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Heath: Estranged Georgist

By Fred E. Foldvary

Spencer Heath (1876–1963) pioneered the theory of proprietary governance and community. He was in his initial career an engineer, inventor, and businessman, developing propellor patents and special machinery for propeller manufacture. His factory produced some 70 percent of the propellers used by American forces during World War I. He also practiced patent law in Washington, D.C. In 1931, Heath retired from engineering research and patent law to devote himself to his avocation of horticulture and to research into the foundations of the natural and social sciences.

He was an arresting figure—tall, bald, and white-bearded in a day when beards were scarcely ever seen. The singularity of his appearance was further emphasized by a pince-nez held in place by two black cords tied at the back of his head. He spoke in beautifully constructed sentences, but in a voice so quiet that hearing him oftentimes required an effort.

Heath the Georgist

Spencer Heath was greatly influenced by Henry George and was one of the founders of the Henry George School in New York City. In a letter, he wrote,

> I am much pleased to have your letter of June 5 thanking me for my efforts to be of service to the Henry George School. I am proud to have been, in one way or another, a supporter of the School from its first beginning and that I was able to aid and encourage the noble project of Oscar Geiger from the time it was first proposed.[1]

What attracted Heath was George's espousal of free trade: "the basic philosophy of Henry George—the philosophy of absolute freedom of exchange—must be the foundation of all the social advance or improvement that the near or distant future can achieve."[2]

With respect to rent, Heath wrote, "It must be learned that ground

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rent is purely a social product—the payment and the measure of all the services that are social and public—and that until it is completely used, 100%, in payment of the public wages and other costs there must continue to be serious violation of the principle of free exchange and its attendant evils."[3]

But in his main work *Citadel, Market and Altar*, Heath saw the title holder of land as also being an entrepreneur who could create land values.[4] This is not inconsistent with George's thought, since in his main work *Progress and Poverty*,[5] George recognized that an owner of land was also often an owner of capital goods and also exerted labor. In the Georgist system, improvements to sites are capital goods, not land as such,[6] and so the "land value" created by a title holder is really the value of a capital good attached to land. Heath noted that "Any divergence between my views and those of Henry George respecting the Remedy has reference only to its mode of operation and its effects, and not to the remedy itself."[7]

In his theory of proprietary communities, Heath did not therefore contradict Henry George, but took his thought in a new direction. Heath's vision was a society in which collective goods are produced and provided by entrepreneurs and financed from the site rentals they generate. In his paper, "Outline of the Economic, Political, and Proprietary Departments of Society," Heath viewed his concepts as a refinement of those of George:[8]

> The proposal of Henry George to deprive the service department of society[,] that is, the political authority, of all its power of predatory taxation and thus restore the proprietary department to its function of disbursing the public revenue of rent to those public servants who collectively constitute the political department, carries with it the necessary implication that the proprietary department eventually will take on and exercise its full administrative functions over all the public services.

Heath adds, "the balance of rent not required for these purposes will be the clear earnings of the proprietors who have administered and supervised the enterprise," a proposal that would be consistent with Georgism if that rental was due to the efforts of the proprietors, but not if it is rent not generated by them.

To Georgists, the concept that the proprietors would collect all the rent and keep that not generated by them seemed like landlordism rather than Georgism. Georgists also disagreed with Heath that landlords as such provide a social service. Frank Chodorov, for example, wrote in a letter to Heath, "the phrase 'land ownership is a protection' involves the idea that land owners render a service. The only service that they might render is to hold the land against thieves who could pick it up during the night and walk away with it . . . Because your basic concept is historically incorrect, economically and morally unsound, I cannot see any validity in your thesis."[9]

Heath a Critic of Henry George

Faced with such rejection, Heath became a critic of Henry George. Spencer Heath's scathing review, *Progress and Poverty Reviewed and its Fallacies Exposed*, was published as a booklet by *The Freeman* in 1952, but evidently was written as early as 1945.[10] The foreword is by John Chamberlain, who also wrote the foreword to *Citadel, Market and Altar*. Heath had already formulated his objections to the theories in *Progress and Poverty* at least as early as 1939.[11] The booklet was advertised in the classified section of various periodicals, with a monetary prize offered to anyone who could refute it. The ad labeled George's theory "land communism," but Heath later regretted calling George a "land communist."[12] Rather than stimulating a debate, this review alienated most Georgists and closed off further contacts.

Heath's critique of George has been influential in the libertarian movement. Murray Rothbard, a prominent libertarian economist and movement leader, based much of his criticism of Henry George on the thought of Spencer Heath in addition to that of economist Frank Knight.[13] Contemporary libertarians still derive much of their beliefs about Georgism from Rothbard's treatment, hence second-hand from Heath.

