GEORGIST PARADIGM SERIES
Series Editor: Fred Harrison, MSc

The Corruption of Economics

Mason Gaffney
and
Fred Harrison

The Georgist Paradigm is a model of political economy that offers comprehensive solutions to the social and ecological problems of our age. At its heart are principles on land rights and public finance which integrate economic efficiency with social justice.

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Prologue:
Who's Afraid of Henry George?

Fred Harrison

Henry George had to be stopped. The American journalist who wrote a pamphlet in the early 1870s had, 15 years later, become a threat to the power elites throughout the world. His crime was to inflame the masses with the idea that social justice was a real possibility in this world, not just the hereafter.

Henry George had to be stopped, because he did more than develop his vision into a coherent political philosophy: he also expressed the idea in a language that could be understood by the millions of people who read his book, *Progress and Poverty* (1879).

Henry George had to be stopped, because he turned political: he took his message to London and Dublin, where he gave direction to the discontent among the workers who had been denied a fairer share of the benefits of industrial society. And then, his gravest mistake - he started to fight elections in New York with a manifesto based on the reform of taxation and land policy. This manifesto, if embodied in the law of the land, would have destroyed the privileges of those people who had become accustomed to living off the labour of others.

So he was stopped.

How do you stop what had become a global movement, in which Henry George's book had become the best-selling text on economics ever to be published? The way in which Henry George was neutralised is uncovered by Mason Gaffney in what will now be seen as one of the most heinous episodes in the history of the development of scientific knowledge. *Those* *who opposed Henry George's vision of The Good Society paid money to buy scholars to bend the truth - to prevent people from insisting on their democratic rights.*

The way in which the scholars accomplished this feat, unwittingly aided by academics to this day, was to corrupt our language. They redefined economic terms, creating a jargon language to confuse public debate. By doing so, they prevented the evolution of rational public policy. That, in turn, meant that the existing flaws in society were preserved; flaws which, to this day, result in the unnecessary deaths of tens of thousands of people, as Dr. George Miller explains in a companion volume in this series.[1]

Henry George had to be stopped, because his was the rational, evolutionary path to The Good Society. The practical significance of this approach can be assessed by the response of the power elites to Karl Marx. Both George and Marx were the major influences on the development of working class consciousness in Britain in the 1880s.[2] Both men wanted to change the world, but each was opposed to the other's approach to change. Henry George would have nothing to do with the red-in-tooth revolutionary ideas promoted by Marx.

George and Marx employed the language of the classical economists, but they were diametrically opposed on a large number of issues. The key test relates to the rights of ownership of capital. The American said that what people created with the toil of their hands and the use of their brains and by saving was their private property; Karl Marx wanted capital to be collectively owned. The American wanted to preserve a one-man-one-vote democracy; Karl Marx wanted a dictatorship of the proletariat. The American wanted reform through social evolution; Karl Marx wanted revolution.

One would have thought that the power brokers of late 19th century Europe and North America would have been more terrified of Marx than Henry George. Not at all, and a revealing insight into the attitude towards these two men was displayed by the way in which their proposals were treated by scholars. As an example, we can refer to the 1909 edition of *Palgrave's Dictionary of Political Economy*. This described Henry George's tax and tenure proposals, and added the verdict:

> The danger of these opinions has become more apparent as time goes on.[3]

But what was the pronouncement on the works of red revolutionary Karl Marx? Evidently there was no "danger" here, for readers of the entry in *Palgrave's* were invited to ruminate on Marx's "singularly brilliant" style, an assessment controverted by two others who, in German and Latin, were of the opinion that, stylistically, Marx was cumbersome, imprecise, obscure and unintelligible.

Marx was evidently no threat to the class interests of those who controlled society; he could be left alone to wade through his manuscripts in the British Museum, and even allowed to inspire revolution on the outer reaches of eastern Europe. Henry George was another matter; he had to be stopped, and to this day we live with the consequences of that plot to kill his message.

The story that unfolds in these pages will not be well received by the economics profession, for it explains why academic economists have spent a century taking people down blind alleys with their abstract models and algebraic equations. It will explain why governments have persistently failed in the quest for full employment and the elimination of poverty in the midst of plenty. It will explain why, today, government economists believe that the business cycle is a "natural law" which cannot be eliminated by public policy.

