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A N    A N S W E R

to

M. N. Rothbard's THE SINGLE TAX: ECONOMIC AND MORAL IMPLICATIONS

by

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Dr. Rothbard's paper was published as a special essay by The Foundation for Economic Education, Inc., Irvington-on-Hudson, New York. The cover page states that the paper was prepared in response to inquiries for an appraisal of "various aspects of the single tax theory attributed to Henry George".

The Foundation for Economic Education, Inc., usually referred to as FEE, has been doing a very effective job of education by distributing literature on freedom by old and new writers. Followers of George agree with FEE in its emphasis on the blessings of liberty and have sought to convince its staff that these blessings cannot be realized unless George's remedy is adopted.

I believe that it is important that Dr. Rothbard's critique be answered despite its speciosity. Those who subscribe to George's basic proposition must examine the validity of all objections to his reasoning, for, with George, they are seeking what is called truth wherever it may lead, rather than blindly and dogmatically upholding an acquired faith.

The criticisms made by Dr. Rothbard are of uneven importance. They will be answered generally in the same order as they appear, except for one of his major assumptions that there is no real distinction between land and capital. He is a disciple of Ludwig von Mises, who, in his monumental book Human Action defines capital so as to include land. The following quotation makes von Mises' position clear:

"Classical economics erred when it assigned to land a distinct place in its theoretical scheme. Land is, in the economic sense, a factor of production, and the laws determining the formation of the prices of land are the same that determine the formation of the prices of other factors of production. All peculiarities of the economic teachings concerning land refer to some peculiarities of the data involved." (P. 633)

It would be futile to argue with anyone who accepts unreservedly the statement that land should not be assigned a distinct place in economic thinking. Land, in its classical economic definition as the whole universe save man and his products, is the very foundation and source of life itself, and if it is not to be given a distinct place, if it is not seen in its uniqueness, there is only obfuscation and no light by which to see and reason.

Dr. von Mises' conclusion is that because there are similarities in the pricing of portions of land, of machines, of cattle, of slaves, of labor, of patents, their differences can be ignored. Pricing is similar in the fact that the prospective yield is a major consideration but that similarity does not permit us to disregard significant differences, vital to any logical and useful theory.

Drs. von Mises and Rothbard ignore the fact that land is the source of all material manifestations, and capital as we define it, is the product of labor, the difference appearing sharply in the comparison of a natural spring of water in a desert and a can of water taken from the spring. They ignore the obvious fact that command over land is command over access to the source of existence and that the private owner of desirable land owns the privilege of collecting rent from the user. They ignore the historical record which is written so large that ownership of great estates or plantations makes the owner a gentleman and a lord, and not the other way 'round. They ignore accounting procedure, dictated by realistic considerations, under which land is always carried at its original value, whereas improvements are always depreciated. They ignore present-day landlordism which is disguised in corporate form and which is further disguised in the form of mortgages or debentures. These represent prior liens or ownership by the mortgagees who are the real owners because their claims come ahead of the nominal owners.

But most of all, they ignore the denial of liberty and justice when some collect the fruits of the labor of others.

The differences between land and capital, which von Mises labeled as peculiarities, are fundamental rather than superficial. If labor is accepted as the only justification for the procurement of wealth, the differences between land and capital are seen to be differences of kind and not of degree. They give the clue to the cure required by this concept of justice.

Before going further, it seems fitting to ask: Why are critics of George human and tolerant and understanding about other proposed remedies? Why do they demand that George's method be perfection, flawless, foolproof, painless? What is there on earth, even in the physical sciences, which is final, absolute and all-comprehensive? Why do people who believe in greater federal powers or bigger labor unions or the Federal Reserve System or progressive taxation or rent ceilings or price controls or farm subsidies brush off as inconsequential their inherent and actual dangers, their difficulties and disastrous effects?