Heath characterizes George as having a "condition of sadness tinged with anger and bordering on despair." Heath labels the work as an "emotional reaction against the institution of private property in land."[14] Thus does Heath begin by tainting George by implication as writing out of emotional feelings rather than reasoned analysis.

George indeed did not write a dry text; he was passionate about justice and liberty. But this does not by itself make his work deficient in analysis. George's rhetorical flourishes add juice and spice to the work. For the analysis, they are a fifth wheel that can be set aside in judging how well his thought is warranted in logic and evidence.

Next, Heath alleges an inconsistency in what George states is his aim. George claims his intent is to "follow truth wherever it may lead," but in the preface admits that the conclusions in *Progress and Poverty* are an elaboration of his pamphlet of 1871, *Our Land and Land Policy*,[15] mistakenly called "Our Land and Labor Policy" by Heath.[16] This confuses discovery with methodology. Of course in writing *Progress and Poverty*, George knew the policy conclusion before he jotted down the first word. He did not discover the concept of using rent for public finance in the process of writing the book. But the methodology in the book is a logical deduction of the policy, starting with basic premises and following a logical derivation, with historical evidence to back up the argument. This process is similar to constructing a proof in geometry: the author knows the conclusion before writing the proof, but in the proof, the conclusion follows from the logic and not just the say-so of the author.

George's policy proposal was to abolish all taxation except on land value or land rent. In *Progress and Poverty*, George explicitly states[17] that he does not propose to nationalize land titles; these will still be individually held, and the title holders would have full rights of possession, including the control of land use and of transfer. Heath, however, claims[18] that nationalization would be the effect, since government would take the value, the kernel, of ownership, leaving only the "worthless" shell of title.

But why are the rights of possession worthless? Tenants willingly pay rentals in exchange for having possessory rights to use a site and its improvements. The landlord takes the kernel, but evidently the shell is worth the full expense to the tenants. Indeed, in the Heathean proprietary communities, leaseholders would pay for just such rights.

In developing his three-factor theory of the production and distribution of wealth, George states that land rent is the return to the land factor, as distinct from wages to the labor factor. Heath criticizes George for ignoring "the distributive services performed by land owners."[19] Indeed, Heath *defined* "ground rent" as "the recompense for this distributive public service,"[20] and even the rent due to "the gifts of nature" is "the value received for making *social* distribution of these natural things."[21] The proposition that rent pays for the distributive service of the landowner is an old argument; it was made a hundred years earlier by the French economist Frédéric Bastiat in his book *Economic Harmonies* (1851).[22]

The rental paid by a tenant includes returns to all three factors. As George wrote,[23] "Many landholders are laborers of one sort or another. And it would be hard to find a landowner who is not also a capitalist." George also recognized that many people do not understand the distinctions: "in common thought the characters are confounded."[24]

Heath would counter that in selling land, the seller does not just transfer title, but also performs a social service, for which he is owed the total rent and land value. But these "exchange services"[25] are labor, often done by real-estate agents for a commission, typically 6 percent of the property value. Clearly the owner and his agents perform a social service when land titles are exchanged, but Heath does not confront the question of why the typical commission does not suffice as the labor payment, and why the total rent should be the morally or economically proper return for this exchange function.

Heath adds that the rent of land "is a voluntary recompense for distributive services."[26] This "voluntary" issue begs the moral question. If the title holders do have a morally proper claim to the rent, then its taxation is immoral, and the owner is entitled to all the rent. If, in contrast, the natural land rent (that element of the rental due to the natural features of land and the value apart from that created by labor and capital goods) belongs in equal shares to the members of some community, if not all humanity, then the title holder's retention of the rent is not truly voluntary, but a theft, via government, of property properly belonging to others.

The slave trade was also a voluntary transaction between a seller and buyer of slaves, but it was not voluntary to the slave, who morally was the proper owner of his own labor. Likewise, if rent is properly owned by members of a community, the transaction between seller and buyer or landlord and tenant is a trade of stolen property. Heath does not provide an analysis of the morally proper ownership of natural rent, the rent of land due to its natural qualities.

Even aside from the question of the morally proper owner of the rent, the selling or renting of land is not entirely voluntary if the legal context is involuntary. The government imposes a particular set of laws that apply to real estate. Buyers and renters must adhere to these laws. If some of the laws are unjust and are not desired by some of the persons affected, then the transactions are not voluntary just because they occur. When one buys shoes, for example, one pays a sales tax. Nobody forces one to buy those particular shoes, yet the sales tax is involuntary because the government threatens coercion against those who would execute the exchange without paying the tax. Only if there is no arbitrary cost or restriction on the purchase of shoes is it purely voluntary.

