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An Appraisal of Their Strictures on Progress and Poverty

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Blaug: Edging Toward Full Appreciation

By MARY M. CLEVELAND

> I owe the decision to study economics to the influence of the writings of Henry George and Karl Marx. In 1944 I was 17 years old and attending Peter Stuyvesant High School in New York City. I enrolled for a course in Commerce, and in the last week of the term the teacher took some of the better students, which included me, to a special lecture at a nearby Henry George School. The lecture was an explanation of why the unrestrained growth of land rentals had produced poverty, wars, and all the other ills of modern civilization. Henry George had long ago provided both the diagnosis of the evil and the treatment that would cure it: a single confiscatory tax on ground rent! At the end of the lecture, we were all presented with free copies of Henry George's *Progress and Poverty*, which I duly read without understanding much of it. But years later when I finally studied the Ricardian theory of differential rent, I did have a moment of excitement at discovering the true source of George's theory.[1]

Thus begins the intellectual autobiography of noted economic historian Mark Blaug. Over the years, Blaug has retained what he calls a "soft spot" for George. In the November 1980 issue of *Economica*, he reviewed the first edition of *Critics of Henry George*, not unfavorably.[2] In 1992, he edited a collection of 26 articles on Henry George.[3] In May 1996 he reviewed—rather less favorably—the three Georgist Paradigm books published by Shepheard-Walwyn.[4] In June 1999, he gave an invited lecture on Henry George at Macquarie University, Sydney, Australia, part of a series funded by the F. J. Walsh bequest. He published this lecture in 2000 as "Henry George: Rebel with a Cause."[5] On June 29, 2002, I interviewed Blaug at his home in the Dutch university town of Leiden.

Blaug was born into an Orthodox Jewish family in the Netherlands, where his father was a successful raincoat manufacturer, "the Raincoat King of the Netherlands." In 1940, when the Nazis invaded Holland, the family fled to New York City. "I was brought up as an orthodox Jew, achieved pantheism by the age of 12, agnosticism by

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the age of 15, and militant atheism by the age of 17, from which I have never wavered."[6]

Following high school, Blaug attended New York University, where he quickly became an avowed Marxist. "I was always a bit of a smart alec when I was young and Marxism was made to order for me: it allowed me to pontificate on every subject with a cocksureness that suited me perfectly."[7] He also joined the Communist Party, and was quickly expelled for signing a petition in support of the Party president, who had himself been expelled for disagreeing with an item of doctrine. "To those who have never been a member of a conspiratorial or quasi-conspiratorial group, the speed with which party members will ostracize a heretic is hard to believe."[8]

The Marxist theory that "economic interests and economic forces are the foundations of all social and political conflicts" led Blaug to the study of economics, and to a rapid abandonment of his Marxist view. He graduated from Queens College of the City University of New York in 1950 and began Ph.D. work at Columbia. In 1952, while he was an instructor at Queens, three senior professors at Queens refused to cooperate with U.S. Senator Joseph McCarthy's communist-hunting committee—and were summarily fired. Blaug signed a petition in their support, and was immediately forced to resign, leaving him broke and depressed. But from out of nowhere a grant materialized to send him abroad to write his Ph.D. thesis. He spent the "best two years" of his life in London, where he discovered that "scholarly research was my true métier."[9] His dissertation on the rise and fall of the school of David Ricardo, supervised by George Stigler, was published in 1958 as *Ricardian Economics*.[10]

In 1954, Blaug became an assistant professor at Yale. Assigned to teach history of economic thought—a required subject in those days!—he created a massive set of notes that became the basis of his best-known publication, *Economic Theory in Retrospect*,[11] now in its fifth edition.

In 1962, still considering himself a European, Blaug joined the London Institute of Education as a professor in the new field of economics of education, a position he held for twenty-three years. He began as an enthusiastic proponent of human capital theory, but ended up disillusioned, concluding, "not that human capital theory is wrong, but that it is thin and unproductive despite its early promise, and unable to vanquish its principal competitor, the screening hypothesis, credentialism, the diploma disease, call it what you will."[12] During this period he also spent much time in Africa and Asia as an educational consultant for various UN agencies and the World Bank. He became equally disillusioned, concluding that, "The whole business of UN aid missions and advice to Third World governments on what to do or not to do in economic policy was a gigantic charade,"[13] designed to justify aid, much of which would end up lining the pockets of local politicians.

After the Institute of Education, Blaug held positions at the University of Buckingham and the University of Exeter. Since 1998, he has chaired the Research Group in the History and Methodology of Economics at the University of Amsterdam and, more recently, has co-directed the Center for the History of Management and Economic Thought at Erasmus University, Rotterdam. He and his wife live part of the year in the Netherlands, and part in Great Britain.

Economics, Philosophy, and Politics

Blaug's passion is the history of economic thought. "In the final analysis, I find nothing as intellectually satisfying as the history of ideas. I have never been able to grasp how one can understand any idea without knowing where it came from, how it evolved out of previous ideas . . . [W]ithout the history of economics, economic theories just drop from the sky; you have to take them on faith."[14] He is distressed, but not surprised, by the disappearance of history of economic thought as a required subject in graduate schools, a matter he elaborates in a 2001 article entitled "No History of Ideas, Please, We're Economists."[15]

Besides history of economic thought, Blaug also studies economic methodology. In 1980 he published *The Methodology of Economics, or How Economists Explain*.[16] In his autobiography, he describes himself as "an unregenerate Popperian,"[17] an adherent of Karl Popper's concept of "predictionism, that is, the idea that theories must ultimately be judged by the accuracy of their prediction."[18] To put it another way, theories cannot be considered valid unless they are falsifiable, that is, unless tests can be designed that would corroborate them.

