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Neo-classical Economics as a Stratagem against Henry George

Mason Gaffney

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Neoclassical economics is the idiom of most economic discourse today. It is the paradigm that bends the twigs of young minds. Then it confines the florescence of older ones, like chicken-wire shaping a topiary. It took form about a hundred years ago, when Henry George and his reform proposals were a clear and present political danger and challenge to the landed and intellectual establishments of the world. Few people realize to what degree the founders of Neo-classical economics changed the discipline for the express purpose of deflecting George and frustrating future students seeking to follow his arguments. The stratagem was semantic: to destroy the very words in which he expressed himself. Simon Patten expounded it succinctly. "Nothing pleases a ... single taxer better than ... to use the well-known economic theories ... [therefore] economic doctrine must be recast" (Patten, 1908: 219; Collier, 1979: 270).¹

George believed economists were recasting the discipline to refute him. He states so, as though in the third person, in his posthumously published book, *The Science of Political Economy* (George, 1898: 200-209). George's self-importance was immodest, it is true. However, immodesty may be objectivity, as many great talents from Frank Lloyd Wright to Muhammed Ali and Frank Sinatra have displayed. George had good reasons, which we are to demonstrate. George's view may even strike some as paranoid. That was this writer's first impression, many years ago. I have changed my view, however, after learning more about the period, the literature, and later events.

Having taken shape in the 1880-1890s, Neo-Classical Economics

(henceforth NCE) remained remarkably static. Major texts by Alfred Marshall, E.R.A. Seligman and Richard T. Ely, written in the 1890s, went through many reprints each over a period of 40 years with few if any changes. "It was for the Chautauqua Literary and Scientific Circle (1884) that I wrote the first edition of my *Outlines*, under the title *Introduction to Political Economy*. In this first edition of the *Outlines* there is to be found the general philosophy and principles that have shaped all future editions, including that of 1937" (Ely, 1938: 81).²

Not until 1936 was there another major "revolution," and that was hived off into a separate compartment, macro-economics, and contained there so that it did not disturb basic tenets of NCE. Compartmentalization, we will see in several instances, is the common NCE defense against discordant data and reasoning. After that came another 40 years of Paul Samuelson's "neoclassical synthesis". J.B. Clark's treatment of rent, dating originally from his obvious efforts to refute Henry George (see below), "has been followed by an admiring Paul Samuelson in all of the many editions of his *Economics*" (Dewey, 1987: 430).

Clark's capital theory "... gives the appearance of being specially tailored to lead to arguments for use against George" (Collier, 1979: 270). "The probable source from which immediate stimulation came to Clark was the contemporary single tax discussion" (Fetter, 1927: 142). "To date, capital theory in the Clark tradition has provided the basis for virtually all empirical work on wealth and income" (Dewey, 1987: 429; cf. Tobin, 1985). Later writers have added fretworks, curlicues and arabesques beyond counting, and achieved more isolation from history and from the ground under their feet, than in Patten's dreams, but all without disturbing the basic strategy arrived at by 1899, tailored to lead to arguments against Henry George.

To most modern readers, probably George seems too minor a figure to have warranted such an extreme reaction. This impression is a measure of the neo-classicals' success: it is what they sought to make of him. It took a generation, but by 1930 they had succeeded in reducing him in the public mind. In the process of succeeding, however, they emasculated the discipline, impoverished economic thought, muddled the minds of countless students, rationalized free-riding by landowners, took dignity from labor, rationalized chronic unemployment, hobbled us with today's counterproductive tax

tangle, marginalized the obvious alternative system of public finance, shattered our sense of community, subverted a rising economic democracy for the benefit of rent-takers, and led us into becoming an increasingly nasty and dangerously divided plutocracy.

The present study sets out to identify the elements of NCE that were planted there to sap and confound George, and show how they continue to warp, debase and vitiate much of the discipline called economics. Once a paradigm is well-ensconced it becomes a power in itself, a set of reflexes to sort the true and false. Any exception spoils the web of interpretation through which art seeks to make human experience intelligible. Only the young, the brave, the energetic, the sincere and the sceptical can break off such fetters. This work is addressed and dedicated to them.

The Imperative to Put Down Henry George

Neo-classical economics makes an ideal of “choice”. That sounds good, and liberating, and positive. In practice, however, it has become a new dismal science, a science of choice where most of the choices are bad. “TANSTAAFL” (There Ain’t No Such Thing As A Free Lunch) is the slogan and shibboleth. Whatever you want, you must give up something good. As an overtone there is even a hint that what one person gains he must take from another. The theory of gains from trade has it otherwise, but that is a heritage from the older classical economists.

Henry George, in contrast, had a genius for reconciling-by-synthesizing. Reconciling is far better than merely compromising. He had a way of taking two problems and composing them into one solution, as we lay out in detail below. He took two polar philosophies, collectivism and individualism, and synthesized a plan to combine the better features, and discard the worse features, of each. He was a problem-solver who did not suffer incapacitating dilemmas and standoffs.

As policy-makers, neo-classical economists present us with “choices” that are too often hard dilemmas. They are in the tradition of Parson Malthus, who preached to the poor that they must choose between sex or food. That was getting right down to grim basics, and is the origin of the well-earned “the dismal science” epithet. Most modern neo-classicals are more subtle (although the fascist wing of the otherwise admirable ecology movement gets progressively less so). Here are some dismal dilemmas that

neo-classicals pose for us today. For efficiency we must sacrifice equity; to attract business we must lower taxes so much as to shut the libraries and starve the schools; to prevent inflation we must keep an army of unfortunates unemployed; to make jobs we must chew up land and pollute the world; to motivate workers we must have unequal wealth; to raise productivity we must fire people; and so on.

The neo-classical approach is the “trade-off”. A trade-off is a compromise. That has a ring of reasonableness to it, but it presumes a zero-sum condition. At the level of public policy, such “trade-offs” turn into paralyzing stand-offs in which no one gets nearly what he wants, or what he could get. It overlooks the possibility of a *reconciliation*, or synthesis. In such a resolution, we are not limited by trade-offs between fixed A and B: we get more of both.

Popular responsiveness to problem-solvers

Voters faced with two candidates, each coached by a neo-classical economist, also face a hard choice. They often appear apathetic and take a third choice, staying home. However, history denies that voters are intrinsically apathetic. They have been excited by candidates who try to lead up and away from dismal trade-offs.

In 1980 it was Ronald Reagan. Instead of the dismal Phillips Curve (“choose inflation or unemployment”), he offered the happy Laffer Curve: lower tax rates would lead to higher supplies, higher revenues and lower deficits, he promised. Lowering taxes, said Laffer, would eliminate the “wedge effect”.³ He often cited Henry George in support of his position.⁴ Thus he would unleash supply, and collect more taxes while applying lower tax rates. The voters were sick of second-generation Keynesians who had been reduced to preaching austerity, so they were game (if not wise) to buy into Reaganomics as advertised.

Unfortunately, the Laffer Curve turned out to be wildly overoptimistic, and Reaganomics partly fraudulent and hypocritical⁵ in application. The voters again tuned out and seemed apathetic. They are not saying, however, that they don’t care. They are saying “come back when you have something better, mean what you say, and deliver what you promise”.

From 1936-70 it was John Maynard Keynes and his apostles who had a long run with the voters, in spite of virulent critics. Keynes’ winning

political formula was that consumption and capital formation are not alternatives to be traded off, but complements that reinforce one another. Raise wages, he said, raise private and public consumer spending, and get more capital formation as a happy by-product. "We can have it all," he said. Who would not prefer that to long-faced moralizers preaching that we must suffer for the prodigalities of the past, or for the sake of a remote and uncertain future? Even puritans learned better as children from Longfellow's "Psalm of Life".⁶

When the theory of the propensity to consume, and the multiplier, lost their charm, and some strong trade unions (like Hoffa's Teamsters) showed their nastier side, the American voters tuned in to John F. Kennedy and "business Keynesianism" in which the emphasis turned to fostering new investment. Keynes had been shrewd enough to cast his theories to accommodate either emphasis. Here the formula was to raise the "marginal efficiency of capital" (today we say the marginal rate of return) after taxes by giving preferential tax treatment to new investment, keeping tax rates high on income from old assets like land. It was a species of Georgism, applied via the Federal income tax.⁷ The key devices were fast write off for new capital, and the investment tax credit. There was no talk or thought, however, of enriching capitalists by impoverishing workers. The promise was to enrich capitalists and workers together, as higher investment raised aggregate demand for labor and its products through the "multiplier" effect.

In time that happy glow of mutuality turned to ashes. After JFK, with his influential economist Walter Heller, the flame burned low; later leaders stumbled in the dark. They relied too simple-mindedly on demand management through fiscal and monetary policy, carrying them well beyond their power to stimulate supply. Thus they lurched into Stagflation: double-digit inflation and recession conjoined. They blamed the war, then the Arabs. They scolded the public, and they called for sacrifices, as leaders always do when they lack ideas. "You must mature and face the facts of life," they lectured. "There is no way to stop inflation except unemployment. Whichever evil you choose, don't blame us, we told you so".⁸ Faced with that, the voters exercised a third choice: they retired the patrons of those new dismal scientists.

Before Keynes there was another great reconciler, Henry George. In 1879, George electrified the world by identifying a cause of the boom/

slump cycle, identifying a cause of inadequate demand for labor, and, best of all, following through with a plausible, practicable remedy. Like Keynes and Laffer after him, he turned people on by saying "Forget the bitter trade-offs; we can have it all".

Henry George came out of a raw, naive new colony, California, as a scrappy marginal journalist. Yet his ideas exploded through the sophisticated metropolitan world as though into a vacuum. His book sales were in the millions. Seven short years after publishing *Progress and Poverty* in remote California he nearly took over as Mayor of New York City, the financial and intellectual capital of the nation. He thumped also-ran Theodore Roosevelt, and lost to the Tammany candidate (Abram S. Hewitt) only by being counted out (Barker, 1955: 480-81; Myers, 1907: 356-58; Miller, 1917: 11). Three more years and he was a major influence in sophisticated Britain. In 1889, incredibly, he became "adviser and field-general in land reform strategy" to the Radical wing of the Liberal Party in Britain, where he was not even a citizen. "It was inevitable that, when [Joseph] Chamberlain bowed out, George should become the Radical philosopher" (Lawrence, 1957: 105-06). It also happened that when Chamberlain bowed out, the Radical wing *became* the Liberal Party. It adopted a land-tax plank after 1891 (The "famous Newcastle Programme"), and came to carry George's (muted) policies forward under the successive Liberal Governments of Campbell-Bannerman, Asquith and Lloyd George.

How could a marginal man come out of nowhere and make such an impact? The economic gurus of the day, even as today, were in a scolding mode, blaming unemployment on faulty character traits and genes and demanding austerity. They were not intellectually armed to refute him or befuddle his listeners. He had studied the classical economists and used their tools to dissect the system. Neo-classical economics arose in part to fill the void, to squeeze out such radical notions, and be sure nothing like the Georgist phenomenon could recur.

Are we imputing too much weight to a minor figure? We are told that Georgism withered away quietly with its founder in 1897.⁹ That, however, is warped history. One of the great derelictions of American historians is to have neglected the single-tax movement, 1901-24. It is also a warped view of "The Single Tax" as a discrete, millennial change, a quantum leap away from life as we know it (Gaffney, 1976). Pure Georgism never "took

over whole hog,” but no single philosophy ever does. Modified Georgism, melded into the Progressive Movement, helped run the USA for 17 years (1902-19) working through *both* major political parties.¹⁰ At the local level, it continued on through the early 1920s. Local property taxation was modified on Georgist lines even as it rose in absolute terms. The first Federal income tax law was drafted by a Georgist (Congressman Warren Worth Bailey of Johnstown, Pennsylvania) with Georgist goals uppermost.¹¹ Real concessions were made: the politicians heard the voters. Historians of the Populist Party and movement often note that its ideas succeeded even though the Party failed, because its ideas were coopted by major parties. Georgism was a strand of American populism, later wrapped into Progressivism.

Consider, for example, that in 1913 Wm. S. U'Ren, “Father of the Initiative and Referendum,” created this system of direct democracy for the express purpose of pushing single-tax initiatives in Oregon. According to U'Ren, another by-product of the single-tax campaigns in Oregon was the 1910 “adoption of the first Presidential Primary Law, which was quickly imitated by so many other States that [Woodrow] Wilson’s nomination and election over Taft was made possible” (U'Ren, 1917: 43). To that we may add that another “Father of the Direct Primary,” George L. Record of New Jersey, was a mentor of Woodrow Wilson and an earnest Georgist who had raised the tax on railroad lands to the great benefit of public schools in New Jersey, and to the impoverishment of special interest election funds. “... it was the passage of these great election reforms in the Wilson Administration [in New Jersey] that led ... [to] winning the Bryan support and the Democratic nomination for President” (Blauvelt, 1936: 28). That helps explain the gratitude of President Wilson, who included single-taxers in his Cabinet (Newton D. Baker, Louis F. Post, Franklin K. Lane, and William B. Wilson), and worked with single-tax Congressmen like Henry George, Jr., and Warren Worth Bailey (Geiger, 1933: 464; Brownlee, 1985).

Consider that in 1916 a “pure single-tax” initiative, led by Luke North, won 31% of the votes in California (*Large landholdings*, 1919; Miller, 1917: 51; Geiger, 1933: 433; Young, 1916: 232). Even while “losing,” such campaigns raised consciousness of the issue to a high degree, such that assessors were focusing more attention on land. Thus, in California, 1917, tax valuers focused on land value so much that they constituted 72% of the

assessment roll for property taxation (Troy, 1917b: 398) - a much higher fraction than today. Joseph Fels, an idealistic manufacturer, was throwing millions into such campaigns in several states (Young, 1916; Miller, 1917), having earlier thrown himself and his fortune into the English land tax campaign that brought on the Parliamentary revolution of 1909 (Fels, 1919, 1940).

Consider that there was a single-tax party, the Commonwealth Land Party. In 1924 its Presidential candidate was William J. Wallace of New Jersey, with John C. Lincoln, brilliant Cleveland industrialist, for Vice-president (Moley, 1962: 162). In 1919 Georgists began working through the Manufacturers and Merchants Federal Tax League to sponsor a *federal* land tax, the Ralston-Nolan Bill. Drafted by Judge Jackson H. Ralston, it would impose a "1% excise tax on the privilege of holding lands, natural resources and public franchises valued at more than \$10,000, after deducting all improvements" (Jorgensen, 1925: 8-9).¹² In 1924 Congressman Oscar E. Keller of Minnesota reintroduced it (H.R. 5733). In spite of Harding, Coolidge, and Hoover, Progressivism still lived in Congress. In 1923, for the first and last time, income tax returns were made public, giving valuable data-ammunition to land taxers. Progressivism also lived in Wisconsin, where Professor John R. Commons in 1921 drafted the Grimstad Bill to focus the property tax on bare land values (Commons, 1922). Commons believed that 95% of "millionaire fortunes" consisted of land and franchise values (1893: 253). Young State Assemblyman (later Professor) Harold Groves was among its supporters.

Consider that in 1934 Upton Sinclair, so-called "socialist," almost became Governor of California on a modified Georgist platform. Two years later, Jackson H. Ralston, by then a Stanford Law Professor, led another California Initiative campaign to focus the property tax on land values. Norman Thomas, perennial Socialist candidate for President of the US, kept a land tax plank in his platform. Daniel Hoan, the "socialist" Mayor of America's model city, Milwaukee, had his tax assessor focus on upvaluing land. Hoan distributed land value maps to the Milwaukee public, to raise their consciousness of the issue.

Historian Eric Goldman (1956) found George to have inspired most of the major reformers of the early 20th Century. "... no other book came anywhere near comparable influence, and I would like to add this word of

tribute to a volume which magically catalyzed the best yearnings of our grandfathers and fathers” (Goldman, 1979). Raymond Moley wrote, “ ... George ... touched almost all of the corrective influences which were the result of the Progressive movement. The restriction of monopoly, more democratic political machinery, municipal reform, the elimination of privilege in railroads, the regulation of public utilities, and the improvement of labor laws and working conditions - all were ... accelerated by George” (1962: 160).

Consider that most American states and Canadian provinces required separate valuations of land, for tax purposes. Professional valuers, responding to the general interest, were routinely valuing land separately from buildings, and developing workable techniques to handle the occasional tricky case (Zangerle, Pollock and Scholz, Purdy, Babcock, Somers, *et al.*)¹³ Valuation anticipates taxation.¹⁴ Lawson Purdy, one of those valuers, was Tax Commissioner of the City of New York, a founder of and power in the National Tax Association, a campaigner for George in the 1897 race, and a leader of the Manhattan Single Tax Club. Under this kind of influence, New York City kept its subway fares down to 5 cents, paying for most of the cost from taxes on the benefitted lands (Trott, 1956: 1). It also exempted new residential structures from the property tax for ten years, 1924-34 (Jorgensen, 1925: 159-62).

Consider that Wright Act Irrigation Districts were spreading fast throughout rural California, using Georgist land taxes to finance irrigation works. The Wright Act dated from 1887, and sputtered along fitfully until in 1909 the California Legislature amended the enabling legislation to limit the assessment in all new districts to the land value only. It also let old districts do so by local option (Cal. Stat. 1909: 461). The old districts soon did: Modesto in 1911, Turlock in 1915 (Troy, 1917a; Mason, 1942: 393; Mason, 1957-58; Jorgensen, 1925: 168-69; Henley 1969: 141; Gaffney, 1969; Ralston 1931: 161-63; Geiger, 1933: 439). This was Georgism getting its “second wind,” so to speak. Beyond much question, the idea was identified with George. The legislative leader, L.L. Dennett of Modesto, got the idea from his father, an old neighbor of Henry George in San Francisco (Dennett, 1916a,b; Mason, 1957-58: 106-08). In Modesto and Turlock, “The campaign was conducted on pure Single Tax lines” (Troy, 1917a: 54).

In 1917, rural Georgism got a third wind: the California Legislature made it mandatory for all Districts to exempt improvements (Stat. 1917: 764, codified Stats. 1943, Ch. 368, Div. 10,11 [California Water Code]; Mason, 1949: 2,6; Gaffney, 1969). They then grew to include over four million acres by 1927, and to dominate American agriculture in their specialty crops. They built the highest dam in the world at that time (Don Pedro, on the Tuolumne River in the Sierra Nevada), financing it 100% from local land taxes. Albert Henley, a lawyer who crafted the modified District that serves metropolitan San Jose, evaluated them thus:

The discovery of the legal formula of these organizations was of infinitely greater value to California than the discovery of gold a generation before. They are an extraordinarily potent engine for the creation of wealth (Henley, 1957: 665, 667; 1969: 140).

They catapulted California into being the top-producing farm state in the Union, using land that was previously desert or range. They made California a generator of farm jobs and homes, while other states were destroying them by *latifundiazation*.

If this is a “minor” phenomenon it is because the neglect of historians and economists has made it so. One searches in vain through academic books and journals on farm economics for recognition of this, the most spectacularly successful story of farm economic development in history. What references there are consist of precautionary cluckings focused on attendant errors and failures. “Economic development” theorists neglect it altogether, as though California’s commercial farming had sprung full blown from a corporate office, with no grass roots basis, and no development period. It is as though the clerisy were in conspiracy against the *demos*, under some Trappist oath against disclosing what groups of small people achieved through community action, and through the judicious application of the pro-incentive power of taxing land values.

There is a common defeatist notion that “farmers” are implacably against land taxation. The California experience seems to belie it. It was the same in other states, also, The Grange and the Farmers’ Union were pushing for focusing the property tax on land during the ’teens (Hampton). In Minnesota, the Dakotas, and the Prairie Provinces the Non-Partisan League became a major power in state and local politics, electing a Governor of North Dakota and swaying many elections. North Dakota

exempted farm capital from the county property tax, taxing land only.¹⁵ The spirit of Prairie Populism straddled the 49th parallel (the international boundary), radicalizing politics in rural Manitoba, Saskatchewan, Alberta, and British Columbia, all of which were focusing their property taxes on land in this period. It would seem that J.B. Clark's allusions to "agrarian socialism" had some basis in fact - he had spent some years in Northfield, Minnesota, in the heart of it. Clark just gave it the wrong name. One could go on: those are just straws in the wind.

George's ideas were carried worldwide by such towering figures as David Lloyd George in England, Leo Tolstoy and Alexandr Kerensky in Russia, Sun Yat-sen in China, hundreds of local and state, and a few powerful national politicians in both Canada and the USA, Billy Hughes in Australia, Rolland O'Regan in New Zealand, Chaim Weizmann in Palestine, Francisco Madero in Mexico, and many others in Denmark, South Africa and around the world. In England, Lloyd George's budget speech of 1909 reads in part as though written by Henry George himself. Some of Winston Churchill's speeches *were* written by Georgist ghosts.

Thus, to the rent-taker, the typical college trustee or regent, George's ideas remained a real and present danger over several decades: the very decades when neo-classical economics was spreading through the academic clerisy.¹⁶ With the development of direct democracy, open primaries, the secret ballot, direct election of US Senators, the Initiative, Referendum, and Recall, and the like, crude vote-buying such as prevailed in the late 19th century would no longer dominate the electorate. Mind-control became the urgent need; NCE was the tool.

George's ideas and the allied Progressive Movement fell, not from failure to deliver, but to the Great Marathon Red Scare that has dominated much of the world from 1919 to 1989. This panic marshalled and energized rent-takers everywhere; by confusion, some of it deliberate, its victims included Georgists.¹⁷ It inhibited them until their message lost its vigour and excitement and became just a minor local tax reform. Its leaders have moved to the trivial center, downplaying George's grand goals for full employment, catering to the practical but small and prosaic advantages of median homeowners at the local level. Now, with the fall of the Berlin Wall, Progressive ideas might very well pick up again where the original Movement was aborted.

2

The reconciler and problem-solver

Let us itemize the several constructive reconciliations in George's reform proposal. This will explain its wide potential appeal and hence its ongoing threat to embedded rent-takers with a stake in unearned wealth. It will explain why they deployed neo-classical economists to work so hard to put this genie back in the bottle.

(1) George reconciled common land rights with private tenure, free markets and modern capitalism. He would compensate those dispossessed and made landless by the spread and strengthening of what is now called "European" land tenure, whose benefits he took as given and obvious. He would also compensate those driven out of business by the triumph of economies of scale, whose power he acknowledged and even overestimated. He proposed doing so through the tax system, by focusing taxes on the economic rent of land. This would compensate the dispossessed in three ways.

- Those who got the upper hand by securing land tenures would support public services, so wages and commerce and capital formation could go untaxed.

- To pay the taxes, landowners would have to use the land by hiring workers (or selling to owner-operators and owner-residents). This would raise demand for labor; labor, through consumption, would raise demand for final products.

- To pay the workers, landowners would have to produce and sell goods, thereby raising supply and precluding inflation. Needed capital would come to their aid by virtue of its being untaxed.

Thus, George would cut the Gordian knot of modern dilemma-bound economics by raising demand, raising supply, raising incentives, improving

equity, freeing up the market, supporting government, fostering capital formation, and paying public debts, all in one simple stroke. It is quite a stroke, enough to leave one breathless.

In practice, landowners faced with high land taxes often choose another, even better, course than hiring more workers: they sell the land to the workers, creating an economy and society of small entrepreneurs. This writer has documented a strong relationship between high property tax rates, deconcentration of farmland and intensity of land use (Gaffney, 1992).

(2) George's proposal enables us to lower taxes on labor without raising taxes on capital. Indeed, it lets us lower taxes on both labor and capital at once, and without reducing public revenues.

(3) Georgist tax policy reconciles equity and efficiency. Taxing land is progressive because the ownership of land is so highly concentrated among the most wealthy,¹⁸ and because the tax may not be shifted. It is efficient because it is neutral among rival land-use options: the tax is fixed, regardless of land use. This is one favourable point on which many modern economists actually agree, although they keep struggling against it, as we will see.

George showed that a tax can be progressive and pro-incentive at the same time. Think of it! An army of neo-classicalists preach dourly that we must sacrifice equity and social justice on the altar of "efficiency". They need that thought to stifle the demand for social justice that runs like a thread through The Bible, The Koran and other great religious works. George cut that Gordian knot, and so he had to be put down.

The only shifting of a land tax is negative. By negative shifting I mean that the supply-side effects of taxing the rent of land will raise supplies of goods and services, and raise the demand for labor, thus raising the bargaining power of median people in the marketplace, both as consumers and workers. This effect makes the tax doubly progressive: it undercuts the holdout power and bargaining power of landowners *vis-a-vis* workers, and also *vis-a-vis* new investors in real capital. This effect also makes the land-rent tax doubly efficient.¹⁹

(4) A state, provincial or local government can finance generous public services without driving away business or population. The formula is simple: tax the rent of land, which cannot migrate, instead of the incomes

of capital and people, which can. By eliminating the destructive “Wedge Effect”, the land tax lets us support schools and parks and libraries and water purification and police and fire protection, etc., as generously as you please, without suppressing or distorting useful work, and without taxing investors in real capital.

(5) Georgist tax policy contains urban sprawl, and its heavy associated costs, without overriding market decisions or consumer preferences, simply by making the market work better. Land values are the product of demand for location; they are marked by continuity in space. That shows quite simply that people demand compact settlement and centrality. A well-oiled land market will give it to them.

(6) Georgist tax policy creates jobs without inflation, and without deficits. “Fiscal stimulus,” in the shallow modern usage, is a euphemism for running deficits, often with funny money. George’s proposed land tax might be called, rather, “true fiscal stimulus”. It stimulates demand for labor by promoting employment; it precludes inflation as the labor produces goods to match the new demand. It precludes deficits because it raises revenue. That is its peculiar reconciliatory genius: it stimulates private work and investment in the very process of raising revenue. It is the only tax of any serious revenue potential that does not bear down on and suppress production and exchange. As I have noted, George’s fiscal policy takes two problems and composes them into one solution.

(7) George’s land tax lets a polity attract people and capital *en masse*, without diluting its resource base. This is by virtue of synergy, the ultimate rationale for Chamber-of-Commerce boosterism. Urban economists like William Alonso have illustrated the power of such synergy by showing that bigger cities have more land value *per head* than smaller ones. (Land value *is* the resource base of a city.) Urbanists like Jane Jacobs and Holly Whyte have written on the intimate details of how this works on the streets. Julian Simon (*The Ultimate Resource*) philosophizes on the power of creative thought generated when people associate freely and closely in large numbers. Henry George made the same points in 1879.²⁰

(8) Georgist policies encourage the conservation of ecology and environment while also making jobs, by abating sprawl. It is a matter of focusing human activity on the good lands, thus meeting demands there and relieving the pressure to invade lands that are now wild and marginal for

human needs. Sprawl in the urban environment is the kind most publicized, but there is analogous sprawl in agriculture, forestry, mining, recreation and other land uses and industries.

(9) Georgist policies strengthen public revenues while in the same process promoting economy in government.

Anti-governmentalists often identify any tax policy with public extravagance. Georgist tax policy, on the contrary, saves public funds in many ways. By facilitating the creation of jobs it lowers welfare costs, unemployment compensation, doles, aid to families with dependent children and all that. It lowers jail and police costs, and all the enormous private expenditures, precautions, and deprivations now taken to guard against theft and other crime. Idle hands are not just wasted, they steal and destroy.