So absolute is the flaw in the foundations of our social system, so uncompromising are the lords over our land, so overwhelming are the crises that confront us, that qualitative reforms cannot now result unless the public first engages in a profound debate. For the dialogue to yield policies beyond the banal, we cannot avoid a radical reappraisal of the institutions and values of civilization itself. The risk for the power elites is that, if that debate occurs, the chains of power that have corrupted the rights of the individual and destroyed the cooperative basis of the community will once again be exposed.

War as social process

Civilization is the history of territorial conflict punctuated by periods of peace. This tells us something terrible in its awesome significance and simplicity: civilization must be built on exceedingly unstable foundations.

It began to go wrong in the Bronze Age, 4000 years ago, when people embarked on a path of cultural diversification that is now impossible to sustain. They developed a set of social institutions and processes that separated, on a systemic basis, the people from the land. Not everyone was thus alienated from his or her territorial roots; but the customarily unthinkable principle - that it was possible to tolerate an inequality of rights of access to land - was accepted. Falteringly, at first; but accepted, slowly transformed into what we have today: a blind acceptance of the correctness of exclusive ownership of the benefits of land. This unnatural prejudice - unnatural, because anti-evolutionary, in the Darwinian sense - was legitimised by convention and law, through Greece, Rome and its later medieval manifestations in Western Europe.

The social origins and cultural evolution of that history of property rights is explained by Michael Hudson in *A Philosophy for a Fair Society*. Here, I want to explore what we do about it, now, as a world in turmoil heads for the 21st century. For there is a general acceptance that change there must now be. The problem, of course, is twofold: first, the nature of the appropriate change; and, second, how that change can be brought about with the least possible social disruption to a fragile social system.

In the past, the impetus for change usually came after a bloody war. This was logical, for conflict over territory was the clearest expression of a fundamental misalignment in the primordial relationship of People+Land, and an expression of the need to redefine that relationship. One way was for society to turn in on itself, by victimising a part of its population: ethnic cleansing. Historically, the Jews were good scapegoats for the tensions rending civil society, for which they were in no way responsible.

The most effective way to distract a people from the intolerable strains that have built up in their society is to focus their attention on the enemy without, which involves a voyage forth on a crusade of territorial conquest. This mobilises the whole population behind a common cause, and does so by promising rewards for everyone (more land for the nation-state); with the prospect of distress restricted to the conflict "over there", on the disputed territory outside the population's boundaries. But as Saddam Hussein was reminded, when he tried to incorporate Kuwait into Iraq's boundaries, precision bombing can inflict terrible damage on the home territory.

The Second WorldWar was a classic example of this process. Europe was in the grip of the aftermath of The Great Depression. It was imbued by

an awareness of failure - witness the derelict factories, the palsied trading systems, the unrequited demands for new wealth to raise the living standards of millions of people stricken by poverty - and the need to introduce substantive reforms. But there was no coherent expression of a viable alternative to the boom/slump capitalism that had itself been victimised by seemingly uncontrollable economic forces: by the 1930s, Marx was embodied in the Stalinist reign of terror, and Henry George was the merest flicker of an idea in the minds of a few British parliamentarians. Thus, Hitler served a purpose which, given the traditions of civilization, was valid. He did not step outside the bounds of history, to try and conceptualise a solution to Germany's problems that excluded territorial conquest. Why should he? He was a child of that civilization, an admirer of its greatest imperial achievement - the Roman empire. So it was predictable that someone like Adolf Hitler would step forward, and in this case turn his eyes on the land to the east.

Similarly, and as a reciprocal benefit, the rest of Europe benefitted from Hitler-as-stooge-of-history, by being provided with the necessity - in the postwar period - to create a land "fit for heroes". Would the Welfare State have emerged so completely in Britain, had the nation been denied the opportunity to participate in the catharsis of what turned out to be a world war? Was the ritualised murder of millions of men and women (not 20m dead in the USSR alone, we are now told, but more like 40m) really necessary, to provide the impetus for social change? (I say *ritualised* because programmed killing is a defining ceremony of civilization.)