Let us now proceed with an examination of Dr. Rothbard's manuscript. Because I believe that the term "single tax" is a misnomer, though it is in common use by friends and foes alike, I shall paraphrase Dr. Rothbard's words when he employs that and similar terms.

Page 1, par. 1. The quotation from E.R. Pease that Progress and Poverty "had more to do with the socialist revival..." is gratuitous, irrelevant and misleading. The statement is true but the quotation has the effect of tying Georgism to Socialism when they fundamentally are opposed.

Page 1, par.3. "That individuals have the natural right to own themselves and the property they create" is clear and accurate if property refers only to wealth and does not include land.

Page 1, par.4. Henry George makes the practical suggestion that "by leaving to land owners a percentage of rent which would probably be much less than the cost and loss involved in attempting to rent lands through State agency, and by making use of this existing machinery, we, without jar or shock, (can) assert the common right to land by taking rent for public uses." My own interpretation of this suggestion is that something like 90 to 95%, rather than 100%, should be paid to local government.

(In private correspondence between Dr. Rothbard and myself, he seized upon the suggestion above to affirm that it was tantamount to giving up George's theory; that if 90% is suggested, why not 50% or 10%? This is a good example of demanding perfection in the practical application of a principle. Managers of real estate may charge 5% and in some cases up to 10% of gross commercial rentals (not to be confused with economic rent) and it seems sensible and practical to give land-owners some consideration for their acting as transmitters of rent of land from the user to the community.)

Page 1, par.5. While Georgists anticipate that rent would suffice for all the PROPER operations of government, that is not the same as our critic's enlargement "that public coffers (will be) overflowing far into the future." In this paragraph, the word "confiscation," which has been used by George himself, I believe to be the wrong word. If many men are being continuously robbed by few men, under man-made statutes, it should not be called confiscation by the community if it repeals such statutes and stops such robbery.

Page 2, par.1. Georgists do not use the word "wicked" to characterize land speculators. They are concerned with principles, rather than principals.

Page 2, par.2. The quotation from Phil Grant is sound, but not complete. Rapacious government and private privilege have, in countries like India and China, taken all above subsistence from those who are considered "born to slave." The secret of our growth has been the greater degree of individual freedom and opportunity and the absence of the chains of a caste system and of hobbling religious and social traditions.

Page 2, par.3. Poverty is blamed on the time factor as if India and China have not had as much time to develop as America. The time factor is a dimension, which like other dimensions or even the necessity for sleep, is automatically taken into account in man's calculations, decisions and actions. That is why business has inventories. That is why

winter clothing is manufactured the previous summer. That is why the pipe lines of trade are ordinarily full. That is why man anticipates - as is so evident when a forthcoming event of business significance is known or expected. That is why George pointed out that we really live on the flow of current, continuous and contemporaneous production.

Though this is not the place for an extended discussion of the cause of commercial interest, ascribed in part by Dr. Rothbard and others to the time factor, it may be helpful to suggest that it is not really the duration but the uncertainty of futures that is the prime factor.

Page 3, par.1. The objection that there may be difficulty in separating site value from improvement value is an old one which George anticipated and answered so effectively that it is hard to understand how anyone acquainted with his answer can raise this particular objection. We can look ahead only a couple of generations and our decisions are made accordingly. The filling-in of swampland, 100 years ago, was an improvement deemed immediately worthwhile, to be utilized currently, not a century later. In business language, the prospective yield has to be more than enough (to allow for error and risk) to amortize the capital investment in at most a generation.

I cannot believe that even Dr. Rothbard would deny that the marketplace makes automatic allowance for land that has been cleared as against adjacent land that is uncleared (assuming that current use can be made of such improvements); for land that is tilled as against untilled land.