Ultimately, Georgist policy saves the cost of civil disturbances and insurrections, and/or the cost of putting them down. In 1992 large parts of Los Angeles were torched, for the second time in a generation, pretty much as foreboded by Henry George in *Progress and Poverty*, Book X.²¹ Forestalling such colossal waste and barbarism is much more than merely a “free lunch”.

George’s program would abort other, less obvious wastes in government. It obviates much of the huge public cost now incurred to reach, develop and safeguard lands that should be left in their natural submarginal condition. Today, people occupy flood plains and they require levees, flood control dams and periodic expenditure on rescue and recovery. Others scatter their homes through highly flammable steep brushlands, which call for expensive fire-fighting equipment and personnel, and raising everyone’s fire insurance premiums. Others build on fault lines; still others in the deserts, calling for expensive water imports. Generically, people now scatter their homes and industries over hundreds of square miles in the “exurbs”, or urban sprawl areas, imposing huge public costs for linking the scattered pieces with the centre, and with each other.

This wasteful, extravagant territorial overexpansion results from two pressures working together. One force is that of land speculators. They manipulate politics by seeking public funds to upgrade their low-grade lands so that they may peddle them at higher prices. The other force is that of landless people, who seek land for homes and jobs, and public funds for “make-work” projects.

Both these forces wither away when we tax the rent of land and downtax the incomes of labour and capital. This moves good land into full use, meeting the demand for land by using land that is good by Nature, without high development costs. It also creates legitimate jobs, which abates the pressure for “make-work” spending. Above all, it takes the private gain out of raising the value of marginal land at public cost. Such lands, if upvalued by public spending, would then pay for their own development through higher public revenues.

These nine compelling features of George’s program should be enough to persuade one that it had the potential to become very popular. Its premise was socializing land rents. Its very strengths were its undoing, however, for they evoke a powerful, intransigent, wealthy counterforce.

3

The Empire Strikes Back

Rent-takers and their wordsmiths could abide the classical economics of Locke, Hume, Smith and Ricardo, who stopped short of challenging the distribution of wealth. Quesnay's slogan of *laissez-faire*, and Smith's good name, were even coopted as bywords for social conservatism, after death muted their tongues to deny it. John Stuart Mill came closer to kicking over the traces: his distaste for unearned wealth shows clearly in his writings, and he proposed to socialize all future unearned increments. The feeling grew stronger with the years, and his last years were focused on land reform.

Still, Mill could be patronized into oblivion as "the saint of socialism": "saint" apparently meaning something like "scrupler". It was Mill who popularized the idea of raising taxes on landowners only after first compensating them, thus buying the right to tax them. It was a selective scruple: neither Mill nor anyone, to my knowledge, ever proposed compensating workers, consumers, or the owners of capital before taxing them. It was something of a red herring, because it assured that net revenues would be about zero. It simply gave debaters something to chew on while precluding meaningful action. Nevertheless, Mill set the stage for George by analyzing the matter clearly, and putting reform on the table. On the continent, H.H. Gossen, Auguste Walras, and later his son Leon Walras took up the idea - Leon with great passion and *elan*.²² It was then only left for George, who corresponded with and respected Mill, to convert theory into action.

J.E. Cairnes, who took the lead against English support of US slavery, also was a member of Mill's and Wallace's land Tenure Reform Association. He proposed imposing maximum rent controls in Ireland. F.Y. Edgeworth,

scion and heir of Irish landlords, snapped menacingly, faulting Cairnes' mathematical technique; it is not known if that succeeded in intimidating Cairnes, but it is likely that others of lesser standing took the hint.

Still, classical political economy was a remarkable phenomenon. Its major writers in England were able to portray the dominant class of rent-takers as idlers and superfluous drones. One surmises they got by with this because the idlers were proud of it. In their value-system, labor was not respected; conspicuous leisure was. Saving was regarded contemptuously as stinginess: conspicuous consumption was the mark of a gentleman and aristocrat.

In the later 19th century, however, especially in America, values were changing. The franchise was broadening. Pure rent-taking could not be defended in its own terms; it was reeling under attacks from the new functionalists. This is when George could go the rest of the way, showing how to use classical economics to rationalize land distribution through tax reform. Fred Foldvary well-calls him a "geo-classical"²³ political economist. Worse, George was a popular public figure with high-flying ambitions, a large constituency, a bias for action, and a sense of urgency.

The menace George posed to rent-takers is clear from how he viewed them. To George, the landowner *per se* is nonfunctional (unproductive), a layabout drone, a drain on the hive, a transferee, a welfare case. Worse than that, he or she often makes the land itself lay about, too: then he or she is *dys*functional or counterproductive, a double-dipper. Worse yet, landowners become triple-dippers when they use their discretionary income and wealth to dominate politics and drain away yet more treasure through subsidies, public works and services, protections from competition, cheap credit, and so on. Often they are not just passive drones, but active predators.

As to the academic clerisy, George first suspected, and then impugned their motives. They were myrmidons of the rent-takers, using smoke and mirrors to addle, baffle, boggle, and dazzle the laity. He provoked, supplying motive for venomous reaction from those whom the shoe fits.

The inevitable counterattack came to be called "neo-classical economics" (NCE), as though it were simply a natural development and improvement of tried-and-true classical economics. Rent-taking had to be made to appear useful in functional economic terms. The classical underpinnings of George had to be undone in a fairly subtle way, to seem simply evolutionary. There

had to be some legitimacy of apostolic succession, while also nodding to the cult of progress. "Neo-classical" was an inspired stroke of public relations, suggesting modernity coupled with continuity of tradition. It is not, however, an accurate description. It was a radical paradigm shift. The task was to vandalize the stage Mill had set for George, torch the old furnishings, and reset the stage permanently in ways to discomfit George and frustrate future Georgists.

Personal Involvement of George with Early Neo-classicals

Several major figures in the neo-classical revolution had personal contact with George. Among these were J.B. Clark, Philip Wicksteed, Alfred Marshall, E.R.A. Seligman, and Francis A. Walker. Wicksteed was friendly; the others decidedly not so. There is no doubt George was much on their minds and in their hearts, not with the warmth of friendship but the fire of enmity.

JOHN B. CLARK

No single figure personifies the change from classical political economy to neo-classical economics, but J.B. Clark exemplifies it. His aim was to undercut Henry George's attack on landed property by erasing the classical distinction of land and capital. His method was to endow capital with a Platonic essence, a deathless soul transcending and surviving its material carcass. Some characterize Clark's concept as "jelly capital", some as "plastic," some as "putty," but those concrete images rather trivialize the abstract, even spiritual element, and the power of mystical traditions he could marshal to support it. There was an element of reincarnation, evoking Hinduism, transcendentalism, and Rosicrucianism. Clark even uses "transmutation," evoking alchemy. Capital was an immaterial essence, a spiritual thing, that flowed from object to object.

There is nothing inherently mystical about noting that capital turns over: every storekeeper and banker experiences that routinely. A remarkable quality of Clark's capital, however, is that it can ooze ("transmigrate," in Clark-ese) into land, becoming land itself. That is the only apparent reason for the mysticism, smoke and mirrors.

Clark's capital being deathless it is just like land, and theorists after Clark have made land just another kind of machine. The economic world

was thenceforth divided into just two elements, labor and capital. "... that destroys the equality of capital to accumulated savings, and dismisses all Ricardian and Malthusian problems in one fell swoop" (Tobin, 1985). He might have added, it dismisses all Georgist, conservationist, spatial, temporal and environmental questions. It put blinkers on economic theorists which they wear to this day.

J.B. Clark's bibliography includes at least 24 works directed against George, over a span of 28 years, 1886-1914. These are in the bibliography to the present work. They begin with *The Philosophy of Wealth*, 1886. In this work Clark refutes "financial heresies and strange teachings concerning the rights of property ... " (1886: 1-2). The only such strange teaching specified waits to p.126, where a "Mr. Henry George" is accused of "ignoring the productive action of capital". That is a strange complaint to raise against one who recommended untaxing capital, but there it is.

Clark points out that wealth is created "from the mere appropriation of limited natural gifts .." and that repelling intruders "is almost the only form of labor which exists in the most primitive social state" (p.10). The atmosphere as a whole, showers or breezes, "minister transiently to whomsoever they will, and, in the long run, with impartiality". Therefore they are not wealth. Those who appropriate them create wealth by so doing. The essential attribute of wealth is "appropriability," to create which "the rights of property must be recognized and enforced, Whoever makes, interprets, or enforces law produces wealth". He gives to commodities "the essential wealth-constituting attribute of appropriability". He goes on in that vein: those who seize land and exclude others thereby produce its value; George, who would untax capital, is guilty of ignoring its productive action.

Next came *Capital and its Earnings*, 1888. Frank A. Fetter, a disciple of Clark, commented as follows in the course of an encomium to Clark:

The probable source from which immediate stimulation came to Clark was the contemporary single tax discussion. ... Events were just at that time crowding each other fast in the single tax propaganda. *Progress and Poverty* ... had a larger sale than any other book ever written by an American. ... No other economic subject at the time was comparable in importance in the public eye with the doctrine of *Progress and Poverty*. *Capital and its Earnings* "... wears the mien of pure theorybut ... one can hardly fail to see on almost every page the reflections of the contemporary

single-tax discussion. In the brief preface is expressed the hope that 'it may be found that these principles settle questions of agrarian socialism.' Repeatedly the discussion turns to 'the capital that vests itself in land,'... (Fetter, 1927: 142-43)

Clark's argument rose from an "original polemical impulse..". (*ibid.*: 144).

Remember, those are not the words of a critic, but a militant disciple of Clark. Fetter was more Clarkian than Clark, criticizing him only for his occasional backing and filling. He was certainly more forthright and importunate. The very candor and extremism of Fetter's exposition, giving a quick take on Clark, makes his chapter a good display of Clark's essential polemical motivation.

Fetter might have written the same about Clark's major work, *The Distribution of Wealth* (1899), which is mostly a compilation of earlier writings. "One can hardly fail to see on almost every page" Clark's focus on undercutting George. Clark's attacks continue to 1914, "Dangers of Increased land Tax," whose title tells not only where Clark stood, but that the land tax was a live issue in American politics in 1914 (cf. Alvin Johnson, below). Such attacks, direct and indirect, constituted most of Clark's career up to 1914.

In 1890, J.B. Clark confronted George personally in a debate at Saratoga (1890c). Clark's title was "The Moral Basis of Property in land". Here he draws on the concept that capital is an abstract essence that "transmigrates" from capital objects into land, a concept he first advanced in 1888. In 1888 a reaction was sweeping the country after the Haymarket Riots of 1886. In this atmosphere, it was timely to strike at the radical who had been trendy and lionized since 1880 (Henry, 1994).

Another personal confrontation was with George's chief lieutenant, the lawyer, journalist and future Assistant Secretary of Labor, Louis F. Post.²⁴ This was in a debate at Cooper Union (Clark, 1903).

In 1891, in his review of Marshall's new *Principles of Economics*, Clark virtually ignores Marshall for 26 pages while attacking the concept that land rent is a surplus, and/or that other incomes are not surpluses. The preoccupation with George is transparent.

Clark moved to Columbia University in 1895. It has been suggested that he was recruited thither partly in response to his running dispute with Henry

George, a nemesis of Columbia President Nicholas Murray Butler. Actually, Butler was then still waiting in the wings, a strong Dean destined (pre-selected?) to become President in 1902, but this only strengthens the point.²⁵ How so? Because the real President of Columbia in 1895 was preparing to run for Mayor of New York - against Henry George himself. This was the wealthy patrician Seth Low (Barker, 1955: 616-18).

President Seth Low personally recruited Clark, working out a Byzantine scheme to have him paid by Barnard College while teaching at Columbia (Rozwadowski, 1988: 199). To secure Clark, Low had to outbid another powerful anti-Georgist, Daniel Coit Gilman of the Johns Hopkins University, recently founded with B&O R.R. money (Barber, 1988: 223). Clark was a hot property: the new Rockefeller Baptist (aka The University of Chicago) and The Southern Pacific R.R. (aka Stanford University) had also bid on him. An academic myrmidon on tap would be most useful in all such settings; J.P. Morgan's (Low's) need was the most urgent and/or the best-funded.

George was also in a running dispute with E.R.A. Seligman, Chairman of Columbia's Department of Economics over many, many years under both Presidents Low and Butler. Seligman was an ally of Clark's at the Saratoga debate. Butler, in turn, was the funnel through which the wealth of Wall Street, personified by the dominating banker J.P. Morgan, patronized Columbia, making it the wealthiest American university for its times.²⁶ Money poured into the Department of Economics. Under Seligman, his Department swelled from two members to "forty or fifty" (Hollander, 1927: 353).²⁷

This was a period of secularization of US colleges. Businessmen were replacing clergymen on boards. The new broom swept out some old problems, no doubt. At the same time, it posed new threats to academic freedom, threats of which Butler was the very embodiment. Clerics, after all, owe some allegiance to Moses, the Prophets and the Gospels, which are suffused with strident demands for social justice. They were displaced by others more exclusively attuned to the Gospel of Wealth. Academic tenure was a distant dream: top administrators hired and dismissed with few checks and balances. They only needed to dismiss a radical occasionally: others got the message. *Dartmouth College v Woodward* had established that²⁸ Boards of trustees were self-perpetuating and unaccountable: "checks

and balances” never applied to them (except in the banking sense). They were interchangeable with directorships of major corporations, many of them great landowners and/or franchise-holders.²⁹ Pressures on academics were extreme: it was placate or perish (Sinclair, 1923).³⁰

Some of these pressures were specifically anti-Georgist. For example, Professor Allen Eaton was fired from the University of Oregon for successfully pushing a series of characteristically Georgist measures: municipal ownership of the Eugene waterworks;³¹ taxation of waterpower sites; direct election of US Senators; keeping valuable State-owned timberlands from being given to Southern Pacific (Sinclair, 1923: 171-74). These advocacies put him directly in league with W.S. U’Ren, leader of the Oregon single-tax campaigns, and Joseph Fels, his supporter. Elisha Andrews was forced from Brown University for favoring populists George and Bryan (Barber, 1988a: 93-94).

Scott Nearing was fired in 1915 from the University of Pennsylvania (Sass, 1988: 238-39). Pennsylvania Trustee Joseph Rosengarten explained that “men holding teaching positions in the Wharton School introduce there doctrines wholly at variance with those of its founder and ... talk wildly and in a manner entirely inconsistent with Mr. Wharton’s well-known views and in defiance of the conservative opinions of men of affairs” (Sass, 1988: 239). Mr. Wharton’s views are not stated, but might be inferred from the Wharton estate’s holding of 100,000 acres in New Jersey, lying between Philadelphia and Atlantic City. This land supported towns and industries in the 18th century, but under the Whartons went out of use (Ackerman and Harris, 1946: 154).

What were Nearing’s “variant” ideas? Modern socialists claim Nearing as their own, but it is relevant here that in 1915 he published in *The Public*, a Georgist organ (Nearing, 1915). Uncowed by the Wharton Trustees, in 1917 he was speaking for the Joseph Fels Lecture Bureau, a Georgist organization based in Philadelphia, along with prominent Progressive Georgists Warren Worth Bailey, John Dewey (yes, *the* John Dewey), Frederic C. Howe, and George L. Record (J.D. Miller, 1917: 462). He published an analysis of the “occupations” of the trustees of most US colleges and universities (Nearing, 1917), fodder for Sinclair and Veblen, whose books on the same subject followed soon after. His best-known “variant idea” was opposing child labor (Sass, 1988: 239; Sinclair, 1923:

100-110). This was exactly the cause advanced by George's lieutenant and biographer Louis F. Post, founder and long-time Editor of *The Public*, in which Nearing published. As Assistant Secretary of Labor under Wilson, Post (with Julia Lathrop) founded The Children's Bureau in the US Department of Labor.³² The community of interest with Nearing is evident.

The safe route for academics was to work for a patron and grovel. Clark's record is fairly clear. He began as a favorite of Julius Seelye, President of Amherst (Dewey, 1987: 429; Henry, 1994, Chap. 1). Later, Seelye moved to Smith College, and in 1882 hired Clark there. Life under Seelye could be perilous for the truly scholarly. In 1884, Seelye preemptorily fired one of John B. Clark's colleagues, the homonymic geologist John Clarke, for "heterodoxy" (Schuchert, 1925: 54). Clarke was competent enough: he went on to publish several books and 450 professional papers in his field. He became Director of the New York State Geological Survey, and organizer of the State Museum in Albany. His "Memorial" in the *Geological Society Bulletin* runs to 25 pages. His fault at Seelye's Smith had been giving geological evidence of evolution.³³ J.B. Clark was not one to commit such a social gaffe of loose-cannon scholarship.

Before 1886, J.B. Clark had engaged in some "socialist posturing," briefly made fashionable by the depression of the 1870s, and the labor revolution of the early 1880s.

With the formation of the Knights of Labor, then viewed as a dangerous, revolutionary organization, and the Haymarket affair of 1886, such a flirtation was no longer 'respectable' ... academics were subject to close scrutiny, a recantation of previously held views was demanded, and firings occurred in the case of recalcitrants. Clark, as a most respectable economist, quickly and vociferously abandoned all of his seemingly socialist posturing, separated himself from those who were suspect (Ely, for example),³⁴ and framed his new position which demonstrated his loyalty to prevailing authority (Henry, 1992: 32, citing Furner, 1975, and Ross, 1977-78: 52-79).

George was a very present danger at this time to the rent-takers of New York City, where he now resided, published, lectured, and organized politically. He had been nearly elected Mayor in 1886, and probably really was but got counted out by the Tammany machine (Barker, 1955: 480-81). This had been a major event: future US President Theodore Roosevelt "also

ran". Indeed, it was a national event. New York City was "a point of vantage worth contending for, since the moral effect of such a victory of the working class would be incalculable, Such rebellious movements are highly contagious. ... in New York, the labor movement had plunged boldly into political action. ...". (Myers, 1907: 356).

It was even an *international* event, in George's vision. With Michael Davitt, he saw rebellious Ireland as a staging ground for a truly radical program he might then reexport to America through the militant Irish-Americans of New York City, George's major ethnic voting bloc (George, Jr., 1900: 347). Considering that these Irish-Americans had recently staged the Fenian invasion of Ontario, their militancy and their ties with the Ould Sod, while not overwhelming, were substantial enough to alarm conservatives. George was preparing to run again in the 1897 campaign, which finally took his life. It seems entirely believable that men like Low and Butler in a city like New York would patronize a man like Clark at a University like Columbia of 1895 to subvert a man like George.

By this time (1895) Clark was promoting his 1890 theme (of spiritual, transmigratory capital) in debate with the Austrian capital theorist, Boehm-Bawerk (Clark, 1895; Boehm-Bawerk, 1895). Clark's concept of capital "... gives the appearance of being specially tailored to lead to arguments for use against George" (Collier, 1979: 270).

Some modern radicals, schooled mainly in Marx, interpret Clark as being motivated to undercut Marx and communism (Henry 1982, 1983, 1992).³⁵ This view runs into the difficulty that Clark's concept of capital is much like Marx's, and was obviously tailored to refute George, as Collier says. Clark's theory is that land and capital are the same, because "pure capital" is abstract value, and value moves from capital to capital, and also from capital to land, by "transmigration" and "transmutation". When capital "transmigrates" to land it "vests itself" in land, which is a "receptacle for value". Thus land "is made to contain" the capital of those who buy it (Clark, 1890). Remember, Clark introduced these ideas in a debate with Henry George, head-to-head, at Saratoga.

Clark's concept of capital tracks Marx's rather well. Here is Marx: "The value of commodities ... in the circulation ... of capital, suddenly presents itself as an independent substance ... in which money and commodities are mere forms which it assumes and casts off in turn (1867, rpt. 1906: 172).

“Land as capital is no more eternal than any other capital” (1847: 138). Clark’s concept of capital, on which he insisted so dogmatically, was not aimed against Marx; it is almost as though he borrowed from Marx. It was aimed against Henry George, just as Marx aimed his salvos against Pierre Proudhon. Proudhon, like George, offended Marx by distinguishing land from capital.

Another difficulty for the anti-Marx hypothesis is that Clark does not address nor name Marx. Rather, he addresses George, his works, his ideas, and his proposals. Clark does not address communism, but “socialism”. Clark regularly used “socialism” as a mischievous surrogate for Georgism. In various passages he lumps Georgist ideas with “socialism,” and “agrarian socialism”. Marx, on the other hand, is not in the index to *The Distribution of Wealth*, nor have I seen him named in any of Clark’s works.

In Clark’s world, “Marxism” was rather a remote, inchoate menace, an exotic import easily put down as alien, atheistic and un-American. Georgism was different: it was quintessential native radicalism. It found support with labor: Samuel Gompers and Terence Powderly both backed it. It also had immediate political potential with small farmers, with small urban businessmen, with renters, and with small homeowners. Its leader was neither atheistic nor fundamentalistic, but in step with the popular social gospel movement of the times. He was a WASP married to an Irish Catholic, popular with Irish ethnics and liberal Jews. Single-tax had been part of Populism, and was to become part of Progressivism, rising to a crescendo 1913-24, during Clark’s later career. It was easily implementable by a simple turn of the tax screw, using institutions already in place, and carrying forward tendencies already moving in practice. For Clark and his contemporaries it was the clear and present danger. Even in England, “When Karl Marx died in 1883, there must have been dozens of Englishmen who had argued about Henry George for every one who had even heard of” Marx. (Douglas, 1976: 48).

If Clark had focused on confuting Marx, he would have naturally allied with the Austrian School, whose members had that paramount objective. Instead, he attacked the Austrians and their capital theory (1895a, 1907), opening a vendetta that Frank Knight, Clark’s follower, later carried to outlandish lengths, as we will see. Anti-Georgism could not tolerate anti-Marxism. Knight in turn imposed it on the whole Chicago School of neo-

classical economics, which he dominated from its inception.³⁶ George Stigler, echoing Knight, objects to the Austrian-School concept of a “period of production” because it presumes a difference between capital, which has one, and land, which does not (Stigler, 1941: 278). Stigler’s only objection to the dogmatic, intransigent Clark is that Clark made too many concessions (*ibid.*: 217).

Another consanguine element of Clark and Marx is Hegelianism. Clark’s early work contains astonishingly Orwellian passages deifying the state. For example, “The State and no other may say into what form pure capital may go. It has said that it may go into land. For ends of its own it has so decided; and the ends are good” (Clark, 1890c: 27). Such abject sentiments would not shock Clark’s contemporary economists: most of them, like himself, had taken their graduate training in Bismarck’s Germany. R.T. Ely’s prospectus for the “Platform” of the new American Economic Association began with this: “We regard the state as an educational and ethical agency whose positive aid is an indispensable condition of human progress”. Even that was “toned down,” according to Ely, from what Simon Patten and Edmund James wanted, which was to be an American carbon of the *Verein fur Sozialpolitik* (Ely, 1938: 132-49). Such sentiments served, however, to isolate the whole economics profession from the median American.

The Austrians’ goal was to show that capital and its owners are productive; Clark’s goal was to show that land and its owners are productive. To this end he, and his followers to this day, were and are willing to accept substantial taxation of capital, and call it benign (Seligman, 1916; Stockfish, 1957; Harberger, 1968). This concept informed the architects of the Tax Reform Act of 1986, under which American businesses and workers now moil, travail, ail, and fail. “... to date, capital theory in the Clark tradition has provided the basis for virtually all empirical work on wealth and income” (Dewey, 1987: 429). Let’s recap that. A concept “specially tailored to lead to arguments for use against George” (Collier, 1979: 270) is still “the basis for virtually all empirical work on wealth and income” (Dewey, 1987: 429). Could that help explain why land and rent are minimized in this empirical work (Kurnow)?

The survival and coexistence of Marxist economics and neo-classical economics among modern academicians, and the submersion of Georgist

thinking, may be in part a logical outcome of this semantic consistency of Marx and Clark. It makes for easier mutual vituperation at a visceral level. In this odd sense, the warring camps “need” each other. The dominant neo-classical schools can debate comfortably with Marxists who share their naive dualistic or two-factor view of the world. Issues can be reduced to prejudices, with routine appeals to known biases. Neither party needs to budge or think; each enjoys belaboring the other. Basic definitions are not questioned. Each group makes an easy foil for the Pavlovian posturing of the other.

Coping with Georgism, on the other hand, calls for actual cerebration, reexamining basic concepts. After all, how is a Chicago economist to explain why he, a dogmatic, extreme spokesman for private property as a social panacea, favors socializing part of capital through taxation? How can he damn the “radical, confiscatory” Georgist who would relieve capital from taxation? A Marxist might damn the Georgist for that, as Marx himself did: he called George the last ditch defense of capitalism. But the Chicago School? Where previous radicals like Marx would wield the meat-axe blindly against all property, George would strike surgically to tap the rent of predatory and dysfunctional property. He, George, would spare and nurture functional property. He would distinguish the drones and predators from the creators and conservers of capital. This is a hard one to deal with, especially for the drones and predators.

In 1899 Clark delivered his other main stroke against George, his doctrine of factor symmetry. By now George’s sharp tongue was silenced by death, but Clark prefaces his *Distribution of Wealth* with this. “It was the claim advanced by Mr. Henry George ..” that led him to generalize the theory of marginal productivity (p. viii). It was not intended as a compliment. Chapters VII and VIII of the book are aimed at “Mr.” George, by name. When he is not attacking George directly, he is getting at him through Ricardo.

In fact, no one who has read George can study Clark’s *magnum opus* without recognizing it as a tract leveled against the unwashed “Mr.” George almost from beginning to end. Throughout, the obvious idea is to merge land with capital, by whatever device. On p.2, the rent of land is merged with interest “for reasons that will appear later”. This begins a kind of “proof by infinite retreat”. The promised reasons are later put off again to

Chapter XXII, which puts them off to Chapter XXIV, where they finally disappear in the fine print of one of the longest footnotes in history: 395-98. Along the way he repeats his idea that capital is immortal, reprinting earlier works as chapters. At one point he says rent is interest because it equals the interest rate times the price of land. Elsewhere he says unearned increments are really part of the wages of workers who are also landowners. Device after device is used; deferral after deferral of promises to treat central matters "later". Meantime, however, rent is interest and land is capital throughout the book.

Clark had telegraphed his anti-Georgist intent in the 1891 review of Marshall: 142-43, in this convoluted passage:

If the special product of land be treated as the only true rent, and if land be thereby separated from other productive instruments, then the principle becomes a barrier against the attainment of a general law of distribution. Identify land with other instruments, as embodying one general fund of invested wealth, and you may apply the Ricardian principle to the income from all of it. The return from invested wealth, or the interest of capital in the abstract sense of the term, is, as we have said, a differential gain as truly as is the special return from labor applied to good land. ... the principle of differential gain will be seen governing the entire *static* income of society ... interest is the rent of a pure fund of invested capital, so wages are the rent of a ... fund of labor force; and both are as amenable to the Ricardian law as is the income derived from a fertile farm.

Whatever we may think of the outcome, Clark thought he was refuting Henry George.

Clark's enduring influence, and its ideological content, may be inferred from Paul Homan's paean (1928):

When ... he published *The Distribution of Wealth*, the logical beauty and precision of the system of theory there displayed was like an illumination from Heaven to many of those whose goal for economic science was the reduction of economic life to terms of law and order.

The evidence suggests that this light was inspired by an urgent need to blind students to the message of Henry George.