His concern for history and methodology make Blaug very critical of economics as practiced today. In a 1997 article in the Canadian journal, *Policy Options*, he writes:

> Modern economics is sick. Economics has increasingly become an intellectual game played for its own sake and not for its practical consequences for understanding the economic world. Economists have converted the subject into a sort of social mathematics in which analytical rigour is everything and practical relevance is nothing. To pick up a copy of *The American Economic Review* or *The Economic Journal* these days is to wonder whether one has landed on a strange planet in which tedium is the deliberate objective of professional publication. Economics was once condemned as "the dismal science" but the dismal science of yesterday was a lot less dismal than the soporific scholasticism of today.[19]

As to what economists *should* be doing, he writes:

> Economic hypotheses can be judged by their coherence, their explanatory power, their plausibility and, ultimately, their ability to predict. Why are economists, like all scientists, concerned with predictability? Because it is the ultimate test of whether our theories are true and really capture the workings of the economic system independently of our wishes and intellectual preferences. That is not to say that we should always discard hypotheses that have not yet yielded falsifiable implications but simply that theories such as general equilibrium theory, which are untestable even in principle, should be regarded with deep suspicion. At the same time, economists have been unduly narrow in testing the falsifiable implications of theories in the sense that this is invariably taken to mean some statistical or econometric test. But history is just as much a test of patterns and trends in economic events as is regression analysis . . . It is high time economists re-examined their long-standing antipathy to induction, to fact-grubbing, to the gathering of data before and not after we sit down to theorise.[20]

Politically, Blaug describes himself as "schizophrenic: rather right-wing on questions of economic policy, such as privatization, deregulation, trade union legislation and the like, but fiercely left-wing on questions of social policy such as welfare payments, unemployment compensation, positive discrimination in favour of women, blacks and gays, the right to abortion, legalization of soft drugs and so forth."[21]

On some topics, Blaug's opinions can show all the consistency of a patchwork quilt. He freely admits in his autobiography that he has changed his mind many times on many subjects. He has even grown skeptical of his beloved David Ricardo, subject of his dissertation, and after whom he named his son: "Over the years I came to identify Ricardo's 'telescopic' tendency to collapse the long run into the short run as if there was no transition period as the abiding vice of orthodox economics."[22] Yet he still remains prone to making dogmatic pronouncements—perhaps a relic of his "smart alec" youth—and then qualifying or even outright contradicting them. His ambivalence is nowhere more apparent than in his treatment of Henry George.

Blaug on Henry George in *Economic Theory in Retrospect*

Writers of textbooks on the history of economic thought approach George in two ways: They omit him altogether, as does Jürg Niehans in *A History of Economic Theory*,[23] or William Barber in *A History of Economic Thought*.[24] Or they grant him a few dismissive paragraphs, as does Robert Heilbroner in *The Worldly Philosophers*.[25] In *Economic Theory in Retrospect*, Blaug takes the second approach, according George and related ideas approximately two and a half pages.[26]

Even though Blaug has subsequently somewhat softened his view, these pages deserve examination. Most students of economics, if they encounter George at all, will encounter him here.

Blaug begins with a section on "Land as a factor of production." He cautiously circles his subject poking at it here and there. He equivocates on whether land can be separated from capital, and draws no clear line between the average opinions of the economics profession and his own. In certain passages, he almost seems to accept the old anti-George canard that "land" refers only to agricultural land.[27] In George's scheme, land included water, mining, fishing, and timber rights, road and rail rights-of way, and some patents. George described at length the benefits of urban synergy, reflected in high urban land values. Land today also includes taxi medallions, cable franchises, bank and insurance charters, pollution "rights," and—very important—licenses to use portions of the electromagnetic spectrum in specified territories. Blaug cautiously mentions "spectrum rent" at the end of "Rebel with a Cause," but does not clearly include the spectrum in "land."[28] Blaug altogether misses another key difference between capital and land: society creates and maintains title to land—without which there can be no rent. Capital needs no recorded "metes and bounds." But land title can be created by the stroke of a pen thousands of miles away, as happened when James I chartered the Virginia Company to found the first British North American colony in 1606. Land title can be destroyed at a distance too, as Robert Mugabe has done to the white farmers of Zimbabwe.

Blaug then moves on to a section on "Site Value Taxation."

> Ricardian theory showed that ground rent, being a return to a nonreproducible natural agent, was eminently suitable for taxation. His mentor and disciple, James Mill, was the first to draw the obvious corollary that all future increments in rent from some current base year could be taxed away without serious harm. Ricardo himself was not happy with the proposal but it remained an academic question in his lifetime. But with the publication of John Stuart Mill's *Principles* in 1848, a section of which reproduced his father's arguments, and the subsequent formation of the Land Tenure Reform Association under Mill's aegis, the idea caught on. John Stuart Mill proposed totally to exempt present rents and to tax "the future increment of unearned rent" by taxing the capital gains of increases in the price of land. Henry George in *Progress and Poverty* (1879) went a little further and proposed to confiscate all rents in the manner of the physiocrats, a measure that he claimed would abolish poverty and economic crises, the latter being simply the result of speculation in land values. This would be a "single tax" because he thought that its proceeds would be sufficient to defray the entire expenses of the state. His proposal was widely misunderstood, partly because of his own clumsy exposition, as advocating nationalisation of land. In point of fact, he only proposed to tax pure ground rent, exempting the returns from site improvements. In short, "the single tax" was designed to reduce the price of land as mere space to zero, leaving untouched the rentals of property located on the land; it was intended to put all property on the same basis irrespective of its location.[29]

So far so good. Maybe as a matter of strategy, George should not have written "we must make land common property,"—even though he immediately explained what he meant.

Blaug continues:

> The Marshallian objection to the "single tax" is obvious: all economic agents, not simply land, may earn "rents" in the short run; and even Ricar-

> dian differential rents are incentive payments in the long run; encouraging the economical use of fertile and therefore scarcer land. George might have replied that no quasi-rent has either the persistence or the generality of ground rent and Marshall would probably have agreed with that. Furthermore, if it were administratively feasible to distinguish pure economic rent for land as a distance-input from rent for site improvements of all kinds, the Marshallian argument would lose some of its force: the elasticity of supply of space is indeed very low (notice, however, it is not zero because land has depth as well as length and width). What George was after was to destroy land speculation and he should have devoted all his energies to clarifying the distinction between a tax on "site values" and a tax on "betterment." But this aspect of his argument was little developed in *Progress and Poverty*. Instead, George directed all his fire at the suggestion that landlords should be compensated once and for all for the rents that the state would tax away; he realised that this would reduce his proposal to that of taxing merely future increments of the rental values.[30]

