously claim that by eliminating a tax on capital improvements, and offsetting the loss in revenue by raising the income from land values, we would achieve this aspiration? We do not have to rely on theory for an answer. The empirical evidence suggests that this one simple reform would, indeed, make a measurable contribution to the achievement of decent accommodation for every family.

The Australian state of Victoria between the years 1966 and 1978 can be taken as a case study. Twenty-seven metropolitan cities used site value rating (SVR: represented in Table 15:I by Moorabbin, Oakleigh, Malvern and Camberwell). Fifteen cities based their local property tax on the net annual

TABLE 15:I

Victoria Metropolitan Cities, 1966-1978

Numbers and values of building permits issued in selected cities grouped according to rating basis

		Dwellings Nos.	Dwellings Values $000	Alterations and additions $000
A. *Moorabbin, Oakleigh, Malvern and Camberwell*				
Site Value Rating	1966-1969	6,774	49,960	15,364
	1969-1972	5,683	57,271	18,064
	1972-1975	4,667	69,462	22,990
	1975-1978	2,704	74,228	29,714
B. *Caulfield*				
SVR	1966-1969	4,685	26,694	2,183
Composite	1969-1972	1,565	15,053	2,700
	1972-1975	1,650	25,451	3,057
	1975-1978	656	22,990	5,566
C. *Brighton, Prahran, St. Kilda*				
NAV	1966-1969	6,716	49,577	4,107
	1969-1972	4,864	35,861	4,365
	1972-1975	2,254	31,424	5,816
	1975-1978	642	23,887	12,288

value (NAV) of both land and buildings. These cities are represented by Brighton, Prahran and St. Kilda. Before analysing the story as summarised in the statistics, we should note that 1973 saw the peak in the cycle of land values.

Between the censuses of 1971 and 1976, the number of new dwellings built by private enterprise increased on average by 12.9% in the 27 cities that taxed only land values. In the 15 cities that also taxed buildings the average growth in dwellings was a mere 2.8%; eight of these cities showed decreases in their total dwellings.[4]

Because of the escalating price of land in the early 1970s, the absence of a tax on buildings in the SVR cities was not sufficient to offset the effects on the house building programme. The land price boom pushed the price of completed homes beyond the reach of many aspiring owner-occupiers, and the construction of new houses declined. The drop, however, was far less marked in the SVR cities than in the NAV cities. In 1975-78, the number of building permits issued was 39.9% of the 1966-69 figure for the SVR cities; but the comparable figure for those areas that taxed buildings was 9.5%.

So, as people were priced out of the house-buying category, they turned to renovating older properties, and 'making do' with their existing homes. Not surprisingly, the value of improvements trebled in the NAV cities, while they only doubled in the SVR cities. This was because more people in the latter areas were able to buy their way into the quality of homes that they desired: they were not deeply locked into their homes. This fact is verified by the value of new dwellings: the figure increased dramatically for the SVR areas, whereas they slumped badly in the NAV cities.

Caulfield is interesting because it illustrates what happens when a city shifts its property tax onto buildings. The city is one of eight predominantly residential cities. The other seven surround or adjoin it, and are the ones identified in Table 15:I. It can, therefore, be fairly compared with its neighbours.

In 1969-70, Caulfield switched from the site-value basis to the 'composite' basis of taxation (popularly known as the 'shandy' system) under which half of the rates are on site value and half on the value of land-plus-improvements. The immediate consequence was a dramatic drop in the number of building permits sought by developers. Although building permits issued for 1969-72 dropped by 16% over their level in the previous period for the SVR cities, they dropped by 66% in Caulfield. This sensitivity to the property tax has been traced in other urban areas in Australia. Usually, however, the marked change has been in the opposite direction; with the progressive untaxing of buildings by local authorities switching to site value rating, there have been sudden increases in the number of applications for building permits.

The second point to note about Caulfield relates to the value of building permits. The composite tax system is in an intermediate position between SVR and NAV. This is reflected in the figures for the value of building permits, which were worse than for the SVR cities but better than for the NAV cities.