As to capital formation, depreciation, and obsolescence, Clark simply assumed them away by postulating a static state. He alleged that was the correct way to analyze basic economic principles; dynamics was too

complex, and muddied the waters. One might study dynamics *after* mastering the basic principles of statics, a mastery somehow never quite achieved in time to get on to dynamics. Ever since, micro-economic theory has been largely lacking a time-dimension: a curious lack for a discipline using calculus and aping the methods of physics. Clark purged time, and relations of sequence, from micro-economic theory.

George was the first economist to address head-on the problem of “recurring paroxysms of industrial depression,” as he called them. He made this an integral part of his theory. Even Karl Marx, who nominally recognized the problem earlier, and appeared to make much of it, addressed it mainly with a jumble of press clippings on the suffering of the unemployed (Marx, 1867, Chap. XXV, Sect. 5, Articles d-f). George adumbrated a cost-push analysis of depression, in which cyclical overpricing of land was the prime cause. Veblen’s later cost-push model of the upper turning point looks suspiciously like George’s, but with the term “goodwill” substituted for price of land. Wesley Mitchell, Veblen’s disciple, pioneered further work in business cycles, but in a militantly Baconian way that let his work be compartmentalized, separated totally from mainstream NCE as framed by Clark.

Clark’s static state assumed the problem away; NCEists chose to live in a dreamworld free of depressions. Thus, by 1929, NCE stood defenseless against the overwhelming catastrophe that broke. Even Harry Gunnison Brown could only refer to it as a “period of slack business”. Brown was in many ways a George supporter, but he tried to reach NCEists in their own paradigm, and became so habituated to it that he had no way to cope with chronic unemployment.

Even when Keynes developed macro-economics to try, at least, to deal with relations of sequence, macro was carefully segregated from micro. To this day, micro, the “core” of economics, remains static and Clarkian. The failure of economists to integrate micro and macro is an ongoing scandal of professional dereliction or incompetence. Compartmentalization has been the profession’s response to many of its problems, as we will see further.

During the Great Depression there was some reaction against the NCEists whose self-imposed blinkers had made them lead us into it. With the nation’s attention focused on World War II, however, NCEists recaptured

the academies, if they had ever lost them. The reform spirit was safely deflected overseas. Radical land and tax reforms were accomplished in Japan, to the everlasting credit of academic economists like Shoup and Vickrey who worked there under MacArthur. Reforms were pushed (but much too gently) in the Philippines. The Soviets were allowed - who then could stop them? - to crush the Junkers. Economist-reformers crowded into U.N. agencies. It was safe fun, working from privileged sanctuaries, telling little third-world nations how to reform themselves.

Meantime, the home front was a separate compartment. The US invested \$7 billion in the "G.I. Bill" education programs, 1945-52. It was a great transforming event; it opened doors of college training to a generation. Veterans fresh from risking life and losing years and body parts to military service now gave more years to being pumped up with human capital. The pump, however, was firmly in NCE control. The returning veterans received from their grateful nation "human capital" like this:

From every point of view ... land may be regarded as a capital good and the rent of land as similar in every respect to the gross earnings of a produced factor (Scitovsky, 1952: 227-28).

It was everywhere: it hit one from every angle. It was an integral tenet of NCE; you learned to make it part of your reasoning process, or failed your exams. Thus, as far as economic policy went, the great public investment was worse than wasted. The early spadework of Clark and his like came to guide the flow of billions of dollars, and the minds of millions of people.

Clark did not stop at subsuming land in capital. He also makes a great point that wages are rent, too. The policy implication is that wages would make a good tax base. Seligman carried this forward into the income tax, leading to the present tax system which raises much more from payrolls than property.

EDWIN R.A. SELIGMAN

Another debater confronting George at Saratoga in 1890 was E.R.A. Seligman, scion of a wealthy banking family,³⁷ and Clark's future colleague at Columbia. Seligman drew on his powers of rhetoric to assail George with dagger drawn. "... you come to us with a tale that is old as the hills, ... long

exploded, ... unjust, ... one-sided, ... illogical, ... inequitable, ... panacea, ... lop-sided, ... “As Chair of Economics at Columbia, an admirer of Clark, a loyal yeoman of Presidents Low and Butler, and a lifelong antagonist of George, it is reasonable to surmise that Seligman helped Low and Butler identify Clark as their man.

Seligman was a dogged critic of George, to whom George was almost an obsession, like Jean Valjean to Inspector Javert. His *World Book Encyclopedia* biographer notes his lifelong strife against George and Georgists. His *Palgrave* biographer, A.W. Coats, characterizes him as “a severe critic of Henry George”. He is also one who “created the field of public finance in America” - in case there is any doubt how the twig was bent, and by whom. It is not that all academic economists scorned George. The founders of the National Tax Association included Lawson Purdy, and other Georgist names. Rather, those who did favor or tolerate his ideas were gradually isolated, ridiculed, silenced, or, if necessary, proscribed and ostracized.

Clark was the theorist, who set things up; Seligman was “the mailman” who delivered the message at the point of impact. Seligman was a frequent witness before the New York City Council, repeatedly working to stifle proposals from the Manhattan Single Tax Club (Marling, 1916), a large and active organization. He was influential in shaping the new Federal income tax, although, as to that, he was trumped in Congress by Congressmen Warren Worth Bailey, Henry George, Jr., and other “single-taxers” who shaped the original income tax legislation of 1916 along their lines (Brownlee, 1985). Seligman’s attitudes, however, dominated the economics profession, and slowly prevailed over the popular position, first in the ivied halls where young minds are molded, and then in the legislatures where these molded minds act on the ideas that shaped them.

In his major work, *Essays in Taxation* (1895 plus many reprintings), Seligman devotes Chapter III, 31 pages, to savaging “The Single Tax”. The manner is openly critical; there is not even a gloss of objectivity or impartiality. He gleefully quotes from Voltaire’s “*L’Homme a quarante ecus*,” a sarcastic attack on Quesnay, who had proposed taxing just farmland (George’s tax was aimed mostly at city land, but never mind, any device was relevant and respectable when used to put down Henry George). Voltaire proceeds from the strange position that the poor people own all the

land, an oxymoronic premise that Seligman implicitly endorses without the burden of responsibility. Seligman himself describes the work as “caustic ... mordant sarcasm” - and continues to cite it approvingly through ten or more editions of *Essays in Taxation*.

The spirit of invective is not the spirit of science nor philosophy. The spirit of Seligman’s reference group seems to have been that any stick will do to beat Henry George, for whom decorum may be suspended, and for whom no upright scholar would demand fair treatment or equal time. Again and again we see the arts of drawing-room violence practiced against George: the artful sneer, the sarcasm, the giggle, the condescension, the feigned incredulity, the manufactured data. Seligman is not alone in his attitude: no one could pull this off alone, he would appear outrageous. There must have been an orchestrated campaign of academic terrorism. Its echoes reverberate down to the present. Note, for example, the admission by Prof. Paul Ormerod, who has taught economics at several British universities:

The challenge of constructing an alternative, scientific approach to the analysis of economic behaviour is one to which increasing attention is being paid. The obstacles facing academic economists are formidable, for tenure and professional advancement still depend to a large extent on a willingness to comply with and to work within the tenets of orthodox theory. It is a source of encouragement that more and more economists are willing to look at alternatives, despite the risks they take in doing so. (Ormerod, 1994: xx)

Recall, once again, Karl Marx. Seligman was anything but provincial. He was an historian of European thought on tax policy. Yet, neither “Marx” nor “communism” are in his index. The modern bias is to marginalize George and to characterize all conservatism as a reaction to Marx. That appears to be bad history. Seligman’s guns, like Clark’s, were trained on Henry George, clear through the 1920s. Clark dominated neo-classical theory; Seligman dominated its applications to tax policy.

Seligman, otherwise known as a sober scholar, let his hostile rhetoric lead him into multiple contradictions and inconsistencies. These are detectable with only a modest effort, and have been detailed elsewhere (Andelson and Gaffney, 1979). However, otherwise they have passed unchallenged within the profession: an indication that the “academic

reward system” was luring or driving “objective” scholars in other directions. The most blatant misrepresentations of George, the most superficial arguments, may be and are advanced without rebuke.

Seligman had the practical sense to use Clark’s strongest weapon against George. This was *not* the demonstration that land is productive (has a marginal product). The fact that land is productive does not say the owner is responsible, nor gainsay that land income is a taxable surplus. After all, Quesnay and his group had championed land taxes in the belief that land was not just productive, but the *only* productive factor. Wicksteed, who worked the kinks out of marginal productivity five years before Clark published, continued to favor special taxation of land (Barker, 1955: 382; Steedman, 1987: 915). Actually, the fact that land has a marginal product turns out to be a useful tool of the Georgist case: it shows that the return to land may be separately imputed, and measured for tax purposes.

So, rather, Seligman uses Clark’s mystical capital theory. This is the essential, distinctive Clark. Seligman writes that if *land* is taxed, this drives capital out of land, into housing, misallocating capital in favor of housing (*Essays in Taxation*: 92).³⁸ That presumes land is convertible into capital, and *vice versa*, just as Clark said when debating George at Saratoga in 1890. Thus, the essential for neutrality in taxation is uniformity, including uniformity between land and capital. Seligman goes on to apply this to income taxation as well as property taxation. (Others have applied it to excise taxation.) Like Clark, he believes that wages are another form of rent, and just as fully taxable as property income.

Seligman’s doctrine of uniformity has grown mighty through the years. It is the theoretical basis for the watershed tax reform act of 1986 under which the American economy briefly boomed before crashing dismally. Neo-classicals were in command, led by Charles McLure.³⁹ *Uniformity* was the touchstone. The 1986 reformers did away with devices like the investment tax credit, which favors new investing. They did this to help lower tax rates that apply to the income from old assets like land. The reaction to Henry George, reached a century through time to mold our tax system in the name of the “level playing field”.

Seligman is much more applied than Clark, but his theoretical assumptions are in harmony. Seligman was perhaps the most influential American tax economist of all time. His ideas form the basis of much of modern tax

theory, the cutting edge of neo-classicism in policy. Like Clark, he faults George for thinking capital supply is elastic.

It may be asked ... where all this additional capital which is to be invested in houses is coming from. There is no fund floating about in the air which can be brought to earth simply by the imposition of the single tax [i.e. by untaxing capital - M.G.]; ... (Seligman 1895, rpt. 1921: 92)⁴⁰

Seligman makes the above views even more explicit in "Tax Exemption through Tax Capitalization" (1916). As with Clark, the supply is fixed, by assumption. This is purely static analysis at a point in time. Significantly Arnold Harberger (1968), the more recent Chicago tax theorist, is also known for rejecting the view that housing taxes are shifted off capital, and by the same line of reasoning.

PHILIP HENRY WICKSTEED

Philip Wicksteed is another who knew George personally, but on much friendlier terms (Barker, 1955: *passim*). Wicksteed, upon first reading *Progress and Poverty*, wrote George ecstatically, it "has given me light I vainly sought for myself". You have opened "a new heaven and a new earth," he wrote George, and thanked him for a "freshly kindled enthusiasm" (Barker: 381). He sat with Michael Davitt on the platform during one of George's major addresses in England (Barker, 1955: 397).

George Bernard Shaw, another George fan, also engaged Wicksteed to instruct him in the basic Ricardian economics he needed to extricate Fabianism from Marxist theoreticians. Shaw found these too mystical and cryptic. Wicksteed's and Shaw's common interest in George helped to bring them together, and deeply affected the Fabian Society, which continued to support George after Hyndman and his Social Democrats turned against him. After being tutored by Wicksteed, Shaw attacked the Marxist Hyndman caustically, as Wicksteed never would, but GBS himself could (Shaw, 1889). Concerning rent, he wrote "... profit to the proprietors of the more favourable raw material (is) economic rent, the main source of 'surplus value.' Without a thorough grip of this factor it is impossible to defend Socialism ..." Marx's failure to see this point makes *Das Kapital* "useless" (1889: 196-98).

Defending George, Shaw wrote in the *London Star* "... by his

popularization of the Ricardian law of rent, which is the economic keystone of Socialism, and concerning which the published portion of Marx's work leaves his followers wholly in the dark, Mr. George is doing incalculable service in promoting a scientific comprehension of the social problem in England" (June 7, 1889, cit. Lawrence, 1957: 86). Shaw claimed credit for first putting land taxation in the platform of the Liberal Party in 1892 (Fabian Society, 1950: 208, cit. Lawrence, 1957: 171). The voice was the voice of Shaw, but the hand was the hand of Wicksteed.

George was system-minded and sought to unify the laws of production and distribution in a coordinated harmonious system. His theoretical framework foreshadows the marginal productivity theory of wages, which he integrates with Ricardo's rent law. The idea that the wage rate equals the marginal product of labor is simply George's law of wages formalized and rounded out.⁴¹ The title of Wicksteed's masterpiece, *An Essay on the Coordination of the Laws of Distribution* (1894), is paraphrased closely from *Progress and Poverty*, Book III, Chapter VII, "The Correlation and Coordination of These Laws (of Distribution)," (George, 1879: 218). Wicksteed was formalizing, in more elegant form, an insight from his friend George.

In the process, Wicksteed wrote that land and labor are coordinate and symmetrical, and none yields a surplus any more than any other. He was expressing a mathematical insight, not an anti-Ricardian dogma. He was saying that distribution exhausts the total product when every factor, including land, is paid its marginal product. He showed that the same laws of distribution may be established regardless of whether land or labor is arbitrarily treated as the variable. It is a valuable insight, and fully compatible with recognizing land rent to be a taxable surplus (Gaffney, 1962: 149-54; Alonso, 1964: 46-49).

It has been used by some, like Clark, to claim that land rent is not a taxable surplus, but that was not Wicksteed's purport at all. "... (the logic) ... so far from weakening the position of those who regard rent as a surplus, by showing that the use of land is paid for in accordance with the marginal utility of the service rendered by it, shows what is indeed Mr. Wicksteed's object to prove, that the two views are essentially contained, each in the other" (Flux, 1894: 312). He even credits part of his insight to Graham Wallas (1894: 40, n. 1) Wallas, a Fabian socialist, was surely not intent on

justifying private collection of land rent in the manner of J.B. Clark. On the contrary, Wicksteed's life history demonstrates that one can see this element of factor symmetry - one can even discover it, as he did - and see land-rent as a taxable surplus.

Wicksteed remained sympathetic to George and his cause. "He remained always loyal to *Progress and Poverty's* central idea. land nationalization, to be achieved gradually by way of taxation ... remained a conviction to the end, with Philip Wicksteed" (Barker, 1955: 382). The lasting Georgist element in Wicksteed is discussed in Wicksteed (1933) I, vi-vii; II, 686-90, and in Herford (1931: 213-14).

ALFRED MARSHALL

Alfred Marshall is another who debated George heatedly. This was in a meeting at Oxford in 1883. Feelings ran high and sharp words were spoken. Marshall was egged on by Oxford students, including scions of titled landlords. Dignified, scholarly, academic Oxford, of all places, was one of only two venues on George's speaking tours of Britain where there was "organized disorder" evident (Lawrence, 1957: 36). We may surmise Marshall disapproved of the organized disorder, but felt pressed to uphold himself on his home turf against the unpedigreed, upstart foreigner. The mature Marshall wisely never published these immature polemics, so they hardly bent the course of economic thought.⁴² He never reacted so drastically as Clark and Seligman. Marshall is called a neo-classic, but great economists seldom fit tight molds, and it would be hard to identify him with the ideas of Clark and Seligman, as limned above.

Marshall's reaction to George is rather one of caution, compromise, ambivalence, and gradualism. It was the lack of these qualities in George, the importunate activist (plus a touch of xenophobia and caste-feeling in Marshall?) that exercised Marshall at the Oxford debate. Marshall's imprint on neo-classicism is his two-handedness, that notorious quality of economists that later disturbed President Harry S. Truman. In one of the 1883 lectures, Marshall grants the merit of nationalizing land after 100 years. At the time it must have seemed safely temporizing; it is a sobering thought that that centennial is now eleven years behind us.

George Stigler (1969) seeks to invoke Marshall against George, but that is to misrepresent him. Marshall actually supported Lloyd George's land-

tax budget of 1909, accompanied though it was with Henry Georgist oratory, political upheaval, and social ferment (Hutchison, 1969). It is possible that Marshall had weathervane tendencies. This tradition, too, is powerful in the profession. In the end, however, George could hardly ask for a more useful, constructive critic than Marshall. Marshall was cautious to a fault, and surrounded by rent-takers with whom he had to live, but in spite of all, quite sincere and honest.

Marshall actually accepted much of George's case, although probably preferring to trace its provenance to others. His opposition was not simply captious, but thoughtful and constructive. He even improved on the case with his concept of "the public value of land" (1891, rpt. 1947). Marshall's public value is what George means by "community-created value," the joint result of nature, location, public works and services, settlement, and community synergy or "urban linkages". Marshall saw that urban values were outgrowing rural values, and provides an appropriate concept.

He also spotted (along with Cannan, 1907) the flaw and upper limit on raising *local* land rates (in Britain, local property taxes are "rates") to high levels, noting that this would distort locational decisions by over-attracting people to jurisdictions with higher rate bases - a kind of "tragedy-of-the-commons" effect, working through the rating system and locally financed public services. He leaned toward a benefits-received limit on rates, describing rates in excess of benefits-received (narrowly construed) as "onerous". The viewpoint is that of the upper middle class or retired landowner in a suburb.

This was not an unplanned problem, to be sure. The Tory political leader Austen Chamberlain (Neville's half-brother), thinking ahead, saw this as how to keep down public charges on land.

It is certain that if we do nothing the Radical Party will sooner or later establish their national tax, and once established in that form any Radical Chancellor ... will find it an easy task to give a turn of the screw. ... On the other hand if this source of revenue ... is once given to municipalities, the Treasury will never be able to put its finger in the pie again, ... (cit. Douglas, 1976: 150)

That was by no means the limit of Marshall's horizon, however. If we shift to national land taxes, the "overused commons" problem disappears.

George has been faulted for not specifying in *Progress and Poverty* what level of government should collect land taxes, but his later career made clear that he wanted national governments to rely heavily on land taxes, for approximately the same reasons that Austen Chamberlain wanted to keep them local. George opposed tariffs in large part to force national governments to turn from them to land taxes. His followers in both Britain and the United States pushed for national land taxes after Marshall wrote and, as noted above, Marshall supported the Lloyd George land tax budget in his own country in 1909. Marshall's successor, A.C. Pigou, wrote favorably (if hypercautiously) of land taxation (1949). The core of overt anti-Georgism is not to be found in British economists, but American.

FRANCIS A. WALKER

General Francis A. Walker, first President of the American Economic Association, President of M.I.T., and Director of the US Census was another who confronted George personally. He engaged George in a furious, cutting debate in the semi-popular press over the concentration of farmland (1883a). In a word, Walker thought in terms of simple means and George in terms of Lorenz Curves⁴³ (a term not then yet invented). Walker, waving his credentials, led with his chin in an arrogant, condescending, offhand manner, and was demolished. If he had any sense of the situation, he must have been dreadfully embarrassed.

Walker's first reaction was to go into denial. He wrote of George's proposals, "I will not insult my readers by discussing a project so steeped in infamy" (1883b, rpt. 1888). Walker soon discussed it anyway (1883c), and with some slow return toward objectivity. In spite of his initial arrogant approach to George, he was perhaps too large-minded to nurse a grudge for years, or let it reshape his entire way of thinking. He was a person of leadership qualities, soon to be demonstrated when he pulled together dissident factions to launch the American Economic Association (see discussion under Richard T. Ely, below). For others, however, silence has become a pillar of the neo-classical tradition. It has proven effective, but how sturdy a structure can be supported, and for how long, by silence and denial?

Walker was generally forthright, but clumsy and heavy-handed. He lacked the kind of sneaky subtlety Clark used to undercut George by

recasting economics. He remained a Ricardian in methodology. He flirted with the notion of Leroy-Beaulieu that rent was declining in importance, but then seemed to dismiss it (1883b: 147, 191). Later in the same year, however, he came back with the interesting point that public works that raise the value of specific lands have the reverse effect in the aggregate (1883c). This is the doctrine now identified with the name of Robert M. Haig (1926). Haig was the Seligman *protégé* who had earned his spurs at Columbia by minimizing the benefits of the then-popular movement to exempt buildings from property taxes (Haig 1915a, b, and c). This idea from Walker has been much used by others then and later, to trivialize Henry George (Seligman, W.I. King, 1921, 1924; Ely, 1922; Schultz, 1953). Ely was to italicize it as (what he calls) a “formal definition”: “... *in a progressive society, ... with increasing wealth and stationary population, land values will decline* (Ely, 1927: 131).

Walker also criticized George for alleging that the progress of technology was always labor-saving and land-using. George had overstated this case in a rhetorical flourish (1879: 253), even though Mill, his classical mentor and foil, had written that technology might also be land-saving (1872, Article 4). Granting that Walker wisely corrected an overstatement in George, however, Walker went to the other extreme and remained there. To him, capital formation is the salvation of labor.

Since then NCEists have presumed that capital is always complementary to labor, and a substitute for land. They present it as such a perfect substitute for land that they may eliminate land as a separate term. They thus remove from their purview such events as the disemployment of labor by sheep-capital during the enclosure movements in England, the mechanization and chemicalization of American farming, automation of assembly lines, ATM bank cashiers, bar-code checking-out, etc. If there are only two factors of production, as in the NCE dreamworld, then capital must always complement labor. In the real world of three factors, capital may preempt land from labor, as in the cases noted.

J.B. Clark entered in on Walker’s side, writing on “The Law of Wages and Interest” (1890d). As a rule Clark assumed the supply of capital is fixed, but he departed in this case. Clark concluded that a rise in the supply of capital acts to lower interest rates, and thus to lower all property incomes, thus transferring all the gains from capital formation to labor.

This leads to “the workman’s paradise that we have sought ... more attractive than an ideal vision, since progress toward it is assured by natural law” (1890d: 64-65). The problem with this forecast is that lower interest rates act to raise land rents, whenever land use entails heavy use of capital. Lower interest rates do not eliminate property income, but transfer it from capitalists to landowners. The relationship of rent and interest is clearly inverse, a matter totally lost in NCE by virtue of its identifying land with capital.

Lower interest rates do not just raise land rents in general, but specifically in those land uses that are most capital-intensive, some of which are labor-saving. This important aspect of distribution theory may have been overstressed by Henry George, but NCEists have surely overreacted. They have simply wiped it out of NCE without a trace.

The net result has been a polar contrast between Georgism and NCE. George stressed that land complements labor, and labor may find more jobs by taxing land into use. NCE stresses that capital complements labor, and land taxation may prejudice capital formation. Saving may be fostered by limiting taxes to consumption.

In the hands of modern NCEists, theory teaches that any withholding of good land from use can be no problem. It is easily offset by developing new lands. In the hands of Keynesians and “NCE-synthesists,” land monopoly becomes a positive benefit: it creates new investment outlets for capital to develop new frontiers. Alvin Hansen saw public works as the new frontier, replacing the old. Imperialists saw new military and naval frontiers. In all these variations there is a constant: economic land can be created by creating capital, with no limits imposed by nature. In this view, the world is an infinite reservoir of raw land, needing only the touch of mankind and capital to make it into economic land. It took the modern environmental movement finally to blow the whistle on this nonsense (Gaffney, 1993c, and 1994).

4

The Mind Benders

We have given some flavor of the ideas of Clark, Seligman, Marshall, Wicksteed, and Walker. Here we itemize some other economists who attacked George, or who sought to undermine his ideas more subtly. We summarize their points, and put them in the context of their matrices.

CHARLES SPAHR

Charles Spahr (1891) in a short article anticipated many of the points later elaborated by and identified with others. His main points are these.

1) The supply of capital is inelastic. "There is no vast fund of wealth in the air which can be brought to earth by the touch of Mr. George's magic wand" (p.632). This was a phrase borrowed without credit and repeated for forty years in successive editions by Seligman. It follows that taxes on capital are borne by the owner of capital, which Spahr believed. Consistently, the University of Chicago's tax specialist, Arnold Harberger, took that position (Harberger, 1968).

2) "Land is the only form of wealth in America whose possession is widely and well distributed". The allegation is unsupported (and unsupportable). He does not refer to the then-celebrated debate between Walker and George on the subject.

3) The value of land is the value of capital incorporated in it (1891: 627). Public capital has been paid for by past taxes on landowners, who have thus been put upon. That line of thought presupposes each landowner had an entitlement to both the land plus public works to serve it, paid by someone else. That seems extreme for the times, and was perhaps beyond what Spahr

intended. It is, however, in keeping with what NCEists are claiming for landowners today, when they are presumed to have entitlements to receive services far costlier than they pay for.

Consistently with that, Spahr warns that the single tax would turn investment “out of its natural channel” (1891: 632). By “natural channel” in this context he must mean public works. Considering that he lived in a century of insanely emulative bursts of overexuberant public works building, that suggests a blind spot (Cornick, 1938; Hoyt, 1933; Goodrich, 1960).

4) Marginal communities have no land value, hence no land value tax base. This is consistent with his belief that taxes on capital are borne by the owner of capital, a position also taken by Seligman of the Chicago School now. The correct position is, I believe, that all local taxes in a small open economy are shifted so that they must come out of land values. Happily, this “Physiocratic” view is now shared by David F. Bradford and others (Bogart, *et al.*, 1992: 11).

5) land values per head are higher in rich than poor jurisdictions. That is certainly true, but would seem not to argue *per se* against taxing land values. Rather, it argues against limiting such taxes to the local level. Inconsistently, Spahr favored an emphasis on state and local taxation. George had his sights on the national level. He wrote *Protection or Free Trade?* in 1886 only incidentally to promote free trade in the conventional sense. His main idea was to cut off federal excise revenues, forcing Congress to turn to land revenues instead. Alfred Marshall, discussed above, made a similar point, but did more consistently favor using land taxes nationally.

6) “Taxation should be in proportion to wealth” (1891: 633). Spahr is not against taxing property, as one might surmise. He actually supports the property tax vigorously, as well as death duties and land-gains taxes. It is just that he wants to tax all property, which he feels belongs partly to the state. Exempting capital from tax “would impoverish society, by depriving it of the part-ownership which it now holds in every form of wealth, ...”. (1891: 625). He does not score George for being socialistic, but for being “the most extreme of individualists”.

In a later book (1896: 157), he shows that the taxable property of families ranked by income rises much faster than their incomes. That much

is certainly true, although forgotten today by those who call the property tax regressive. However, George proposed taxing land, not income. This writer has shown that the taxable *land* of families ranked by income (or by property, either one) rises much faster than their wealth (Gaffney 1970, 1971, 1992, 1993).

In spite of some nativist and racist slurs, Spahr is a strong redistributionist. Low incomes are insufficient for healthful and decent living, while high incomes and properties are “morally perilous to their possessors” (1896: 159). “... the ability to pay taxes increases faster than the private fortune” (1896: 160). George would surely have agreed. It was probably this populistic leveling tendency (he also supported free silver) that caused Spahr to fade into namelessness among the other NCEists whom he otherwise anticipated, and who should have credited him.

ALVIN S. JOHNSON

To understand Johnson, it helps first to understand his matrix, Cornell University. Cornell was named for and in part funded by Ezra Cornell, the creator of the new Western Union monopoly (Gates, 1943: 97), and its appendage, the AP news monopoly. These organizations had victimized a San Francisco journalist, Henry George. He, in turn, had attacked them bitterly. Cornell’s attitude toward George may be surmised from the fact that George in 1869 campaigned to have Western Union socialized (Barker, 1955: 118-19 *et passim*). Ezra Cornell was its major owner.