That is one issue that remains to be readdressed by historians. Of immediate concern is whether it is possible to think another unthinkable thought: the possibility of qualitative changes to society without a war. If it is possible, we can be sure of one thing: the programme of change, if it is to serve its social purpose, has to address the problem of the distribution of the benefits from land, which was Henry George's central thesis a century ago.

Agreement on how to resolve the land question is a precondition for any substantial change, for the most serious social and economic conflicts originate with circumstances that can be traced back to the failures of the system of land tenure and public finance. When all the economic, legal, sociological and historical diagnoses have been performed, what it boils down to is something very simple: a maldistribution of the benefits of land in society. So if we wish to avoid the civilised remedy - a war - we need the assurance that land is part of the settlement. Only in that way can we obviate the necessity for a global war at any time between now and the first decade of the 21st century.

Power and public finance

There is one proposal only for restoring order to the chaos of contemporary society which locates at its heart a solution to the land question. This approach entails a reform of the system of public finance.

In the conditions of industrial society, any package of reforms has to resolve two distinct problems. One: if people are to be free to work and invest their resources in wealth-creating enterprises, they must have a legally protected right of private possession of land. Two: there is not enough land to go round, but the rest of us *must* share in the benefits of land - somehow. Solution: those who occupy land pay rent to the community for the use of land or the natural resources beneath, on or above land.

This is the principal policy of the Georgist paradigm. Henry George (1839-1897) did not, in fact, originate the policy, but he rediscovered it, and his genius was to represent it in terms that could be understood by peasants on the remotest crofts of Scotland and Ireland, and by semi-literate factory workers in Burnley (Lancashire) and Birmingham (Alabama). The policy of sharing the economic benefits of land via the system of public finance predates civilization. Indeed, the fate of that policy is another one of the defining characteristics of civilization: the privatisation of the traditional source of public revenue (the rent of land).

In modern terms, the policy was first articulated by the French Physiocrats. The proposal found its way to the British Isles via Adam Smith and *The Wealth of Nations*. So we could have called the social paradigm implied by this fiscal policy by one of a number of names, but in contemporary terms it happens to be most closely associated with Henry George.

The contributors to this series of books share the view that, at this historical juncture, we would all benefit from the implementation of the key fiscal policies that flow from the Georgist paradigm. Could it happen? Could the world transform itself without the self-indulgence of another world war? If so, why is the policy ignored in the corridors of power? The

answer is a simple one: those who have power wish to retain it, and this is most effectively accomplished when those without power are distracted from the source of their sorrows. In other words, confusion about the nature of power itself is the most effective weapon for retaining it where (in what is supposed to be a democracy) it does not belong.

One of the remarkable features of the social sciences in the past century has been the failure to identify the roots of power. By failing correctly to analyse the defects in 19th century capitalism, the philosophical field was left open for a vulgarised Marxism to emerge in opposition to the social system which has at its heart the economics of the market.

This was not entirely the fault of Karl Marx. This we can detect from his horror when he read the programme that was drafted for European socialists, who met in congress in Gotha in 1875. Marx strongly dissociated himself from the wording of the programme. At the heart of the disagreement was the nature of power.

Marx got it right. In his *Critique of the Gotha Programme*,[4] Marx traduced those socialists who claimed that labour was the sole source of wealth. "Labour is *not the source* of all wealth," he wrote. "Nature is just as much the source of use-values (and surely these are what make up material wealth!) as labour."[5]

But what of power? Well, according to Marx - if we are correctly to interpret his words - the capitalist was as much a victim as the worker. Why? His single most important pronouncement was thrown away in a parenthesis:

> In present society the instruments of labour are the monopoly of the landowners (the monopoly of landed property is even the basis of the monopoly of capital) *and* of the capitalists.[6]

The Gotha programme reserved its vitriol for capitalists. But Marx pointed out that the landowners were a class in their own right, and he stressed the significance of that distinction when he noted: "In England, the capitalist generally does not even own the land and soil on which his factory stands".

For the sake of analytical clarity Marx ought to have added that if the workers suffered from the primary power of the land monopolist, then so did the capitalist who also relied on access to land for his activities. He could not have done so, of course, because had he added these words his house of cards - the one built on the theory of exploitative capitalists - would have crumbled in one swift sentence!