The dramatic lesson to be derived from this is that if a government wishes to encourage new construction, it needs to shift the burden of taxation onto land values. If a government is perverse, however, and wishes to stifle house-building and the quality of the physical environment of its citizens, it should retain — or shift to — a system of property taxes that penalises capital improvements upon the land, the normal practice in the West.

This conclusion would not go unchallenged, however. Homer Hoyt would claim that the loss of profit from land would destroy rather than rejuvenate the construction industry.[5] Coming from such an authority, this is a serious challenge that requires scrutiny.

Hoyt's contention is that developers rely almost exclusively on the increase in the value of land to turn a project into an economically viable one. 'If the full increase [in the value of the land] were taxed (single tax) the developer would have no incentive to build a shopping centre, or to build houses, offices, etc. He would make a profit on sale of houses but I doubt that incentive would be enough,' wrote Hoyt.

Hoyt's argument rests on the assumption that landowners sell their land for less than the full economic rental value capitalised into the highest selling price that the market will bear. It may be that, in some cases — because of imperfections in the market — landowners sell for less than the full residual value of a project after all the development costs (including the developer's normal profits) have been taken into account. In such cases, the developers — the capitalists — enjoy a bonus; they reap some of the economic rent that would normally go to the land monopolist. But would the developer be willing to pay the full economic rent for the opportunity to engage in a viable commercial project? 'In principle he will be prepared to have to pay it all: competition within the development industry will drive developers' profits down to the normal rates for entrepreneurial endeavour. This theory is supported empirically.'[6] This conclusion has been authoritatively endorsed recently by British ministerial advisors.[7] What the evidence amounts to is that developers are already paying the full land tax — the beneficiaries, however, being the land monopolists rather than the community. Landowners capitalise that portion of economic rent that is not already taxed by government, and impose the levy on final consumers through the construction industry.

It would be fair to say that Homer Hoyt understands these facts. When he wrote to the present author that 'My large vacant tract near Washington is being developed and houses are selling rapidly at peak prices', he did so not as developer but as landowner. It is inconceivable that, through ignorance, he willingly allowed the developer to capture part of the untaxed economic rent that Hoyt could lawfully claim as his share of the proceeds. Yet the developer was apparently willing to build the houses — and find a market for them at prices that must have yielded him a satisfactory return on the capital that he had invested in the project. Hoyt's objection cannot be explained in terms of ignorance. To what, then, do we attribute it? The answer must be ideological, which is why he labelled Henry George's system as communism.

If it is now conceded that land value taxation is a practical fiscal reform that generates desirable results, why do we have to insist that it flourishes best when associated with a free market economy? If it is such an efficient medium for both raising governmental revenue *and* creating social conditions close to the ideal, why should we deny the socialist the opportunity to improve his model by adopting this fiscal reform?

We have already documented part of the answer to this question. Socialist national accounting, central planning and the process of determining the relative distribution of income are inconsistent with an efficient land market. And even if this part of the problem could be overcome (by inconsistently allowing a free market in land), we could not expect Henry George's fiscal reform to be sufficient to compensate for the remaining defects in the socialist model. This conclusion is theoretically sound, but we can draw upon empirical evidence to substantiate it.

Jamaica, under the Premiership of Michael Manley, attempted to combine land value taxation with socialism. The preparatory technical work of valuing land and compiling registers was successfully completed, but the distortions in the economy can be ascribed entirely to the political decision to introduce socialism in the other sectors of the economy.

The transition to land value taxation was completed in 1974. The Land Valuation Act (1957) introduced the system, but it was initially applied to rural land alone. During the 1960s, the value of urban land spiralled at a rate of increase as high as 25% to 30% per annum, causing political embarrassment as the government abandoned important investment programmes because of the price of land.[8] The level of unemployment rose from 12% in the 1950s to 24% in 1972. The return to power of the People's National Party in 1972 added new impetus to the land valuation programme, and a system of computer-based records for the island's 500,000 parcels of land was finally completed. By 1974, the authorities were ready to tax urban land, which constituted over half of total values.