George and Marshall held a heated debate before an unruly crowd at Oxford in 1884.[31] Nonetheless, Alfred Marshall still saw land as a distinct factor of production, and still favored taxing land, as Blaug admits elsewhere. And George surely sought more than destroying land speculation. Unfortunately, "land speculation" has become an ill-defined, confusing Georgist buzzword. George focused on the withholding of large tracts of valuable land from its best uses, forcing development and population onto more marginal land. Some holders of such land have indeed bought it in expectation of a large rise—rendered more likely by good political connections.* Other landholders are too rich, or distant, or ignorant, or incapacitated by age or legal tangles to manage properly. George observed what we today would call "land market failure."[32] Once we start to notice it, we find it everywhere: downtown parking lots and crumbling lofts belonging

*President George W. Bush made his fortune as a land speculator. As reported in Nicholas Kristof's column in the *New York Times*, Mr. Bush was able to transform a $600,000 stake into $14 million as part of a consortium that built a stadium for the Texas Rangers in Arlington Texas. "Essentially, Mr. Bush and the owners' group he led bullied and misled the city into raising taxes to build a $200 million stadium that in effect would be handed over to the Rangers. As part of the deal, the city would even confiscate land from private owners so that the Rangers owners could engage in real estate speculation" (7/16/02, op-ed page).

to estates and trusts; abandoned railyards on the shores of the East River in New York City and the shore of San Francisco Bay; or weedy absentee-owned tracts in the middle of prime farmland. As to whether George should have concentrated on distinguishing site value from betterment taxes—again Blaug seems to struggle with the feasibility of separating land from improvements.

Then Blaug turns the blender on high and whirls a virtual gazpacho of objections onto site-value taxation, without justifying or even really explaining them:

> The administrative difficulties of putting a Georgian tax scheme into action are no greater than those involved in distinguishing income and capital under the progressive income tax. Provided there is no deception that such a tax would raise much revenue except in rapidly growing cities, there would seem to be nothing wrong with the principle of site value taxation, that is, the taxation of land values with full or partial exemption of the improvements made on the land. Ultimately, of course, the issue rests on the violability of property rights: the property rights of landowners must be weighed against the stimulus which a Georgian tax would give to improvements of existing sites. Still, if we want to stimulate investment in slum property, there are many easier ways of doing it than that of taxing site values. On the other hand, if it is land speculation and "unearned income" from land that we dislike, a change in the treatment of capital gains under the income tax and a surtax on absentee landlords might be the answer. If all this should be deemed to raise too many administrative difficulties, we might advocate nationalisation of land. We must realise, however, that land speculation performs an economic function: people differ in their expectations of the future economic development of particular locations and the profits of those who have forecast correctly are, of course, matched by the losses of those who have not. If we nationalise land, the community will have to bear the costs of mistaken forecasts; the existence of ghost towns and declining neighbourhoods shows that such mistakes are not uncommon: land values do not always rise everywhere.[33]

If it is no more difficult to distinguish land from capital than to distinguish income from (changes in) capital for income tax purposes, why criticize George for not making the distinction clearer? Next Blaug gets to what will remain his principal objection to site value taxation: it won't raise much revenue—an issue to be addressed at length later. Then he says the real issue is the "violability of property rights," which must be weighed against the economic stimulus of a site value tax. But *any* tax (or subsidy) affects the value of property rights, and imposes either marginal and/or wealth effects on an owner's incentives. Then he says there are many easier ways than site-value taxation to stimulate investment in slum property. What easier ways? Then he leaps to nationalization of land, as an alternative if we want to get rid of speculation. Then he justifies speculation as a means of allocating risks to those more willing to bear them—a function that would be lost if land were nationalized.

Blaug concludes with a condescending sweep:

> Be that as it may, *Progress and Poverty*, a wonderful example of old-style classical economics, was thirty years out of date the day it was published and the idea of confiscating the income of a leading social class was deeply shocking to a generation bred on Victorian pieties. In consequence, the concept of site value taxation was never seriously discussed, and to this day the only examples of it are to be found among local governments in the United States, Australia and New Zealand.[34]

Thirty years out of date! Elsewhere in the same book Blaug himself dates the beginning of the marginal revolution to the 1870s with the publications of Jevons, Walras, and Menger, incorporating the concept of diminishing marginal utility. In 1879, when George published *Progress and Poverty*, John Stuart Mill's *Principles of Political Economy* was the leading economics text, which it remained until supplanted by Alfred Marshall's *Principles of Economics* in the 1890s. Blaug admires Mill, and gives a lengthy and generous treatment to his more radical ideas, the same ideas that George carried to their logical conclusion. Moreover, elsewhere in the same textbook Blaug sharply criticizes the neoclassical revolution. As he tartly sums up: "An unkind critic might say that neoclassical economics indeed achieved greater generality, but only by asking easier questions."[35] With his remark about "confiscating the income," Blaug indicates that after all, he does understand that George was about redistributing wealth, not just curbing speculation. Finally, as to the allegation that "site value taxation was never seriously discussed" —to the contrary, site-value taxation was a central theme during the Progressive Era, a fact Blaug later acknowledges in "Rebel with a Cause."

One hopes that if he publishes a sixth edition of *Economic Theory in Retrospect*, Blaug will treat Henry George more carefully and fairly.

Blaug on Henry George in "Rebel with a Cause"

In "Henry George: Rebel with a Cause," his 1999 Australian lecture, Blaug at least implicitly retracts many of the objections he lobbed at George in his textbook—except for the killer objection that land makes an inadequate tax base. When I interviewed Blaug in June 2002, I asked him what had changed his views. He replied quite simply that he had read and thought more about George in preparing the lecture.