Cornell (both Ezra and his University) also speculated in western lands on a massive scale (Gates). The major obstacle to their financial success was that local governments taxed their lands, something they fought hard for decades. Ezra Cornell “located more than half a million acres of rich lumber (sic) lands in the Northwest with New York Agricultural College scrip” (Hacker, 1947: 394, citing Gates, 1943). To the robber baron, a state University with land scrip was an integral part of the basic business of seizing public domain, the chicane on which George had been first to blow the whistle (George, 1871).

Cornell University was molded by its wealthy first President Andrew Dickson White (q.v., below). Young Richard T. Ely, being scouted by White in Germany, “was interested in his psychology and the way he worked cleverly with Ezra Cornell and with Mr. Sage,⁴⁴ a benefactor, and

one of the trustees of Cornell University” (Ely, 1938: 57). Western Union - AP was not only the source of Cornell’s fortune, it was an instrument of thought control, used for planting stories and bending news, including news about itself (Myers, 1907: 493). We would underestimate Mr. Cornell to imagine he did not understand his University could be used the same way. If he did not, President Andrew Dickson White certainly did.

The power of controlling higher education is greater than merely slanting news stories. The “silver cord” draws us back to love and support *alma mater*. She becomes a thing of worship and purity, a secular Virgin Mary that rises above human failings. She symbolizes our best ideals and aspirations. She is the scene of newly opening vistas, society at a higher level, sparkling friendships, tender sentiments, exciting memories, lifelong loyalties formed “High above Cayuga’s Waters” or “Neath the Elms” or at “Alt Heidelberg,” singing “Thy Sons Shall Ne’er Forget,” “A Song by the Fire,” “Stand, Navy down the field,” “Going Back to Old Nassau,” “*Gaudeamus Igitur*,” “To the Blue and Gold,” “Fair Harvard,” “Lord Jeffrey Amherst,” and, in the donative years, croaking out “Golden Days, full of innocence and full of truth”. Woe to the messenger bringing news that The Virgin of our Golden Memories was procured to condition our minds for the gain of another. Yet, that is what we must do to understand who created NCE, and why. Truth is also a positive value. It is not always pleasant nor pretty; it is just what shall make you free.

The Morrill Act of 1862 gave land scrip to the states in proportion to their populations, so New York State got the most. Most states sold their scrip for quick cash, but not New York (Gates, 1943: 245). State land offices were quite corrupt, even for that tainted era, so New York handled its scrip in a very clubby way. New York sold Ezra Cornell (E.C.) its scrip at somewhat less than market price. E.C. agreed to use it to enter lands to benefit a Morrill Act College (Agricultural and Mechanical).⁴⁵ In general, he seemed to merge and identify his interests with the college. By 1867 he had more agricultural college scrip than any other individual: 500,000 acres (Gates, 1943: 31). The figure later rose to a million acres.

E.C. was, among his other interests, an Ithaca real estate promoter, investing in railways to boost the town. Very likely he had a sincere interest in promoting education, as he professed, but good works and self-interest need not be at odds: he also understood the effect on Ithaca land prices of

snaring the new Morrill Act funds. So did rivals around the state, but E.C. had an edge: he was loaded with money from the Western Union monopoly he had created. He gave \$500,000 to start the college, and thus secure the Morrill scrip for Ithaca, under his control.

New York State Senator Andrew Dickson White had wanted Syracuse to be the place. He and E.C. both regarded the Morrill scrip inadequate for more than one campus. E.C. won White to the Ithaca site by his large donation of cash (Gates, 1943: 52,55). White then became President of Cornell University. Would we be too cynical to suspect that was part of the deal? E.C. had not forged the Western Union monopoly without mastering David Harum's credo, "If you can't lick 'em, j'ine 'em".

In 1867 E.C. was preparing to sell some scrip, but paused to join with other states to "manipulate the market" to raise the price first (Gates, 1943: 58). Monopoly was in his reflexes. He retained most of the scrip, however, and slowly bought up western lands. He specialized in pine lands in northwestern Wisconsin. His purpose was to create - again - a monopoly (Gates, 1943: 95, 97). This was not to be a monopoly of production - there were no mills, no timber culture, no roads built, no river drives - but just a regional monopoly of virgin timber and timberland held for sale at advanced prices. E.C. was a pure speculator and land monopolist, without exception or apology - the very antithesis of Henry George. Gates rates him as a weak business administrator because some of his funds leaked away to grafting agents, but he seems to have understood synergy: everything he did supported everything else. land speculation and monopoly and higher education went hand in hand.

A speculator's ultimate goal is to sell, but some prefer quick gains, even though small, while others favor big gains, even though slow. E.C. was the second kind. His fortune had come from hanging onto telegraph stock for the long pull (Gates, 1943: 97), and he applied the same model speculating in Wisconsin land.

This way of investing University funds brought E.C. into intense, prolonged conflict with new towns and counties in Wisconsin. It was not just an adversary but a hostile, emotional relationship, with a high level of dishonesty and self-righteousness on both sides. Georgism was not invented by Henry George, it was endemic throughout the middle border, as Gates' many books have brought out. Local taxes "threatened to swallow up the

enterprise” (Gates, 1943: 106). These local property taxes were pure land taxes because land is all E.C. owned in Wisconsin. Gates devotes a full chapter: 137-76, to “Tax Warfare” between E.C. and Wisconsin. Apparently Cornell won out: “in proportion to the price for which its lands were held the taxes were exceedingly light” (Gates, 1943: 175).

If E.C. won out, it was because back in Ithaca it was an obsession:

When high taxes were threatened ... Cornell’s (sic) university’s officials acted promptly to protect its rights. Cornell’s interests were identical with those of other large holders of pine land, and frequently they all worked together ... the greatest concern of the Cornell officials was the burden of taxation on the property ... (Gates, 1943: 137-38).

That is the atmosphere that prevailed in the Cornell administration in an era when administrators hired and promoted and fired with no checks and balances whatever. It is most unlikely that President Andrew Dickson White or his immediate successors would have tolerated any professor of economics who defended the Wisconsin towns and counties; it is most likely they would have hired someone to defend their position as absentee land speculators. Such a person was Alvin S. Johnson of Columbia, a student of and personal secretary to J.B. Clark.

Alvin S. Johnson (1902) expounded the new definition of rent that NCEists were substituting for the original. As part of this shift, the unit of analysis used in economic theory was shifted to “the firm,” or at largest “the industry”. The society and the economy as a whole got lost. Formerly, rent was simply the return to land. NCEists redefined it as the surplus over opportunity cost of any resource at any time, thus removing any difference of land from labor or capital. It would have been courteous had they chosen a new word, since they were talking about something different, but courtesy was not the idea. The idea was to remove from land the dangerous stigma of yielding unearned values, targetable as taxable surpluses. (We dispose of this issue below, under Pareto.)

Further to the end, in 1914 Johnson published “The Case against the Single Tax” in *The Atlantic Monthly*. The influential, topical *Atlantic* would not have been devoting its scarce space to such an arcane topic unless it were alive and impendent at the time. This sea was rising, and Alvin Johnson put his finger in the dike. His theorizing was highly supportive of

his political position. That is not uncommon, *per se*, nor necessarily unproductive. At least his ideas, like those of Adam Smith, Ricardo, and Keynes, were relevant to a real issue, unlike most of what is published today. Rather, we should not remain innocent of why NCE is what it is, and what it has done to us.

Was it *really* a live topic? Belittling, even sneering allusions have become standard, suggesting otherwise. In fact, single-tax initiatives were run and running in several western states. A few cities (Bellingham, Pueblo, and Houston, for example) moved to levy property taxes exclusively on land. In California, a "pure single-tax" initiative won 31% of the votes in 1916 (*Large landholdings in Southern California*, 1919). The Manhattan Single Tax League was knocking on the door (Marling, 1916), and was to get part-way in the door in 1921 (see below under Ely). Cleveland elected two single-tax mayors, over a string of terms, roughly synchronized with the Liberal Party string of Governments in Edwardian England. The first, Tom Johnson, was Henry George's chief political lieutenant and financial angel. The second, Newton D. Baker, was to become a power and Secretary of War in Woodrow Wilson's Cabinet. Toledo, Ohio, had two single-tax Mayors, Samuel "Golden Rule" Jones, and Brand Whitlock. Pennsylvania's Legislature opened the door for Pittsburgh's enduring "graded tax plan," initiated in 1913 (Jorgensen, 1925: 162). Four western provinces of Canada were won over almost completely, helping, among other things, to make Vancouver and Victoria two of the most beautiful cities in the world. Sydney, Brisbane, Wellington, Johannesburg, and other cities were exempting capital completely from the property tax, raising all their local revenues from land alone (Madsen, 1936). The American Academy of Political and Social Science (AAPSS) devoted 78 pages to it (1915); the National Tax Association devoted 64 (1915); *Great Debates in American History* (1913) devoted 51. Robert Murray Haig delivered his three reports on it in 1915; the Committee on Taxation of the City of New York delivered its final report (Marling, 1916). California's Geogist irrigation districts were revolutionizing state and national agriculture. Yes, it was a hot wire.⁴⁶

Johnson's major theme is that the single tax is "a device for the spoliation of the middle class" (1914: 30), because they own most of the urban land, and all the farmland. Like Willford King later, Johnson's image of America is an idyllic small town, unnamed, where everyone owns the same amount

of land.

Johnson's image of egalitarian landowners is projected without benefit of data, and without referring to the earlier well-known exchange between George and Walker. It overlooked the fact that his own employer, Cornell University, had for years sat on over half a million acres of western lands, completely idle. The level of scholarship demanded by NCE editors of those who derided George is seen in the following.

The Single Tax philosophy originated with a city man, ... a sound agriculture is based on ... the farmer, his ... love of the countryside, the jollity of the country picnic and dance, the fresh cheeked maidens who eagerly accept the role of sweethearts of country boys and develop into contented farmers' wives. (Johnson, 1927: 224).

This publication was sponsored by the American Economic Association. The publication committee consisted of E.R.A. Seligman, R.T. Ely, J. Hollander, B.M. Anderson, Jr., and J.M. Clark (son of J.B. Clark). It was reprinted in 1967: apparently the leaders of The American Economic Association still considered it exemplary scholarship.

Johnson is the link between Clark and Frank Knight. Johnson was a student of, and personal secretary to J.B. Clark. He was soon to be the mentor of Frank Knight at Cornell. One finds "much of Knight's mature thought" in his 1916 Cornell thesis (Stigler, 1987), with extensive credit given to J.B. Clark (Dewey, 1987). The title of Knight's popular 1953 article, "The Fallacies in the Single Tax," is interchangeable with Johnson's 1914 title. Even the "fresh cheeked maidens" of Johnson show up in Knight, who, in turn, molded the Chicago Department in his image. The chain is unbroken from Seelye to Clark to Johnson to Knight to Stigler, Friedman, Harberger, and now thousands of Chicago-oriented economists. They dominate much of current doctrine and policy, metastasizing through government posts, high banking, academia, editorial boards, granting agencies, and the burgeoning think tanks subsidized by rent-takers to mold opinion for the deepest and most generic of their "deep lobbying".

FRANK A. FETTER

Another Cornell economist, contemporary with Alvin Johnson, was Frank A. Fetter. He graduated from Cornell, took advanced work in

Bismarckian Germany, then taught at Cornell, 1901-11, before moving to a new career at Princeton. He was very much the insider: President of the American Economic Association in 1913, consultant to New York State on taxation, Chair at Princeton, frequent author in establishment journals. Seligman chose him to write key articles on Rent, and on Capital for his *Encyclopedia of the Social Sciences*. He was picked to eulogize Ely and Clark, and to write key reviews of dozens of new books. He received all this peer-recognition without adding really anything to economic thought except an extreme, urgent, repetitive insistence that Clark was right and George was wrong, and Marshall was wrong to compromise as he did between the old (Ricardo) and the new (demand-determined value). Fetter insisted that all the “old lumber” of Ricardian thought be “broken up for kindling”. In 1901a he declared it had happened; in 1901b he predicted it was going to happen; in 1927 he lamented that it hadn’t yet completely happened; but always he insisted it should happen.

From 1900-14 he wrote on capital, interest, and rent. Murray Rothbard and The Institute for Humane Studies have brought these together in one volume, whose paging is used for citations here.

Everything Fetter wrote points towards one objective: to undercut the Georgist case. His basic style is overgeneralized and abstracted to opacity, in a failed and painful attempt to be philosophical. A clearer and shorter-than-normal Fetter sentence reads, “As the truly scientific stage is reached, the concern of the thinker is with the qualities and aspects of things, rather than with the concrete objects themselves” (1917: 357). However, he combines this with a sense of urgency that forces him to lapse occasionally into clarity. From these lapses, and his admiration for J.B. Clark, we can pick up his drift. “... rent is the usufruct attributable to any material agent” (1904: 207). He contributes little that is original, but his interpretations of certain NCE innovations are insightful.

In 1900 Fetter faults Clark for failing to keep repeating that his “capital” includes land. “In his earlier utterances, such things are in plain words included. In the later articles ... a reader new to the author’s doctrine would find no specific statement to this effect ... “ (1900: 40). Dogma must be pure, and repeated every Sunday to satisfy Fetter. The fault of Clark’s thought “was rather that it changed the old view too little than too much” (1907: 109). It seems likely that Fetter was differentiating his product by

posturing as more Roman than The Pope. He really had no substantial difference with Clark.

Fetter likes the marginal utility (demand-side) explanation of value because it puts all values (land and capital) on the same footing (1901b: 77). No longer may we say that capital is stored-up labor, and so differs from land. We may not even say capital includes stored-up inputs from land and capitalized interest (as Wicksell did). That is because now “we have recognized utility, regardless of the origin of the good, as the measure of value. ... When the utility theory displaced the cost-of-production theory of value, this change of the capital concept (to include land, rather than be limited to stored-up labor, etc.) became a logical necessity” (1901b: 77-78).

This gives us some useful insight into the use to which rent-takers and their spokespersons put the new demand-side value theory. It helps us see why they insisted on it so fervidly, and tried to stampede others into “making kindling of the old lumber,” and resented Marshall’s efforts to synthesize the old with the new. In truth, there was nothing new about the idea of diminishing marginal utility: Adam Smith had expounded it clearly, in his remarks explaining why the price of diamonds exceeds the price of water. What was novel in the 1890s was the use of demand-side value theory to distract attention from the fact that land has value without ever having had to be produced by man.

Fetter applauds Clark for establishing that “Land in all its forms is a part of concrete capital; all concrete goods yield rents; and all pure capital yields interest” (1927: 137). Clark conceived of interest as rent “expressed as a percentage of the value of abstract capital. Thus interest ... did not consist of ... incomes other than those composing rents, but simply was rent, expressed as a price in relation to the price of the instruments that embody the fund” (*ibid*). In other words, ground rent becomes interest, the earning of saved capital, by virtue of being expressed as a fraction of the price of land - never mind that the price of land is originally derived by capitalizing the rent! In 1904: 207, he had said the same. “A more or less durable agent represents a series of rents” (1904: 208).

This was swallowed holus bolus into NCE, where it remains. Thus originated the purely circular element in NCE capital theory that proved so pathetically vulnerable and indefensible in the recent “Cambridge Controversy,” even though the critics in this case were weakly based too -

another story in itself. The point here is that NCE had rendered itself helpless against the otherwise weak Sraffian onslaught by a crude sophistry. The sophistry originated as part of an effort to undercut Henry George.

Fetter rejects any notion of social capital as opposed to individual capital. Like Frank Knight (a Cornell Ph.D.) he fully embraces the fallacy of composition that social capital is simply the sum of individual claims on resources. Economics, to Fetter, is properly the study of private "business" (i.e. property). Economic theory should stop being "remote from actual business usage. ... How long must it continue ... ? Ambiguity must be banished from economic terminology. ... Capital is essentially an individual acquisitive, financial, investment ownership concept.⁴⁷ It is not coextensive with wealth as physical objects, but rather with legal rights as claims to uses and incomes. It is or should be a concept relating unequivocally (sic) to private property ... Social capital is but a mischievous name ... When will (the admission of these truths) be made frankly and clearly? When will the dead hand of Ricardianism be lifted from our economic texts?" (1927: 155-56). O, tempora; O, mores! How long, O Lord?

Land in an unimproved state is almost unknown. land must be continually repaired, just like capital (1904: 202, 206). Separating land from capital "must transcend human power ... " (p.203). The line is vague because " ... money and artificial agents measured as 'capital' can be and are so often invested in land." Any distinction is "out of harmony with business usage" (p.203). "This fog is lifted when the sources of rent and of interest cease to be considered as physically distinct and objectively differing kinds of goods, and are seen to be simply the same body of income yielders, differently viewed, calculated and expressed for theoretical and practical purposes" (p.206).

There are "varying grades" of capital goods, just like land. Once you measure land by value, rather than acres, there are no different grades of land. The supposed difference of land and capital is merely the result of the convention that land is measured by acres (pp.196,207). Fetter's own words at the points cited are so long, pedantic and impenetrable that I will not risk losing the reader by citing or refuting them. They are there for those who want to read them. The point here is that central tenets of NCE were planted therein for the express purpose of refuting Henry George. Fetter's reasoning may be obscure and forced, but his anti-Georgist purpose is

always transparent, and his professional acceptance is painfully obvious to all who have been afflicted by having to work with NCE.

Rail-roading the Single Taxers

Richard T. Ely⁴⁸ took the lead in founding the American Economic Association in 1885. He was a young liberal (in the German sense) with an “elementary, clear, and easy” (and often equivocating) writing style, and an overt Christian social activism. He was highly productive of books and articles over a long, versatile career, whether solo, with collaborators, or as editor. Among his co-authors, and authors edited, were Seth Low, John R. Commons, Frederic C. Howe, Charles B. Spahr, E.W. Bemis, John A. Hobson, C.J. Bullock, Jesse Macy, F.H. Newell, E.B. Fernow, Jane Addams, Elwood Mead, E.A. Ross, H.C. Taylor, T.S. Adams, Max O. Lorenz, Allyn A. Young, W.I. King, R.H. Hess, T.N. Carver, Paul Popenoe, Selig Perlman, Ernest M. Fisher, F.M. Babcock, L.C. Gray, B.H. Hibbard, Nathan W. MacChesney, H.D. Simpson, H.B. Dorau, Paul Raver, Martin Glaeser, Bertrand Russell, Max Otto, Coleman Woodbury, and A.S. Hinman (Ely, 1938, bibliography). It seems he knew everyone and did everything: theory, agriculture, forestry, water, government regulation, conservation, labor, urban studies, taxation, sociology, popular writing, Chautauqua, preaching, business administration, and public policy. He could preach liberal or conservative, as needed, and befriend all sides. (He may have been the model for great Ivan Skavinsky Skavar, who “could sing like Caruso, both tenor and bass, and play on the Spanish guitar”.) He must have been a whirlwind, and a great organizer. He was a successful land speculator (until 1929). Besides founding the American Economic Association, he founded the academic discipline of land economics. He was truly a phenomenon, into everything and at the center of much. He also did well selling textbooks. His *Outlines of Economics* was the bread-and-

butter text from 1893 to about 1930. Academicians know what pressures that brings to bear on a writer.

Ely was brought up short by an attack on his job at Wisconsin in 1894, for allegedly preaching socialism and fomenting strikes. His colleagues rallied round and saved him. The University of Wisconsin still preens itself on its sterling defense of academic freedom. The University itself has indeed sheltered more than its share of outstanding independent thinkers like John R. Commons and Harold Groves; but the ebullient Christian Socialist in Ely was broken forever, save for some residual sanctimonies. "... young Ely was 'tried' at the University for academic 'heresy.' After the trial, he carefully denied any connection between his social philosophy and that of Socialism" (Jaffe, 1979: 108). A useful means to that end was to disparage Henry George, whom he had earlier labelled a "revolutionary" socialist.

There was a longer-standing reason for Ely's hostility to Henry George, in the person of Daniel Coit Gilman. In Ely's youth, even more than today, the way to promotion and pay was through a patron. Ely's patron was Gilman, expert exploiter of the Morrill Act (first for The Sheffield School at Yale, then at Berkeley), first President of the University of California, then first President of Johns Hopkins University, then first President of the Carnegie Institution. Gilman was a major founding and funding father of American higher education, and therefore necessarily something of a schemer, networker, and truckler to wealth - skills young Ely learned well. Gilman's network was tight, elitist, and mutually supportive, united by class consciousness; it was somewhat cabalistic, united by common Bismarckian graduate education, which was the height of academic fashion in that era, for those who could afford it. Gilman was the antithesis of George in many respects, which had led them into a major battle, as we will see.

Under Gilman, Hopkins became the first American university to specialize in graduate training. From 1876-92 it was virtually alone in turning out American Ph.D's in economics (Barber, 1988b: 11), who in turn took over much of the future profession. Gilman's first hire at Hopkins in economics was Richard T. Ely, on the say-so of his close friend, Andrew Dickson White.

Gilman networked closely with fellow Yalie Andrew Dickson White, President of Cornell. Ely never went to Yale, but his career was pushed by

as thick a club of old Elms as ever pirated beneath the Skull and Bones: White of Cornell, Gilman of Hopkins, Harper of Chicago (Ely, 1938: 83), Barnard of Columbia, and Dwight of Yale.⁴⁹ White had discovered and patronized the young Ely in Germany, when White was on leave from Cornell as American Ambassador to Berlin, and Ely a student at Heidelberg under Bismarckian Karl Knies.

Gilman was on top of the Hopkins phenomenon. This was to give him enormous leverage over American education. No less than *eleven* Presidents of the American Economic Association were Hopkins Ph.D.s from Gilman's reign (Barber, 1988: 224). Three other Presidents and founders had taught at Hopkins under Gilman: these were J.B. Clark, R.T. Ely, and Francis A. Walker. Carl C. Plehn, who dominated public finance in California, was an Ely product (Ely, 1938: 115), one who maligned Henry George as naturally as he breathed. Woodrow Wilson was one of Ely's students (Ely, 1938: 108-19. Fortunately for the country, Wilson was later reeducated in New Jersey by George L. Record [Kerney 1931]). Gilman had a long reach.

Enter the Henry George factor. Gilman had arrived at Hopkins because he had earlier been hounded from Berkeley in 1874-75 by a crusading populist journalist, Henry George. George, running the San Francisco *Daily Evening Post*, smelled corruption in Gilman's administration (Barker, 1955: 219-21; Cookingham, 1988: 269-70). He also smelled elitism and improper diversion of Morrill Act ("agricultural and mechanical") funds to "classics and polite learning".

George spoke for the Grange, and some populist Republicans who joined with the Grange to form the Peoples' Independent ("Dolly Varden") Party. Together they made the Berkeley citadel too hot for Gilman, who resented it. It is true, the Establishment immediately gave him a new citadel at Hopkins, just founded by a baron of the B&O Railroad, and loaded with B&O Railroad shares. Still, it must have come as a nasty jolt when the frontier battler for vulgar farmers and mechanics followed Gilman back to his new realm and appeared on the sophisticated Eastern scene as, of all things, a major intellect. This is something Gilman, the networker and administrator, never was nor could be.

Worse, George embarrassed Gilman's friend Francis A. Walker in intellectual combat on Walker's own ground (the US Census). Gilman's feeling toward George would naturally be aped by the upwardly mobile

protégé, R.T. Ely. Ely's autobiography (1938), 50 years after Ely had left Hopkins, is dedicated to the memory of Gilman, "under whom I had the good fortune to begin my career, and to whom I owe an inestimable debt of gratitude".

Gilman controlled Ely, in part, by playing him off against a rival, Simon Newcomb. To win points with President Gilman, Ely in 1885 followed Gilman's behest to found a professional association: The American Economic Association (Coats, 1988: 354). To do so he enlisted the help of Francis A. Walker (Barber, 1988: 216-17; Coats, 1988: 352, 360-62). (J.B. Clark, E.R.A. Seligman, and Andrew D. White were also founders (Ely, 1938: 179).) Thus, the two most influential men in Ely's early career were both embittered personal adversaries of Henry George: men whom George had met head-on, bested, embarrassed and damaged. A third one, Andrew Dickson White, we have met at Cornell (see Alvin S. Johnson).

To them we should add Abram S. Hewitt. Hewitt was the New York patrician who in 1886 allied with Tammany and the Catholic hierarchy to block Henry George's bid to be Mayor of New York City (Barker, 1955: 453-81). Hewitt was an early financial angel to Ely's new Association. "Need I say that the gentleman holds a warm place in my heart?" (Ely, 1938: 138-39). The pathway to Ely's heart was definitely through his purse. The same might be said of many others, it is true; but how different would the A.E.A. look and act today if purses like Hewitt's had been open to George instead of Ely?

Hewitt's character may be estimated by the methods he used to steal the election of 1886: "... corruption and fraud. ... all of the ignoble and subterranean devices of criminal politics ... Tammany repeaters ... fraudulent votes ... tampering with the election returns and misrepresenting them ..." (Myers, 1907: 357-58. Myers was an expert on Tammany, as author of *The History of Tammany Hall*). As to Hewitt's trade, he was an "ironmaster". As to his social philosophy, "The problem presented to systems of religion and schemes of government" is to make men who are equal in liberty content with inequality in property (Goldman, 1956: 71).

Recall the case of Seth Low, who brought J.B. Clark to Columbia. It is noteworthy that both Hewitt and Low, George's major political blockers, were wealthy patrons of NCE. Among the lot, and with J.B. Clark, and the wealthy Andrew Dickson White (Ely, 1938: 57) and the wealthy E.R.A.

Seligman, they founded the most influential, controlling professional association of economists. Walker was President, and Ely Secretary, for the first seven years, time to bend the twig firmly in their direction.

An undemocratic "Council" controlled the early Association, "to prevent our organization from being captured by some economic sect or group of reformers" (Ely, 1938: 162). The main group answering that coded description in 1886 was the single-tax "economic sect or group of reformers," then at a cyclical peak of vitality and widespread support. Non-reformers, apparently, were acceptable. "Businessmen" were entirely welcome; "historians" were numerous (*ibid.*: 179).

Yet another factor may have been professional jealousy. Ely was highly competitive, shown by his strife with Newcomb at Hopkins. This side of Ely also surfaced in his intemperate outburst at successful rival author Thorstein Veblen - the outburst that forced Grace Jaffe to leave his employ (Jaffe, 1979: 113). Before the catharsis of 1894, Ely was considered something of a liberal (in the German meaning). In 1886 he published *The Labor Movement in America*, hoping to take some leadership of this movement, and steal a march on Newcomb at Hopkins (Barber, 1988: 219). It made little impact outside the profession. Ely dominated economic teaching in the Chautauqua circuit (he was a native of that County), and prided himself on large sales of his texts. In the same decade, sales of George's books were in the millions: *Progress and Poverty*, *Social Problems*, *The Irish land Question*, and *Protection or Free Trade?* were all best-sellers, and the talk of the labor movement, which supported George warmly. Ely dropped the names of Samuel Gompers and Terence Powderly, but these were among George's organizers and supporters in the 1886 election.

