George and the Danger of Favoring Capital Over Labor

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This paper deals with an anomaly one meets when seeking to teach and apply the ideas promoted by Henry George. How does one forward the interests of labor by untaxing capital? George left some unanswered questions, and later writers and activists have not met them.

George's declared aim in *Progress and Poverty* (*P&P*), and in his life, was to raise wages. "Why do wages tend to a minimum which will give but a bare living?" (p. 17). George declared the original "War on Poverty"; he kicked off the original agitation for "Full Employment." He was overtly egalitarian: he dedicated *P&P* to those who see "the vice and misery that spring from the unequal distribution of wealth." He began with concern for labor, tenants, the unemployed, the impoverished, the "mudsills of society." He did not treat them as a special case, though, to be treated with targeted programs. Rather, he saw the whole wage structure—everyone's wage and salary—as a pyramid based on the wages of unskilled labor.

George's thought then led him along a twisting path. Had there been a wage tax in his day he would surely have fought it, but there was not. His thought led him to identify capital with labor, and thus to champion untaxing buildings, machinery, inventories, and other forms of capital, which he virtually equated with the labor that produced them.

There were no retail sales taxes to fight then (they burgeoned after 1932), but there were other taxes on consumption, and on commerce, both internal and external. Consistently, he also fought them. Untaxing commerce was an end in itself, but even more it was a means to deny the revenues to governments, so they must raise revenues by taxing land values instead. The Founding Fathers, with James Monroe leading, had achieved something of the same end, in part, by forbidding states to tax interstate commerce, forcing them back on property taxation. George aimed to reinforce that outcome, and extend it to the federal level as well.

George did not champion land taxes for being merely "neutral," which is about the most that neoclassical economists will concede, and that right grudgingly. George saw land taxes as a positive good. He saw them as overcoming the tendency of free markets in land, beset by speculation, to keep land from full economical use. He saw that not as a little glitch in the land market, but as driving down labor's marginal productivity and wages. He saw it, by the same reasoning, driving down the marginal productivity of capital, and rates of return to investors.

He saw "free trade in land," without land taxation, as a chimerical policy, the brood of *a priori* dogmatism, uninformed by observation. Human experience with free trade in land, like the mid-19th century English/Irish experiment with it, had shown that such markets lead to "unequal distribution of wealth and privilege"—the very ills that he dedicated *P&P* to curing.

His emphasis on untaxing buildings, however, meant that by the end of his life he had shed many of his original allies, the socialists and unionists, and become more the candidate of small businessmen and small homeowners. Many of these were moved by short-term and petty self-interest of a kind too niggling, too bourgeois, and often mean-spirited, to coexist in harmony with the strong pro-labor, spiritual, and idealistic forces that George had evoked earlier. His dedication to national politics, and free trade, also repelled his powerful spiritual and crowd-stirring ally, the popular Catholic rebel Fr. Edward McGlynn.

George aimed at national goals. He originally got into New York City politics opportunistically. That was his greatest political success, in 1886, but thereafter he aimed for state office, failing. The times changed after the Haymarket Riot of 1886, and economic recovery weakened the demand for reform. George's political alliance broke up. After that, in 1894, he coached a team of six congressmen, associated with the Populist Party, who forced land taxation into the income tax act of that year. The six also supported his free trade position, whose strategic end was to force Washington to tax property in some manner, by denying the treasury its major source of revenue, the tariff. This strategy didn't get far until 1913, after George's death.

George's national interest was inherent in the thesis of *P&P*. He begins it by denying the possibility of achieving his goals by merely local action. Unemployment and hard times "can hardly be accounted for by local causes" (pp. 5-6). Where the conditions of material progress are most fully realized, "we find the deepest poverty, … and the most of enforced idleness" (p. 6). "Social difficulties … do not arise from local circumstances, but are … engendered by progress itself" (p. 8).

"When San Francisco reaches the point where New York now is, who can doubt that there will also be ragged and barefooted children on her streets?" (p. 10). Score one for "The Prophet of San Francisco." He even understated his case. Today in San Francisco it is ragged, barefooted, and homeless adults sleeping in her parks and doorways, and under her bridges, seeking escape in drugs, hard by the most expensive and luxurious housing in the United States.

How, then, did George's movement segue into a movement mainly to untax buildings, one town at a time? There have been many factors at work, but I focus here on one, of paramount importance. This factor is George's identifying capital with labor. We criticize neoclassical economists for using "2-factor" thinking, fusing capital with land. George had his own kind of 2-factorism, fusing capital with labor. Thus, many Georgists channel their energies into untaxing capital. Some of them may believe, if only subconsciously, that untaxing capital is the same as untaxing labor, and reaches George's goals.