The Jamaican version of land value taxation differs from the model prescribed by Henry George, in that it is not a uniform tax for all land capable of yielding an economic surplus. Politicians, responding to pressures from the electorate, instituted a tax which took a little less than 1% of annual site value to about 4.5% at the upper end of the scale of values. Furthermore, part of the tax liability can be legally avoided: agricultural land receives a 75% 'discount', i.e. landowners are required to pay only a quarter of the tax assessed. And hotel properties are allowed a 25% reduction. These concessions raise serious questions about the equity of the tax, for nearly 50% of the potential yield of the land tax has been eroded by reliefs of one kind or another. This shifts an unnecessary (and inequitable) burden onto wages and capital, which retards the development of the country's economic base. This criticism, however, is of the way in which the tax is administered; it does not raise objections to the intrinsic nature of the tax itself.

What happened to the level of land values, which were formerly deterring capital investments? In the first six years of the operation of land value taxation, up to 1980, the prices of vacant sites fell by as much as 50% in some cases.[9] The dramatic increase in the cost of holding land vacant had an impact. But it is not possible to explain the whole of this decline in prices in terms of the tax effect. The six years under review were a period of political and economic turbulence. Michael Manley's socialist policies worried many middle class people: talk of nationalising banks, for example, encouraged many owners of capital to migrate, with the result that the demand for urban land declined. This would have had an impact on prices. Agricultural land values remained fairly steady, however, reflecting the favourable tax treatment as well as the emphasis on the agrarian solution to the problem of rural poverty.

Jamaica's Commissioner of Valuations during this critical period, O. St. Clair Risden, foresaw that from the middle of 1980 the price of land would start to rise again. 'But it seems unlikely that the holding of vacant lots as a hedge against inflation will ever regain its earlier popularity,' he predicted.[10] Nonetheless, the full benefits of land value taxation were not reaped, because the tax rates were too low. As Risden observed:

> If the rate of tax or if the progressivity of rate of tax is not steep enough, no dramatic redistributive effects can be expected and other advantages of the site value system will be nullified.[11]

At the same time, the flight of capital and the 33% level of unemployment created a political crisis. Manley's row with the International Monetary Fund (he claimed that their loan conditions conflicted with his socialist objectives) resulted in the withdrawal of financial support. His plea for help from Fidel Castro of Cuba and Premier Alexei Kosygin of the USSR did not yield the kind of rescue operation that could save his left-wing government. Manley was defeated at the elections in November 1980.

The new Prime Minister, Edward Seaga, promised a return to the principles of the free market. Jamaica entered the 1980s with an opportunity to test her partial taxation of land values within a new framework.

Finally, we must now confront what is the most fundamental challenge to Henry George. The earliest critics argued that the Single Tax was not capable of raising anything like enough revenue for the national exchequer. If true, this would destroy one of the major principles on which George built his vision of the liberal society.

There are various ways in which this contention can be refuted. One is to question the statistical data and curious assumptions employed by George's original opponents. As this exercise has already been performed,[12] we can move on to a fresh approach.

We will advance our case by first dealing with the statistical misrepresentations in the national income accounts, and then proceed to the theoretical argument which demonstrates the truth of George's claim that a Single Tax would raise enough revenue for the public sector.

The objection that the budget could not be balanced is made without taking into account the legitimacy of some forms of public expenditure. If the state insists on stacking up piles of nuclear weapons at an annual cost of many billions of pounds, this can hardly count against the equity or sufficiency of land value taxation. Indeed, even the conventionally acceptable forms of taxes are inadequate: hence the deficit financing that caused inflation. Having made this point, however, it is still necessary to deal with the argument that rental revenue would not be able to meet even the basic cash needs of the public sector.

The inadequacy of land as the sole source of public revenue is a myth that only the paucity of data permits to survive. The astonishing fact is that, while we can reliably state how much income is earned by labour and capital, we do not know — within a tolerable margin of error — how much is enjoyed by the recipients of the economic rent of land.