1. Introduction

Blaug acknowledges the historical importance of George: that *Progress and Poverty* was "the greatest economics best-seller of all times," that it was "sufficiently subversive to call forth refutations from all the leading economists of the day," and it was nonetheless influential at least with local governments in the United States, Canada, Australia, New Zealand, and Britain. (Blaug misses a few, like South Africa and Denmark.[36])

2. A Little History of Ideas

Blaug reviews Ricardian rent theory and its adoption by James and John Stuart Mill to argue for taxing future increments in land value. He concludes that while Alfred Marshall thought that Ricardian analysis was essentially correct, "increasingly into the twentieth century, mainstream economists followed John Bates Clark and Frank Fetter in abandoning the notion that land is a unique factor of production and hence that there is any need for a special theory of ground rent. . . . this is in fact the basis of all the attacks on Henry George by contemporary economists and certainly the fundamental reason why professional economists increasingly ignored him."[37]

3. The Content of Progress and Poverty

Blaug offers overall a reasonably fair and accurate description. He still hesitates over the separation of land from improvements. In characteristic Blaugean overstatement, George "virtually concedes that there are improvements in landed property which in time become indistinguishable from the land itself, a fatal concession for the Georgean programme." (Yet as Blaug told me in 2002, "just because there are hermaphrodites doesn't mean we can't distinguish the sexes.") He comments that George's "all-devouring rent thesis" "is never convincingly demonstrated." Here he seems to conflate two issues: the increase and the absolute importance of rent share in national income. George predicted that, all else being equal, economic growth *increases the share* of rent in national income. So many factors have been so far from equal—including the influence of reformers like George—as to preclude a convincing test of this prediction. However, Blaug also minimizes the absolute *importance* of rent in national income, which is a different issue, about which more below.[38]

4. Criticisms of George

"Henry George was attacked during his lifetime by just about every leading economist in the USA and by many minor, now forgotten economists and political commentators in both the USA and Britain. . . . At the bottom of much of the criticism was irritation with an amateur who had never studied economics or even attended a university at a time when economics was becoming increasingly professionalized."[39] Blaug reviews five major contemporary objections to George:

1. The Anti-Landlord Thesis: Since unearned surpluses are ubiquitous in a capitalist economy, why single out land and landowners?
2. The Inseparability Thesis: It is impossible to separate the value of land from the value of improvements to it.
3. The Adverse Incidence Thesis: Land taxes would simply be shifted forward in terms of higher prices and higher rents.
4. The Inelasticity Thesis: An exclusive tax on land would be unresponsive to the changing requirements of public revenue.
5. The Moral Hazard Thesis: A land tax would nullify the individual ownership of land and have negative incentive effects.

Blaug demolishes 1: "Land as pure territory is non-reproducible and almost perfectly inelastic in supply; hence the income of landowners resulting from the relative scarcity of land is an unearned income par excellence. This is pure Ricardo and if wrong makes nonsense of not just George's single tax, but also the Ricardian theory of rent."[40] He also demolishes 5 as "grossly unfair to George . . . *Progress and Poverty* comes back time and time again to the adverse efficiency effects of excise duties sales taxes and income taxes . . . and the entire weight of his case for a tax on pure ground rents is that it would cause no dead-weight loss."[41]

Blaug equivocates on 2, the Inseparability Thesis, "probably the most popular of all objections against LVT and a particular hobby-horse of Richard Ely, America's leading land economist . . . George spent pages rebutting this thesis in *Progress and Poverty*, noting that it must at least be possible in practice to tax land values independently of taxing betterment because it was done habitually in the property taxes of many American States . . . The fact that a tax has been levied does not demonstrate that a valuation problem has been solved and so, despite the history of LVT around the world, the Inseparability Thesis remains troublesome."[42] Ely's student and colleague, statistician Willford I. King, wrote his Ph.D. dissertation in 1914 on *The Valuation of Urban Realty for Purposes of Taxation*, an excellent how-to manual for assessors, providing separate statistical techniques for valuing buildings and land.[43] Yet in 1924, in a long sarcastic attack on a leading Georgist economist, Harry Gunnison Brown, King claims the impossibility of separating land from improvements.[44]

Blaug regards 3, the Adverse Incidence Thesis, as a "corollary of the Inseparability Thesis: if ground rent is indistinguishable from rent for betterment, then of course a tax on total contractual rent does not fall on landlords but is passed on to consumers. But the idea that a tax on an input in inelastic supply cannot be shifted forward is an elementary theorem in public finance, found in every modern textbook, which only brings us back to the basic question whether unimproved land is such an input and indeed whether there is such a thing as unimproved land—the Inseparability Thesis all over again. Another way of stating the Inseparability Thesis is to deny that land is a factor of production distinct from capital. As we shall see, the melding together of land and capital that came increasingly to characterize American mainstream economics at the turn of the century was perhaps the central cause of the declining attraction of the Georgist programme."[45]

It is 4, the Inelasticity Thesis, "the claim that an exclusive tax on land would be unresponsive to the changing requirements of public revenue, sometimes raising too much and sometimes too little to finance government expenditures," that gives Blaug the most difficulty. He does defend George from E. R. A. Seligman's charge that a land tax, by reducing land values, would destroy its own base. But then he concludes, as elsewhere, that land is an inadequate tax base (see below).

5. A Final Appraisal

Blaug repeats his assertion that land is not an adequate tax base, lists some endorsements of LVT by major economists, and then concludes:

> Henry George triumphed in the end despite himself: the growth of land rentals in a capitalist economy never was a convincing explanation of the persistence of poverty despite growing affluence and it became an even less convincing explanation as manufacturing expanded and agriculture shrank. Land speculation never was the root cause of business fluctuations and LVT would dampen but never eliminate periodic booms and slumps; the revenue that LVT, fully and properly applied, was capable of raising may at one time have been sufficient for the expenses of government but ever since 1930 the very notion of LVT as a single tax has seemed almost laughable. But none of this in any way detracts from LVT as one tax among many whose yield ought to be maximized because of its unique features. Perhaps for us in 1999, the perfect Georgist rent is "spectrum rent," the imputed scarcity value of a broadcast license. Since the electromagnetic spectrum exists in the state of nature and is of course non reproducible and fixed in supply, the spectrum space leased to a licensee earns a spectrum rent, which surely ought to be taxed away to subsidize public broadcasting. This is an argument which comes naturally to anyone brought up on Georgist doctrines.[46]

The Inadequacy of Land as a Tax Base: A Challenge to Blaug

Throughout his writings, Blaug maintains one consistent criticism of George: rent forms an ever declining part of national income, making land ever less adequate as a tax base.