Dr. Rothbard gives the impression in his essay and in his correspondence that he is not really aware of the ephemeral nature of wealth. Can he disagree with the following remarks of George:

"It will be well for a moment to consider this idea of accumulated wealth. The truth is, that wealth can be accumulated but to a slight degree, and that communities really live, as the vast majority of individuals live, from hand to mouth. Wealth will not bear much accumulation; except in a few unimportant forms, it will not keep. The matter of the universe, which, when worked up by labor into desirable forms, constitutes wealth, is constantly tending back to its original state. Some forms of wealth will last for a few hours, some for a few days, some for a few months, some for a few years; and there are very few forms of wealth that can be passed from one generation to another. Take wealth in some of its most useful and permanent forms - ships, houses, railways, machinery. Unless labor is

constantly exerted in preserving and renewing them, they will almost immediately become useless ... Accumulated wealth seems to play just about such a part in relation to the social organism as accumulated nutriment does to the physical organism. Some accumulated wealth is necessary, and to a certain extent, it may be drawn upon in exigencies; but the wealth produced by past generations can no more account for the consumption of the present than the dinners he ate last year can supply a man with present strength." (Progress and Poverty, pp. 147-9.)

In separating site values from improvement values, there is no need to seek to identify what Dr. Rothbard calls "original ground." Improvement values can include only those recent enough and utilizable enough to have weight in the marketplace - if they have no weight in the marketplace, they have lapsed back into the soil of the area, so to speak.

To say that assessors cannot and will not attempt the task of separating site values from improvement values is an obvious contradiction of what they are doing daily. The fact that it is impossible to be absolutely precise about depreciation and obsolescence does not make assessment an arbitrary act any more than the determination of the worth of business assets is an arbitrary act.

Dr. Rothbard follows with the astonishing statement that the application of the Georgist principle would require a large army of assessors, many times their present number, whereas it would seem to be indisputable that if their work is to be reduced by the elimination of valuations on buildings and improvements, there would be need for perhaps one-third or less of their present number. But far more important, if the Georgist principle is sound and the revenue derivable from rental values is large enough to abolish most if not all of our present taxes, the millions of men and women involved in all tax phases, law-making, administration, collection, preparation, litigation, both in public and private employ, would be freed to do more useful, more constructive work.

It is true that there would be no room at once in private industry under our present set-up for the employment of a million bureaucrats who were suddenly separated from government service; but it is also true that no one can logically defend the position or continue to support an ever-increasing bureaucracy if it renders little or no service. It may more easily be seen, then, that only when land is made accessible as advocated by followers of George that there will always be room for self-employment and employment of all who would work.

Pages 4 and 5. On these pages, Dr. Rothbard has both unconsciously and directly denied the existence of rent after discussing and affirming its existence in the very same paragraphs.

As a responsible critic, sponsored by a responsible organization, he is presumed to have some knowledge of the concepts he is discussing, particularly when these are as thoroughly defined and clarified as they are in Henry George's Progress and Poverty. George makes clear that rent is not the reward of labor. The reward of labor is called wages.

Dr. Rothbard mixes the two by bringing in terms like "taxing the earnings from a site," and "the income" of the site owner. The word "income" refers to all sources of receipts, whether from land or labor or royalties or wagers or blackmail. When Dr. Rothbard charges that "taxing 100% of a site owner's income" will cause him to lose incentive, the word "income" includes both the wages and the rent of the site owner.

What Dr. Rothbard has done, after stating that productive land earns rents, is to deny the existence of rent by describing it as the wages of site owners.

Consider his words: "The site owner does perform a very valuable service, a service completely separate from that of the man who builds on, and improves the land. The site owner brings sites into use and allocates them to the most productive user... (he) must decide whether or not to work a plot of land or keep it idle."

Assuming these services, do they account for the entire payment to the site owner by the site user? If they do, then the payment is wages and rent is always zero, now, in this economy. If they do not, then the site owner is getting wages plus rent, the latter being the tribute he is legally authorized to, the right to which is freely exchangeable on the marketplace. It is this right that commands the purchase price that is paid for land. No one would pay a purchase price for anything that would not yield him more than the wages to which he is entitled for his labor.