Heath[27] criticizes George for imputing to the rent of land "the anti-social character of taxation" not given in recompense for services. But George did not say that rent *per se* is an evil or that it should not be paid. In Georgist analysis, the anti-social character of rent is due to three reasons. First, as a matter of justice, the rental of a site belongs to the provider of civic goods and to the community, and therefore the retention of rental payments by the title holder (who does not provide the civic goods) is theft. Second, land speculation, when incited by public works not paid for by landowners, artificially increases the demand for land, raising the price of land and possibly shifting development to less productive fringe or marginal lands, distortions that increase the cost of living and reduce the real wages of workers. Third, landowners gain because the public works provided by government increase their rent and land value, and if the financing is from taxes on wages, this amounts to a forced redistribution of wealth from workers to landowners. The public collection of site rentals eliminates all three anti-social phenomena, as does, to some extent, the collection of the rentals by private communities. So it is not rent itself that is anti-social, but the land tenure and tax systems.

In analyzing the distribution of wealth to the owners of the factors of production, George leaves out taxation. Heath repeatedly criticizes George's "ignoring taxation,"[28] treating "taxation expressly as having no effect upon distribution,"[29] and dismissing "the wolf of taxation."[30] But George is entirely correct in leaving out taxation from the laws of distribution. The initial distribution of wealth goes to the owners of the factors. That distribution can then be subject to secondary distributions, i.e., redistributions. As George states,[31] after setting forth the initial distribution, we can then see what bearing taxation has.

The contribution of labor is paid to workers as wages; the providers of capital goods obtain rentals and returns in accord with their contribution; and the surplus left over after paying for labor and capital goods goes to rent. The rent is there whether it goes to the title holder or to the members of a community. If the rent goes to the community members, this is the initial distribution of that rent.

If government taxes wages, part of one's wage is taken away and redistributed to others. This redistribution in no way detracts from the initial distribution as wages. The taxed money or resources is still wages; it does not cease to be a wage just because it is taxed. If a thief were to steal one's wages, the funds and resources do not cease to be wages. These are wages that are transferred to the thief; the origin of the funds or resources is still labor.

Heath also disagrees that land is, as George describes it, a monopoly.[32] In the classical meaning, monopoly is not confined to an absolute monopoly of one seller. The classical economic meaning of monopoly is an industry or resource in which it is not possible or feasible for firms to enter and increase the supply. An example is taxi service where the legal provision requires a license and the number of licenses is fixed by law at a constant number. If a firm wishes to enter that industry, it cannot expand the taxi service, but must buy an existing service from one of the permit holders. The taxi firms together thus have a monopoly, and can charge a higher price than if firms were allowed to expand the supply. Land is a monopoly in that sense, since firms cannot enter the land business by increasing the supply of land, but can only transfer existing land from a title holder.

George extended Ricardo's agricultural law of rent to all land, and made it the foundation of much of his analysis. Heath provides an extensive quote of George's description of that law.[33] In the Ricardian model, labor and capital goods are treated as homogenous, all the same, while land has different grades of productivity. (In reality, of course, there is a premium for human capital that makes wages differ, but that does not detract from the basic relationship between land and rent that Ricardo and George analyze.) The least productive land in use is the "margin of production," which carries no rent. Because of competition among mobile workers, the margin determines wages for the whole economy. The "law of rent" then states that the rent of a plot of land equals its produce minus the produce at the margin or, more precisely, the produce of a plot minus the normal costs of the labor and capital that maximize the profit at that site. As the margin extends to less productive land, wages fall and rent rises.

To emphasize the nature of rent as a surplus, George notes that wages plus returns to capital goods equal the total produce minus rent.[34] Heath ridicules this "mere mathematical truism" as being "the sole support of his entire economic arch."[35] But the support is provided in the explanation Heath himself cites at length; this dismissal by Heath thus is gratuitous. George's point is that land rent is the leftover surplus output, because of the nature of land as fixed, in contrast to mobile labor and capital goods. Modern economics recognizes this surplus, but masks it from rent by calling it a "producer surplus." David Friedman[36] correctly notes in his textbook that in a highly competitive industry, this "surplus" does not go to the owners of firms but to the factors supplying the inputs.

Heath[37] claims that Henry George "could not always distinguish between a quantity and a ratio" when George wrote that an increase in wealth is accompanied by poverty. But George plainly and clearly shows he knows the difference: "I am using the word wages not in the sense of a quantity, but in the sense of proportion. When I say that wages fall as rent rises, I do not mean that the quantity of wealth obtained by laborers as wages is necessarily less, but the proportion which it bears to the whole produce is necessarily less."[38]

Heath[39] claims that George's formulation of the law of rent is conditional on rent being the difference in the produce of a plot of land relative to what the same application of labor and capital goods produces at the least productive land in use (the margin of production). Heath notes, correctly, that there will be more labor and capital goods applied in the better lands. Modern economics recognizes that mobile factors are added until the intensive marginal products, within a plot of land, equal the extensive marginal products of labor and capital goods on marginal land. Since lands of unequal quality have unequal applications of labor and capital goods, Heath claims this refutes the law of rent.