Attempts have been made to quantify land values and rental income. In the United States, the Conference Board estimated that the asset value of all land in 1975 was $1,284.8bn.[13] That figure seriously misrepresents income derived from land, and an attempt to set the record straight has been made by Steven Cord, the Professor of History at the University of Indiana, Pennsylvania.[14]

Cord first classified the reasons why the 1975 figure was a serious underestimate. Tax-exempt land and mineral land were excluded; market values were under-assessed by tax authorities; corporate landowners declared original buying prices rather than current market values; and there was no allowance for the rental income that can be imputed to organisations such as radio and TV stations.[15] Cord then made some assumptions which enabled him to calculate, on a very conservative basis, that rental income for 1975 was $228bn., approximately double the income that is implied by the Conference Board data. Then, extrapolating forward, he showed that the figure for 1980 would have been at least $440bn., but could have been as high as $600bn., a sum exceeding the combined revenue from state and local taxes, or 48% of all taxes paid in 1978.

Cord's exercise was not without error. But the single over-estimate was the capitalisation of existing property taxes. He took property tax revenue as $51.5bn., but this would have included taxes on personal property that should have been excluded. This problem arose because of the deficient collection of data. Government Census reports disclose data for all property (real and personal) taxes combined. For 1975, a more reliable estimate for the value of real property revenue was $43bn.[16] Cord's error, however, is more than offset by the extremely conservative assumptions he employed in his calculations. Indeed, in subsequent calculations, he was able to conclude that in 1982 a 100% tax on US land values would have reaped about $1,020bn.[17] This sum was nearly double all government revenue. Even this estimate, however, understated the true value of natural resource revenue, because it reflected the ruling prices of energy. These were largely controlled, and below the free market levels. Had the world prices been used, Cord's estimate would have been even higher.

A similar exercise, drawing on more reliable base data, has been undertaken for the Australian economy. In 1976/77, the revenue actually collected as a percentage of total site rent potential as officially defined by the tax authorities, was 35%: see Table 15:II. The Australian data has been monitored by the Melbourne-based Land Values Research Group. The calculations reported here draw heavily on the work by the Group's Research Director, Allan Hutchinson.[18].

The fiscal year 1976/77 is taken for the purpose of examining the fiscal magnitudes. Federal, state and local government tax revenues from all sources were A$24.8bn. The revenue from land value taxes, local authority rates on land, and lease rents, totalled just over A$1.6bn. (col. 1 in Table 15:II). This figure does not include the A$206.2m. royalties from publicly-owned mines and forests. This is a small proportion of public revenue. But if the full assessed value of all sites were taxed for the community's benefit, the sum raised would be A$4.5bn. This figure is arrived at by calculating the portion of site values left in private hands (col. 2). This is done by taking the total unimproved capital value of rateable land in private ownership, which was A$59.5m., and calculating that at 5% (the figure used in municipal valuations), the potential site rent remaining in private hands net of rates and land taxes was A$2.9bn.

The figure of A$4.5bn., however, seriously understates the true potential annual income to be derived from land in Australia. The sum would have to be increased substantially for at least three reasons.

First, official valuations understate the value of land. Revaluations are not

TABLE 15:II

Australia: Land Rental Values and Taxes, 1976/77

State or Territory	Portion publicly collected (1)	Portion not publicly collected (2)	Total Site Rent Potential (3)	Revenue collected: % of total (4)
	Australian dollars: millions			
New South Wales	799.620	1,283.995	2,083.615	38.37
Victoria	368.893	1,110.557	1,479.450	24.99
Queensland	205.084	197.492	402.576	50.94
South Australia	93.296	180.866	274.262	34.01
Western Australia	105.964	110.460	216.424	46.20
Tasmania	17.747	38.183	55.930	31.73
Aust. Cap. Territory	15.598	42.448	58.046	26.87
Northern Territory	4.405	9.185	13.590	32.41
TOTALS	1,610.606	2,973.186	4,561.445	34.99

Source: A. R. Hutchinson, *Land Rent as Public Revenue in Australia, 1976*, London: ESSRA, n.d. [1981].

on an annual basis, but vary from periods between two and ten years. When land values are rising rapidly, as in the 1970s, this leads to serious distortions. Hutchinson has calculated that the under-estimates can vary from 59% (Queensland) to 108% (Tasmania).[19]

Second, the values given for rateable land do not include those for mines, for which rights to royalties are usually reserved to the State governments concerned. They also exclude a substantial proportion of holdings that are exempt from municipal rates and land taxes. These comprise properties held by the Commonwealth and State governments, religious bodies, hospitals and charities. The total value involved for all states is unknown, but the figure for Queensland is published. In 1976/77, rates foregone on exempt properties equalled 12.9% of the total general rate revenue collected. The proportion exempt would be greater in N.S.W. and Victoria, with their larger concentration of government organisations. This, and other valuation shortcomings, would increase the real site rent of Australian land, in Hutchinson's view, to over A$5.2bn., excluding mineral and forestry royalties received as public revenue from publicly-owned lands.