Marx was to reiterate the primary significance of the power of land monopoly in Vol.3 of *Capital*. Unfortunately, this was published posthumously; by that time the damage was done by the lopsided analysis in the first two volumes, which were not perceived as a fatal threat to the interests of the power elites and were therefore not subjected to the forensic examination that they deserved. That ought not to have been fatal for the evolution of culture in the 20th century, however, for the radicals of the 1880s were provided with a full analysis of land as the basis of power from the pen of Henry George.

At the time of the Gotha congress, the American was in San Francisco, where he was working towards an understanding of how land monopoly - when placed in the hands of a minority - was the most destructive force in history. If the socialists had built on Marx's laconic observations with an appreciation of Henry George's analysis, they would have been directed along a more fruitful path of social activity. Instead, the flow of historical influence was to be in the reverse direction. People like George Bernard Shaw were inducted into an understanding of economics by Henry George, but they then went on to become Fabian-style socialists.[7]

The general public was not so gullible, and its response set the alarm bells ringing among the conservatives in society. Henry George was recognised as the most serious threat to the *status quo*. It was therefore necessary to neutralise him, but the price of this retaliation was the betrayal of economics as a social science.

At the turn into the 20th century, economists abused their discipline by sieving off the reality of life. They turned political economy into a pseudo-science. They did so by abandoning the real world in favour of metaphysics, a device they concealed by glossing their new terminology with the comforting rigour of abstract models. Their legacy has been a discipline which, far from clarifying the real-world processes, is now used to prescribe policies that are as mystifying as the preachings of Schoolmen of the Middle Ages. That much is now being recognised on both sides of the Atlantic. For example, Prof. Paul Ormerod notes:

> Good economists know, from work carried out within their discipline, that the foundations of their subject are virtually non-existant....Conventional economics offers prescriptions for the problems of inflation and unemployment which are at best misleading, and at worst dangerously wrong.[8]

So far, however, no-one has exposed the origins of the problem. For that, we have to turn to the work of a professor of economics at the University of California.

Neo-classical mystification

Mason Gaffney is a life-long student of the economics of America's most famous home-grown social reformer, Henry George. As a teacher of economics, he has long been disconcerted by the surreal streak in his subject - the streak that happens to dominate the lecture theatres of universities throughout the world. He has had to explain how his discipline became detached from the real world during the course of the 20th century.

Prof. Gaffney questions the motives of the neo-classical economists. He charges many of his predecessors with wilfully distorting some of the key concepts of classical economics. In particular, they emasculated their discipline when they conflated "land" into "capital". This was not an exercise designed to elevate economics to a higher level of usefulness to society, so why should they do that? In Gaffney's view, this was a ploy to avoid coming to terms with the inexorable logic of one of the most clear-cut findings of their discipline. And what was that? Over the preceding 150 years, economists had rigorously defined the elements of the best, most rational, socially just approach to public finance; and the economists at the turn of the century (or their paymasters) did not like the conclusion.

Prof. Gaffney's accusations are serious. He charges professional economists with confusing their obligations as scientists with their private interests as citizens. In the process, they abused the minds of generations of students. This is how he put it in correspondence to me:

> Systematic, universal brainwashing is the crime, tendentious mental conditioning calculated to mislead students, to impoverish their mental ability, to bend their minds to the service of a system that funnels power and wealth to a parasitic minority.

5

Rail-roading the Single Taxers

Richard T. Ely[48] 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 Elis 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, reneging 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 Babbittry 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 railwa[y] companies, they are ... discounted as coming from interested parties. ... o[ur] 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-Presiden[t] of the CB&Q Railroad Company, who suggested the importance of thi[s] special topic and induced the Burlington Railroad to make subscription t[o] our funds. He said that the land and the railways are in much the sam[e] situation, and he felt that this was a topic that could well engage ou[r] attention. Both are tangible, easily reached and are in no position to escap[e] taxation by flight ... The taxes paid by the railways run into hundreds o[f] millions per year, and their interest in our taxation work must be very great. ... we have received endorsement and subscriptions from ... the Grea[t] 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.

Ipse dixit. 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 investment[53] ... 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 company[54] 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 everwhere. "... 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 in1957 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.