But rather than refuting the law of rent, this makes the law even stronger. The greater amount of active factors makes the output that much greater and thus increases the rent even more. The marginal product of labor, the contribution of another worker to output, diminishes with more labor, in accord with the law of diminishing returns. Workers are paid their marginal product, not their average product, which is higher. That difference goes to rent. And that rent is still a differential relative to the output at marginal land. The formulation as "the same application" means the same quality of application and is quantitatively a simplification intended to elucidate the main relation between rent and wages; making it more complete does not detract from the basic relationship. George can be faulted for not explaining this more clearly and fully, but not for falling into a fallacy.

Heath claimed[40] also that if all taxation were to fall on land rent, the government bureaucracy would prescribe tenants' occupancies, "dictating their lives." This is an absurd accusation, since a tax on land rent does not increase rent, and Georgist policy would not infringe on the rights of possession of either the owner or tenants. Indeed, since regulation is itself a tax, the single tax only on rent would also eliminate excessive regulation and the government's dictating to owners and tenants in the form of zoning laws, building codes, and other restrictions.

Heath's failure to grasp the economic effects of taxing land rent is revealed in a manuscript[41] in which he wrote:

> Taxes collected on the supposed or estimated value of *unused* land must be paid out of the production of the land that is in use. Those also must fall on land users, hence, on the earnings of labor and capital, thus reducing the demand for land and so causing more land to go *out of use* and less wealth to be produced and less rent to be paid.

Contrary to Heath, the actual effect is that in order to eliminate this drain on earnings, the site owner will put the land to its most productive use in order to generate the rental that can then pay the tax.

At the end of his piece, Heath advocated that private communities, under united proprietary governance, would provide public services resulting in "the creation of rent" that would "support this and further public services."[42] This is nothing but an application of Georgist public finance by contractual means rather than imposed government, with all the benefits that George proclaimed!

Mason Gaffney, then a graduate student in economics, responded to Heath's "review" in "Vituperation Well Answered," an article in *Land and Liberty*.[43] To Heath's claim that rent pays for the landlord's service of holding and distributing lands, Gaffney retorts that no service is rendered by mere "holding," since the land is there regardless. As to distributing land, Gaffney notes, as stated above, that this is covered by the normal commission to brokers. Gaffney also notes,[44] "A tax levied regardless of use does not impair this incentive, but rather makes it more compelling."

Regarding the monopolization of land, Gaffney[45] responds that it means "keeping something off the market." Monopolists generally can increase the price of their product by restricting the amount offered to the market, and Gaffney notes that much urban land is underused, raising the price of land generally.

Gaffney concedes that Henry George may have exaggerated the increase in rent swallowing up all the gains from enhanced productivity, but Heath missed the point that society would be better off if these gains are shared and if speculative holdings do not decrease the wage/rent ratio unnecessarily.

Gaffney avoided a detailed response to all the falsities in Heath's "vituperation," and instead asked the question, why this attack? The answer, said Gaffney, is "stranger than fiction." After condemning the concept of financing public goods from site rent, Heath, as noted above, turns around and advocates proprietary governance financed from the rent, replacing government financed from taxation. Gaffney[46] suspects that Heath feared being labeled a Georgist, but the more probable reason, judging from Heath's writing overall, is his disappointment and frustration that Georgists did not follow him into the proprietary concept.

Gaffney notes that the basic difference between Heath and George is not the concept of financing public goods from rent, but the form of the governance. Gaffney[47] claims that in Heath's vision, the governors would be a "landed élite" who would skim off the excess of rent over costs. Gaffney as well as Heath overlooked an in-between form, condominiums, residential associations, and other forms of democratic contractual governance. As for the excess rent, as Heath noted, corporations could have many shareholders, distributing the rent to many, though short of the absolute equality sought by Georgists. Without the subsidy provided by taxing labor and capital, landowners would have to pay the costs of infrastructure, protection, transportation, and other services from their rentals, bringing a proprietary world much closer to the Georgist ideal than today's world.

Spencer Heath then wrote a rejoinder[48] to Gaffney, which was submitted to *Land and Liberty* by John Chamberlain at Heath's request. This was not published. In the manuscript, Heath calls George's policy "land communism,"[49] conflating the land with its rent. One could accurately call it "rent communism," but "land communism" implies that rights of control are also in common. Moreover, the taxation of wages would have to be labeled as "wage communism" to be consistent; indeed any tax would be communist. An anti-communist should therefore logically favor a single tax on rent as a reduction of tax communism.