Arguments from Willford I. King

In his 1996 review of the three Georgist Paradigm books, Blaug claims that "the Georgist assertion that the yield of a single tax on land rentals would suffice to defray all the expenses of government, which was absolutely true for its day and age, was no longer even half-true by 1920."[47]

In the section on criticism of Henry George in "Rebel with a Cause," he writes:

> In any case, Wilford [sic] King's National Bureau study of *The Wealth and Income of the People of the United States* (1915) showed that a confiscatory tax on ground rent would have been insufficient to defray the expenses of government as early as 1910 and after the growth of government expenditure in World War I it was clear to everyone that the LVT could not be the only tax (ibid: 122, 234). Then and there, the idea of a truly "single tax" died a sudden death.[48]

When I interviewed him in June 2002, I asked Blaug why he rested his primary argument on the 1915 work of Willford I. King?[49] As noted above, King (1880–1962) was a student of Richard T. Ely at Wisconsin and, like Ely, a venomous critic of George's ideas. Like some other American economists of his era, perhaps he let his opinion of George color his work. Blaug replied that in the early twentieth century, King was *the* authority on national income. Everyone cited him. Afterward, the matter appeared settled.

Although its publication actually predated the 1920 founding of the National Bureau of Economic Research (NBER), King's *The Wealth and Income of the People of the United States* did indeed set the pattern for national income accounting. King joined the staff of the New York City-based NBER at the founding, leaving in 1929 to become professor at New York University. Politically and economically archconservative, an ardent Malthusian and opponent of immigration, King stood poles apart from George.[50] Nonetheless, King's *Wealth and Income* offers but weak support to Blaug's assertions. To begin with, King's data is sketchy and his methods questionable. Using Census data from 1850 through 1910 and other sources, King assembled *Wealth and Income* in only a year and a half. It is a small book, 278 pages; King's preface states it is "intended to give an impressionistic picture of the subject."[51] Three reviewers praised the book's ambition, while criticizing inconsistencies, failure to explain methods or sources of numbers, implausible assumptions in indexing, and King's anti-immigrant diatribes.[52]

King's chapter on "The Distribution of the National Income Among the Factors of Production" is especially problematic. He starts with *four* factors of production: land, capital, labor, and the entrepreneur, which earn rent, interest, wages, and profits.[53] He calculates rent crudely by taking 4 percent of his estimated land value, for which he gives no source.[54] Since profits are a mixture of rent, wages, and interest, by including profits he necessarily underestimates rent. He puts his land rent estimate into a table with numbers for wages, interest, and profits, all three of which dwarf rent. Below are figures from King's Tables XXX and XXV, Columns A–G. I have added column H, Rent minus Government Expenditures.

A	B	C	D	E	F	G	H
Census Year	Total	Wages	Interest	Rent	Profits	Government	Rent – Gov't
1850	2213.8	792.8	276.5	170.6	973.9	100.3	70.3
1860	3635.6	1351.1	532.6	321.2	1430.7	161.7	159.5
1870	6720.1	3269.5	864.5	463.2	2122.9	436.6	26.6
1880	7390.7	3803.6	1373.2	642.3	1571.6	458.3	184.0
1890	12081.6	6461.8	1738.9	913.8	2967.1	784.9	128.9
1900	17964.5	8490.7	2695.7	1396.0	5382.1	1469.0	–73.0
1910	30529.5	14303.6	5143.9	2673.9	8408.1	2591.8	82.1

Amounts in Millions of Dollars
Columns A–F are copied from Table XXX[55]
Column G, Government Expenditures, comes from Table XV[56]
Column H is Column E, Rent, minus Column G, Government

Here is Blaug's evidence that land rent was "insufficient to defray the expenses of government as early as 1910." Note that the table shows insufficient land rent only in 1900. King interprets his statistics more cautiously than Blaug:

> The single taxer has told us that all the improvements of industry result only in the enrichment of the landlord. A glance at Table XXX shows us how absurd this statement is. The value of our products has increased since 1850 to the extent of some twenty eight billions of dollars while rent has gained less than three billions. Evidently it has captured but a very meager part of the new production. In fact, it has only tended to keep its constant share of the output, the percentage being the same in 1860 as in 1910. As a matter of fact, the indications are that rent plays a much less important role in distribution than the followers of Henry George would have us believe. It is interesting, in this connection, to note the relative size of the rent item and the expenses of government. Reference to Tables XXV and XXX shows us that, before the Civil War, the rent bill was large enough to pay all governmental charges nearly twice over. In 1910, however, the rent would have been barely sufficient to pay off the various governmental budgets as at present constituted and, with the growing concentration of activities in the hands of government, it appears that rent will soon be a quantity far too small to meet the required charges. With increasing pressure on our natural resources, however, it is probable that the percentage of the total income paid for rent will gradually increase and, since this is true, the lag behind the growing governmental expenses will be considerably less than would otherwise be the case.[57]

King's urge to discredit Henry George seems to collide with his fear that the population bomb threatens an explosion of Ricardian rents! And ten years later, when King hurls his armload of grenades at Harry Gunnison Brown, he fails to claim that land is an inadequate tax base! Did King not quite believe his own arguments?

Arguments from Modern Georgists

Blaug also cites modern Georgists in support of his position. In his "Rebel with a Cause" article he writes:

> Georgism was effectively killed off by the dramatic fall in rental shares in both the USA and the UK from something like 15 per cent in the 1870s to 6 per cent in the 1960s (Andelson 1979: 88). Even when we include the imputed rent of owner-occupiers and allow for the stimulating effect of the withdrawal of non-land taxes, we still get no higher than 20 per cent of national income in modern times (Tideman 1994: 18, Hudson et al 1995: 150–51). In short, whatever the other merits of LVT, the "all-devouring rent thesis" is now dead as a doornail.[58]