George was a successful lecturer and orator. His spellbinding skill, combined with genuine warmth and exciting message, brought crowds to life: he worked them with relish. Ely rated himself poorly as a public speaker, referring often to his wooden platform performances and chilly receptions (1938, *passim*). He was not modest about other achievements, so his word on this seems credible. George, the ex-journalist, also sensed the pulse of the reading public better. In 1886, with the Haymarket riots and bombing, the public was about to turn against organized labor. George never did that, but 1886 was the year when George published *Protection or Free Trade?*, picking up the incoming buzzword just as the old was

losing favor, and Ely was getting around to using it. If Ely was to beat George, it would have to be in Ely's privileged sanctuary, the academy, safely sheltered behind walls green-ivied with funds from rent-takers.

Last, Ely was methodologically a Bismarckian, like J.B. Clark, totally converted by the man he called his "master," Karl Knies of Heidelberg. Is it fair to assume that Knies was "Bismarckian"? Much is said in praise of German university life in this era, but Ely notes, "Public authorities minutely prescribed requirements for these (professional entry) examinations. In this way they controlled the university courses" (Ely, 1938: 53-54). "... they developed their economics out of German life, and the German professors were part of this life. ... the universities were largely institutions designed to train men for the civil service ... " (*op. cit.*: 187).

Bismarck was a Prussian before he was a German, and a Junker before he was a Prussian. He was author of the *Kulturkampf*, a form of thought control. He controlled every aspect of German life, with the most efficient civil service and secret police in the world. It is inconceivable he would have tolerated teachings inimical to his Junker class interest. Unvexed by such problems, or even by Adolf Hitler, Ely reaffirmed in 1938 an earlier recommendation "for the state by proper legislation to raise the standard of requirements and so assist the colleges and universities in giving us an able and properly educated set of professional men *as in Germany*" (Ely, 1938: 54). He published this in the year of Munich. When it came to totalitarians, Ely was a slow learner. He shared this problem with another famous battler against land taxation, Neville Chamberlain (Douglas, 1976: 206 ff.; Geiger, 1933: 419).

George was in the English classic tradition, which Ely was trying to root out of the profession. Ely was engaged in a delicate balancing act: promoting Bismarckian socialism, safely protective of rent-taking (bolstered by protectionism), while deflecting attacks from those who might confuse this with distributive socialism (Coats, 1988: 357, 364). What better way than to attack George? George favored distributive socialism (via land taxation) without Bismarckian paternalism, and without subsidizing and manipulating public works to enrich land speculators like Ely. Ely wrote a chapter on "Henry George and the Beginnings of *Revolutionary Socialism* in the United States" (Ely, 1885, cit. Young, 1916: 94; emphasis mine). The tactic was to distinguish Ely's Bismarckian socialism, safely controlled by

the establishment, from George's distributive proposal which he tars as "revolutionary".

Later, Kaiser Wilhelm II was to make Ely's balancing act even trickier: the Kaiser's arrogance, unpopularity, sword-brandishing, and finally World War I, took the cachet off Ely's German training that had given him his original edge in academe. After 1900, American students stopped training in Germany, while Georgist native radicalism burgeoned. Putting it all together, there were many motives for Ely to preach and intrigue against George: enough and to spare.

By 1920, Ely was 66. He was staring at mandatory retirement, and not ready for it. His vital signs were strong: when admonished by a friend for "chasing girls" at his age, he answered, "Do you want me to commit suicide?" (Jaffe, 1979: 109). He was to live 23 more years, and presently to sire two more children with a young Northwestern athlete, Margaret Hale Hahn (Ely, 1938: 250). He began a new career, founding The Institute for Research in land and Public Utility Economics. It was more than a new career, he founded a new field, "land economics". This much is admirable and *simpatico*: he refused to vegetate and die on schedule. He was a pioneer against age discrimination, at least for himself. Few men found new fields at any age, let alone after mandatory retirement. His achievement was brilliant and outstanding. However, the tale of Faust and Marguerite comes to mind. He had to raise private funding; there was The Devil to pay. Ely apparently chose the "pay-as-you-go plan".

The Mitchell Palmer Raids of 1919-20 signalled a watershed in American history, a replay of 1886 (Post, 1923). The 1920 turn was from Progressivism to reaction, suppression of labor, class warfare, the Ku Klux Klan, J. Edgar Hoover, lower real wages, renegeing on promised veterans' benefits, soaring capital gains in land and stocks, and growing inequality. This time, Ely called the turn, right on the mark. In the new era of Babbitry Ascendant, Ely's anti-Georgism reached its peak. He used it to raise funds for his Institute.

His fund-raising appeals may be inferred from the following, from a 1923 address to the American Railway Development Association (cit. Jorgensen, 1925: 18):

Our Institute ... has a board of trustees which must convey confidence in the character of the work. ... Why should not the railways conduct their own

researches? However honest and sincere may be the researches of railway companies, they are ... discounted as coming from interested parties. ... our results should command confidence

One topic that I have mentioned is taxation of land and Public Utilities. ... it was an official of one of our railways, Mr. W. W. Baldwin, Vice-President of the CB&Q Railroad Company, who suggested the importance of this special topic and induced the Burlington Railroad to make subscription to our funds. He said that the land and the railways are in much the same situation, and he felt that this was a topic that could well engage our attention. Both are tangible, easily reached and are in no position to escape taxation by flight ... The taxes paid by the railways run into hundreds of millions per year, and their interest in our taxation work must be very great. ... we have received endorsement and subscriptions from ... the Great Northern; the Northern Pacific; the Baltimore and Ohio; the Atlantic Coast Line; the Nickel Plate Road; the Chicago and Northwestern; Chicago, Burlington, and Quincy; the Illinois Central; the Minneapolis, St. Paul and Sault Ste. Marie; and the Chicago, St. Paul, Minneapolis and Omaha.

Ipsedixit. One might add that land and the railways are not just “in much the same situation,” they are much the same, full stop. Ever since the legendary land-grants of the 19th century, railway companies had been the largest landowners: rural, urban, sylvan, and mineral. Ten per cent of the land in the City of Chicago was in railyards, much of it adjacent to The Loop (the Chicago CBD) itself. Rights of way and terminal and docking sites were, as they remain, the rails’ major asset.

“Public Utilities” as part of the Ely Institute’s name was a euphemism for the unpopular, highly suspect railway corporations (Ely, 1938: 238, lines 1-4). This was the age of Hiram Johnson and Robert La Follette. Railways in turn were surrogates for land companies. George, an old battler against Leland Stanford, had been the first to document the extent of, and assail these land grants (1871). His followers were proposing, in the Ralston-Nolan Bill of 1920 (H.R. 12,397), to include them in the land tax base. In the Georgist literature, “franchises” are consistently included with “land” in the proposed tax base. Urban mass transit firms were particularly targeted at that time.

Later, Ely the autobiographer volunteers that he was getting funding from various rail and utility magnates: “President Willard of the Baltimore and Ohio Railroad, and Owen D. Young, ... and others like them, including

George B. Cortelyou ..". He assures us, though, that "money which comes to us must be free from any restrictions ..". He praises one Albert Shaw, "who stands shoulder to shoulder with me," whose commitment is to "stating facts, even if they should happen to be facts which seem to be favorable to big business" (1938: 264).

The young Ely had seen merit in public ownership of utilities (Ely, 1938: 160). Ely the fundraiser for the Institute turned about. For this "one-eighty" he took bitter words, and in his *apologia* justifies himself. He illustrates the weakness of regulation in this interesting, perhaps autobiographical way. "Perhaps I am a college professor and the street-car magnate whose rapacity I am called upon to help hold in check has endowed the chair which I occupy. Is it strange that many of us who are called upon to control others of us should simply refuse to do it?" (1938: 253). His harshest critic could hardly have written anything nastier than that, but in his dotage that apparently persuaded him, at least.

He turned against public ownership because "The great mass of the people are interested in games - baseball, movies, radio, and football" (1938: 260). As to this, Upton Sinclair made a good point. "The student comes to college full of eagerness and hope, and he finds it dull. He has no idea why ... men should be fired if they prove to be anything but dull. All he sees is the dullness, and he hates it, and 'cuts' it as much as he can, and goes off to practice football or get drunk" (Sinclair, 1923: 61). The whole thing is rather circular. The magnate stifles the professor, the professor bores the students, the students get drunk and get blamed for the whole mess.

Hibbard (1921) also reminded the "utilities" that they would be taxed under the Ralston-Nolan Bill. According to Ely, his major contributors were utilities, railways, building and loan associations, land companies, lumbermen, farmers, bankers, lawyers, insurance men, ... and libraries" (Ely, *Institute News*, October, 1924). We may surmise that the libraries' contributions were not the backbone of the operation.

Ely had not previously published anything on land or resources; there hardly was such a "field" (Ely, 1927: 119). However, he had an old book on local taxation (1888),⁵⁰ a big name, and wealthy, motivated clients in the wings. He had an acceptable track record of belittling Henry George (Ely 1885, 1886, 1915). He incorporated his Institute but arranged to use space

at the otherwise state-funded and controlled University of Wisconsin at Madison (Jorgensen, 1925: 13). The Institute was not part of U.W. (Ely, 1938: 247), but used its name.

Ely's Institute marked a new salient in the anti-Georgist campaigns. Ely did not rely, like Clark, on removing "land" from the lexicon of economese: "land" was in his new name. That did not stop him from denying that land has unique qualities, but his strategy was rather to preempt the work of those more applied economists - farm economists, real estate sellers, valuers, lenders, urban economists, resource economists, transportation and public utility economists - who had not learned better than to use four-letter words like "land". He guided them away from ideas that might lead to taxing it, and used their money to guide others away.

Ever since, the economics profession has been poised on the balance of wonderful ambivalence. Official Clarkian theory says there is no such thing as land, but just in case there is, it is to be studied under the guidance of Ely, founder of the AEA, in a separate, watertight compartment. Ely isn't so sure there is such a thing as land either, but whatever it is, it must be treated as private property, and taxed only nominally if at all.

The Institute motto, "Under All the land," is the same as that of The National Association of Real Estate Boards (NAREB). The clientele of the Institute were "courts, legislators, administrative officials, *public utility executives, real estate dealers and owners, ...*" (1938: 238; my emphasis). "*Banks, insurance companies, and lending institutions*" that had foreclosed became a major concern (*op. cit.*: 243, my emphasis). Their evictees (like John Steinbeck's Joad family), would-be buyers, renters, the job-needy, employees, students, voters, concerned citizens, the average intelligent adult, and the general public are not mentioned. The announced goal of the new Institute was to investigate "all the problems connected with land and taxation" (Jorgensen, 1925: iv; Ely, 1938: 240). Ely appealed for funds "for researches urgently demanded in the public interest, including the taxation of land" ("Organization and Purpose of the Institute for Research in land Economics and Public Utilities," p.8).

He defined his field this way. "Property and value mark out the field of land economics and separate it from those sciences which treat of land with reference to its productive powers ... " (1927: 121). "The scope of land economics is as large as that of property rights in land and natural

resources. One of the first marks of civilization is the definite allotment of specific rights in the gifts of nature” (1938: 235). Elsewhere in this series on the Georgist Paradigm (*Land & Taxation*) I have itemized ten attributes that distinguish land from capital and labor, and nineteen major economic consequences thereof. Ely’s work on land, however, focuses only on land as property, and land as having private value. One might suspect he is rationalizing both of those, and leaving out everything else. He is faithfully replicated today by the private property fundamentalists of our times, Coasians, *et hoc genus omne*, whose panacea is to make every natural resource private property, then punt. They market their creed as “the new resource economics”. Perhaps they have some claim to novelty, they are more extreme than Ely, who did favor residual social controls over land use, and at least had some history of social consciousness. However, even Ely didn’t invent this. In 19th century England it was called “free trade in land” (George, 1879: 321-22; Douglas, 1976: 18; Lawrence, 1957: 97,105).

Ely’s Institute’s first output (Hibbard, 1921) was an overtly political attack on the Ralston-Nolan Bill (H.R. 12,397). Drafted by Jackson H. Ralston,⁵¹ Ralston-Nolan would impose a “1% excise tax on the privilege of holding lands, natural resources *and public franchises* valued at more than \$10,000, after deducting all improvements” (Jorgensen, 1925: 8-9, 73).⁵² The National Association of Real Estate Boards (NAREB), a major contributor to Ely’s Institute (Jorgensen, 1925: 6, n.7), published and distributed Hibbard’s hit-piece nationwide, using the name of Ely’s Institute for academic cover. Emil Jorgensen flayed Ely for presenting this as a product of an “Institute for Research,” before any research was done. Ely lamely defended himself, belatedly, that “We have never advocated panaceas” (1938: 239, 241). The relevance of that is only clear if one understands that “panacea” is code language for single-tax. E.M. Fisher, a member of Ely’s staff, soon joined NAREB as Assistant Executive Secretary, to take charge of its “educational” work (*Institute News*, June, 1923).

Later the Institute was to follow up by attacking the Bill’s successor, the Keller Bill of 1924 (H.R. 5733). In this case the attack was by Ely himself, read into the *Congressional Record* (pp. 3092-93) by Congressman Ogden Mills of New York. Mills, a multi-millionaire, dominated the key Committee on Ways and Means, and was to succeed Andrew Mellon as Hoover’s Secretary of the Treasury. Mills, with Ely’s help, was to kill Keller in

committee (Jorgensen, 1925: 78-81).

Meantime, back in Madison, Ely was charting the path for his Institute by writing *Outlines of land Economics* (Ely, 1922). This was to let donors know what to expect, and guide the Institute's long-run research agenda - apparently the Hibbard hit-piece was urgent and could not wait upon research. The agenda was ambitious, to consist of some 50 books to guide the trade, and public policy. A staff was assembled, including several names later to become known in applied real estate education. These included George Wehrwein, Herbert D. Simpson, Mary L. Shine (later Amend), Albert G. Hinman, and Herbert Dorau (Jorgensen, 1925: 2, 15, 189). Ely also mentions Coleman Woodbury, Helen Monchow, Paul Raver, Morton Bodfish, Adrian Theobald, and Herman Walther. The last three were mortgage lenders (Ely, 1938: 246-47).

Normally the promoter of a new topic seeks to stress its distinctiveness. Ely's *Outlines* (and later works) conspicuously do the opposite. According to Ely, land value "is governed by the same laws that govern the values of other requisites of production" (1922, II: 78). "The more recent theory of land income holds that land yields an income substantially of the same character as other forms of income" (1927: 127). "Considered as property yielding income, land and capital are on exactly the same footing. A single-taxer [none are named] is much disturbed because the owner of a certain piece of land receives \$30,000 a year in ground rents ... The same man [still unnamed] seems quite unworried by the fact that trust companies are turning over incomes just as great ... to clients ... some of whom are moral delinquents and intellectual incompetents" (1922, II: 21). land is indistinguishable from capital, and so "we should not tax separately the value of the land ..." (1922, III: 115).

"... there is no surplus in land income. ... nobody works harder for what he gets ... than the landowner; and he usually gives a big return to society for what he receives" (1922, II: 39, 53). Rising land prices are a payment for "continuous toil" (1922, II: 36; Ely and Morehouse, 1924: 194, 195), so land is really a labor product. The reader may detect a tendentious quality. What looks like unearned increment to land is really just "rent of conjecture," not peculiar to land (1922, II: 34, 55). Presently we learn that land taxes are shiftable (1922, III: 94), while "It is a great mistake to suppose" that sales and excise taxes are shifted to consumers (1924: 24).

More and more, one wonders why there should be a special Institute to study land, which is so much like everything else.

The promoter of a new topic normally tries to show its importance. Ely conspicuously does the opposite. Minimizing his topic, Ely wrote "... the last hundred years (1822-1922) ... shows the rent of land remaining fairly stationary" (1922, II: 74). "The single tax will not yield enough revenue to meet those (governmental) expenses" (Ely and Morehouse, 1924: 323-24). In the future, he forecasts, land rent will fall further, owing to increasing wealth and technological progress (1922, II: 13; Ely and Morehouse, 1924: 262). Some rents will even become negative, dragging down the value of improvements (1922, II: 73). There is some doubt if he believed this last point himself, because in 1924 he joined the "City Housing Corporation," buying 1100 lots in Long Island City, New York (*Institute News*, May, 1924). He was a Director of Fairway Farms Corporation, speculating in Montana and North Dakota farmlands, "to experiment with the agricultural ladder" (a nice touch) (*ibid*, October, 1924). Still, we have his forecast in print.

Another reason to promote research is to solve perceived problems. Again, Ely minimizes the task. According to him, there are no problems to be solved, except to put down unnamed single-tax agitators who would create problems by taxing land. The market already puts land to the best use, by Ely. "This idea that good land is held out of use in large areas is a fiction" (1922, III: 98). The owner of land awaiting use provides gardens, lawns, and open space while he pays taxes to hold down taxes on the buildings of others (1922, III: 103, 105, 106). "Very uncertain and often inadequate are the gains that finally come to him" (1922, III: 106). Land speculators "purchase and sell land in order to help men acquire landownership". As to competition, it is perfect among landowners. Only non-land assets can be monopolized (1922, II: 52,53,73). Almost like a modern Rochester economist, Ely seems to be saying that land markets are 100% efficient; allocation is handled by the market. One wonders, why found an Institute to study land problems when there are no problems?

As for distribution, that is also as it should be. "Land is the poor man's investment" (1922, III: 98). "The great millionaires prefer other forms of investment⁵³ ... other things pay better than land" (Hibbard, 1921). Educational and philanthropic institutions rest on landownership (1922, II:

142). "Tenancy is also a good thing when it represents a rung in the agricultural ladder ... " (1922, III: 53). "A properly controlled system of tenancy has a place ... as a stepping stone to ownership" (Ely and Morehouse, 1924: 199). "The evils of tenancy have been grossly exaggerated" (1922, III: 61). The virtues of tenancy are noted at length (1922, III: 51-61). "English agriculture proves that we can have good agriculture with a system of tenant farming" (1922, III: 61). The English Duke of Bedford is a good example, moved by *noblesse oblige* to provide a free bathhouse to the inhabitants of three villages on his estate of 51,643 acres, and to give them jobs building a pond for him (1922, II: 61). Tenancy is caused by "incompetency"; tenants should be made more efficient through social welfare work (1922, III: 59). A desirable percentage of tenancy is about 30% (1922, III: 59).

Ely was well-connected, outstandingly so. His influence reached into the US Department of Agriculture, through Henry C. Taylor, head of the Bureau of Agricultural Economics, who was on his Board, and whom he hired at Northwestern when Taylor was dismissed in 1925. Under Taylor, five B.A.E. employees wrote "Farm Ownership and Tenancy" for the 1923 *Yearbook of Agriculture* (Gray, 1923). They write there that the high price of land has been given "exaggerated importance" as a cause of tenancy, and anyway, "it would be unfortunate to make the road to farm ownership so easy that farm ownership could be achieved by those who are unready". The authors include Lewis C. Gray, who surely knew better. The B.A.E. under Taylor also influenced Census Monograph No. IV, *Farm Tenancy in the United States*, by E.A. Goldenweiser and Leon Truesdell. The B.A.E. input came through O.E. Baker and W.J. Spillman, acknowledged by a note at the end of the introduction. Like the B.A.E. writers, Goldenweiser and Truesdell deal with tenancy as just a "rung on the agricultural ladder," an Ely invention. This is frustrating to the researcher on tenancy, for this classic monograph is a mine of useful information, with stimulating ideas. Something blocked the writers from developing those ideas and data in the direction they seem to lead.

None of the above positions seem to justify research to solve problems. The status quo is seen as satisfactory, except for one thing: overtaxation of land. There is the point of consistency. All the other premises help make a case for sheltering land from taxation. This does seem to be Ely's main

point, although he is ever the sidewinder, never seeming to head where he is going. The exasperated Emil Jorgensen, after an exhaustive study of Ely's works, judged him harshly: his methods are the use of "unwarranted assumptions, of wrong inferences, of false suggestions, of insinuation, of half-truths and of outright misrepresentation" (Jorgensen, 1925: 118). That is unkind, but seems to be on the mark in this case. It is consonant with what also irritated his right-wing critic who brought the 1894 case at Madison. Oliver Wells was wrong to persecute Ely, but he had studied his man. He complained that Ely's books are "studiously indefinite and ambiguous ... They abound in sanctimonious and pious cant ..." (Ely, 1938: 220). Just so. Constant equivocating and sidling and backtracking are his ways. Few but those already attuned to the single-tax case would notice how he keeps returning to the major theme of undercutting the case for a tax on land value.

We have seen above in passing some of Ely's penchant for abusing "the single taxer" in the course of making other points. He is now and then a little more direct, although never completely so. "Because a colonization company⁵⁴ must operate with a large area of land, a high land tax may hamper or ruin such a company" (1922, III: 29). "Few public utilities will escape taxation under the Ralston-Nolan Bill" (Hibbard). "Many are disturbed because property in land yields income. Is there anything ... which should lead to a special policy of taxation? Unless we are prepared to go over to Socialism ... we must expect to find men receiving an income from property, ... The solution of our land problems is not at all to be sought in confiscation of land values" (1922, III: 102, 103, 105). "The effect of the single tax would ultimately be a system of State tenancy" (Ely and Morehouse, 1924: 324). He favors public land *purchase* (presumably followed by tenancy), but not *taxation*. If we do raise land taxes, we must first indemnify the owners, because they have owned "from time immemorial" (1938: 272). Sales of land to pay back taxes "pained me because of the tremendous economic loss involved ... tragic stories of poor settlers who lost their all, ..." (1938: 234). Land taxes should be capped at 1.5% (1922, III: 115). Without doubt he would be pleased with the 1% cap imposed since 1978 in California, a cap that in only 16 years has helped convert California from the most buoyant to the most depressed American State.

Finally growing bolder, in 1927 he writes forthrightly:

In recent years the tendency has been for the government to take in taxes an ever larger proportion of the income from land. Due to inequities in the general property tax system in the United States, this tax burden has borne more heavily on land than on other forms of property (1927: 134).

In 1921 New York City, spurred by the Manhattan Single Tax Club, exempted new dwellings of moderate size from the property tax for ten years. Ely demurs to this on distributive grounds - because it might "increase the final burden upon the land" (1922, III: 115). By 1924 he is sure that it has done so, so that "the inducement to acquire land for residential utilization has been lessened" (Ely and Morehouse, 1924: 286). The last statement seems to be spectacularly contrary to fact. Lawson Purdy and Edward Polak, both officials of New York City and writers in scholarly journals, reported that building permit requests rose by a factor of about 5, 1921-23 (cit. Jorgensen, 1925: 159-62).

To avoid taxing land, Ely would tax consumption and labor. Having to pay taxes simply makes labor work harder (1922, III: 69). (Compare this with the statement just above, that taxes on land lessen the inducement to use it for building.) There is a "margin of income for the payment of taxes by the great mass of people. One has only to watch expenditures for the 'movies' ... to be convinced ... " (1922, II: 119). "On every hand can be seen an enormous surplus of income over needs of subsistence" (III: 93). There is no concern that such taxation might be "confiscatory". In the Ely lexicon only land taxes are confiscatory. "It is really an insult to the workingman to treat him as a tax exempt person" (1922, III: 90). "We are unable, without ruin, to meet our growing needs by direct taxation, ... Taxes on consumption and various indirect forms of taxation must be employed ..." (1922, III: 93).

Ely did not invent such ideas, but he gave them academic endorsement. In a few years they were preached from the top by the economic ruler of America, Andrew Mellon, Treasury Secretary under three Presidents from 1921-31, and by his successor Ogden Mills, Ely's ally in Congress. Both Mellon and Mills were major owners of the natural resources that Ely would relieve from taxation. They lost control of Washington in 1933, but Ely's ideas moved ahead rapidly in the states. The policies championed in

Outlines of Land Economics, 1922, began taking over state governments in the 1930s, and have counter-revolutionized state and local government finance in the last 60 years. They bear major guilt for the decay of our once-vibrant cities and the depopulation of our farming areas.

By 1925 Wisconsin apparently lost its enthusiasm for Ely. La Follette's Wisconsin, of all the States, had least rejected Progressivism. The Regents resolved to accept no more donations from any incorporated educational endowment (Jorgensen, 1925: 154). Ely may have seen this coming: he was already packing for a move to Northwestern. He added to his Board Frank Lowden, former Governor of Illinois and Republican Presidential timber,⁵⁵ and Nathan MacChesney, General Counsel for NAREB, and a trustee of Northwestern University. He boasted of his luxurious offices overlooking Lake Michigan, comparable to those he also boasted of in Madison (Ely, 1938: 245,247-48). He and his staff received premium salaries (*ibid*: 248). Ely moved in the highest circles, and to that end went first class. It was an image-making strategy he had learned from watching Disraeli at Berlin in 1878 (Ely, 1938: 55). When he launched his new *Journal of Land and Public Utility Economics* in 1924, it was most attractively presented. He wisely saw that it contained enough objective work to appear to be, and in many respects actually to be, a genuine scholarly journal: this, too, was part of his cultivated image.

"... Ely gradually became more conservative. ... in the 1920s his Institute ... was referred to disparagingly in a report on professional ethics by a Committee of the AAUP, in 1930" (Coats, 1987a: 129). His son-in-law, Ed Morehouse, was its Director, but nepotism was the least of its sins, as we have seen.

Grace M. (Mrs. William) Jaffe became Ely's chief research assistant at Northwestern University in 1929. After they fell out, her memoirs give some insight into Ely's hostility toward Henry George. Doing research for his autobiography, she "discovered some of the less creditable aspects of his academic life, particularly his abject submission when accused of Socialism" (Jaffe, 1979: 113). After that he grew increasingly conservative, and focused more on making money: reprinting and selling texts, consulting for utilities, and speculating in land. "Ely had succeeded in making a small fortune in the Wisconsin real estate business, buying land cheap, and selling it dear. This *modus operandi* brought him into acute conflict with Henry

George's Single Taxers (Jaffe, 1979: 107-08)".

The bitterness of the relationship is apparent in the title of Jorgensen's monograph on Ely, *False Education* (1925). On Ely's side, bitterness is apparent from the material cited above from *Outlines of land Economics*, etc., and from several disparaging allusions to George, single-taxers, and various pejorative codewords (economic sect, panacea) routinely used for single-tax and single-taxers in Ely's autobiography (1938: 92, 162, 239, 241, 272). Jorgensen's style is heavy, but he did his homework. His charges are carefully researched and backed. They anticipated the later disparagement of Ely by the AAUP Committee on Professional Ethics.

By 1929 Ely was running out of steam, at least professionally (he was yet to sire two more children, when nearly eighty years old). Ely "had retired into a more or less permanent snooze, and was quite content to have the younger generation write his textbook (*Outlines of Economics*) for him. ... I was obliged, in order to protect the old man's reputation, to write the pages on 'Rent' and 'The Single Tax' for him. ... Every once in a while he would try to write part of his 'own' book. Ely left his MS on my desk. I read it carefully, but with horror. It was a libelous attack on the leader of the Single Tax movement. ... signed 'Richard T. Ely.' ... I sat down and wrote the section dealing with the economic theory of rent in general and with Henry George in particular. ... that section remained unrevised in later editions. ... Whether Ely ever read what his 'ghost writer' had written, I shall never know" (Jaffe, 1979: 109).

This is the man who, in 1929, "was known as the Dean of American Economics" (Jaffe, 1979: 107); who founded The American Economic Association, the academic discipline of land Economics, and the Journal that now carries the same name, as an antidote to Georgist teachings about land. "Many of his students went on to distinguished careers in academic or public life" (Coats 1987b). In 1927 he was introduced to President Calvin Coolidge with these prophetic words: "Mr. President, here is Professor Ely, dean of American economists. If anything is wrong with the country it must be his fault" (Ely, 1938: 276). Something was, and it must have been.