Third, and this is the most important point — yet the one least capable of quantification at the present time — land values would rise significantly under a new tax regime. If taxes on wages and capital were reduced in line with increases in land value taxes, part of the privately-retained income would be spent in such ways as to increase the demand for land. People's tastes change as their incomes rise. They want more spacious houses, access to better recreational facilities, and so on. Land values would rise along with the demand for land. Higher incomes mean greater consumption. The level of economic activity would rise to accommodate the increased personal prosperity. This would increase the demand from the commercial and industrial sectors for land which they needed to expand their productive capacities. The increased competition would drive up land values. Under these collective influences, land values would rise markedly and so benefit the community through the increased revenue received by the exchequer.

Given the present state of knowledge, it would be difficult to predict with precision the amount that would be raised as public revenue in Australia in 1976 under a Single Tax regime. However, the *current* gap between the annual income from land, and total exchequer receipts, would not be narrowed just by increasing the revenue side of public accounts. Public expenditure would be reduced. Governments, at the new level of household prosperity, would need to spend much less on public health, education and welfare programmes, as families exercised their personal preferences based on their increased ability to buy what they wanted without the support of the public sector.[20]

But even on the basis of a static analysis, taking the Australian economy as it was constituted in 1976, it can be argued that rental income *would* have covered public expenditure. This is the conclusion to be drawn from Book VI, Ch. 1 of *Progress and Poverty*, where George argues that *current* tax revenue from all sources is at the expense of rental income. If this hypothesis is correct, a Single Tax society would reap public revenue comprising both current tax revenue from all existing sources *plus* the outstanding economic rent still retained in private hands: there would be an embarrassment of riches for the state! This startling perception follows logically from the Ricardian theory of economic rent. This states that the rate of wages throughout the competitive economy is determined on zero-rent marginal land, the least productive land on which labour and capital can work to yield an acceptable minimum income. On more productive land, which is more fertile and/or more advantageously located, income above this rate is captured as rent.

The theoretical implications, once taxation is introduced to threaten the minimum acceptable returns to labour, are extremely significant. We would expect people to take current levels of taxation into account when bargaining over wages and interest. So their present net incomes would be the proportion of national income acceptable to them in the alternative tax-free regime. In such a society, the difference would be attributed wholly to land.

Adam Smith anticipated this analysis when he noted that taxes on wages and the products of labour were ultimately at the expense of economic rent. They were passed on through higher prices until they eventually reduced the surplus that could be appropriated by landlords.[21]

Conversely, it follows that if we reduce taxes on wages and interest, we do not automatically or permanently increase the real returns to labour and capital. The land monopolist eventually mops up the extra income in higher rents and the selling price of land, as when taxes were dramatically reduced in the US in the 1920s and the 1960s.

Thus, the Single Tax, seen from this perspective, far from being an inadequate source of income, would in fact embarrass us by providing revenue for the public exchequer far in excess of existing expenditure. For example, government expenditure in the US in 1982 was $540bn. Given Prof. Cord's conservative computations, government expenditure would on the face of it have to be *tripled* if we changed to a Single Tax society. Neglect of this insight led Samuelson to undertake a revision of Henry George's philosophy.[22] Starting with his guess that economic rent was 'probably' only about 5% of GNP, he concluded that 'if Henry George were alive today and facing the need of government for more than 25% of GNP, he would perhaps change his movement's name from "the single tax" to "the useful tax on unearned land surplus"'. On the contrary, George would probably argue that economic rent could be defined as being over 30% of GNP, and therefore quite adequate to meet existing public sector expenditure.

At the heart of the issue is the taxable capacity of an economy. This is a slippery concept, because it requires an identification of the 'subsistence' standard of living of a population; the sum above this level becomes the taxable capacity, or economic rent.