Unfortunately, Blaug's sources do not support these assertions. The source in Andelson is a table in a chapter by Fred Harrison, refuting some British critics of George. As Harrison carefully notes, the table shows shares of ordinary rent, that is payments by tenants to landlords, not economic rent.[59] The source in Tideman is another article by Harrison, which in turn cites research by Gaffney estimating national income rent share at around 40 percent, not 20 percent.[60] The source in Hudson et al. is a section of a chapter by Feder explaining why the national income accounts greatly understate rent. As she points out, the accounts are constructed from Census and tax data, that is, data on individuals and corporations. Allocation of this estimated income to factors of production is necessarily somewhat arbitrary. In practice, imputed rents are omitted, and actual rents are counted as business profits or capital gains, if they are counted at all. Rents from other forms of "land" like the broadcast spectrum do not enter the picture.[61]

Andelson, the editor of this volume, did assume a limited tax potential of land at the time of the first edition in 1979 (when the Cold War was still going on). He wrote: "While the demands of national security make it today utopian to suppose that land rent could meet the total revenue requirements of government, let alone beget a surplus, its appropriation in taxes would substantially lessen the necessity for revenue from other sources . . ."[62] Some Libertarian-leaning Georgists consider limited tax potential a virtue, as a check on the size of government. However other modern Georgists, including Gaffney, Harrison, Tideman, Feder, and Hudson, argue that land, broadly conceived of course, offers an ample tax base—one that would in fact grow if all taxes were shifted to it!

Evidence on the Adequacy of Land as a Tax Base

Blaug's Popperian methodology considers a theory valid only when it can be stated in a form subject to corroboration. Blaug also repeatedly emphasizes the importance of getting the data rather than building abstract models. So, how strong are the arguments or the data that seem to disprove the adequacy of land as a tax base? And how strong are the arguments and data on the other side?

Corrected for biases and omissions, land values loom large. In a 1970 article on "The Adequacy of Land as a Tax Base"[63] Mason Gaffney reviews at length the many reasons why assessed or reported land values vastly understate actual values. Due to lack of resources, incompetence, or political considerations, assessors typically lag many years or decades behind the market. Moreover, they tend to assign too large a portion of combined value to improvements—which are depreciable for income tax purposes. Often they omit underground mineral resources altogether, such as coal in Appalachia. Meanwhile, resource-holding corporations such as oil or steel companies carry reserves at acquisition costs generations ago. Broadcast corporations may have paid next to nothing for licenses now worth billions. And so forth. Gaffney suggests corrections based on market data. He concludes that, "Land values today equal or exceed building values in the United States."[64]

Moreover, there is what Gaffney has called the "ATCOR concept . . . 'All Taxes Come Out of Rent.'"[65] Assuming that buyers and sellers of land use discounted cash flow—as taught in every business school around the world—then at the micro level, market values of land are already *net* of existing taxes and subsidies. For example, consider the would-be purchaser of a broadcast license. She subtracts from projected operating revenues her estimated corporate income tax, payroll taxes, and other taxes and fees, runs a discounted cash flow analysis, and decides how much she can afford to pay for the license. The seller makes the same sort of computation. If they reach a deal, that is the market value of the license. Ditto for the builder of a shopping center, who must decide how much he is willing to pay for the land. Now suppose a business school professor approaches the broadcaster or builder and says, "Assume you could pay the exact amount of your projected taxes as a fixed lump sum each year. How much would you be willing to pay for the broadcast license or the land parcel?" The broadcaster and builder would quickly compute their increased business with a lump-sum instead of variable tax, and realize they would pay more for the license or land. How much more? The capitalized value of the dead-weight loss. (This is presumably what Blaug means in the quotation above by "the stimulating effect of the withdrawal of non-land taxes.")

Considering only the micro level, how can we claim that a land tax couldn't support modern government—when it apparently already does so—leaving plenty of land value to spare? Of course, the fact that something seems to happen in practice doesn't necessarily make it right in theory. Blaug cannot quite accept the theoretical possibility of separating land from improvements, even recognizing that appraisers do it every day. Landowners may behave as if taxes were already capitalized, but that doesn't make it so.

If we switch taxes to land at the micro or local level, all else remains equal. At the macro, regional, or national level, all else does not remain equal. Suppose that we shift all existing taxes in a large economy to land, keeping collections the same for each jurisdiction. What will happen? Will land remain an adequate tax base?

1. Marginal effects. At the macro level, untaxing labor and capital will raise wages and interest rates, cutting into rents. As a double whammy, land value being capitalized rent, the increase in interest rates will lower land values. At the micro level a shift of taxes to land unambiguously increases land values; at the macro level, the shift may raise or lower land values, and will surely affect different locations differently. Note that rent may still increase, due to elimination of dead weight loss, while land value decreases due to higher interest rates.

2. Land market effects. Georgists emphasize that land taxes counteract land market failure, pressuring owners to put land to its "highest and best use." That should encourage more development of centrally-located urban land, and more frequent cutting of flat, accessible timber land—drawing development away from the urban fringe, and lumbering off steep mountain slopes. This land market effect suggests that central land values will increase and peripheral values will decrease—increasing the tax base of central jurisdictions at the expense of the base of peripheral jurisdictions. Complicating the picture, demand for services will rise in more central areas and fall in more peripheral areas. But as Georgists emphasize, denser areas can be served at lower per capita costs, adding to the benefits of taxing land only.

3. Distributive effects. Ownership of wealth including land—direct and indirect through corporate shares—is highly concentrated, orders

of magnitude more concentrated than receipt of income. For example according to the *Current Population Reports* of the U.S. Census, in 1997 the top 1 percent of income receivers took in 16.6 percent of income; while in 1998 the top 1 percent of wealth holders owned 38.1 percent of net worth and 47.3 percent of financial wealth. The top 20 percent received 56.2 percent of income, and held 83.4 percent of net worth, and 90.9 percent of financial wealth.[66] Ownership of land is even more concentrated than ownership of wealth.[67] Consequently, if existing taxes all shift to land, assuming good administration, the resulting system of taxes becomes both highly progressive and very difficult to evade—more progressive overall than the present mix of sales, income, corporate, and general property taxes. The system will collect the same taxes from on average deeper pockets. That in itself suggests, but does not prove, that the base will remain adequate.

Georgist economists must build models incorporating these effects. They should test the models to see if under any reasonable assumptions a shift of current taxes to land could absorb all rents, collapsing land values and paralyzing the economy. The obverse challenge falls to economists who assume land cannot support even current levels of taxation: try to build a bullet-proof testable model in which land rents cannot support current levels of taxation.