The modern American Economic Association holds him to its bosom: from 1963, it honors his memory every year with its invited Richard T. Ely Lecture, a tribute to his enduring influence over the ideas and ideals of the

profession. In case any doubt remains over the role models of the Association, it bestows a second and third annual tribute. One is a Medal awarded in honor of John Bates Clark, who devoted his career to cleansing the lexicon of words needed to make the case for a tax on land values. The other Medal is in honor of Francis A. Walker, he who “would not insult his readers by discussing a project so steeped in infamy” as Single-tax.

The doctrine of “ripening costs”

Aside from his institution-building, what ideas did Ely add to NCE? He endorsed and widely popularized the points advanced by seminal NCE revisionists like Clark, Pareto, Seligman, Edgeworth, and Spahr. Ely saw land value as being mostly man-made. A catalogue of his anti-Georgist teachings is in Jorgensen (1925); we have surveyed them above.

In addition, Ely advanced his own seminal rationalization of land speculation, the doctrine of “ripening costs”. Francis Edgeworth (1906: 73) had toyed with the idea in his understated manner, but it was Ely who drove it home to the median midwestern Babbitt. By holding land idle during its rise of value, “I perform social service” (1920: 127). The service is to preempt land from premature underimprovement while it ripens to a higher use. Holding costs and unrealized latent rents are “ripening costs”. *“The costs falling upon the holder of land during a period of ripening use are socially necessary and are properly chargeable to the increment in land value resulting from the change in use. ... in public utility economics ... losses sustained during the period of developing a going business are capitalized into the rate base”* (1927: 130, and p.130 n.1. Emphasis in original.).

“Ripening costs” marked a shift, but not a rift, in NCE. J.B. Clark (1899: 85-87), Alvin Johnson (1914: 35), H.J. Davenport (1917), and later B.H. Hibbard (1930) credited land speculation with hastening the conquest of the frontier, which they, in the frontier tradition, premised to be an unmixed blessing. The “lure of unearned increment” actually stimulated building (today we call it “rent-seeking”). I find no record that Ely or the others tried to reconcile their polar positions. They were content to unite (notably excepting Davenport) in their damnation of George and the single tax. Clark, Johnson, and Hibbard damned it for slowing down settlement; Ely for speeding it up. No matter: the idea was to damn it, and that they did

jointly, unvexed by inconsistencies.

Ely had got ahold of an important and timely truth. Sprawl of all kinds had gone too far; the “cowboy economy” needed reining in. This gave some plausibility, and sense of social responsibility, to what he said. However, he used this truth lopsidedly as a stick to beat down land taxes everywhere. “... it is proposed by some to tax land to the point of confiscation, in order to bring it into use. Yet we find that some kinds of land are being brought into use too rapidly, ... contrary to the principles of conservation” (1927: 121). That is, he blamed land taxes in marginal areas for stimulating development; he never proposed the obvious counterpart, to raise land taxes on better lands to speed and fill out their development, to satisfy demand so that it might stop pushing outwards. He also, without recognizing it, contradicted his ally Seligman, who was still repeating his claim that reliance on land taxes would destroy marginal communities because they would have no tax base. Ely, meantime, with his usual equivocation, was busy speculating in Montana lands for himself and his Institute.

During the Great Depression Ely’s doctrine of ripening costs was ridiculed even by George Wehrwein, revising Ely’s text, who pointed to empty land that was put into “cold storage, and loading the community with the frozen assets that result” (Ely and Wehrwein, 1940: 149). This was almost Henry George talk! Worse, it was taken from a study by two of Ely’s own *protégés*, H.D. Simpson and E.R. Burton (1931: 44). The Great Depression really traumatized people, leading to agonizing reappraisals that lasted for a generation. Today, however, those events and misgivings are forgotten.

Even by his own lights, Ely’s “social service” proved negative: his empty land rotted before it ripened, and he lost all in the crash. He was reduced to living on relatives and former students, until rescued by Nicholas Murray Butler, long-time patron of J.B. Clark and E.R.A. Seligman (Coats, 1987b; Ely, 1938: 285). Seligman helped with his autobiography (Ely, 1938: viii).

However, with renewed rising land prices and galloping urban sprawl, the doctrine revived. It found its political outlet in 1957 when Governor Spiro Agnew of Maryland signed the first state law authorizing preferential assessment of farmland around growing cities, a movement that spread like lightning nationwide. In the profession, now consisting mostly of NCE rent-rationalizers, it has again become an article of faith. To them, markets are

“efficient” so long as buyers make competitive returns. Whatever actually happens to the land must then be right, by definition. Even if they don’t make competitive returns, they thought they were going to when they bought it (again by definition), and that is what really matters. It dovetails nicely with the “perfect markets” and “rational expectations” worldviews that would rationalize markets so perfectly that there is no unearned wealth except by chance.

In my view, the matter was nicely, if unintentionally, disposed of by Friedrich and Vera Smith Lutz (1951: 109-12). They wrote on optimal replacement timing under conditions of progressive obsolescence. All they did was ask how to maximize present value in perpetuity. They found that the expectation of higher future uses leads to speedier, not slower replacement of old by new uses. Their simple, basic mathematics has been entirely ignored by modern economists intent on replicating Ely’s feat of rationalizing land speculation. Kris Feder’s contributions in the present series of CIT books supplies a bibliography of current writings on the subject. (See also Gaffney, 1973: 141-42)

Another Ely innovation was to sneak in the price of land purchase as a social cost. “... get away from the old dogmatic treatment of the rent of land ... We have also taken over from public utility economics the idea of historical cost. When this method is pursued, it is difficult to find any peculiar or special surplus. ... inquiries ... indicate rather a relatively low income on the investment in land; ... need more research” bla-bla-bla. “... land economics ... as a result of observation, statistical inquiry and research, is reaching conclusions in regard to the income of land similar to those formulated years ago by Professor John Bates Clark. ... Clark’s works ... (use) deductive reasoning of a high order” (Ely, 1927, pp.127-28). No mere *Methodenstreit* would stand between fellow anti-Georgists.

From this fountain has sprung the whole stream of modern rationalization of markets whereby arbitrage leaves no potential gains unrealized, and this guarantees optimal allocation of land.

Yet another Ely innovation is to make high land prices stimulate saving and capital formation. This may follow directly from Clark’s capital theory, but Clark carefully avoided capital formation. He almost always assumed a fixed capital supply, to avoid any difference of capital from land. He focused narrowly on allocation of a fixed quantity of scarce capital

among competing ends. Ely, however, sidled into implying that high land prices are a cause of saving:

Ownership of land signifies saved wealth These savings in the form of landed property have been called upon to make heavy contributions. ... this puts a premium on spending and a penalty on saving ... encouraging consumption and discouraging productive savings. Consequently, there is considerable scientific support for the view that some of the heavy direct taxes upon land should be transferred to indirect taxes upon certain forms of consumption, i.e., that a broadening of the base of taxation is necessary to avoid confiscation of land values (1927: 135).

After 65 years of such education, Ely has won in academies and think-tanks and legislatures. We have done what he recommended, and more. Land prices have risen beyond his wildest dreams. Richly funded think tanks like the American Council on Capital Formation preach his gospel to every Congressman. Interestingly enough, however, the result has been a crisis of low savings rates, high capital imports, balance of trade deficits, and growing absentee ownership of US assets.

6

The Irish Connection

Francis Y. Edgeworth anticipated Ely on “ripening costs”. He wrote that land taxes would “force the market”. He has a strangely repugnant way of putting it: “In fine, the interest of monopolists is not always contrary to that of their customers” (1906: 73). It makes one wonder what else he is trying to rationalize.

Edgeworth correctly observes that taxing land would weaken the credit rating of landowners. He leaves out the counterpart, that untaxing buildings would strengthen the credit rating of builders. Still, we are in his debt for at least introducing the topic of credit rationing. Otherwise, NCE proceeds as though credit markets are pluperfect, and the highest bidder for land is necessarily the highest and best user. I have treated this point in a companion volume in this CIT series (Gaffney, 1994) and elsewhere (Gaffney, 1973, 1993b).

Edgeworth also thought that land taxes would bite into building profits. It is hard to imagine they would do so more than the alternative of taxing buildings themselves, so his point is obscure, and seems like simple carping. Demonstrably, if land or any other taxes did bite into building profits, the effect would be to defer building, which his first argument posits as a desired outcome. The impression is that nothing would please him because he has some unstated reservation.

One can guess what that reservation might be. Edgeworth was from a family of the “Protestant Ascendancy” in Ireland, Irish landlords, a long line of them reaching back 300 years. They owned Edgeworthtown, which he would inherit and own as an Irish absentee landlord. He was also teaching at Oxford, another great absentee landlord. He was not unaware

of the faults of his class - his Aunt Maria, author of *Castle Rackrent*, must have raised his consciousness. That is a far cry from relishing drastic reforms imposed by the state - not even Tia Maria was ready for that.

Henry George had risen from obscurity by attacking absentee landlords generically, and Irish landlords specifically (Douglas, 1976: 15-59; Barker, 1955: 335-72). His 1881 tract on *The Irish Land Question* (later retitled *The Land Question*) is what had sparked initial interest in the more heavyweight *Progress and Poverty*. He was intimately involved in Irish politics, after travelling as a journalist to Ireland to report for *The Irish World* of New York, serving a New York clientele of Irish *émigrés*. These were people who remembered that the Edgeworths and their kind had evicted them from their ancestral land.⁵⁶ His wife was Irish; his fellow California land-reformer and employer, James McClatchy of the *Sacramento Bee*, was Irish.

These Irish did not take kindly to economists who told them the usurpers had really created The Emerald Isle. In the NCE cant, this land had been produced by landlords, who were just “supplying” their native land to the Irish renters, and sparing them from having to bear the financial burdens of ownership. That was a hard story to sell in Ireland, or the slums of New York City, in the 1880s. As newcomers, outsiders, common laborers, and the poorest voting whites of 19th Century America, the Irish were George’s natural ethnic constituency.

They also supported the revolutionary Fenian movement, as it was then called. They sent their contributions back to Ireland to help roust landlords like the Edgeworths, an irritating skill the Irish developed to a high art. In Ireland, George the reporter also made news, supporting the radical activist Michael Davitt against the temporizing Charles Stewart Parnell (Barker, 1955: 341-56). In propertied England then that was something like preaching abolition in ante-bellum Alabama.

Into this powderkeg, George dropped an incendiary note: “It is hard not to feel some contempt for a people so oppressed (as the Irish) who have only occasionally murdered a landlord”. It was the harshest, most provocative, impolitic thing he ever wrote. I do not cite it to praise nor blame, but to establish motive. It was only a rhetorical flourish, journalistic hyperbole probably aimed to stir up the passive Parnell. Nevertheless, there it stood on the printed page, seeming to declare open season on Irish landlords like the

Edgeworths. It would have been only human for F. Y. Edgeworth to notice, resent, and fear. It gave him all the motive one would need to undercut George.

This line of causation is consistent with Edgeworth's otherwise inexplicably fierce attack on the mathematics of J.E. Cairnes. Cairnes' book, *The Slave Power* (1862), had played an important role in swinging English opinion against slaveowners, with whom Irish landlords had much in common, during the American Civil War. Cairnes had written of England itself, "The large additions to the wealth of the country have gone neither to profits nor to wages, ...but to swell ... the rent roll ..." (cit. Miller, 1917: 200). More recently, Cairnes' offense was to have written several articles favoring rent control in Ireland. Cairnes had used his authority as a political economist to assert this was compatible with classical rent theory.

With the best will in the world, it would have been hard for a person with Edgeworth's pedigree not to absorb a trace of class and ethnic bias. That would help explain his title: "Recent *schemes* for rating land values". "Scheme" is not a friendly term; "plan" or "proposal" would sound less prejudicial. Edgeworth's bias took the form of eugenics. There are individual differences in the capacity for pleasure, he wrote. He seems to suggest, in his cryptic, elusive way, that human creatures higher on the evolutionary scale (the Edgeworths?) have a higher capacity for pleasure than those below them (Irish tenants?), so that social welfare is maximized when wealth is unequally distributed, pretty much the way it already is.⁵⁷

Quite apart from Irish affairs, T.W. Hutchison (1953: 118-19) has suggested that Edgeworth kept J.A. Hobson from teaching at London, and Hobson attributed it to class bias. Hobson was not a Georgist, but a radical who did pen what Barker calls a "famous appreciation" of George (Barker, 1955: 414-16, 665; Hobson, 1897). This was published after one attack by Edgeworth (1890), and before another (1904). I have no conclusive proof on which to base a firm opinion of the exclusion of Hobson by Edgeworth. Edgeworth's defenders say that either it did not happen, or it was justified because Hobson made an error in calculus (Newman, 1987: 89). Considering that neither Marshall, J.B. Clark, nor Seligman used calculus at all, that would suggest a selective use of technicalities for screening people. Modern academicians are not unschooled in that device.

Edgeworth was a “toolmaker” and model-builder. He was a painfully obscure, opaque writer, little understood by his contemporaries. In most substantive matters he followed Marshall who, as we have seen, was more fair to George than other NCE founders, but who couldn’t understand Edgeworth either. In the current toolmaking, model-building era, however, painful obscurity and opacity are at a premium and Edgeworth enjoys a great new vogue. Here is his view of things:

Imagine a material Cosmos, a mechanism as composite as possible, and perplexed with all manner of wheels, pistons, parts, connections, and whose mazy complexity might far transcend in its entanglements the webs of thought and wiles of passion; nevertheless, if any given impulses be imparted ... each part of the great whole will move off with a velocity such that the energy of the whole may be the greatest possible (1881: 9).

He was, one might say, like a kid with a new toy. Apparently his toy-building technique was excellent. More apposite for us, the subjects that engaged him, and the attitudes he took, are quite congenial to modern “techie” economists. Much of what seems “new” in the last twenty years of grown-up kids playing with toy models is still basic NCE from the 1880s, expressed in less comprehensible forms.

In *Mathematical Psychics* (1881) Edgeworth introduced what is now universally called “Pareto Optimality”. The idea is that you cannot measure quantities of welfare, or make interpersonal comparisons of welfare. You can only be sure that welfare rises in the course of voluntary exchanges when at least one person is, and usually two persons are better off, and no one is worse off.

The policy implications are immediate, drastic, highly conventional, and very safe for those who stand to inherit land and private incomes. To begin, all existing entitlements to property, whatever their origins, should be firmed up and frozen. The process has to start somewhere, and any change in the existing entitlements would only delay progress in the orderly march of exchanges leading toward higher welfare. This idea remains central to Chicago School thinking: the economy should “maximize utility subject to the constraints of market prices and *endowments of wealth*” (Reder, 1987: 415). By 1985, “these views and their extensions have become mainstream economics, ...” (Reder, 1985: 417). “The rise in influence of the Coase

Theorem at Chicago has more or less paralleled a decline in the marked concern with income distribution that existed in ... the work of Henry Simons” (Reeder, 1987: 417).

All property should be clearly defined and fully alienable, with no strings attached. A series of exchanges, each of them being what is now called a “win-win” solution, must lead always in the direction of greater general welfare. All Robin Hood schemes, based on folk wisdom and Jeffersonian values, like that cited above from Charles Spahr, are without scientific basis, and can only delay progress.

It speaks volumes for modern economists that they have reshaped their discipline around those values. The operational part, of course, is what you do first: firm up and freeze existing entitlements. The rest is mostly moonshine, a promise made to be broken. In practice, “firming up” means wiping out traditional servitudes to the public, so that every “win-win” solution is really a “win-win-lose” solution, with the general public the loser, uncompensated. NCEists often point out how land values are the product of capital in the form of public works. This is all forgotten, however, when land is sold, and this sale is presumed to firm up forever a permanent public obligation to continue servicing and replacing those works. An example is the recent move to convert private contracts to get federally subsidized water in California into perpetual private property, salable to the highest bidder with subsidies permanently attached. NCEists pushing for this overlook that tapping the Treasury, and grabbing water from the public domain, deprive others (Gaffney, 1992, 1993c, criticizing proposals of Richard Wahl, Zach Willey, Sotirios Angelides, Eugene Bardach, and others).

In 1879, the year George published *Progress and Poverty*, Edgeworth was thinking thoughts like these.

But Equality is not the whole of distributive justice ... in the minds of many good men among the moderns and the wisest of the ancients, there appears a deeper sentiment in favour of aristocratical privilege - the privilege of man above brute, of civilised above savage, of birth, of talent, and of the male sex. The sentiment of right has a ground of utilitarianism in supposed differences of *capacity* (Edgeworth 1879: 77, cited in Newman, 1987).

Peter Newman, who cites the above, doubts that Edgeworth was wholly

given to such dark views. They were, however, an important part of his complex nature.

Pareto's Power

We turn to Vilfredo Pareto, whom the dark thoughts of Edgeworth evoke. The thoughts suggest that Edgeworth's affinities with Pareto were more than methodological. Pareto's philosophy reads like a tour between Nicolo Machiavelli and Benito Mussolini, with detours through Friedrich Nietzsche. A wealthy heir who married a Russian Countess, he has been judged by some as the first fascist, but that label, like most, is too simple. His ideas sound fascistic in internal affairs, on the model of a Latin American dictator; but they lack the populism that gave European fascism mass support, as well as the imperialism that was its downfall. He was antimilitaristic, consistent with his contempt for government in general. "Pugnacious elitist misanthropic libertarian" might be a better fit: it seems to fit many of his modern followers, the NCEists. Here are some of his words: let the reader judge.⁵⁸

... no social class can for long hold its property or its power if it does not have the strength and vigor necessary to defend them. In the long run only power determines the social forms; the great error of the 19th century will be to have forgotten this principle (1906: 361).

Society has a dominant class, A, and a subject class, B. Class A divides into A-alpha and A-beta. The alpha part "still has enough strength and energy left to defend its share of authority;" the other part, beta, "is made up of degenerated individuals, with feeble intelligence and will, *humanitarians*, as is said today" (1927: 91).

The A-alpha try to make people believe that they are working for the common good, ... [but] it [this effort] also decreases the energy of the A-

beta, who take as true what is only a pure fiction and can only be useful as such (1906 p.92).

The error of the humanitarians ... is not in having a religion, ... but in having chosen a religion which is appropriate only to weak beings lacking in all energy and courage, ... (p.364).

One wonders, after that, how Pareto would class those who fancy they have found in "Pareto-optimality" a value-free technique to evaluate issues of public policy? More relevant today, how should we view them? Pareto would only appear value-free to those who share his values so thoroughly that they cannot even see that they are value-judgments. It might be fair to say that Pareto disclaims all ethical positions and value-judgments save one: private rent-taking is sacred. In this, of course, he has company; it is a powerful company with most of the world's discretionary income at its disposal to impose its message on impressionable young students of economics.

Pareto expressed grudging admiration for the B-alphas, or leaders of the lower classes, so long as they were driven by narrow self seeking, as he assumed they were. The weak whom "humanitarians" defend are "degenerates". The self-seeking proletarian leaders, or B-alphas, are different. "They are energetic and robust he-men who want to eat when hungry, drink when thirsty, and make love when it suits them ...". "It is self-interest which rules the conduct of the B's, not sentimental twaddle" (p.360).

... the struggle to appropriate the goods of others may be favorable to (genetic) selection (p.341).

The numerous cases in which the mob wants to lynch malefactors demonstrate clearly that the populace still retains the vigor of the race, vigor which the upper classes have lost (p. 360n).

Pareto does not comment directly on George, but he rejects most of the value premises that might lead one to Georgism, in the following.

Equality before the law ... is not ... advantageous to society; ... (p.95).

Tories and Whigs "compete for the favor of the common people" ... they "fight to see which will prostrate itself more humbly at the feet of the common man"(p.100).

When the suffrage has been given to all men, including madmen and

criminals, when it has been extended to women, and, if you like, to children, it will have to stop. One cannot go any lower, unless the suffrage is extended to animals, ..(100).

... liberals ... have paved the way for the demagogical oppression which is now dawning". Taxes on the rich are voted on "by those who do not pay them, ... shamelessly ..." (93).

In 1904 in England, "all the parties ... vie with each other in flattering the workers. The Liberal party, which ... has given up its principles, moved to socialism ..." (345).

I will intercede here for historical accuracy. Actually, the English Liberal Party did not move to socialism, it moved towards Georgism (Douglas, 1976; Lawrence, 1957: 37,63,73,105-06,111,126). The "famous Newcastle Programme" of the Party, first adopted in 1891, put both rating (local) and taxing (national) of land values into the Liberal Platform (J.D. Miller, 1917: 102; Douglas, 1976: 114-15; Lawrence, 1957: 171), where it stood for thirty years. That is why people like Pareto's friend Edgeworth (1906) were writing articles against "Recent Schemes for Rating Urban land Values," and Cannan (1907) was writing against "The Proposed Relief of Buildings from Local Rates". Georgists and Socialists had long since fallen out (Lawrence, 1957: 37,63,73), and it was the Georgists who were accepted into the Liberal Party. Gladstone was not keen on them, but lost out and retired to Hawarden in 1894.

From 1906-14, under successive Prime Ministers Campbell-Bannerman, Asquith, and Lloyd George, the Radical wing of the English Liberal Party came close to implementing Georgist reforms - in the process drawing the teeth from the House of Lords. This did not come out of nowhere, but out of 25 years of organizing and propagandizing, which was no secret. Among other prominent English statesmen supporting land taxation were Winston Churchill, Philip Snowden, Ramsay MacDonald, Josiah Wedgwood, Clement Attlee, and Stafford Cripps - a conspicuous group. George Bernard Shaw, a highly visible Fabian leader, sustained his support for George (Lawrence, 1957: 85-86,171). Presumably Pareto knew something of these facts, and was using "Socialist" as a pejorative for "Georgist," as Clark and Ely did.

It was, rather, Bismarck's Germany that adopted socialism. Bismarck had triumphed by swallowing his enemies whole, and announcing their

program as his own. As we have seen, this had an enormous influence on American education in economics.

Returning the floor to Pareto, he says *Tolstoyism* led Russia to lose the war with Japan (358n). Tolstoy was George's apostle to the Russians (Geiger, 1933: 459-61); we may presume Pareto knew this - his wife was a Russian countess.⁵⁹ Pareto goes on, "But among the leaders some enriched themselves through customs protection and corruptions, others were besotted by their humanitarian faith" (358n).

"... consumers suffer less harm from (monopolies) perhaps than from shopkeepers and trade unions". We should deplore "the contemporary humanitarian mania to excuse ... all harm caused by workers or by persons of little affluence, ..." (p.338).

Those five quotes leave little doubt that Pareto diametrically opposed most values associated with Georgism, or "The Single Tax".

Next let us look at what economic techniques to associate with Pareto. He makes no bones about how he sees the purpose of techniques.

Men follow their sentiment and their self-interest, but it pleases them to imagine that they follow reason (p.95)

With that avowal, it would be prudent to be chary, and interpret Pareto's choice of techniques in the light of what we know about *his* sentiment and self-interest. All the techniques to be described have been accepted by NCEists, and folded into the body of NCE.

(1) "Pareto's Law" of distribution tells us that unequal wealth is inevitable, and remains the same between times and places, regardless of human institutions. To Pareto, "leveling" is all sham, it is just the rhetoric of the outs trying to become the ins. The overtones of this kind of fatalism are heard in today's "rational expectations" dogma, which says that all government actions are offset by private investors and other economic agents who anticipate them. However, Pareto's "Law" is demonstrably contrary to fact, e.g. among the 50 American states. Detailed data on this are presented in Gaffney, 1992.

(2) Political economy deals only with how "to compare the sensations of one man in different situations, and to determine which of these he would choose". A second class of theories compares the sensations of one person with another, but these are "most unsatisfactory" (105). This converts

economics from a social science to a study in individual psychology (a bad one, according to psychologists). It dismisses in one stroke all traditional American notions and egalitarian ideals, such as expressed by Charles Spahr, above, who wrote that low incomes are insufficient for healthful and decent living, while high incomes and properties are “morally perilous to their possessors” (Spahr, 1896: 159). “... the ability to pay taxes increases faster than the private fortune” (Spahr, 1896: 160).

Clearly, too, Pareto’s view is totally at odds with the case for public education, national defense, social security, universal health care, veterans’ benefits, and anything else with any element of social dividend. One could never lead a crew or team, or provision a platoon or a division, or teach a class without comparing the sensation of one person with another. Pareto would seem to have wanted to eliminate both the welfare state and the warfare state, maintaining the military for the prime purpose of putting down domestic insurgencies. The purest applications of his philosophy may be observed today in Guatemala, Honduras, or El Salvador.

(3) Pareto redefines rent as the gain from reallocating a resource - any resource. It is the excess of its current return over its “opportunity cost”. He belittles “Ricardian rent” as just a particular case of that (247). This, of course, is calculated to divert attention from land rent as a taxable surplus. This altered definition of rent used often to be called “Paretian rent,” or “transfer rent,” but modern NCEists have gradually got round to calling it just “rent,” as though there were no other meaning.

Logically speaking, that involves the trick of taking a concept appropriate to “partial equilibrium analysis” (theory of exchanges, centered on the firm and the industry) and transplanting it, without advising the reader, to “general equilibrium analysis” (social distribution theory, covering all firms and industries) (Gaffney, 1962: 145-46). It is quite inconsistent for Pareto, who is generally known as a writer on general equilibrium. Frank Knight, as we will see, carried it to the greatest extreme possible.

It has been wrongly imputed to Joan Robinson, who actually saw right through it. Robinson wrote, “From the point of view of society, land ... is provided free, and the whole rent is a surplus and none of it is a social cost” (1933: 107). Another good treatment is by Bronfenbrenner (1971: Ch. 14). Ground rent applies to the whole class of land incomes without reference to allocation among different uses. It would obtain even if all land and labor

were homogeneous, and produced but one commodity.

Ground rent is distinguished from wages by the curse of Adam, that labor towards suppertime grows irksome, entails sacrifice of comfort, vacations, desired location, self-direction, often personal safety, and at all times represents a sacrifice of pleasant diversions. Wages are also a return on all the costs of rearing and maintaining the worker, and the future costs of retirement. For increasing numbers of people, work also represents a sacrifice of time spent on lucrative or destructive untaxed activities like stealing, rioting, vandalism, looting, mobbing, arson, smuggling, tax evasion, barter, etc. Idle hands are not just wasted, they make mischief. For many, work represents a sacrifice of welfare payments, whether from parents or the state (Gaffney, 1962: 146).

The issue is often couched in terms of whether rent is a “cost” to the individual “firm”. That is something of a red herring. land always has a cost in the sense that use A must preempt land from use B. land never has a cost of being produced. These are simply two different meanings for one word, “cost”; no one should be bamboozled by that. Joan Robinson was not fooled. To repeat her wisdom (which warrants repeating), “From the point of view of society, land ... is provided free, and the whole rent is a surplus and none of it is a social cost” (Robinson, 1933: 107).

The operational question is for tax policy, which the diversion about rent as a cost is designed to obscure. This question is, what will happen to the supply of land if you focus the property tax on land value, exempting capital? How will the tax affect the allocation of land? (The effect is at worst neutral, and will probably improve it because of the pressure of the cashflow effect.) How will the relief of capital from taxation affect the supply of capital, and the allocation of land and capital? (It will raise the supply of capital, and improve the allocation of both land and capital.) It is really not so complicated. Long-winded disputes over the meaning of “rent” are beloved by abstract theorists. They just distract us, as intended, from getting to the nub of the central question of public policy.