How did George lay the groundwork for that? Few teachers in the H.G. schools, or universities either, think highly of George's Book I on capital, or Book III, Chapter III, "Interest and the cause of interest." These, if read too closely, are embarrassments. Only his spritely writing style, filled with illustrations and examples from George's colorful life, let his early readers survive them, and get through to the meat of his book—which of course many of them did. One intelligent and influential critic, Thomas Henry Huxley, apparently read no further than Book I, and rejected all of George on the grounds that George simply did not understand capital and interest very well. On this point (but not otherwise), Huxley was right. What little we know about the bankruptcy of George's newspaper in San Francisco suggests he did not manage capital well, and overextended himself. Most of my readers know that I admire and laud George, and intend no cheap shot or nasty *ad hominem*. It is just prudent to be aware of weaknesses, even of those whom we venerate.

George's attitude toward capital is insouciant. At one point he says the economy, like an organism, "secretes, as it were," the needed amount of capital (p. 86). This is cavalier, and inconsistent with his later activism in the cause of untaxing buildings (to help the economic organism secrete more capital). At another point (p. 79) he has the path between production and consumption like "a curved pipe filled with water. If a quantity of water is poured in at one end, a like quantity is released at the other. It is not identically the same water, but is its equivalent. And so (laborers) put in as they take out—they receive in … wages but the produce of their own labor."

That is the "Fallacy of the Costless Inventory." It is like saying that planting a seedling Douglas fir produces the sixty-year old tree, if the firm harvests one at the same time. It is like saying students go through college instantly and at no cost, because a freshman enters for every senior who graduates.

The core fallacy, one with a strangely Marxian provenance, is George's repeated insistence that labor—and only labor—is what creates capital. In fact, we form capital by consuming less than income—by saving, that is—and investing a like amount. The income may come from rent or interest, not just from labor; and the capital that is produced contains contributions of value from all three factors. Most of the saving comes, and probably always has come, from property income: rent, interest, and business profits (which are mostly rent and interest). A lot of capital, like mature timber, contains more "stored-up rent" than stored-up labor. It also contains a high fraction of "stored-up capital." (Those wanting to pursue this in depth will find the mathematics worked out in the appendix to this writer's "Toward Full Employment with Limited Land and Capital," a chapter in Arthur Lynn, Jr. (ed.), *Property Taxation, Land Use and Public Policy*. Madison: Univ. of Wisconsin Press, 1976, pp. 99-166.)

I draw three lessons from this:

1) George never supplied, and we still do not have, a true "3-factor economics." Georgist economics is just as guilty of "2-factorism" as is neoclassical economics. They fuse capital with land; we fuse it with labor. Georgist theorists need to supply a complete theory, and Georgists need to learn it and teach it and use it. Capital is truly a third factor of production, with its own complexities and meanings.

2) We must not promote or tolerate untaxing capital more than we untax labor. That is what has happened with the personal income tax, creating a huge bias toward substituting capital for labor. Local zoning policies reinforce this powerfully, too, as most localities reserve land for capital-intensive uses in preference to labor-intensive uses.

In one apocalyptic passage, anticipating Karel Capek (author of *R.U.R*., or "Rossum's Universal Robots"), George foresees and warns against this tendency (pp. 252-53). Citing the use of farm machinery in wheat fields, and its displacement of labor, he says we cannot "assign any limits to the increase of rent, short of the whole produce. … [This is] *the final goal toward which the whole civilized world is hastening*" (my emphasis). Scary Mary! His readers must have sat up and taken notice at this point. It is strange that he drops such a powerful bomb in the middle of a paragraph, and does not make it the center of his thesis from there on, but there it lies. He does not, like Capek, have the robots take over the world and eliminate mankind. Rather, the landowners do, and interest falls to zero, as wages do. Implicitly, he seems to have "labor-saving inventions" also save capital, so little but land is needed in production. I cannot unravel all his thinking. The point is, though, that at one point, at least, he saw the danger in substituting capital for labor, and he saw it even in the absence of the kinds of bias now lodged in the Internal Revenue Code. As American jobs disappear overseas, it behooves us to see it, too.

3) George taught that to raise wages and end poverty we must act at the national level: local action alone is not enough. This is a challenge to keep us busy the rest of our lives. On the point, I modestly refer you to an article, “A Cannan Hits the Mark,” in the current AJES (April 2004), pp. 275-90.