Conclusion

When I interviewed Mark Blaug in Leiden, I told him that a group of economists on the board of the Robert Schalkenbach Foundation were seeking ways to revive Georgist scholarship. What could he advise? "Throw money at it!" he replied, observing how admirers of Austrian economics had successfully raised large sums for the Ludwig von Mises Institute.* More seriously, he observed that "George is threatening to the powers that be," making it "extremely tempting to put him down." He added, "Economists don't want to waste time looking at threatening ideas."

But then what about Marx? Economists still study Marx. Blaug's textbook, *Economic Theory in Retrospect*, includes a whole chapter, some

*Coincidentally, the Mises Institute includes a Willford I. King Collection.

seventy pages, on Marxian economics. "George is not of Marx's intellectual stature," he replied, "even though Marx is fundamentally wrong." George, like Marx (despite the latter's Ph.D.) was essentially self-taught—an omnivorous reader in every field. Like Marx, he developed not only a theory of economics, but a theory of history, philosophy, and ethics. To judge from his textbook, Blaug admires the grandeur of Marx's vision, while faulting errors, inconsistencies, and internal contradictions in Marx's work. If Blaug were more familiar with George he might recognize a similar grandeur of vision, within a much more consistent system.

Eventually, Blaug brought up a final obstacle to reviving Georgist scholarship: "There's an aura of quackiness about George. It is a reputation that is extremely difficult to reverse." Of course George's opponents worked overtime to create that aura of quackiness. Willford King pronounces "that the single taxers are not merely advocates of an economic policy but that they are a religious cult and that their intense devotion to their creed has little connection with logic or reasoning."[68]

And who is quackier, Marx or George? In his autobiography Blaug writes, "Of course, the more economics I learned, the less Marxian economics I believed in. I could soon see that Marx's grasp of the economic problems of running a socialist society was ludicrous: he really thought it would present no more than an accounting problem rather like a corner grocery store writ large."[69] George on the other hand developed a simple, eminently practical solution: Increase the rates on one familiar, widely-used tax; eliminate all other taxes. In the late nineteenth and early twentieth centuries, democratic societies around the world implemented this solution to varying degrees, not by violence but by popular vote.

Clearly, while he is friendly to Henry George, and has abandoned many of his earlier criticisms, Blaug still does not take him very seriously. He does not bother to practice the method he preaches, that is, to express George's theories clearly in a form that can be tested, and to muster the evidence carefully.

Will Blaug reconsider? He has changed his mind many times in the past, and has had the courage to admit it. He has stood up to petty tyrants, from dogmatic Communists, through McCarthyites to third-world dictators. His political views—a belief in markets combined with a conviction that society must support its less fortunate members—coincide with the views of the more liberal end of the Georgist spectrum. He rejects the dead ends and mathematical games that characterize much of neoclassical economics today. He combines a vast knowledge of history of economic thought with years of practical experience in development and educational economics. He could provide a tremendous resource to new scholarship exploring George's ideas.

Notes

1. Mark Blaug, "Not Only an Economist: Autobiographical Reflections of a Historian of Economic Thought," *Recent Essays by Mark Blaug* (Cheltenham, UK; Brookfield, US: Edward Elgar, 1997), p. 3.

2. Mark Blaug, "Review of Robert V. Andelson, ed., *Critics of Henry George, A Centenary Appraisal of Their Strictures on Progress and Poverty*, *Economica*, 47, (Nov. 1980): 471–91.

3. Mark Blaug, ed., *Henry George* (Cheltenham, UK; Brookfield, VT: Edward Elgar, 1992).

4. Mark Blaug, "Review of the Georgist Paradigm Series: *The Corruption of Economics* by Mason Gaffney and Fred Harrison; *A Philosophy for a Fair Society*, by Michael Hudson, G. J. Miller and Kris Feder; and *Land and Taxation*, by Nicolaus Tideman, ed." *Economic Journal*, Vol. 106, Issue 436 (May, 1995): 745–46.

5. Mark Blaug, "Henry George: Rebel with a Cause" *European Journal of the History of Economic Thought*, Vol. 7, No. 2 (Summer 2000): 270–88. This article will be referred to as "Rebel."

6. Blaug "Not Only an Economist," p. 19.

7. Ibid., p. 4.

8. Ibid., p. 5.

9. Ibid., p. 8.

10. Mark Blaug, *Ricardian Economics: A Historical Study* (New Haven: Yale University Press, 1958, 1964).

11. Mark Blaug, *Economic Theory in Retrospect* (1st ed., 1962, 5th ed., 1996; Cambridge, UK: Cambridge University Press, 1996). The fifth edition of this book will be referred to as *Retrospect.*

12. Blaug "Not Only an Economist," p. 14.

13. Ibid., p. 16.

14. Ibid., p. 12.

15. Mark Blaug, "No History of Ideas, Please, We're Economists," *Journal of Economic Perspectives*, Vol. 15, No. 1 (Winter 2001): 145–65.

16. Mark Blaug, *The Methodology of Economics, or How Economists Explain* (New York: Cambridge University Press, 1980).

17. Blaug "Not Only an Economist," p. 19.

18. Ibid., p. 18.

19. Mark Blaug, "Ugly Currents in Modern Economics," *Policy Options* (Montreal, Canada, Institute for Research on Public Policy, http://www.irpp.org, September 1997), p. 3.

20. Ibid., pp. 7–8.

21. Blaug "Not Only an Economist," p. 9.

22. Ibid., p. 24.

23. Jürg Niehans, *A History of Economic Theory* (Baltimore and London: The Johns Hopkins University Press, 1990).

24. William Barber, *A History of Economic Thought* (London and New York: Penguin Books, 1967, 1991). Barber does however accord George an endnote to a discussion of John Bates Clark: "his dissatisfaction with a popular view that wage levels (and the distribution of income generally) were determined primarily by the real income available to labourers on rent-free land stimulated him to produce an alternative analysis of income distribution" (p. 205). The endnote adds: "The view against which Clark was reacting had many notable classical features, though he was responding specifically to doctrines propagated by Henry George, the advocate of a single-tax on land" (p. 214).