(4) Pareto introduces the use of indifference curves, crediting the device to F.Y. Edgeworth (1879: 119). The “indifference curve” technique is a way of recasting the discipline in several ways, too long and tedious to recount in full detail. Perhaps foremost, it makes it technically more difficult to explain and perceive simple points, thus excluding more people

from understanding, and facilitating obscure manipulations, insider argot, and unsupportable statements from authority.

The technique helps us shift from “cardinal” to “ordinal” rankings of welfare, avoiding those dangerous interpersonal comparisons (such as that every human body needs about the same daily bread to avoid hunger). It lets us escape from diminishing returns of labor or capital applied to fixed land, and refocus the analysis on the disembodied “firm” as the basic unit. These “firms” pick and choose among “inputs” or “resources,” which are treated as perfectly symmetrical, and none of which needs to be called land any more. All can be had in any amount by the firm, and society is just a collection of firms so the society can have any amount of land at any time. Optimal substitution or trade-off is the main emphasis. Technically, the ideas of land rent and taxable surplus can still be expressed by use of the “indifference curve” technique, but only laboriously, obscurely, and indirectly, as intended.

Such is the heritage of the cynical misanthrope, Vilfredo Pareto, who wrote,

Men follow their sentiment and their self-interest, but it pleases them to imagine that they follow reason (95).

8

The Chicago School Poison

Frank Knight is another pivotal figure. We have seen that he learned his J.B. Clark through Alvin Johnson at Cornell. Then he ruled the Chicago School for many years, bending it to his strong will and commanding personality. “The close personal relations of the Knight coterie, maintained for over half a century, has reinforced the strong common elements in their idea systems ...” (Reeder, 1987: 415).

How did Knight come to Chicago? John D. Rockefeller funded Chicago spectacularly in 1892, and started raiding other campuses by raising salaries. Rockefeller picked the first President, William Rainey Harper. Harper picked the first economist, J. Laurence Laughlin, from Andrew Dickson White’s Cornell (he liked Laughlin’s rigid conservative and anti-populist views). Harper drove out Veblen in 1906, then died, leaving Laughlin in charge of economics until he retired in 1916. He passed the torch to J.M. Clark, the son and collaborator of J.B. Clark.⁶⁰ Frank Knight first came to Chicago in 1917 from Laughlin’s Cornell. The apostolic succession is fairly clear from Rockefeller to Harper to Laughlin to Clark to Knight.

According to William Barber, the early institutional decisions helped shape the “observable outcome” at Chicago to this day: in plain English, Chicago is still the lengthened shadow of John D. Rockefeller (Barber, 1988d: 242, 248, 263-4, 265). We may assume that the man who hired publicist Ivy Lee to polish his tarnished reputation also picked his own private University President with that in mind. Rockefeller and Harper are long gone, but the problem they exemplify is as perpetual as the maldistribution of wealth and the corruption of politics. “It is not what has been given but what is hoped for that influences most the policy of

university authorities” (Ross, 1914: 166).

In terms of numbers, and intensity of feeling generated, Knight probably produced more NCEists and NCEism than anyone in history. He made no secret of his firm opposition to Henry George and ideas that might aid or comfort Georgists. His enduring interest and his viewpoint are clear from the title “Fallacies in the Single Tax” (1953).

In treating rent, Knight totally fuses the individual and the social viewpoints. A cost to one firm is a cost to society: there is no aggregation problem, no fallacy of composition, and no remote possibility that “rent” might have more than the one meaning he assigned to it.

Anyway, to Knight all land value is a human product. The single tax, says Knight, is an invention of city men who never knew the soil (recall Alvin Johnson and his “fresh cheeked maidens”). Among the human activities and investments that create land, by Knight, is “killing off previous claimants” (1924, rpt. 1952, pp. 167-69). It reads like a caricature of Chicago, but it *is* Chicago, from the fountainhead himself. The American Economic Association has laid on its hands, reprinting it as a “classic”.

Consistently, Knight also argues that slave-owners had just title to their slaves, because of society’s sanction, and - note this well - because there was open competition for the capture of slaves (1953: 810). Competition is the key, it can justify anything. Presumably this would also justify lesser forms of larceny and embezzlement, so long as thieves compete, but Knight does not address this matter. There is some irony in that Knight’s roots lay deep in the “Land of Lincoln”. “Summary liberation” of slaves, i.e. Lincoln’s Emancipation Proclamation, was unethical according to Knight. Compensation was due the owners - not, apparently, the slaves. He does not tell us what persons in “Society” should bear the necessary taxes to do so. One wonders if the young Knight had ever been allowed to read *Huckleberry Finn*. His paramount value is protecting property in unearned wealth.

“Society” was to blame for slavery, wrote Knight, and society should pay (cf. Ely, 1914: 779, cit. Young, 1916: 305). Could this be the origin of the allegedly “knee-jerk liberal” doctrine that hoodlums who gun down robbery victims are blameless because it is society’s fault? Little wonder that Knight later wrote that the competitive system lacks most elements of fairness (1935: 60). Was he not projecting onto the system his own grim fairy-tale of what it should be, and reacting against his own travesty?

Consistently, again, Knight wrote that land yields no unearned surplus so long as competition keeps the returns to individuals at market levels (1924, rpt. 1952: 167-69). A “run of free income” (as Veblen called it), ceases being a surplus to Knight as soon as someone buys it from someone else. Similarly, monopoly profits would become competitive as soon as B bought a share in the monopoly from A. This ideological position was taken also in the same decade by W.I. King (1921), R.T. Ely (1927), and Shannon and Bodfish (an Ely employee) (1929), and has grown universal among NCEists. An “efficient market” is now one in which arbitrage has adjusted purchase prices such that every new buyer makes just a competitive return on what he bought, regardless of what that might be (we have already seen Knight apply this to slaves). The origins of property are of no concern, only the trade in property.

The market is also “efficient” so long as no opportunity for arbitrage goes unexploited. It’s a wonderfully circular, self-vouching system of thought: by definition, no such opportunity does go unexploited. Getting back to basics, an efficient land market would seem to be one that got land allocated to its highest and best use. In NCE, this is assumed to be the by-product and result of arbitrage. It is as though betting on a horse-race is what makes a certain horse win. Indeed, William T. Ziemba, Professor of Management Science at the University of British Columbia, has provided us with an appropriate model, a perfect travesty of Knight’s idea of an efficient market. “My system is based on the premise that the racetrack, like the stock market, is an *efficient market* - ..”. Betting is efficient, says Ziemba, because “The odds created by the betting public generally reflect a horse’s actual chances of winning a given race” (Ziemba, 1988). Those ideas overlook that the odds do not affect the outcome (plus, in this case, it does not matter which horse wins anyway). Land prices are in some ways like the horse race. They rise and fall from exogenous causes. Buyers bet on the outcome without affecting it. Knight’s thought takes us so far away from basics that a professor of management science can mistake arbitrage for social efficiency.

“Choice” is everything to Knight. “Apart from a necessity of choosing, values have no meaning or existence”. “...The cost of any value is simply the value that is given up when it is chosen” (1924, rpt. 1952: 167-69). Knight is clear that this undercuts classical ideas about taxing rent.

Knight did not rest with just defining away land rent. He also saw the need to define away land itself, following J.B. Clark. A strong and easily conveyed argument for untaxing buildings while “uptaxing” land is that it removes a disincentive to replace or remodel decrepit, obsolete buildings and other capital. Capital, unlike land, has a finite life. It depreciates and is reproduced. That is, it turns over. The reciprocal of turnover is a period of time, which the Austrians call a “period of production”. This was anathema to Clark, who wanted to erase the difference of land and capital by making capital deathless, like land, and have capital consist of a mystical essence that could “transmigrate” into land and explain its value.

Knight took up Clark’s anti-Austrian attack with multiplied vigor. In this context, anti-Austrian means anti-Georgist. Clark attacked Boehm-Bawerk in one or two articles; Knight churned out twelve, by Stigler’s count (1987: 57, col. 1), against Hayek, Machlup, Lange, and Kaldor. “Knight denies the existence of any ‘primary’ factors of production [read land] which contain no capital, and equally he denies the possibility of measuring the period of production ..”. Stigler claims “victory” for his old master, using the rather circular survival test that he has used elsewhere to define industrial efficiency. It is doubtful if Stigler would accept a popular vote to choose truth over error. It is no better, and perhaps a good deal worse, to accept the verdict, if that is what it is, of a profession whose role models are the likes of Clark, Edgeworth, Walker, Pareto, Ely, and Knight himself.

In the course of this anti-Austrian attack, Knight goes so far as to commit the “fallacy of the disappearing inventory”. According to him, the existence of capital lets us treat inflow and outflow of goods through inventories as simultaneous. Likewise we may treat production and consumption as simultaneous, however long goods are stored up in inventory (Knight, 1946: 387; this traces back to Clark, 1893a). It is something like saying we may treat collegiate matriculation and graduation as simultaneous, so long as there is a stock of students. The result of such thinking is to bypass the whole question of what capital is and does, and, damagingly for George, to erase a primary distinction of capital from land. Knight uses the point for this very purpose.

The lost distinction is that capital turns over; it is continuously being used up and replaced by hiring labor to produce more. The longer it takes

capital to work through the pipeline, the more capital is required per worker and per unit of output, and the higher is the ratio of capital to labor. Add to that, the pipeline itself is capital. Likewise, since pipes occupy space, the more land is required. To keep the distinction of land and capital well lost, Clark and Knight were forced to dispute the Austrian capital theory,⁶¹ which each of them did in their oft-cited debates with, respectively, Boehm-Bawerk and Hayek. These celebrated exchanges seem quite tedious and pointless, and even mystical, until one realizes their essential role in the imperative to slam the lid on Henry George and his idea of treating land and capital separately. They were essentially battles of Anti-Georgists vs. Anti-Marxists.

August Comte, founder of “Positivism,” taught that all science deals either with relations of coexistence or relations of sequence. Production economics as taught today deals solely with relations of coexistence, ignoring relations of sequence. The popular Cobb-Douglas function⁶² exemplifies the point. “Capital” there simply exists as a quantity at a point in time. Sequence virtually disappeared from standard economics until Keynes revived it in a macroeconomic context. Even Keynesians had to work out a “vertical” or instantaneous multiplier to communicate with people whose system of cognition left them uncomfortable with matters of sequence over time.

Production economics, meanwhile, has evolved into manipulation of symbols purporting to represent quantities of labor and capital conceived as substitutes at a point in time. Micro theorists avoid handling the sequential relationships, that labor produces capital and investment employs labor. They avoid defining capital, and explaining what unit of quantity measures it. The abstract axiomatic reasoning in micro-economic theory that students are forced to take as “The Core” of economics deals exclusively with these stylized relations of co-existence. This reasoning ignores the formation, measurement, meaning, depreciation and replacement of capital. Appreciation of land gets short shrift.

Knight, like Edgeworth and Pareto, had a dark, cynical, misanthropic outlook. “Truth in society is like strychnine in the individual body, medicinal in special conditions and minute doses; otherwise, and in general, a deadly poison. ...” (1947: 325, cit. Stigler, 1987: 59). The spirit is at an opposite pole from that of Henry George. Knight was not born to love

anyone so *Menschlich* as George.

The bafflegabbers

Willford I. King believed that land is equally distributed. The Editors of the august *Journal of Political Economy* let him prove this, in an attack on Harry G. Brown, by publishing the following (in which he is sarcastically referring to himself in the third person). “He states that in a certain village with which he is familiar there are about a hundred families of somewhat equal wealth who all own their homes” (King, 1924). Critics of George and his advocate, Harry G. Brown, were not held to very strict standards of scholarship in the Chicago house organ.

The *JPE* did give Harry G. Brown a good deal of space, it is true, but reading the kind of reply they let King publish tells one they were just baiting Brown. King’s 1924 article is sarcastic, contemptuous, unedited rhetoric from beginning to end, with no shred of support for its wild-swinging allegations and reactionary value judgments. Brown was a neo-classically trained economist who used neo-classical tools to plead the Georgist case before other NCEists. He projected his own conscientious sincerity onto others. He thought he could reach them through reason, using their own tools and concepts. He was a very capable theorist; he pretty well failed. In one exchange, a critic is said to have written “Brown’s mind is as twisted as his leg” (Brown was crippled).⁶³

Elitist as Pareto, King is capable of this: “... the man who saves and invests his savings in such property (land) is a citizen worthy of emulation and .. the thriftless man who does not accumulate such ‘vested rights’ is an object for scorn, derision, or contempt ...” (King, 1924: 608).

King sees the rise of land value as part of the return to capital (1921), hence an incentive payment to stimulate saving and investing in real capital. That is not good investment theory, by today’s standards. Today we would

call this a “rent-seeking” explanation, and most economists would agree, I believe correctly, that such rent-seeking, where it works out as King posits, diverts investing out of its “natural channels” (as Spahr would have put it). They would also agree that in equilibrium, arbitrage pushes up the purchase price of land at the beginning of the investment cycle such that the land buyer receives only a market return on this price. In the Chicago creed, no opportunity for arbitrage goes unexploited.

The net result is to raise the overall credit requirement for being in business. To a NCEist that means no effect at all, but to small, marginal businessmen and renters of all kinds it is a large effect. It screens out many who otherwise would have enough capital to enter or remain in business - a matter of distressingly little concern to modern economists who, like Stigler, measure success solely by survival (what is it about Chicago that blinds people to circular reasoning?). It forces business owners to be tenants. The writer has developed this point in “Land as a Unique Factor of Production,” published elsewhere in this CIT series (1994), in 1973, and in 1993b.

Carl C. Plehn was not a general in the war against George, but a colonel with an important regional command. As such, he is emblematic of many other minor figures, and will be taken as typical. He graduated from Hopkins under Ely, then held the fort at Berkeley from 1896 for about 35 years, as Dean of Commerce and Professor of Public Finance. His *Introduction to Public Finance* ran to five editions, 1896-26. California and some other states “utilized his ideas in the formation of their tax systems” (Cookingham, 1988: 277). Just what those ideas are takes a little inferring. His style is equivocating and divagating: one sentence often seems not to follow from another, but to swap subjects and premises (“bafflegab” and “doubletalk” are popular expressions for it). Here are some of the relevant points in his basic text, 1896 version. I have paraphrased liberally, to “cut to the chase”. The impression of chaos and confusion is not injected, but substantially lessened from the original.

Initial street improvements may be charged to the benefited landowners, but all later costs should be charged “to the people” (p.66).

“No nation has ever found it feasible to adopt any single tax as the sole source of its income” (p.105). George’s proposal is a “scheme” with an “ulterior” purpose: “he aims, like the socialists, at a new distribution of

property” (p.106). This is “unjust,” “inexpedient” (no reasons are given), and “not feasible”. It is unjust because “The value of land, like that of other wealth, depends on the use to which it may be put”. This is one of Plehn’s many non-sequiturs, without further explanation.

The land tax is not feasible because “in no case would the scheme yield sufficient revenue”. “It has been estimated” (no source is given) that the land rent of England is inadequate (p.108). No data are offered (nor could be, since England lacked a valuation of its land; the constitutional crisis of 1909 was precipitated over a proposal to value land, thus exposing it to taxation). In the United States, according to Plehn, data are *not* available to separate land from building values (p.108). (He seems to have this completely backwards. In fact, in California at that time, land and buildings were valued separately.)

This alleged lack of US data does not deter Plehn, however, from stating with confidence and authority that the land base is too small. Getting into finer detail, George’s “scheme” would shift taxes to farming lands. In the “professionalization of economic science,” it seems, this paramount rule obtained: any stick will do to beat Henry George. (The revenue potential of land has been estimated in Gaffney, 1970, and is explored further in *Private Property and Public Finance*, a companion CIT volume.)

A high rate of land tax, necessitated by the small base, will “ruin the user of the land, and practically prohibit its cultivation” (p.109). (No support is given for this, but it certainly is frightening.) Some allege, writes Plehn, that untaxing capital will add to the taxable capacity of land, but that is untrue (no reasons are given) (p.109). Later he is to contradict this, noting that a property tax on the outstanding balance of mortgage loans is shifted to equity owners in higher interest rates (pp.225,249,252). According to the same logic, a tax on buildings is shifted into lower land prices. Consistency, however, was no problem for Plehn: he was the only authority within 1500 miles.

Every kind of economic wealth ... frequently ... yield(s) its owner an ‘unearned’ increment (p.109).

A single tax ... will ... defeat its own ends by repressing the existence of the phenomenon which forms the signal for its assessment (p.109).

The general property tax is a failure ... it will have to be abandoned. ... No words are too strong to express the iniquities of this tax (pp.218-19).

Property should be taxed on its income, not its value (p.219).

... modern economic theory does not regard rent as an inevitable surplus,
... (p.220)

Unlike the land tax the building tax is regularly assessed each year (p.223).

So few farms ... are rented that they need not be considered (p.254, n.1).

The land tax is partly shifted “when the land is used for agricultural purposes”. This leads to a boom/bust cycle in which marginal farmers are often “ruined”. In this way, the burden falls on “the farmers,” even though the land tax may be shifted. Farmers are overtaxed by the land tax (pp.254-55). Taxes on urban buildings cannot be shifted; they are the same as land (p.255). Likewise, a tax on profits cannot be shifted (p.257).

Plehn’s first edition, 1896, says little about income taxation. In his fifth edition (1926: 272, cit. Groves, 1946: 168, n.30) we do find an idea that is curiously missing from other early NCEists, but was just awaiting the 16th Amendment to surface. Plehn refers to unearned increments of land value as “capital gains,” a camouflage that has of course become standard. He wants them exempt from income taxation on the grounds that it would be double-counting to consider both the anticipation and the realization of higher rents as income.⁶⁴ Harold Groves disposes of this tersely and nicely. Capital gains “arise not as a flow of income from the fountain, but from the sale of the fountain itself. ... If depreciation and obsolescence ... are (negative) income, ... appreciation ... seem(s) entitled to the same status (i.e. as positive income)” (Groves, 1946: 166, 180). Amen.

Interestingly, Plehn’s position, seemingly so *simpatico* to rent-takers, took a long time to work its way into NCE, and is not all the way home yet. Professors Haig of Columbia and Simons of Chicago gave their names to the doctrine that increases in a person’s wealth are income and should be taxable; they have many followers. How explain this failure of NCEists to press an advantage for rent-takers? Half an answer lies in their recognition of the paramount importance of the doctrine of uniformity. If “capital” gains were not income, that would mean they were unearned and non-functional, hence liable to even higher taxation, or outright confiscation, outside the income tax framework. Another part of the answer is that it is possible, and even standard, to endorse Haig-Simons in principle, but then cop out with the claim that it cannot be administered, winning points with

both sides while leaving the money with the rent-takers. Study of NCEists has made us cynical, but the rest of the answer may lie in the actual sincerity of believers in income taxation.

Seligman is Plehn's ultimate authority: Plehn cites him many times, slavishly. The only apparent reason for using his own book instead of Seligman's was to collect the royalties. Nearly all his ideas are borrowed, and garbled in transcription. Plehn illustrates how a writer of practically no ability could hold down and sterilize an important outpost for forty years, contributing practically nothing, so long as he clucked forebodingly against land taxation in the approved NCE manner. Multiply Plehn by 100 or so, multiply that by the average number of students each such professor confused, bored, and twisted, and you have the tragedy of American higher education in economics.

10

The Bitter Harvest

Neo-classical economics has dominated thinking and policy now for half a century or so. The results are better than those achieved in Eastern Europe, but NCEists cannot take credit for our market economy, much as they boast of it. The North Atlantic nations had a well-oiled market economy functioning long before NCE drove out classical and Progressive economics. What can NCEists claim as *their* heritage, their contribution to our well-being? “What have they done for us lately?”

They have achieved power, and implemented much of their program. They have dismantled most of the reforms of the Progressive Era, and discredited their rationale. They have successfully stifled the movement to convert the general property tax into a pure land tax. Going further, they have shifted taxes off property, especially land, and onto payrolls and retail sales, beyond Ely’s dreams. They have achieved “uniformity” in income taxation, and more, given preferential treatment to land income and unearned increments. They have substantially deregulated utility and railway rates, and seen that regulatory commissions are drawn from the monopolies being regulated. They have privatized, or are privatizing, much of the public domain (including fisheries, the radio spectrum, water, and the right to clean air) without compensation to the public. They have done away with obsolete urban mass transit by substituting average-cost pricing for the old Georgist-Hotelling marginal-cost pricing supplemented by taxes on land value. They have turned the banks loose to lend on speculative land values, and bailed them out when they failed.

They have nullified the Progressive Era electoral reforms by pouring money into politics and “deep lobbying,” including higher education, to achieve Abram Hewitt’s goal and “make men who are equal in liberty

content with inequality in property”. In the name of “freedom to choose” they have subsidized land speculators by extending public services in every direction at the expense of median taxpayers who occupy small plots of land. They have starved pre-collegiate education that serves everyone, and subsidized graduate education that serves the few. They have poured ever more of our tax money into prisons, to uphold respect for law and order. Clark and Pareto and Seligman and Fetter and Johnson and Ely, surveying the scene from their heavenly thrones, must glow with pride. Let us, however, look at this Utopia they have created for us.

Worsening condition of labor

1. The share of labor in national income has been falling; the share of property has been rising. (If we include imputed income, unrealized capital gains, interest on the national debt, and pensions, the share goes higher.) In spite of this rise, the rate of saving and capital formation is falling. A rising share of property income is going to aliens.

2. Real wage rates have fallen in the USA since about 1975, for given kinds of work. At the same time, American youth is turned into worse and worse kinds of jobs. Real wages of men with a high school education fell 21%, 1973-91. Those with less than a high school education fell 26%. Wages of young urban black workers fell 50% (sic!) (*Business Week*, 29 June 1992: 91). This has forced women into the labor market. The proportion of women working, or seeking jobs, rose from 38% to 58%. According to David Ellwood, Harvard Professor of Public Policy, this, rather than the welfare system, is what accounts for the rise of single parenting. Women have less incentive to marry, and stay married. Rising welfare may have had some impact from 1960-70. Since 1975, however, real benefits have fallen.

3. Unemployment has risen to chronically high levels. NCEists shrug it off by defining it away. The “natural” or “normal” rate of unemployment keeps rising: 2%, 3%, 6%, 11%, ... there is no natural cap, apparently, on what NCEists will call natural so long as they are in power. Rising employment, once an occasion to celebrate, has become bad news: NCEists automatically tighten money to choke it off. Joblessness is just a personal taste in the NCE cant: “To explain why people allocate time to ... unemployment, we need to know why they prefer it to all other activities”

(Lucas, 1986). Others say the unemployed are just engaged in the vital economic function of “job search”.

4. Homelessness has risen to new heights, in spite of decades of subsidies to home-building, favorable tax treatment of owner-occupied residences, and an excessive diversion of national capital into residences. The problem, apparently, is “not production, but distribution,” to resurrect an old phrase long discarded by Paretian NCEists. The 1990 Census shows that 10% of all dwelling units in the USA stand empty at any given time - many of these are the second homes of the more affluent. In California, affluent Newport Beach has the highest fraction of its units vacant. As to the homeless, in the NCE world some people just have a “taste” for sleeping over heating grates, under freeways, in cardboard boxes, and in doorways. In the NCE paradigm they are engaged in the vital economic function of “home search,” a search they conduct every evening. They are guided in this by “rational expectations”. Either that or they are “mentally disturbed”: irrationality puts one beneath and outside the NCE system.

5. Hunger is still with us. “Second Harvest,” a nationwide network of food banks, reports that children account for half of all people needing help from food pantries or soup kitchens, and 73% of households it serves have incomes under \$10,000. As Congress debated terminating The Emergency Food Assistance Program (TEFAP), they got the following advice from Robert Rector of The Heritage Foundation:

It’s not surprising that 10% of the American public is lining up to get free meals. But it doesn’t mean they’re malnourished. The more welfare assistance you give to people, the more dependence you have. (Dixon, 1994).

It is not reported that he or his Foundation have agitated to lower payroll taxes, which fine people for working, or retail sales taxes, which fine people for supporting their families. Most NCEists support such fines, then join Rector in “blaming the victim”.

6. Beggary, once rare, is everywhere, here in the midst of great wealth and capital and new technology and universal education, all the NCE panaceas which are supposed to make jobs. You might call it, “Progress and Poverty,” a phrase worth jotting down.

The current NCE answer to these problems is to downsize labor forces

in major industries to make them “leaner and meaner”. “Efficiency” and “productivity” have become identified with layoffs. In some unknown future this is supposed to create new jobs by making us more “competitive”.

Worsening returns to capital

In spite of worsening returns to labor, we also have a worsening condition of capital.

1. The returns on savings are at historically low levels, especially after taxes and inflation.

2. The domestic saving rate is low. This implies a high consumption rate, which Keynes *et al* said would help us, but it does not seem to be working that way - a matter on which neo-Keynesians are silent.

3. Foreign savings rates in Japan and Europe, which bailed the US out in the 1980s, seem to be drying up, too, following the collapse of Japan’s “bubble economy,” and the onset of recession in Europe.

4. American capital is increasingly decayed and obsolete, as old capital is replaced too slowly. The US has lost much of its steel and auto industries. Many power plants and oil refineries are ancient, with grandfather rights to continue polluting the air people breathe. Much public capital is too old, its replacement made highly expensive by the low density per mile of line. New York City, which in 1902 was able to build and operate a subway charging 5 cents to ride anywhere, now cannot even maintain and operate what it already has, even while charging fares so high they can hardly be collected.

5. The US financial system is a shambles, surviving only by virtue of loading hundreds of billions of dollars of bad debts onto the taxpayers.

The concentration of wealth and income is high and rising

A higher share of the national income is going to property. As a simple test of this, the labor-price of land has risen sharply, for residential or business use. The labor-price of an American farm, for example, has risen from 6 years’ industrial wages to 17 years, 1954-87 (Gaffney, 1992a). (In terms of farm wage rates, the labor-price is a good deal higher in both years.)

As to urban residences, The California Association of Realtors publishes a regular “Affordability Index”. It shows the fraction of households that could afford to buy the median price house. They assume 20% down, and

30% of income used on monthly payments, with a 30-year mortgage. In November, 1990, the index said that only 32% of households could afford to buy a house at the US median price of \$130,000. (That means a debt of \$104,000, payment of about \$11,000/yr., indicating income of about \$37,000).

A report by Ernst and Young, and the National Real Estate Index, relates the monthly cost of buying a standard house to take-home pay. It varies from lows of 18% in Omaha and Kansas City to highs of 50% in San Francisco and 49% in Honolulu.

During the 1980s the merger movement reached new heights. It has long since been shown that mergers lead to lower output, more downtime, fewer jobs, and alienation between employer and community. It is obvious to all that "investment" in mergers and acquisitions creates no new wealth nor capital nor jobs.

The number of American farms has fallen from 6 million to 1 million, 1920-90 while the population rose. In 1900 there was one farm per 11 Americans; in 1987 only one per 113. At the same time, the Gini Coefficient (a measure of concentration) among the farms that remain has risen from .57 in 1910 to .76 in 1987 (Gaffney, 1992a). It is possible to adjust the Gini Concentration Coefficient for the loss of farms, by adding the lost 5 million farms to the data universe as farms with zero acres. Doing so, the 1987 Ratio is .92 instead of .76 (Gaffney 1992a).