Heath then makes an astonishing claim that "land owners without tenants . . . have no rent to be seized" and thus taxing them would amount to complete confiscation.[50] Having read *Progress and Poverty*, Heath should have known that the economic rent is what the site would rent for to the highest bidders, regardless of who is occupying the site. This brings to mind Tolstoy's[51] observation that people do not really argue with Henry George; the critics misunderstand his theory and policy.

Heath is on sounder ground arguing against Gaffney's preference for political rather than contractual governance. He wrote that Gaffney based his argument on historical conditions such as plantations and company towns, which no longer exist. Heath notes that he and Gaffney had the common goal of freedom. This, said Heath, would be better accomplished by voluntary contractual means rather than politically imposed means.

Heath[52] also argued against the doctrinal statement of the Rev. Edward McGlynn, who supported the Georgist tax reform. There Heath stated that "land communism" draws ideological support from the belief that land rent is unearned. Heath claims it is only partial communism when wages are taxed but total communism when land rent is taxed. This is because the government would allocate access and prescribe land use. But again, this is contrary to what George proposes, since the Georgist policy would strengthen, not eliminate, private rights of possession; moreover, government does indeed prescribe rules for labor.

Heath, like so many other critics, begs the question in claiming that the "just distribution" of the rent that Georgists propose "must rest" on an "ex-propriation by the State."[53] The moral issue is the original distribution, who is the proper owner of the rent in the first place, and the charge of "redistribution" implies that this question has already been settled in favor of allodial title, where the title holder is the legitimate owner of the rights to the rent.

Heath[54] maintained that McGlynn did not differentiate between the *proprium* or *dominium*, property rights, and the *imperium*, political prerogative. This is an argument against statism rather than Georgism, since the economic and ethical elements of George's thought do not necessarily imply an imposed state. George argued that the reforms he advocated would transform government, creating a more cooperative society, an association in equality, a concept consistent with a voluntary society and with a proprietary governance whose public services are financed from site rentals.

Heath as Pioneer Theorist of Proprietary Community[55]

While a critic of Henry George and misunderstanding George's theories, Heath himself, as noted above, drew much of his economic analysis from the thought of Henry George. In one paper,[56] Heath recognizes the Georgist concept that the value of public services is manifested as rent. Heath there saw himself as extending the concepts of Henry George, in many letters and papers citing George's preface to *Progress and Poverty*, in which George wrote that he would leave it to his readers "to carry further their applications where this is needed."[57]

Heath fully presented his theory of land and proprietary community in 1957 in his main work, *Citadel, Market, and Altar*.[58] Heath offered the hotel as an example of proprietary governance: "in all respects a public community is, in principle, the same as a hotel."[59] The hotel provides collective goods, financed from the room rentals. "And what they pay is voluntary, very different from taxation." Moreover, the payment is limited "by the competition of the market," a point also made by Spencer MacCallum.[60] Better service fetches higher rentals.

One becomes a resident of a hotel by making a voluntary contractual agreement. The agreement obligates the hotel proprietor to certain payment rates, unlike governments, which may arbitrarily change tax rates without being bound by any contractual agreements. When the proprietary concept is broadened to a larger community, the owners give "not mere occupancy alone, but positive and protective public services as well, for sake of the new rents and higher values that will accrue . . ."[61] One of Heath's principal devotees was Walter Knott, founder of Knott's Berry Farm in Garden Grove, CA, which exhibits (as do Disneyland and Walt Disney World) many features of a Heathian proprietary community.

Heath foresaw "proprietary community-service authorities, organized as local community proprietors over extensive areas, comprising many communities and establishing associative relationships among themselves in order to provide wider services on a regional, a national and eventually on an international and world-wide scale."[62]

Unlike sovereign governance, proprietary administration is subject to a market discipline. As Heath put it, "the slightest neglect of the public interest or lapse in the form of corruption or oppression would itself penalize them by decline in rents and values," a proposition elaborated on later by MacCallum.[63] This is so in contrast to coercive governments, where, as Heath recognized, ownership and management are separate.