25. Robert Heilbroner, *The Worldly Philosophers* (New York, Simon & Schuster, Inc, 6th ed., 1986).

26. Blaug, *Retrospect*, pp. 81–83.

27. Ibid., pp. 81–82.

28. Blaug, "Rebel," p. 285.

29. Blaug, *Retrospect*, p. 82.

30. Ibid., pp. 82–83.

31. George J. Stigler, "Alfred Marshall's Lectures on Progress and Poverty," *Journal of Law and Economics*, XII (1), (April 1969): 181–226.

32. Mason Gaffney, *Land Speculation as an Obstacle to Ideal Allocation of Land*, 1956. Ph.D. dissertation (Berkeley, CA, University of California). Gaffney gives a full-length treatment of the confusion of land speculation with land market failure.

33. Blaug, *Retrospect*, p. 83.

34. Ibid., p. 83.

35. Ibid., p. 282.

36. Blaug, "Rebel," p. 270.

37. Ibid., p. 274.

38. Ibid., pp. 277–79.

39. Ibid., p. 279.

40. Ibid., p. 280.

41. Ibid., p. 282.

42. Ibid., p. 280.

43. Willford I. King, *The Valuation of Urban Realty for Purposes of Taxation* (Madison, WI: Bulletin of the University of Wisconsin, No. 689, 1914).

44. Willford I. King, "The Single-Tax Complex Analyzed," *Journal of Political Economy* (Vol. 32, Issue 5, Oct., 1924): 604–12.

45. Blaug, "Rebel," p. 281.

46. Ibid., pp. 284–85.

47. Blaug, "Review of Georgist Paradigm," p. 746.

48. Blaug, "Rebel," p. 281.

49. Willford I. King, *The Wealth and Income of the People of the United States* (New York and London: The Macmillan Company, 1915). Henceforth referred to as *Wealth and Income.*

50. Willford I. King, *The Keys to Prosperity* (New York: Constitution and Free Enterprise Foundation, 1948). See Martin Bronfenbrenner's hilarious review in *Journal of Political Economy*, 56:6 (December 1948): 539–40.

51. King, *Wealth and Income*, p. ix.

52. C. K. Hobson, "Review of *Wealth and Income*," *Economic Journal*, Vol. 26, Issue 102 (Jun., 1916): 252–54. Hobson quotes with evident distaste one of King's anti-immigrant passages to the effect that immigrants' parents were "incompetent, ignorant, or unwilling to restrain their animal passions" (p. 254). G. P. Watkins, "Review of *Wealth and Income*," *American Economic Review*, Vol. 6, Issue 2 (June, 1916): 441–43. After pointing out a number of errors and contradictions, Watkins concludes, "the author of the book under review is evidently fair minded and he has done important work in bringing together a large and varied mass of statistics. But his faculty of statistical analysis does not meet the requirements of his task, or else he did not take time enough for the necessary critical reconsideration of his data and results." Allyn A. Young, review of *Wealth and Income* and a parallel book by Scott Nearing, *Quarterly Journal of Economics*, Vol. 30, Issue 3 (May, 1916): 575–87. Young, who would later be on King's Board of Directors at the NBER, is a little kinder to King. He complains about various errors, as well as "a philippic against unrestricted immigration," but nonetheless concludes "Dr. King is somewhat uncritical of the quality of his sources, and he sometimes pushes his statistical adventures a little too far into the wilderness. But he has made a large and important contribution to economic statistics."

53. King, *Wealth and Income*, pp. 154–55.

54. Ibid., pp. 156–57.

55. Ibid., p. 158.

56. Ibid., p. 143.

57. Ibid., pp. 161–62.

58. Blaug, "Rebel," p. 283.

59. Fred Harrison, "Long and Wrightson: Conservative Critics of George's

Wage Theory," 72–94 in Robert V. Andelson, ed., *Critics of Henry George: A Centenary Appraisal of Their Strictures on Progress and Poverty* (Rutherford, Madison, Teaneck, New Jersey, Fairleigh Dickinson University Press, 1979).

60. Fred Harrison, "Rent-ability" in *Land and Taxation*, Nicolaus Tideman, ed. (London: Shepheard-Walwyn, 1994), p. 18.

61. Kris Feder, "Public Finance and the Co-operative Society" in *A Philosophy for a Fair Society*, by Michael Hudson, G. J. Miller, and Kris Feder, (London: Shepheard-Walwyn, 1994), pp. 150–51.

62. Robert V. Andelson, "Neo-Georgism" in Robert V. Andelson, ed., *Critics of Henry George*, p. 383. Andelson cites Willford King correctly at pages 160–62, to the effect that land rent was clearly quite adequate for government in George's day. Blaug's page citations to King, 122 and 234, seem to be erroneous.

63. Mason Gaffney, "Adequacy of Land as a Tax Base," in *The Assessment of Land Value*, Daniel M. Holland, ed. (Madison, WI: Committee on Taxation Resources and Economic Development, University of Wisconsin Press, 1970), pp. 157–212.

64. Ibid., p. 207.

65. Mason Gaffney, "The Philosophy of Public Finance," in *The Losses of Nations: Deadweight Politics versus Public Rent Dividends*, Fred Harrison, ed. (London: Othila Press, 1998), p. 188.

66. Edward N. Wolff, "Recent Trends in Wealth Ownership, 1983–1998," Working Paper No. 300 (Annandale-on-Hudson, New York, Jerome Levy Economics Institute, http://www.levy.org, April 2000), Table 2.

67. I deal at length with concentration of land ownership as a consequence of capital market failure in my dissertation, *Consequences and Causes of Unequal Distribution of Wealth* (Ann Arbor, MI, and London: University Microfilms International, 1984). Essentially, larger corporations and richer individuals experience a lower internal discount rate, giving them a comparative advantage in holding more durable assets—land, which appreciates, as opposed to capital improvements, which depreciate.

68. Willford I. King, "The Single-Tax Complex Analyzed," *Journal of Political Economy* (Vol. 32, Issue 5, Oct., 1924): 612.

69. Blaug "Not Only an Economist," p. 6.