> How is subsistence income to be defined? In biological, economic or cultural terms? It would be absurd to assume that the minimum of subsistence is the same for an Englishman as for a native of New Guinea or the Mato Grosso.[23]

The subsistence level of an industrial country is above that of the agricultural economy, which in turn is above that of the rudimentary hunter / gatherer society. Why? Because the different modes of production dictate the expenditure of different amounts of income on health and education. For example, a complex urban society needs to spend much more, *per capita*, on pollution control and technological training than a rural community in Western Samoa, in order to function. It also requires a rate of return on investments that ensures the replacement of the capital that is at the heart of its system of production.

Thus, for industrialised societies, subsistence levels have to be largely defined in economic rather than biological terms. If we bear this in mind, the dynamic fiscal processes that have been described above still apply. To begin with, industrial workers defend their wages by shifting forward increases in taxes which threaten to reduce their living standards below what is perceived to be a 'subsistence' level. This is a fact that is ignored by most economists because, according to Vito Tanzi, the Director of the Fiscal Affairs Department of the International Monetary Fund, it 'gives results inconsistent with the fiscal policy recommendation that one would get from the application of orthodox Keynesian analysis'.[24] Pay bargaining, however, is not constrained by the prejudices of professional economists, and upward movements in taxes do get shifted forward.[25] These taxes show up as increased labour costs and therefore higher product prices, which reduce competitiveness in the international markets. This was understood by the English pamphleteers of the mid-18th century who opposed Horace Walpole's strenuous attempts on behalf of the landlords to eliminate the land tax by substituting a tax on the salt consumed by workers.

The original shift in the tax from rent to wages ultimately had to be at the expense of rental income, of course, because wages were at biological subsistence levels. In 1688, as the fiscal reformers of Britain began to discuss the idea of the income tax, government revenue, at £3m., was estimated by Gregory King to be 6% of the national product; rental income was over 25%. In 1982-83, the state spent over £114 bn., 45% of the annual product. An additional £9 bn. was raised by local governments through the property tax. Rental income was about 5%. The intervening 300 years of tax history is the story of the switch of the burden from land to labour and its products. But this was merely a process of diminishing the portion of rental income that could be appropriated by the *private* sector; a growing portion was needed to fund the state sector.

The logic of this long-run transformation has escaped the attention of statisticians and economists. Once we take it into account, however, the difficulties in explaining the discrete jumps in employment incomes, and the apparent diminution of rental income, evaporate. This is illustrated by the explosive growth of public spending in Britain in the 1920s, which was induced by social welfare legislation on health, housing and unemployment insurance. This programme was financed by taxes on labour and its products. The effects can be traced in Table 15:III. Factor incomes had been constant over the 50 years up to the First World War. Thereafter, there was an apparent leap in the share received by employees. The reason was that gross wages were pushed up to enable wage-earners to pay the new taxes and leave

TABLE 15:III

UK: Distribution of Income and Government Expenditure

	Factor shares, % of national income			Government expenditure: percent of GNP at current prices	
	Employment incomes	Rents	Profits, interest and mixed incomes		
1860-69	49	14	38		
1870-79	49	13	38		
1880-89	48	14	38		
1890-99	50	12	38	1900	14
1900-09	48	11	40	1910	12
1920-29	60	7	34	1920	26
				1928	24
1930-39	62	9	29	1938	30
1948-57	72	4	24	1950	39
				1955	36

Sources: Factor shares—Deane and Cole, *op. cit.*, Table 80, p. 301, citing estimates by various authorities; government expenditure—A. T. Peacock and J. Wiseman, *The Growth of Public Expenditure in the UK* (1961), p. 86.

themselves with a net income which would maintain their 'subsistence' standard of living. This was at the expense of the privately-appropriated rental income.

Employees are not completely successful in shifting forward the tax burden, however. We have seen that, in Britain, after-tax incomes as a share of employers' revenue slumped dramatically over the years 1955 to 1981 (Table 6:V, p. 82). Thus the political attacks on trade unions, vilifying them as anti-social, are misdirected: the loss of profits and markets must be attributed to government fiscal policy, the result of a determination to combine high taxes on labour and its products with a low or zero tax on land values.