In order to justify his preconceived conclusion that rents as well as selling prices would disappear in a Georgist economy, Dr. Rothbard has permitted himself to use the word rent, describe it as wages and conclude that if a man's wages are taken from him, he will have no incentive, to which last conclusion we must agree.

It may make things clearer if owners are classified roughly into three broad types: owner-users, investors, and speculators. The user seeks the site best suited for his particular use and is blocked by owners who generally ask more than a site is worth and can wait because the land does not spoil or depreciate and the present "tax" on land

is relatively small. The investor seeks a way of making a living by buying the right to collect rent and to manage property for wages. The speculator is gambling on future values.

Neither owner-users nor investors will lose incentive if most of the rent has to be paid by them to the community. Land must be used if life is to be maintained and some people will manage improved property for the purpose of making a living. If they have to pay the rent to the community, they will not have to pay a purchase price for the land. But speculators would lose incentive and that is exactly what the Georgists hope to accomplish.

As far as the owner's contribution toward the proper use of land is concerned, the fact is that the owner cares not about the use - he cares only about the price. That would be perfectly all right if he were not dealing in a form of privilege. Georgists seek the abolition of this privilege.

Dr. Rothbard's fear that there would be a wild stampede where "everyone would rush to grab the best locations," is needless because existing owners and users will stay where they are so long as a reasonable and not a speculative rent is paid to the community. In this statement, there is an unconscious admission that rents would exist and not disappear as our critic has insisted would be the case.

Dr. Rothbard also criticizes the notion that all land can be put to use. It has never occurred to me that any Georgist ever contemplated that all land must be forced into productive use - something that is obviously impossible. This implication by Dr. Rothbard appears to be a "straw man" set up to be knocked down.

And so, we can dismiss this unique objection, that rents would disappear if the Georgist principle were adopted, for users would still be willing to pay what they are paying today for the right to use desirable land and the recipient would be the community rather than the private owners. The speculation in speculation would properly disappear.

Page 7, par.1. When Dr. Rothbard says that idle land means that it "is still too poor to be used by current labor and capital goods" or that "it is not yet clear which use of a site is best," he is avoiding the simple fact that the land is either worthless today or that the owner will not accept what he can get for it today. In this paragraph, there is practically the implication that speculation in land is a very desirable practice, a position that few people would care to defend.

Page 7, par.3. "All of us reap the benefits of the social division of labor, and the capital invested by our ancestors. We all gain from an expanding market -- and the landlord is no exception. The landowner is not the only one who gains an 'unearned increment' from these changes." The simple answer to this statement is that all of us reap or have available to us the benefits of the division of labor and the improvement in machines. That is as it should be. But not all of us reap or have available to us the benefits of increases in particular rental values. The reference to "capital invested by our ancestors" is completely erroneous in its implications. What good is the capital of 1776, of 1876, of 1900 or even of 1920? Most of it is gone, discarded or in ruins. Buildings are the most durable yet business practice is to depreciate them over a period at most of 40 to 50 years. And that is possible only when they are continuously maintained.

The phrase "unearned increment" is understood to refer to special and not to general benefits. If used in the latter sense, it tends to mislead, for we are concerned only with special privilege as the monoxide in the atmosphere.

Footnote Page 7. This is a quotation from a book by B. R. Tucker. He quotes a Reverend Pentecost as saying that the presence of population, the community, gives value to land and that therefore rent morally belongs to the community. Then, Mr. Tucker retorts, Mr. Pentecost's salary or the value of his preaching morally belongs to the community. Dr. Rothbard apparently endorses Mr. Tucker's conclusion. This is a very poor example as it is well-known that ministers, in small as well as in large communities, are notoriously underpaid and they have to work hard for every dollar. But what work is done by the site owner who gains vastly, if his land becomes the center of a great population?

