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Progress and Poverty *Today*

by HOWARD PFLANZER



PROGRESS AND POVERTY was written by Henry George eighty years ago when business and industry were growing rapidly. He proposed a theory to combat the persistent poverty caused by the slow growth rate of our economy, the crippling depressions and unemployment. In the light of the threat to our capitalist system by the proponents of communism, his ideas have taken on a new significance.

One of the essential differences between George and other economists is that he distinguishes between land and capital, whereas most economists use the terms interchangeably thus distorting their true meaning. Capital is wealth used to produce more wealth or wealth in the course of exchange. The earth exclusive of man and his products is George's definition of land. Only wealth that is invested or used in commerce is *capital*. Wealth is divided into three parts—rent, wages and interest.

As population rises there is a corresponding increase in the demand

for land. The margin of production falls. As this happens rent goes up, adversely affecting labor and capital. Inventions and increased efficiency enable the worker to produce more. This in turn makes the desire for land greater, and rent increases because of the fall of the margin. If wages increase many small business men will close shop and go to work for a wage, causing owners of capital to lower their interest rates to encourage business loans. At this time many workers will go into their own business. Thus an equilibrium between wages and interest is maintained. On the other hand, rent increases at the expense of interest and wages, because unlike the products of labor, land is in limited supply.

An idea put forth by George that has great importance today, is that what most increases land value and therefore rent, is the growth in pop-

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ulation and the corresponding increase in business and trade. He proposed a basic remedy for the problems accompanying industrial progress, namely to "make land common property" by abolishing "all taxation save that upon land values." This is based on the idea that all men have an equal right to use of the land for productive enterprises.

Since the time when Henry George promulgated his theory, economic progress has gone forward at a rapid tempo. However, many evils concomitant with industrial expansion eighty years ago are with us today. We have larger slum areas, recurrent depressions, a tangle of taxation problems and the threat of communism. Money is being spent to build new housing in some areas while others are rapidly turning into slums. Federal subsidies will continue to be wasted until we remedy the basic cause of slums.

Under our present tax system many landlords neglect repairs so the value of their houses will decrease and therefore their assessment will fall. They then hold the land for speculative purposes. If an owner of a group of slum tenements decides to build new housing he is faced with the problem of taxation. His new structures will be evaluated at a higher price and thus his property improvements tax will rise.

In essence the solution to this problem is simple. Property taxes should gradually be shifted from buildings on the land to the land itself. The land will be taxed at its true value while buildings and other improvements will not be taxed at all. Today land is underassessed by a large percentage while buildings are assessed at a high rate. Idle land, or land with rundown struc-

tures on it, held for speculative purposes, is taxed at a low rate, causing a land shortage. A tax on the value of land alone would make development more profitable, and constructive building and repairs would result.

An allied problem and one broader in nature is concerned with the disturbing and destructive effects of land speculators on our general economy. They do not make their profit on any improvement in conditions they have inaugurated, but through the [anticipated] demand for land.

The only answer lies in the appropriation of economic rent, unless we wish to follow the socialistic pattern. The land [value] tax will free large areas of land from the control of speculators. Capital and labor will have a wealth of land, both mineral bearing and with manufacturing potential, open to them when the need arises. This tax will make others unnecessary so that corporate and personal income taxes will gradually be abolished, as the tax on land value fills their place, and without the burden of taxation on production manufacturers will produce at a greater rate.

Depressions, thought by the majority of our economists to be an inherent fault of our capitalist economy, will be eliminated with the abolition of speculation in land. Our economy will prosper because of our own unlimited desire for manufactures and the growing market in the underdeveloped nations of the world. Producers freed from restrictions will carry on manufacturing more efficiently and at a lower price to meet the competition of the other industrial nations of the world.

Monopolies, the bane of the consumer in highly developed capitalist countries, will disintegrate rapidly when the tax is applied only to

Howard Pfanzer, now a pre-medical student at City College, New York, was the winner of the \$100 prize offered by Mrs. Ezra Cohen in memory of her husband who was, until his death, vice president of the Henry George School. The award will be presented by Mrs. Cohen at the school's next completion exercise in December.

Mr. Pfanzer was one of 30 members of the high school students' class taught at headquarters last summer by William Jocher. Completion of this course was a requirement for those wishing to compete in the contest. Henry George influenced his thinking, the award winner says, for he can see definitely how these ideas can be related to slum clearance and many other projects for the benefit of the people.

This is an abbreviated version of the essay which included a detailed explanation of the wages-fund theory and the components of wealth. "Federal spending," he wrote, "is only a stopgap measure causing other economic ills."

land values. For example, large steel companies will not be able to pay the high tax rate on the unused iron bearing lands that they are holding for the future and thus they will have to divert themselves of a large part of their speculative holdings. Under these conditions, smaller steel producers will have a more equal chance to obtain iron bearing lands for their own manufacturing purposes.

Though our present economy is considered to be capitalistic, a sizeable portion, contrary to our desire, is socialistic. To discover this we need only to compare the state of our society with basic principles set

down by Marx for a socialistic organization—we have a heavy progressive income tax, a central bank, and state controlled monopolies.

Price setting by the government on commodities like cotton, wheat and corn is an established practice, and the free market place has been virtually abolished through the imposition of extensive controls. Unwittingly we are destroying the capitalist system with ever increasing governmental control. The institution of restrictive taxation stands out as the death-dealing offender.

If we made land "common property," not through the confiscation of the land but through the expropriation of rent in the form of a tax on the value of the land, we could enable our society to return to a truly free enterprise system.

The Georgist system of collecting rent for governmental purposes and loosening the restrictions on private enterprise is a direct answer to the threat of socialism here and communism abroad. People working on their own initiative in a free economy achieve greater progress than in a strictly controlled one.

If George's theory is adopted, our economy will become the model for all nations. Capitalism will be ascendant and not crushed by the extension of the Communist system. We Americans will show progressiveness, economic efficiency, devotion to liberty, and productiveness that will increase our stature in the eyes of other nations.

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