We now consider what happens when taxes are reduced. If the government simultaneously reduces its spending, one of two things can happen. If that expenditure was formerly on the provision of goods and services that were part of the 'subsistence' needs of society (e.g. an educational system up to university level), then wage earners will resist attempts to capitalise these tax savings into higher land values. For they will require higher net incomes to meet the provision of all their needs. Their overall living standards, however, would not be increased. On the other hand, if the reduction in public spending amounts to the elimination of what is recognised as wasteful expenditure, there will not be a rise in net incomes. One clear-cut saving is the expenditure on the bureaucracy. If fewer civil servants are required to administer a smaller public sector, the elimination of their jobs would not leave wage-earners with the feeling that their vital living standards were being undermined. The savings from this quarter, then, would ultimately be appropriated into higher land values.

But the strongest modern impetus to higher land values through cuts in taxes arises when the government does *not* concomitantly reduce the size of the public sector. In this case, existing services are simply financed through the inflationary expedient of increasing the money supply. Thus, the wage earner does not have to receive a higher real net income to maintain his living standard, which is unaffected; so the tax cuts are drawn into land values.

The animosity which is directed against the size and efficiency of the public sector is justified in part. There is nothing sacred about public services, although socialists — in defence of entrenched interests — seek to instil such an uncritical view as a means of intimidating free market reformers. But we have to accept that public services were provided because, since the beginning of the industrial revolution, the vast majority of citizens were denied the opportunity of buying adequate health and education services with their subsistence incomes. Poverty and the humanitarian sensitivities of a handful of reformers (as well as the imperative needs of the industrial economy) slowly brought the state sector into existence. Although public expenditure is indirectly financed out of rental income, present forms of taxation create obstacles to both production and consumption. They amount to legislated constraints on the wealth-creating process. Not until we finance the public sector by the direct route, explicitly taxing the market value of all land, will we succeed in eradicating the structural defects in the economy that condemn millions of families to poverty. Only then can we contemplate dismantling essential services merely to reduce the burden of taxes on incomes.

The foregoing analysis of what happens when exchequer revenue is cut opens up a realistic debate and points towards the prospect of a diminution in the size of the public sector; but a precondition for this transition is the creation of a tax on land values, to ensure that the benefits are spread equally among all citizens rather than the privileged monopolists.

Overall, then, when we take into account the dynamic macro-economic effects, we have to conclude that Henry George's Single Tax formula for a reformed free market is vindicated. Where the reductions in existing direct and indirect taxes are not transformed by income earners into higher net wages and salaries (to ensure continuity in the provision of necessary goods and services through the private sector), the surplus income generated by society (economic rent) is sufficient to finance a smaller public sector.

One would have thought that this tax reform would have attracted mass support, out of pure self-interest. For example, Raymond Crotty, an authority on the Irish economy, attempted to interest the Irish trade unions in land value taxation. He had the best possible evidence to present to them: he calculated that the Single Tax would raise more than sufficient to wipe out the IR£1bn. appropriated in income taxes.[26] Furthermore, Irish governments would appear to have had good reason to embrace this policy for political reasons. Dublin was the scene of massive public demonstrations in 1979 by employees who objected to the way in which the fiscal system discriminated against them and in favour of property owners, especially the farmers. Nonetheless, the proposal failed to generate any interest in land value taxation in Eire.

Why Henry George's reforms have been over-looked is one of those perplexing historical puzzles. Students of economic history have to fall back on irony. As one bemused City of London stockbroker put it:

> Thanks to his combination of radical thought, impeccable logic and practical understanding, George's ideas have been largely ignored by professional economists.[27]

As we shall record, there is little evidence that the political decision-makers have entered the 1980s with a greater determination to pursue enlightened policies through a greater clarity of thought than existed over 100 years ago when George put down his pen and set the metal type himself to print the first edition of *Progress and Poverty*.