Page 8. We must agree with Dr. Rothbard when he states that land-owning today is a competitive business, and, as such, returns are competitive. But that is not the point. Those who are the owners are collecting something for which they do not labor, which is over and above the wages they are worth in the marketplace for the work they are doing. It is the privilege of collecting tribute that land-owners have been permitted to retain and it is this right to collect tolls that Georgists would restore to the community.

Page 8, par.5. We can also agree with Dr. Rothbard when he says that he accepts the premise that land is God-given and that it is given for the use of individual persons. We can agree that society is made up of individual persons. But we cannot agree that the earth and the emoluments thereof are given for the use of some persons

and not for all. It is only when the community collects rent from the individual persons using desirable land that the rights of all are respected. Dr. Rothbard has forgotten that land titles were always born in force and fraud and then traded as a legalized form of privilege until the next paroxysm occurs, like the Norman invasion in England, the American displacement of the Indians and the Spanish in our country, the Soviet revolution and its "new class" to use the title of an epoch-making book by the Jugo-Slav Milovan Djilas.

Page 9. Here the alarm is sounded that George's remedy means land nationalization. It is virtual and effective land nationalization and is much to be preferred to nationalization of all the means of production. If there is to be government, there must be public revenue. Present day taxation is nationalization of an arbitrary portion of our earnings and fails to distinguish between that which belongs to the individual for his labor and that which does not belong to the individual but which he may get as a form of privilege. Georgists recognize the weaknesses and dangers in strong central governments. They would have local taxing authorities collect the rent and support and therefore control state and federal government. Can anyone maintain that our present forms of taxation are a better way of restraining government power and its inevitable abuse and corruption? Does Dr. Rothbard offer an alternative to George's method?

Page 9. The statement is made here that if an individual cannot own original land, neither can he in the same sense own the fruits of his labor. This must be flatly contradicted as a statement that is not valid. Just as some people build on leased land and get a certain share of wealth from their building on land owned by others, so can labor obtain its wages on land after paying its rental value to the community. It is simply not true that because an object of wealth is an "inextricable" mixture of labor and land, that the owner cannot be "deprived" of rent without being deprived of wages.

Page 10. The reference to the Pakistani baby who is not entitled to any share of the rent from the Iowa land is a shabby one. Idealists dream of the world as one nation with equal rights for every living person. Shall we deride them by asking if they really mean to include the Pakistani baby with the American baby in Iowa? If the Georgist idea can be introduced in one country and makes for greater justice there and can spread over the world only after generations, shall we refuse to put it into effect where we can?

Page 10. Dr. Rothbard ends with a quotation from two eminent French economists who contend that nature has been "appropriated" by man (they do not say some men) for his own use ... she is his property. Is this not the very same argument that can be used to justify slavery?

There are privileges that can be maintained by force and legalized and sanctified by those who control such privileges. Privilege inevitably sows the seeds of its own destruction. The greatest one is ownership of the soil. If it is identified and eradicated, the better instincts, the aspirations, the happiness of man will be served in a manner almost beyond our powers of imagination.

In conclusion, one may ask the reader: Do you know of any better remedy, other than the impossible one of making angels of each one of us? Will you not acknowledge the stultifying and derogating effect of complete Socialism and the possibility that its promise of security may not be realizable? Should we not try freedom and the implementation of the common right to the Earth?

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NOTE: Since writing the above, I happened to reread a memorandum by Mr. Joseph S. Thompson replying to a memorandum "The Single Tax" by Dr. Harley L. Lutz, written for the tax committee of the National Association of Manufacturers. Mr. Thompson's reply to the scarifying charge of nationalization is worth repeating here:

The horrendous bugaboo, "Nationalization of all the land," becomes very flat and tepid when you realize that if you fail to pay your taxes on your land (and on the improvements and contents), it reverts to the state under the present laws. If it is nationalizing the land to tax it, then we are nationalizing legitimate private earnings and the "tools of industry" (to quote the socialists) when we tax them today. The only way to stop the taxation of earned incomes is to tax land values.