BOOK REVIEWS

THE STAGNATION OF INDUSTRY

Any book which will interest readers in the land question and make new converts to land value taxation deserves a warm welcome. Mr Jorgensen* sets out to do this by presenting the problem of business depression, unemployment and the maldistribution of wealth from what he considers to be a more correct standpoint than that adopted by Henry George and those who have followed the method of *Progress and Poverty*. If anyone could give the practical conclusions reached by George an even firmer basis of economic reasoning than he gave them, we should have cause to rejoice. An honest endeavour to do so deserves equally honest and sympathetic scrutiny, and the reviewer must do so even although handicapped by the announcement that this work is only the prelude to two other works in which the author proposes to deal with "The Murder of Economic Science" (*i.e.*, by Ricardo and those who accepted Ricardo's views on rent) and "The Mistakes of Henry George." Despite the absence of these volumes, enough is said in this one to indicate the author's standpoint.

The thesis is this: Business is stagnant and men are unemployed because people are not demanding enough goods. People do not demand enough goods because prices are high. Prices are high because rents are high.

Every one of these statements demands examination. Take the first. What does the demand for goods consist of? Goods are exchanged for goods. (For simplicity of argument, we leave immaterial services out of account.) If there is not sufficient demand for goods there cannot be sufficient supply of goods. The true version of the first statement is: Business is stagnant and men are unemployed because people are not producing enough goods. This is not only true, but it is a truism.

The second statement contains a concealed but widespread fallacy, which lies at the basis of many current proposals for monetary reform. It assumes that if prices were reduced to half their present level people would be able to buy twice as much. The fallacy lies in this. If prices fell to half, and the income of some particular individual remained as before, that individual would be able to buy twice as much as formerly. But the incomes of people are made up of the prices of the commodities they have to sell. If prices fell to half, incomes would fall to half; no one would buy or sell any more than he did before.

The fallacy is precisely the same as in assuming that if people had more money they would be able to buy more. It is true that if one person's money income was doubled he could buy twice as much, but it is not true that if everyone's money income was doubled everyone could buy twice as much. This experiment has actually been tried during periods of inflation and we know what the result was.

It is the third proposition, however, that brings us to the heart of Mr Jorgensen's criticism. He says that "prices are high because rent is high." This assertion is supported by an attempt at an inductive proof. Statistics are given of the course of prices in the United States over a long period purporting to show that in spite of increase in productive power, prices have not fallen, and the inference is drawn that if prices have not fallen it must be because of the increase in rent.

Such reasoning cannot be satisfactory or conclusive for a number of reasons. First, any consideration of the course of prices over a long period must take account of the fact that price represents the number of monetary units which are required to purchase an article. In the United States the monetary unit is one dollar, but Mr Jorgensen pays not the slightest attention to the question whether one dollar represents the same thing during the whole of the two hundred years covered by his graph.

Next, Mr Jorgensen arbitrarily assumes that because prices have not fallen, it is because rent has risen. He might equally well have asserted that rent has risen because prices have not fallen.

Further, Mr Jorgensen's graphs do not bear out the interpretation put upon them. Taking the last twenty years, his graph of wholesale prices shows that from 1910 to 1920 wholesale prices doubled, and between 1920 and 1930 they fell again to about the 1910 level or to half the peak point of 1920. During the same period his graph of the aggregate ground rent of the United States shows an almost steady advance from just over 6,000 million dollars to something under 12,000 million dollars. There is no fall in rent after 1920 to explain the fall in prices.

The truth of the matter is that any conclusion on this matter must be based upon deductive reasoning. Mr Jorgensen virtually admits this in the emphasis he lays upon what he calls the "vast sea of errors and inconsistencies, omissions and confusions" which Henry George plunged into by accepting Ricardo's law of rent and particularly the theory that "rent is not a part of price" or that "rent does not enter into the price of commodities."

The present writer has been unable to discover any passage in George where this assertion is made. Ricardo undoubtedly uses expressions which (especially if taken from their context) would bear this interpretation. However that may be, the broad principle asserted by George and by Ricardo is that the price of identical commodities in any market must be identical, no matter from what land they are produced. This proposition is self-evident. The price of those commodities which are produced on land at the margin of production can contain no element of rent. This proposition proceeds from first principles, for marginal land is by definition land for which no rent is paid. Hence it follows that the price of any commodity is equal to the price of that part of the supply which is produced upon marginal land paying no rent. In other words the rent of *marginal* land does not enter into price.

But it does not follow from this and George does not assert that the rent of *no* land enters into price.

Before pursuing this further we must ask what precisely is meant by the phrase "rent enters into price." Rent is a share of the produce of land which goes to the owner for permission to use the land. It is measured by the excess of what can be produced upon any piece of land over and above what a similar application of labour and capital could produce from marginal land. Under a money economy rent is received in the form of money and not in the form of a share of commodities. The money to pay the rent is obtained by selling the commodities. Rent thus becomes a share of the monetary proceeds of selling the commodities produced. In this sense, and in this sense only, rent is a part of price and so also are wages and interest. Nevertheless the primary definition of rent, wages, and interest is that they are a share of the produce, and it is only secondarily that they are a share of the price. It is one of the great merits of George's analysis that he

***The Stagnation of Industry*, by Emil O. Jorgensen, National Tax Association of America, Chicago, Ill. Price $2.

stuck so faithfully to the primary meaning and did not complicate his argument by reference to price.