Notes

1 *Op. cit.*, p.456.
2 *The People's Rights, op. cit.*, p.117.
3 *Ibid.*, p.121.
4 'Victorian Local Government Rating Study', Melbourne: Land Values Research Group, 1979.
5 Correspondence with the present author, letters dated Dec. 23, 1976, and Jan. 14 and 27, 1977.
6 N. Lichfield and H. Darin-Drabkin, *Land Policy in Planning*, London: George Allen & Unwin, 1980, p.71.
7 *Commercial Property Development, op. cit.*, p.51, para. 7.8.
8 O. St. C. Risden, 'A History of Jamaica's Experience with Site Value Taxation', in R. W. Bahl, *op. cit.*, p.252.
9 O. St. C. Risden, 'An Assessment of Land Taxation measures against a background of political and economic change: A Case Study of the Jamican experience in the decade of the Seventies', World Congress on Land Policy, June 23-27, 1980, Cambridge, Mass., mimeo, p. 8.
10 *Ibid.*, p.9. Risden adds (p.11) that premature subdivision for speculation had virtually disappeared, and the larger agricultural properties were tending to be broken up among a larger number of cultivators.

11 'A History...', *op. cit.*, p. 261.
12 One of the most influential of those critics was William Hurrell Mallock. For a critique of his statistical computations and arguments, see Andelson, *op. cit.*
13 J. Kendrick, K. Lee and J. Lomask, *The National Wealth of the United States by Major Sectors and Industry*, New York: Conference Board, 1976, p. 68.
14 S. Cord, *Catalyst*, Indiana: Henry George Foundation of America, 1979, pp. 59-61.
15 Wavelenths are a scarce natural resource that would be included in the economist's definition of 'land', the returns to which are economic rent.
16 W. Wünderlich, *Facts About US Landownership*, Washington, DC: Economics, Statistics and Cooperatives Service, USDA, Agricultural Information Bulletin No. 422, 1978, p. 18.
17 'Land Rent Fund Underestimated', *Incentive Taxation*, May-June 1982, p. 2.
18 A. R. Hutchinson, *Land Rent as Public Revenue in Australia*, London: Economic and Social Science Research Assn., n.d. [1981].
19 Personal communication, 2.2.80.
20 For a general consideration of the way in which public accounting would be affected by a 100% capture of annual land values, see F. Harrison, 'Longe and Wrightson: Conservative Critics of George's Wage Theory', in Andelson, *op. cit.*, pp. 84-90.
21 *The Wealth of Nations, op cit.*, pp. 393-394, 400-401. For a recent elaboration of the principles involved, see M. Gaffney, 'Adequacy of Land as a Tax Base', in D. M. Holland (editor), *The Assessment of Land Value*, Madison; University of Wisconsin Press, 1970, esp. pp. 187-192. It is unfortunate that Ricardo, the one classical economist who might have done most to alert us to this process of income redistribution, actually side-tracked fiscal theorists. This was because he denied that taxes on wages were passed on in higher prices, and ultimately depressed the size of rental income. Part of the explanation for Ricardo's error must be attributed to the confusions induced by his acceptance of the Wage Fund theory, which maintained that wages were paid out of some source established by capital. His second reason for rejecting Adam Smith's original argument is that some farmers worked on marginal land; they did not pay rent, and so they could not recoup the costs of taxes on their wages out of reduced rents. See C. S. Shoup, *Ricardo on Taxation*, New York: Columbia University Press, 1960, esp. Chapter X. What happens, of course, is that taxes which reduce wages and/or interest below minimum acceptable levels simply lead to marginal land being withdrawn from use. Ricardo clearly understood this: "A tithe on land which cannot afford a rent will prevent that land from being cultivated until the price of corn rises" (*ibid.*, p. 45).
22 *Op. cit.*, pp. 538, 566.
23 V. Tanzi, 'International Tax Burdens', in *Taxation: A Radical Approach*, London: Institute of Economic Affairs, 1970, p. 10.
24 V. Tanzi, *Inflation and the Personal Income Tax*, Cambridge: Cambridge University Press, 1980, p. 132.
25 *Ibid.*, pp. 132-142.
26 R. Crotty, 'Submission to the Commission on Taxation', Dublin, Feb. 1981, p. 15, mimeo., reported in F. Harrison, 'How to Abolish the Income Tax', *Land & Liberty*, July-Aug. 1981.
27 J. Roberts, 'Oil & Gas Report', London: Rowe & Pitman, December 1980, p. 11.