There are economies of scale in the provision of some public goods. Industry needs "public rights of way for communications and exchange, and other common services that can be supplied only by or under a united public authority, either political or proprietary."[64] To do so, "it is only necessary that the site-owning interests, or substantial portions of it duly organized in corporate or similarly effective form, merge their separate titles and interests and take in exchange corresponding undivided interests in the whole."[65]

Some owners could hold out, "but they and their unincluded properties will naturally receive second consideration in all matters of public benefit or preferment. Unfranchised as owners, their influence and advantages all will be of second rate,"[66] many of the benefits being excludable. Heath elaborates on the concept of a unified large-area control of land:[67]

> For this purpose they will unite in a corporate or similar form on a regional basis, pooling their individual ownerships and taking corresponding undivided interests in the form of corporate shares. Thenceforth all former income will go to the Corporation as rent and to its shareholders as earnings or dividends. From this point there will be no separation of interest as between the formerly separate owners. Each will now hold his proportionate undivided interest in the entire community of property held by the corporation. His interest will not be in any particular rent or property but in the community property as a whole, that it shall provide the highest immunities and advantages to its inhabitants and thereby yield the highest combined and total rents and revenues.
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> Thus there will be established a unitary community ownership and authority powerful and influential, having no motivation but the community welfare, automatically financed with voluntary revenues in proportion as it contributes to that welfare and in like manner penalized in degree as it fails so to do. Its general policies will be dictated by vote of its possibly very numerous owners, and they will be carried out by persons of highly specialized qualifications [engaged] for that purpose as officers and employees.

Heath noted that owners of enterprises "cannot afford to have their capital tied up" in assets not relevant to their chief operations. Businesses and professionals seldom own the premises they occupy, which require specialized administrative services.[68] Hence, specialized firms arise that own land and provide public-goods services. They not only provide for administration over the sites and various services, but also strive to "keep up the public demand" for that space, including protecting the tenants from theft and injury and keeping them comfortable.[69] The rents generated by the sites depend on the prosperity of the enterprises on the sites. As examples of specialized firms serving sites, Heath includes apartment housing, professional buildings, and shopping centers.

Thus does proprietary governance accomplish many of the objectives of Georgist governance: using rent to finance civic works, and with governance not at the arbitrary whim of a single big landowning person, but by many shareholders who seek to please the tenants because that is what maximizes the rent. Corporate proprietary governance presents an alternative to today's democracies in which landowners seek higher net rents by shifting the cost of public works to taxes on labor, capital, and enterprise rather than providing these works.

A major point of Heath's theory is that the developer creates or adds to site value. Developers today are willing to pay for land because they profit from the value added by the development. The same logic applies to single-tax enclaves. The system already requires one to pay for land, so there is no disadvantage to such enclaves relative to conventional community financing. So if such enclaves (where the leaseholder only pays land rent and not also the tax on improvements) are more efficient and attractive than conventional communities, there will be a value added that will finance additional amenities. Indeed, condominiums and residential associations today are built on purchased land, and they are developed because of the added value. In a Georgist or Heathian world, they would be that much more profitable or advantageous, since overly restrictive interventions would not hamper them.

Heath[70] clarified what he thought was the proper relationship of government agents to the proprietors: "It is the full and proper function of land servants—community political servants—to merchandise to land owners their services (labor), and also the services of their capital, in exchange for salaries and wages for their services and in exchange for either purchase price or interest, on any public capital (community capital) they supply . . . As the productivity of the economic life arose, so would rise the quality and abundance of the public services incident to the possession and use of land." This would bind government to a role of provider of services subject to market rules rather than dominating markets and persons. And contrary to conventional Georgist policy, site rentals would not finance government; rather, government would earn its keep by "merchandising" services by exchange rather than by force. This does not preclude the public servants from obtaining payment from a percentage the rents.

But ultimately Heath wanted to replace government with proprietary governance:

> To obviate the essential tyranny (coercion) of political administration the proprietary authority, *suitably organized*, must extend its jurisdiction, and thus its revenues, by itself supplying police and other community services without coercion, out of its own revenues and properties, and thus raise its own values and voluntary incomes.[71]

Heath's ultimate aim was liberty, as was George's. George saw liberty in free, untaxed trade and the equal sharing of the natural bounty. Heath envisioned free, untaxed trade, but ignored the issue of the natural bounty, and went beyond George in seeking to eradicate the political source of governmental tyranny. Heath recognized that "charters and constitutions, then as now, were really but barricades against despotic power."[72] Proprietary governance would provide contract-based governance with a bottom-up delegation of power rather than the top down structures of mass democracy, so readily captured by rent-seeking special interests.