Curiously enough Mr Jorgensen, after his violent denunciation of George and his elaborate parade of statistics and rhetoric to prove that prices are high because rents are high, falls back upon a secondary argument, viz., that prices are high because taxes are high. He links this to his other argument by pointing out that taxation upon commodities is high because rent is not taken in taxation. Hence we get this chain of argument: Taxes on commodities are high. Rent is high. Rent is not taken in taxation. Therefore prices are high because rent is high.

But even this chain of argument is defective. The means by which taxation of commodities raises prices is by reducing supply. If the supply were not reduced, prices would not rise.

Although Mr Jorgensen asserts that the root of the trouble is that prices are too high, when he comes to deal with the position of the farmer (still one of the greatest sections of American economic life), he adopts a different treatment. " All farmers, he says, are receiving too little for what they *sell* and paying too much for what they *buy*." They are paying too much for what they buy because of the taxation imposed upon manufacturing and other activities of labour and capital. They are receiving too little for what they produce because of " the unnatural poverty of their customers." This not only contradicts Mr Jorgensen's main thesis, but is a particularly glaring instance of arguing from the particular to the general and of promising special benefits to special interests in similar fashion to the protectionists. If the poverty of the urban population reduces the prices of agricultural products, does not the poverty of the agriculturalist keep down the prices of urban products ? If the burden of present-day taxation raises the price of manufactured articles, does it not also raise the price of agricultural products ? The most that could be said in support of this deplorable chain of reasoning is that the farmers bear a disproportionately large share of taxation. But even if this were true, Mr Jorgensen could logically only have drawn the conclusion that land value taxation would benefit the farmer more than the urban producer.

Mr Jorgensen asserts that George's presentation is faulty because he looks at the matter from the point of view of the producer and not that of the consumer. Yet the fundamental principle of George's treatment is that men seek to gratify their desires with the least exertion.

The idea that economic evils are due to lack of purchasing power is a popular one to-day, and an accurate presentation of George's principles from that standpoint might have great value. It must not be forgotten, however, that the distribution of purchasing power is merely a reflex of the distribution of wealth. Mr Jorgensen says that if the taxes now levied in the United States, amounting to 7,300 million dollars annually, were repealed and replaced by land value taxation, *every* person in the country would gain in purchasing power by this amount or 300 dollars per family. He forgets that the landowners would lose exactly the same amount of purchasing power. Indeed, he asserts that the gain in purchasing power would be much larger because (*a*) the purchases of the rich do not afford as much employment as an equal expenditure by the poor and (*b*) that the landowners do not use all their purchasing power. The first of these reasons is unproved, and is irrelevant because we do not wish to increase work but wealth; and the second paves the way to all the fallacies of the social credit theory and of those who explain present mal-adjustments by undue investment in capital goods.

It is not possible to pursue the discussion of these points here. We would merely repeat that they arise out of a false method of treatment which regards price as the fundamental aspect of the subject, whereas the fundamental point is that rent is a share in the distribution of wealth. Land value taxation is first of all a means of redistributing that share among the whole community. This is not to say that the secondary effects of land value taxation (which are well stated by Mr Jorgensen), such as relieving labour products from taxation, preventing the holding of land out of use, reducing the general level of rent, raising wages and stimulating production, are not also of great importance; but a scientific treatment of the subject must place first things first.

SAFEGUARD PRODUCTIVE CAPITAL

In his latest book,* Mr Louis Wallis has presented the case for land-value taxation in the light of its effects upon the employment of capital. The treatment is pointed, clear and effective, and calculated to arrest attention.

It will appeal to those who regard capital as the " central factor in all industry " to find this point admitted and made the basis of the argument. Mr Wallis emphasises that he means " productive capital," that is to say the actual plant and equipment used in any industry, excluding the capital value of monopoly rights, and " watered capital " beyond the real value of the industrial stock. To-day " when productive capital finds itself more and more pressed between the upper millstone of taxation and the lower millstone of inflated ground values, every kind of payment is either scaled down or stopped." The result is reduction of wages and interest and industrial depression.

This point is incisively developed and illustrated from recent economic experience, and the remedy shewn to be the untaxing of productive industry and the reduction of speculative land values through taxation of ground values.

Incidentally, the author shows that political democracy as it now exists is a compromise in which the economic power of land ownership has been safeguarded, and that the dictatorships of Germany and Italy are not so much a break with democracy as a " reassertion of aristocracy divested of its democratic clothing."

For some strange reason the author proposes to substitute for the term single tax a new name, " capretax " (*i.e.*, capital relief tax). He is wasting his time. Even the sub-title of his book, " Tax ground values and untax industry," indicates that one cannot abandon terms which have gained currency, and after all land-value taxation is something much more than a capital relief tax, it is a labour relief tax.

Like some other modern writers, Mr Wallis cannot resist having a fling at Henry George. The emphasis laid by George upon " abstract rights " and upon land-value as a " social product " is deprecated. Mr Wallis quotes a letter from Professor Edward A. Ross of Wisconsin University who writes: " I agree with you that by rearing a Utopia on the exclusive taxation of land (*sic*), Henry George interrupted the rational evolution which was going on towards recognizing land as peculiarly able to bear taxation." It would be rather difficult to find any evidence of this alleged gradual evolution. There was not anywhere in the world any

* *Safeguard Productive Capital.* By Louis Wallis. (Doubleday, Doran & Co., New York.) 75c.