Income has grown more concentrated, too, but its Gini Ratio is much lower than that for property ownership of any kind. Likewise, its increase is less. That is because so much of income, at least as defined and measured by NCE statisticians, consists of the gross cash flow from labor.

The modern enclosure movement of common property resources proceeds apace. The ocean fisheries, until recently open to all, are being privatized through licensure. While this may be necessary to avoid overuse, it is not necessary to give the newly minted licenses away, as is being done. Former fishermen have become instant millionaires, living in idleness and luxury by renting their licenses to working fisherman, suddenly creating a class structure where before there was equal opportunity. Air polluters, instead of being fined or charged *pro rata* of their effluents, are being given "Offset rights" to sell. The radio spectrum has been and is being given away in valuable chunks. Having once made J. Werner Kluge of Virginia into

America's second richest person, the FCC has now given the McCaw company so much of this public domain that it recently sold out to AT&T for \$12.5 billions. 40-year contracts to receive irrigation water from Federal projects are currently being converted into perpetual ownerships that the original contractors may sell to the highest bidder. These "innocent" purchasers are to receive not just the water, but a right to demand that the taxpayers subsidize their water service (storage, conveyance, quality protection, etc.) forever. The national parks are being turned over to private concessionaires, some of them politically selected, who charge what the traffic will bear while paying no more than token rents to the public that owns the parks. Offshore oil and gas are being auctioned off to private lessees under a system that the major oil firms seem to control and manipulate to their major advantage. The Forest Service is spending \$10 on roading for every \$1 in forest revenues, in some marginal areas. All these giveaways, the kind of things the Progressives stopped, are back in full fashion to the loud cheering of the "new resource economists," steeped in NCE and Ayn Rand.

Social problems we thought were cured

Americans have experienced a sharp loss of community. There is little place for the sense of public service, or honor or patriotism or duty or loyalty or devotion or dedication or responsibility in NCE: it is cynical of such values. The family is an anachronism, a communistic unit. Private individuals, motivated by individual self-interest, make the system work. Public servants are assumed to be moved by the same self-seeking. Those who think otherwise are fools or hypocrites.

That philosophy has a self-fulfilling quality. It is a short step from that to their viewing themselves as chumps and suckers if they act for the public weal. "Heroic," in NCE lingo, is a term of reproach; "bribery" is rational. Selling out one's country for cash is not inherently bad, in NCE thinking, it is expected. Accordingly, we now have retired Congressmen lobbying for foreign powers, without remorse or rebuke. We even have unretired Congressmen representing foreign powers, does not NCE teach that individuals should serve those who pay them? We have national treasures sold to aliens, we have defense secrets sold to foreign spies, all justified by going for the top dollar. After all, the marginal productivity of the stealth

bomber might be higher to Iraq's Air Force than to ours.

"Greed is good," as Gordon Gecko put it, is the central NCE creed. Ayn Rand and Harry Browne are the new Messiahs. Church is still tolerable, but only if it narrows its focus to individual salvation: social concerns (like those of Moses and Jesus) are out. Almost anything public or common is suspect: public schools, public health, public transit, public parks and beaches, public monitoring of weights and measures, public inspection of foods and drugs, common rights of citizenship, public safety, public restrooms, public care of the feebleminded, common waters, common land, common carriers, public utilities, public broadcasting, public courtesy, social behavioral controls, public financing of political campaigns, the public good ... Only the public roads are acceptable, because they may be used and dominated by private vehicles. The individual driver, windows closed except to toss out trash, door locked, air-conditioner running, muffler cut, catalytic converter bypassed, radio receiving advertising, cellular phone in hand, by-passing accidents and road kill to avoid getting involved ... Is this a caricature of NCE, or is this how many Americans spend hours a day in modern sprawl cities, living with settlement patterns framed by NCE values?

The rich used to live in plain view, in the big house on Main Street. They may have flaunted their wealth and abused their power, but they saw and were seen. They took some responsibility for their towns, and exercised some leadership: they and their tenants were in the same boat, their common city. Now, class divisions are reinforced by spatial segregation, as we follow the NCE panacea and "vote with our feet" (wheels, actually). The rich cluster in exclusive suburbs and gated communities, or move off entirely to enclaves at Aspen, La Jolla, or Palm Beach. They never even have to see their tributaries any more, but relate to them through their stockbrokers, agents, and the hired police.

Accordingly, alienation is the norm, and crime rates have soared. The rejected, the unwanted, the landless might say with Richard T. Ely himself, "Do you want me to commit suicide?" Idle hands are not simply wasted, they steal, murder, burn and destroy. Persons and property have become notoriously insecure. The cumulative social costs of guarding against assault, theft, arson, vandalism, trespass, extortion, embezzlement - all the arts of gross and petty crime - amount to a large fraction of the national

income. The combination of democratic forms with our divisive distribution of wealth, and our NCE leaders' distaste for full employment, makes crime the most attractive allocation of effort for millions of Americans, even though crime typically costs the victim much more than it gains the criminal.

A culture of individual crime easily coalesces into mob crime, triggered by some dramatic grievance, real or imagined. Now we have periodic civil disturbances and insurrections, and the cost of putting them down. In 1992 large parts of Los Angeles were torched, for the second time in a generation, pretty much as foreboded by Henry George in *Progress and Poverty*, Book X. Such colossal waste and barbarism traces right back to the NCE policies that alienate great masses of able people.

In the shadow world between crime and business there is now the vast, gray underground economy. Tax evasion is the poor man's tax avoidance, and our modern high taxes on exchange and production and payrolls and income arrange it so that many people can only survive by evading taxes. Street hawkers evade both taxes and high rents, and in some neighborhoods constitute a chronic force. Once one is outside the law, other illegal acts easily follow. The best-known of these is, of course, drug-dealing. It is now a major industry, with a major counter-industry, the "narcocracy," dependent on it. Rent-free and tax-free and highly portable, it is the natural outlet for those whom NCE policies push off the upperworld. Or did they expect them just quietly to commit suicide?

The national stature is dropping fast

The USA, once so self-sufficient, has grown dangerously dependent on importing raw materials, dependence so high that we are subject to extortion by our loyal OPEC "allies". To some extent this is based on simple gains from trade, and is so rationalized by faithful NCEists. It has some other, less creditable causes. One is that NCE policies have stamped on our country the most energy-intensive, resource-wasting land settlement pattern in the world, and in human history. This is the result of heeding R.T.Ely's admonition that land speculators "perform social service". Another cause is that our industry and farming are now fully dedicated, by ideology and tax-bias, to displace labor with capital and land. Capital and land require fossil-fuel energy as a complement, where labor substituted for

such energy.

Another cause is that American-based land speculators, especially after World War II, have acquired shadowy titles to mineral holdings around the world, under the US military umbrella. Following J.B. Clarke, they have created value and wealth from those otherwise worthless natural elements, recalling that Clark (1886, p.10) taught us that wealth is created “from the mere appropriation of limited natural gifts..”. The cost of the military umbrella was mainly borne by US payroll-tax payers. Having firmed up their titles, the new owners performed more social service by gaining privileged admission to the US market, thus raising our dependency on foreign sources.

The USA, recently the “arsenal of democracy” and the most efficient producer of almost every manufacture, now grows increasingly dependent on foreign manufactures. To live in our inefficient cities, and to pay several species of payroll taxes, American workers need premium wages. The burden on employers grows too great. Relieved by NCE individualism of ancient prejudices of patriotism and loyalty, they dump American workers and transfer operations abroad.

It is notorious that the USA, which once led the world in basic international comparisons of welfare and performance, is falling behind: in public health, in infant survival, in longevity, in literacy, in numeracy, in athletics, in wage raters, in mental health, and so on. To be sure, these are interpersonal comparisons, which Pareto taught are “most unsatisfactory,” and are purged from NCE. Does this say they have no meaning? Perhaps, rather, it is NCE with its Paretian welfare criteria that has no meaning.

The USA, recently a metropolitan power center, is en route to becoming again what it was in the 19th century, an economic colony. Alien ownership is rising in the centers of power and culture, and wherever else land is highly rentable and lightly taxed. In the post-Progressive culture property wields more political power than citizenship, and it is becoming a question in some areas whether citizens as such carry as much weight as alien landowners. Indeed, there are now many water service districts in California, clothed with the powers and immunities of sovereign governments, in which only landowners can govern, and voting is in proportion to landownership.

Electoral setbacks in Greece, Lithuania, Poland, and Russia in 1993/94 show that the current NCE model pushed by the IMF-World Bank

establishment is having trouble competing even with communism, even in nations that know the worst face of communism. No longer is the US model so attractive that desperate nations yearn for it above all else.

American education no longer leads the world. Privatized education in the form of commercial TV, given free use of the public domain to operate for private gain, has to a high degree superseded public education. NCE theorists should be pleased, but one can wonder: our culture is impoverished. The public schools encourage the reading of Jane Austen and Charles Dickens; they try, at least, to teach mathematics. TV gives us murder, rape, soaps, racing cars, alcohol, drugs, "gangsta rap," tabloid news, sound-bites, spectacles, and kinky sex. In the NCE view TV adds most to the national product, guided by consumer sovereignty. Public schools and libraries, being public, are inherently suspect. Public libraries are forced to serve as public restrooms for the homeless. Alternately starved and harassed, public institutions take the blame for all the intellectual faults generated by a society and economy dominated by NCE and its values.

Summing up, the recent harvest of NCE and its derived public policies is a worsening condition of labor, lower returns to saving, high and rising concentration of wealth and income, rising class divisions and social problems, and a fall of national stature. It should be enough to make us realize that NCE, forged as a stratagem to discomfort Henry George and Georgists, is intellectually, morally, and practically bankrupt.

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- 1 Patten later brought Scott Nearing to Pennsylvania, and encouraged other Progressives there. I cannot say if this means he was inconsistent, or inefficient, or genuinely tolerant, or a late convert to the single-tax. What is certain is that he bent his own academic work to accommodate the protectionist views and interests of his employers at Wharton School of Business.
- 2 Actually, Ely gradually shifted after 1893 from a classical definition of capital, limiting it to "products," to a Clarkian definition including land with capital (Fetter, 1927: 154). The shift was gliding and marked by ambiguities, which we will see is characteristic of Ely.
- 3 This is also called "the excess burden of indirect taxation," "the excise tax effect," and various epithets.
- 4 Laffer's invocation of George was, alas, opportunistic. When the chips were

- down, Laffer fully supported Prop. 13 in California in 1978. He refused to acknowledge that half of the California property tax base consisted of land value.
- 5 Reagan-Bush tax policies actually withdrew preferential treatment from new investing and lowered rates on unearned income from land, while raising rates on payrolls.
 - 6 "Trust no future, howe'er pleasant; let the dead past bury its dead. Act, act, in the living present, heart within and God o'erhead!"
 - 7 Few recognized it at the time. A notable who did was Jacob Stockfish, 1956, who, however, viewed it negatively. Stockfish was a student of Earl Rolph, who had absorbed his Clark, Knight, and Seligman thoroughly. Stockfish was a close associate of William Niskanen, adviser to President Ronald Reagan, and now head of the libertarian Cato Foundation. Another student of Rolph was George Break, whose student in turn was Michael Boskin, Chair of President George Bush's Council of Economic Advisers, where he crusaded to lower tax rates on unearned increments to land prices. Thus the lineage proceeds, generation to generation.
 - 8 A long collection of dismal quotes from Alan Greenspan, Paul Samuelson, Henry Wallich, Otto Eckstein, Milton Friedman, and Arthur Okun is assembled in M. Gaffney, 1976: 101; and M. Gaffney, 1977: 58.
 - 9 Such, for example, is the misleading implication of the now standard and generally excellent biography by Charles A. Barker.
 - 10 Pacifists might question including the war years in the Georgist period, but consider this. Newton D. Baker, former single-tax Mayor of Cleveland, Ohio, was made Secretary of War. Under him the US had the most impartial, democratic draft policy we have ever known: no one could buy his way out. Baker's policies contrast with the neo-classical ideal of a mercenary army, articulated by Milton Friedman. Consider also that the original income tax details were forged by Georgists like Congressmen Warren Worth Bailey and Henry George, Jr. Rates during the war were set high enough so we paid for the war without borrowing as much as any of the other powers, and we did it *without taxing labor income* more than trivially. Consider also that in 1917, for the first time, the US Treasury sold bonds directly to the public, cutting out the Morgan-Seligman cartel of middlemen.
 - 11 The first income tax legislation, passed by Congress in 1916, was crafted by Congressman Warren Worth Bailey, single-tax publisher from Johnstown, Pennsylvania. It exempted almost all wage and salary income. One of his many allies was Congressman Henry George, Jr. (D-Brooklyn). The story is told in W. Elliot Brownlee, 1985, "Wilson and financing the Modern State:

The Revenue Act of 1916," *Proceedings of the American Philosophical Society* 129(2):173-210.

- 12 Congressman John I. Nolan of California introduced it in Congress on February 7, 1920 (H.R. 12,397). Note how its drafters copied the legal logic of the corporation income tax, rather than using the 16th Amendment.
- 13 Zangerle and Somers worked in Cleveland; Purdy in New York City; Babcock in Chicago.
- 14 The French signalize this in their inimitable style. They give two meanings to the verb *percevoir*: to perceive, and to tax.
- 15 Nothing could be more ironic than this happening in a State whose capitol is named for the Junker Otto von Bismarck. We see below how Bismarck's educational apparatus helped give NCE its anti-Georgist orientation.
- 16 Two excellent works on the venality and tyranny of college trustees and administrators during this period are Sinclair, 1923, and Veblen, 1918. Several more such works are needed today. Most academics could, if they had the will and the insight, write them from their own careers.
- 17 For example, Elizabeth Dilling, a leading alarmist of the 1930s, includes the following prominent Georgists and quasi-Georgists as members of "the red network": Wm. S. U'Ren; Frederic C. Howe; Newton D. Baker; Benj. C. Marsh; Upton Sinclair; Louis D. Brandeis; Louis F. Post; John Dewey; Philip Snowden; J. C. Wedgwood; "Mr. Asquith"; Sun Yat Sen; Carrie Chapman Catt; Jackson Ralston; Warren S. Blauvelt; Geo. H. Duncan; Alice Thatcher Post; Herbert Quick; National Popular Govt. League; People's Lobby; Harry Laidler; Otto Cullman; F.C. Leubuscher; Broadus Mitchell; Clarence Darrow; John S. Codman; John R. Commons; John Ise; and Helen Swift Neilson (Dilling, 1934). My father, a moderately liberal school superintendant, had to regulate his public life carefully to forefend Mrs. Dilling's fatal finger. It could cost one his job, and might have when she named him in the pages of the Chicago *Herald-Examiner*. One of his faculty, a free-spirited English teacher had assigned *The Communist Manifesto* to a class including her son, Kirkpatrick. Such unwelcome attentions intimidate many more than those actually named.
- 18 The writer has documented this in Gaffney 1970, 1971, and 1993.
- 19 This does raise another concern, whether such effects might lower the value of land as a tax base. It would be biased to debit George on this point, without crediting him for the equity and efficiency gains that lead to it. Still, it must be addressed, and we do so in a forthcoming CIT volume (*Private Property and Public Finance*).
- 20 George Gilder (getting a little carried away) even writes that human

- intelligence is now the only limiting resource, and resource constraints are an obsolete notion.
- 21 They called him "The Prophet of San Francisco". He turned out to be the prophet of Los Angeles - its riots and arson, that is.
 - 22 Leon Walras impugned the character and motives of conservative economists of the French establishment, especially Bastiat, more savagely than ever Henry George impugned his targets, and for the same reasons. It is an interesting question why Leon was forgiven, and George was not. It is probably because Leon, like Mill, pulled his punches: he proposed compensating landowners before taxing them. One may insult the hired help so long as one does not threaten the existing maldistribution of wealth.
 - 23 Fred Foldvary coined this apt term recently. See his contribution to *land and Taxation* (Editor: Nicolaus Tideman), London: Shephard-Walwyn/CIT, 1994
 - 24 Post was also the author of Labor Day, and Assistant Secretary of Labor, 1913-20. He was to conduct an heroic rear-guard action against the stampede engineered by Mitchell Palmer and J. Edgar Hoover to deport US labor leaders.
 - 25 Before that Butler was Dean of the Faculty of Philosophy. I surmise that my original source, a careful scholar, has a basis for the statement, and the error is only a detail. Wall Street, New York city, and Columbia University had interlocking directorates.
 - 26 Concerning the political ambitions, machinations, connections, and low academic productivity of Butler see Sinclair, 1923, Chaps. I-XIII. Sinclair conceived his low opinion of higher education as a student at Columbia.
 - 27 Figures are from E.R.A. Seligman's introduction of the man he ribbed familiarly as his "benevolent despot," N.M. Butler, at a banquet in honor of J.B. Clark. Apparently he had lost the exact count.
 - 28 *Dartmouth College v. Woodward*, 4 Wheat. 518 (1819).
 - 29 George and Georgists regarded franchises as forms of landownership, and would subject them, like all lands, to heavy taxation. They rather quickly worked out what is now called the principle of marginal-cost pricing for decreasing-cost services, and would regulate fares at low levels, where appropriate, making up the fare-box deficit through land taxation. Cleveland's mass transit applied this system under Georgist Mayor Tom L. Johnson, 1901-10; New York City kept its subway fare at 5 cents for decades under this system. The brilliant economist Harold Hotelling rather timidly formalized this concept in 1938. Kenneth Arrow (1987) characterizes his position as "market socialism," but that is a blind spot: it is pure Georgism, restated after

the fact for the Econometric Society.

- 30 Some notable cases were the firing of Edward W. Bemis from Chicago, for speaking out for the strikers in the Pullman case, offending a potential donor, the head of the Chicago and Northwestern Railroad (Barber, 1988: 252-53); the dismissal of Edward A. Ross from Stanford for advocating public power and transit; the dismissal of Veblen in 1909. The overt domination of Stanford by Leland's widow, Jane Stanford, was notorious (Cookingham, 1988: 280-89; Sinclair, 1923: 152-68). Mrs. Stanford at one point put the Stanford faculty on her payroll as personal servants. It was an infighting maneuver among rival robber barons, but an accurate statement of the faculty's status. Leland and Jane Stanford had originally founded their university on the advice of a medium hired to communicate with the ghost of their deceased only child (Wallace, 1905).
- 31 The scenario fits almost exactly Ibsen's *An Enemy of the People*.
- 32 Nearing told Upton Sinclair that he commanded larger and more interesting audiences after the Pennsylvania dismissal (Sinclair, 1923: 449). In 1922 Nearing was still so dangerous that the President of Clark University interrupted and closed a visiting lecture he was giving to a student club, literally ordering the lights put out. On this occasion his offense was quoting from Veblen on *The Higher Education in America* (Sinclair: 296-97).
- 33 This much is from family lore (Clarke was my great-uncle). Professor John Henry (1992: 16, n.11) believes that threats to religion were seen as threats to property. I am not at all persuaded of this, considering the uses to which Darwinism was put by Spencer, Huxley, Sumner, *et al.* Clarke himself was a Roosevelt Republican, perhaps slightly to the right of J.B. Clark, a Cleveland Democrat.
- 34 There was little reason to suspect Ely of anything but loyalty to rent-takers, as we will see below.
- 35 Professor Henry's works on Clark are stimulating and well-researched. We maintain a long, friendly correspondence. Our differences stem, I believe, from the domination of modern radical scholarship by those who overestimate the role of Marx.
- 36 Frank Knight, 1946. The profession took this nonsense with all gravity. A Committee of the American Economic Association (Bernard Haley and William Fellner) laid on its hands by selecting this article for reprinting in its *Readings in the Theory of Income Distribution*, 1951: 384-417.
- 37 J. and W. Seligman Brothers had a lock on a fixed share of the distribution of US Treasury bonds, along with Belmont, Rothschild, and Morgan. In 1917 the Treasury cut out the middlemen, with no apparent loss of efficiency

(Myers, 1907: 560, n.10).

- 38 This is laid between the lines, as absurd points must be to get by, but it is central to the argument he makes. What he says is that a tax on housing will drive capital out of housing unless land is also taxed, which will drive it back into housing. Uniformity is thus what makes taxes neutral. The corollary is that to tax land and not capital would drive too much capital out of land and into housing.
- 39 McLure, then a Treasury official, gave intellectual guidance. Politically, the leaders were Congressman Daniel Rostenkowski, Chair of the House Committee on Ways and Means, and Senator Robert Packwood, head of the Senate Finance Committee. Both of the last two later achieved notoriety on other grounds. The power of those who write tax laws has led others into temptation before (like Andrew Mellon and Wilbur Mills, each in his own way).
- 40 Seligman repeats this point verbatim through 10 or more editions of *Essays in Taxation*, Chap. III, sect. 4. He really means it. The original phrasing actually came from Charles Spahr (1891: 632).
- 41 George had given most of his emphasis to the extensive margin of production. Critics of the “any-stick-to-beat-Henry-George” school accuse him of overlooking the intensive margin, but a careful reading of George shows otherwise. E.g. he writes that when wages fall, labor resorts “... to inferior lands, or to inferior points on the same lands ... “ (1879: 169). This phraseology, repeated elsewhere, clearly refers to an intensive as well as an extensive margin.
- 42 George Stigler exhumed them in 1969, *J. of Law and Economics* 12:181-226. The itch to giggle at the ghost of George continues to run high, even among those who insist he is inconsequential and forgotten.
- 43 A Lorenz Curve is simply information organized in this manner: the top 4% of the landowners have 53% of the land, etc.
- 44 Ely refers only to “Mr. Sage”. This would be Henry W. Sage, a resident of Ithaca who made a fortune speculating in western timberlands. By coincidence the better-known Russell Sage was, with Ezra Cornell, a major Western Union stockholder.
- 45 Ezra Cornell was guaranteed a 7% return on his investment before the College got its share (Gates, 1943: 35-36, 56-57). Gates, a Cornell historian, hints vaguely that E.C. may have pocketed more than he should (p.58). Sometimes he did not pay for the scrip up front. Those, however, are only incidental suspicions.
- 46 There are no adequate sources on this neglected era, but some usable ones are

Young, 1916; Miller, ca. 1919; Fillebrown, ca. 1901-20; Whitlock, 1925; Steffens, 1931; Geiger, 1933: 381-478; and Fels. Brownlee, 1985, is very good on its limited topic. Historians have focused excessively on George the person, to the neglect of the movement that thrived for twenty-five years following his death.

- 47 This strange locution is repeated verbatim in Fetter, 1933: 149.
- 48 Genealogical evidence suggests that Ely was distantly related to the present writer: his mother was Harriet Mason from Massachusetts. His works resonate with *simpatico* old New England verities. We also share common backgrounds in western New York, Wisconsin, Chicago's North Shore, and the study of land economics. My father, like Ely, studied at Heidelberg. So much sadder the regret at our differences, which are deep.
- 49 Gilman and White had remarkably parallel careers. They went to Yale together; they overlapped at the University of Berlin (Barber, 1988: 210); they were attachés together in the US Embassy at St. Petersburg (*New Columbia Encyclopedia*); they exploited the Morrill Act together. White engineered Gilman's appointment at Hopkins, patronized Ely in Berlin, and then placed Ely with Gilman (Barber, 1988: 210). Later he helped Ely found the American Economic Association, although White was an historian. Another ally was Timothy Dwight, President of Yale. Many tracks lead back to Yale. Something ambitious was stirring there: this is the same Yale generation that took over the lands of Hawaii in the name of Christian conversion. To these Yale divines, Skull and Bones was more than a club, it was an ensign. Conspiracy theorists revel in the "secret society" Skull and Bones connections. This writer lacks the expertise to form any opinion on this "spooky" aspect, and finds Sutton's (1983) treatment too disjointed, even though provocative and often factual. Sutton also seems to mysticize what is more obviously explained as common class interest and clubbiness. For whatever reasons, the community of academic economists was thick as thieves.
- 50 In 1888 he had written tolerantly, even favorably of the results of early Ohio experience with focusing the property tax on land value (1888: 135, cit. Ralston, 1931: 155). "Ely changed his economic views upon making a fortune as a land speculator" (Ralston: 156).
- 51 Jackson H. Ralston wrote *The Law and Procedure of International Tribunals* (1926, Stanford University Press), based on his experience in the field. He was also attorney for the American Federation of Labor for 26 years. After 1928 until retirement he lectured at Stanford on International Arbitration.
- 52 Jackson Ralston was later a Judge, and visiting Law Professor at Stanford.

- He was the leader of various single-tax campaigns in California. Congressman John I. Nolan of California introduced the present Bill in Congress on February 7, 1920 (H.R. 12,397). Note how its drafters copied the legal logic of the corporation income tax, rather than using the 16th Amendment.
- 53 Data to test and refute this lay in 1923 income tax returns. In 1923 and 1924 Congress made this information public, for the first and last time. Jorgensen uses it effectively to refute Ely, citing the *Report* of the Secretary of the Treasury, 1923: 11 (Jorgensen, 1925: 76).
- 54 "Colonization company" was at that time a euphemism for a land speculator.
- 55 Lowden's stature was such that in 1924 he declined the Republican nomination for vice-President - he evidently thought he should head the ticket. Lowden contested Hoover for the 1928 Republican nomination. Their main difference was that Lowden favored subsidies for farm landowners (Hicks, 1960: 201-202).
- 56 These included some of my ancestors, but that was long ago and has played only a minor role in forming my biases, such as they may appear to the reader. My Irish grandfather was a militant Fenian in the late 1860s, joining in the abortive invasion of Ontario by Irish-American veterans of the Civil War. However, he soon repudiated the leadership of that fiasco, and ended his career as a puritanical Presbyterian clergyman in upstate New York. In any event he died in 1911, well before my birth.
- 57 This seems inconsistent with the denial that interpersonal comparisons are valid, but untangling Edgeworth is a full career that I will not enter.
- 58 Better yet, let the reader consult Pareto's books and articles. The *Manual*: 349 ff., consists of disjointed misanthropic ravings. Pareto, 1893, is totally cynical and nihilistic, with no constructive end in view.
- 59 The unwary modern reader might assume this to refer to Tolstoy's pacifism, but Pareto himself was an anti-militarist. The context of these remarks is opposition to leveling and redistribution of wealth. Pareto favored the use of force internally, to maintain the unequal distribution of wealth. He opposed almost everything else done by governments, including international war. This is consistent with his anti-leveling spirit. International wars generally result in stronger community feelings and higher taxes. George himself was not a pacifist, but a supporter of Lincoln. He also volunteered in an abortive venture to back Juarez against Maximilian in 1865 (Barker, 1955: 70).
- 60 J.M. Clark was probably a good and moderating influence on J.B. Clark, all in all, but J.B. Clark was still the dominant influence on J.M. Clark: father, teacher, dissertation chair, and finally predecessor in the chair J.M. Clark got at Columbia.

- 61 To repeat and remind, Clark and Knight could not abide Austrian capital theory because it distinguished land from capital by stressing that each item of capital has a period of investment from birth to exhaustion.
- 62 This is a stylized “production function” in which output is an instantaneous function of labor and capital, each described as a quantity at a point in time.
- 63 This is in the oral tradition. It was told me years ago by Dr. Walter Chryst, a Brown student, now deceased. I believe the writer was King. I have not confirmed it otherwise.
- 64 I have not researched whether this is original with Plehn. Whoever did originate it, it surely has become a major point of rent-takers in our times.

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