Ideas for Transition

Heath did not provide a specific plan for a transition toward proprietary governance and ownership. In chapter 26, "Towards the Utopian Dream," of *Citadel, Market and Altar*, he notes the increasing extent of proprietary developments, and as this tendency continued, there would be a diminution of government and taxation and an evolution toward proprietorship. "The tendency thus indicated might be supposed to lead ultimately to all private capital coming under the public proprietary administration."[73]

In his article, "Privatizing the Neighborhood," Robert Nelson[74] has proposed a specific policy for a transition to private neighborhood associations. State law would permit property owners to petition to form a neighborhood association within a proposed boundary. Approval would require an affirmative vote of both 90 percent or more of the total property value affected and 75 percent or more of the individual unit owners. The relevant governments would then authorize a transfer of services and property such as streets to the association, accompanied by tax credits in compensation for the reduction of government expenses. All property owners in the privatized neighborhood would be required to be members of the association and pay the assessments levied. Since they would already have title to the real estate, there is no financial impediment, as there would be if they had to buy the land afresh.

The present author's transition proposal, "Towards Consensual Governance," chapter 15 in *Public Goods and Private Communities*,[75] makes the membership in private communities purely voluntary. It proposes an amendment to the constitution of a country by which taxation would be shifted to user fees and ground rent. Another amendment would provide exit options from government jurisdictions to allow private communities to substitute their services and receive tax deductions. Any person or organization having title to land would be able to partially secede, to withdraw property and services from governmental jurisdiction and create its own governance. Unlike Nelson's proposal, no title holder would be forced to join an association. The government would still retain residual sovereignty, nominal jurisdiction, and could require an exit fee or on-going rental payments to compensate for property obtained and for services such as defense that the private community would benefit from. Thus, first the country would go Georgist, and then private neighborhoods could substitute their services and assessments for those provided by government. Holdouts would continue to be under government jurisdiction, and there would then be agreements for the joint provision of services such as streets that have both members and nonmembers.

Tax and service substitution is possible even if the tax system is not first Georgified. A current example is the proposal for income-tax credits for tuition paid to private schools. Members of a private community would likewise obtain tax credits for the private provision of local services such as street maintenance and garbage collection.

Concluding Remarks

While Heath did not fully understand Henry George's economics and social philosophy, he should be recognized as an important pioneer of contractual governance ultimately based on a Georgian economic foundation. Heath's misunderstandings and "vituperations" should not detract from the importance of his vision and theory. The economic aims of Georgist policy can be accomplished by proprietary public finance based on site rentals.

Both the Georgist and libertarian movements would be wise to consider the private-community concepts pioneered by Spencer Heath and furthered by his grandson, Spencer MacCallum. Proprietary governance offers an important alternative to current political government and can also enhance the libertarian vision of a voluntary society.

Notes

1. Spencer Heath, manuscript, "Pencil notes for a letter, in a notebook with materials dated 1935–1936," item #292 in Spencer H. MacCallum, ed., "Spencer Heath on Henry George and Land Administration: Correspondence & Private Notes, Published & Unpublished, from the Spencer Heath Archives," assembled for this study at Tonopah, NV: The Heather Foundation, 2002. The titles for the various manuscript items are by MacCallum.

2. Ibid.

3. Ibid.

4. Spencer Heath, *Citadel, Market and Altar* (Baltimore: Science of Society Foundation, 1957). A biographical sketch in Heath's *Progress and Poverty Reviewed* (1952; see note 10) mentions the book with a publication date of 1946, but the book as published in 1957 has no mention of an earlier edition.

5. Henry George, *Progress and Poverty* (New York: Robert Schalkenbach Foundation, 1975) (originally published in 1879), p. 452.

6. Ibid., p. 343.

7. Spencer Heath, carbon of a letter to Benjamin Burger, 9 June, 1939, item #1238 in "Spencer Heath on Henry George."

8. Spencer Heath, "Outline of the Economic, Political, and Proprietary Departments of Society," in "Politics Versus Proprietorship," manuscript, 1935, pp. 65–66.

9. Frank Chodorov, carbon of a letter from Frank Chodorov, Director, Henry George School of Social Science, New York City, to Spencer Heath, 12 August, 1940, item #1310 in "Spencer Heath on Henry George."

10. Spencer Heath, *Progress and Poverty Reviewed and its Fallacies Exposed* (New York: *The Freeman*, 1952); Spencer Heath, carbon of a letter from Spencer Heath to Raymond McNally, 4 March, 1945, item #1428 in "Spencer Heath on Henry George."

11. Spencer Heath, carbon of a letter from Spencer Heath to C. H. Kendal, *Land and Freedom*, New York, 23 August, 1939, item #1262 in "Spencer Heath on Henry George."

12. Mark Sullivan, telephone conversation, 13 July, 2002, regarding a conversation between Spencer MacCallum (Heath's grandson) and Mark Sullivan, New York City, c. 1997. MacCallum, however, in a 16 July, 2002, telephone conversation with me, said that Heath regretted being impolitic, but that Heath still believed that Georgism was "land communism" in substance.

13. C. Lowell Harriss, "Rothbard's Anarcho-Capitalist Critique," *Critics of Henry George*, Robert V. Andelson, ed. (1st ed.; London: Associated University Presses, 1979), pp. 354–70.

14. Heath, *Progress and Poverty Reviewed*, p. 5.

15. Henry George, *Our Land and Land Policy, National and State* (San Francisco: White & Hauer, 1871).

16. Heath, *Progress and Poverty Reviewed*, p. 5.

17. George, *Progress and Poverty*, p. 404.

18. Heath, *Progress and Poverty Reviewed*, p. 6.

19. Ibid., p. 8.

20. Spencer Heath, *Citadel*, p. 74.

21. Ibid., p. 178.

22. Frédéric Bastiat, *Economic Harmonies*, George B. de Huszar, ed.; W. Hayden Boyers, trans. (Princeton, NJ: D. Van Nostrand Company, 1964). Originally published 1851.

23. George, *Progress and Poverty*, p. 452.

24. Ibid., p. 452

25. Heath, *Progress and Poverty Reviewed*, p. 8.

26. Ibid., p. 9.

27. Ibid.

28. Ibid., p. 8.

29. Ibid., p. 9

30. Ibid., p. 10.

31. George, *Progress and Poverty*, p. 155.

32. Ibid., p. 412.

33. Heath, *Progress and Poverty Reviewed*, pp. 12–13.

34. George, *Progress and Poverty*, p. 171

35. Heath, *Progress and Poverty Reviewed*, p. 14.

36. David Friedman, *Hidden Order* (NY: HarperCollins, 1996).

37. Heath, *Progress and Poverty Reviewed*, p. 16.

38. George, *Progress and Poverty*, p. 216.

39. Heath, *Progress and Poverty Reviewed*, p. 17.

40. Ibid., p. 23.

41. Spencer Heath, "Pencil notes on 3X5 cards. Sometime after 1936?," item #726 in "Spencer Heath on Henry George."

42. Heath, *Progress and Poverty Reviewed*, p. 23

43. Mason Gaffney, "Vituperation Well Answered," *Land and Liberty* (December 1952): 125–27.

44. Ibid., p. 126.

45. Ibid.

46. Ibid., p. 127.

47. Ibid.

48. Spencer Heath, "Rejoinder," Manuscript, 1953.

49. Ibid., p. 1.

50. Ibid., p. 3

51. Count Leo Tolstoy, "A Great Iniquity," *The Public* (Chicago), 19 August 1905, p. 18.

52. Spencer Heath, *The Trojan Horse of "Land Reform": A Critique of Land Communism or "Single Tax" as advocated in the Doctrinal Statement prepared by the Rev. Dr. Edward McGlynn* (no date or publisher provided).

53. Ibid., p. 9.

54. Ibid., p. 8.

55. The present author earlier described Heath's proprietary-community ideas in Fred Foldvary, *Public Goods and Private Communities* (Aldershot, UK: Edward Elgar Publishing, 1994).

56. Spencer Heath, "Creative Association," in "Politics Versus Proprietorship," p. 2.

57. Henry George, *Progress and Poverty*, p. xi.

58. Heath, *Citadel*.

59. Ibid., p. 146.

60. Ibid., p. 82. See also Spencer Heath MacCallum, "The Entrepreneurial Community Concept in Light of Advancing Business Practice and Technology," Fred Foldvary and Daniel Klein, eds, *The Half-Life of Policy Rationales: How New Technology Affects Old Policy Issues* (New York: New York University Press, 2003).

61. Heath, *Citadel*, p. 146

62. Ibid., p. 96.

63. Ibid., p. 135. MacCallum, op. cit., 2003.

64. Heath, *Citadel*, p. 160.

65. Ibid., p. 135.

66. Ibid., p. 136.

67. Spencer Heath, "Marked by Spencer Heath, 'Random,'" item #122 in "Spencer Heath on Henry George."

68. Heath, *Citadel*, p. 154.

69. Ibid., p. 155.

70. Spencer Heath, "Man, Land and Community," 1939, item #137 in "Spencer Heath on Henry George."

71. Spencer Heath, "July 29, 1947," item #188 in "Spencer Heath on Henry George.

72. Spencer Heath, "The Historical Perspective," item #181 in "Spencer Heath on Henry George."

73. Heath, *Citadel*, p. 184.

74. Robert Nelson, "Privatizing the Neighborhood: A Proposal to Replace Zoning with Private Collective Property Rights to Existing Neighborhoods," in *The Voluntary City*, ed. David Beito, Peter Gordon, and Alexander Tabarrok (Ann Arbor: University of Michigan Press, 2002), pp. 307–70. It first appeared in *George Mason Law Review* 7, no. 4 (1999): 827–80.

75. See note 55.