Henry George:

Precursor to Public Choice Analysis

By THOMAS E. BORCHERDING, PATRICIA DILLON, *and* THOMAS D. WILLETT*

ABSTRACT. While generally known today for his famous proposal for a Single Tax, Henry George has not been widely recognized as one of the first economists to write about the possibility of political market failure. Based on his appreciation for the allocational efficiency of markets and his suspicion of government intervention, George was an early advocate of public choice ideas who repeatedly warned of the dangers of rent seeking.

I

Introduction

> *It would require less than the fingers of the two hands to enumerate those who, from Plato down, rank with Henry George among the world's social philosophers. . . . No man . . . has a right to regard himself as an educated man in social thought unless he has some first-hand acquaintance with the theoretical contribution of this great American thinker* (John Dewey 1928).

> *Henry George is now remembered, if he is remembered at all, as a somewhat eccentric propagandist who had curious ideas about property rights and an unsound fiscal policy* (Charles Collier 1979).

THE ABOVE EPIGRAPHS, separated by fifty years, are contrasting signposts indicating the decline in intellectual awareness and status of Henry George's work during this century. His ideas on political economy once had great currency in many areas of policy, yet today he is remembered almost exclusively for his recommendation of the Single Tax on land, a policy rooted in his profound concern for social and economic reform.[1] In

* [The authors are on the faculty at the Claremont Graduate University, Scripps College, and the Claremont Graduate University and Claremont McKenna College, respectively, in California.] The authors gratefully acknowledge the support of the Lincoln Foundation. They also acknowledge the useful comments of a referee and the editor and the research assistance of CGU doctoral candidate Nancy Lumpkin. Thanks, too, to another CGU doctoral candidate, Pamela Martin, for her efforts in helping prepare this manuscript.

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this paper we call attention to George's early insights into the dangers of rent seeking by special interests. These insights are useful illustrations of the type of political economy that has come to be called public choice analysis.[2]

II

Henry George, Public Choice Analysis, and Rent Seeking

TRADITIONALLY, POLITICAL SCIENTISTS analyze the state (the public sector) and political processes; economists analyze markets (the private sector) and the impacts of economic policies. Public choice analysis, popular in the last few decades, is a productive way to think about issues of great importance to Henry George. It applies the tools of economics to the material of politics. Mueller (1979) defines public choice as "the economic study of non-market decision making."[3] Another label, "rational choice analysis," describes the application of economic methods to problems of the policy process. It is now used by political scientists and sociologists[4] as well as economists. This approach, quintessentially economic, argues that the analysis of the political market (i.e., of the decision process in the public sector), like the analysis of the private market, must be grounded on rational individuals pursuing their own self-interest, not on an organic state separate from the individuals composing it.[5] Public choice analysis sensitizes us to the power of special-interest groups and makes us skeptical about the efficiency of government; it makes us think like Henry George.

The broad term "political economy" includes any analysis that brings to bear the insights of both political science and economics. In George's time, economics was, in fact, called political economy. (By the middle of the twentieth century, that label was associated nearly exclusively with Marxist analysts.[6] Only in the last two decades has the term political economy become mainstream again.) Although disillusioned with most of the practitioners of political economy, George believed in its principles, especially the effects of incentives. He was, therefore, one of the earliest public choice analysts,[7] as evidenced by his remark that "political economy, fearlessly pursued, must lead to conclusions that will be as a lion in the way to those who have any tenderness for 'vested interests' " (1886:9).

In a nearly modern way Henry George combined a profound belief in the allocational efficiency of markets with a deep-seated suspicion of government interventions. He believed so much in the power of unrestricted markets that he referred to the state's conscious attempts at coordination as

> like asking the carpenter who can build a chicken-house to build a chicken. This is the fatal defect of all forms of socialism. . . . Any attempt to carry conscious regulation and direction beyond the narrow sphere of social life in which it is necessary, inevitably works injury, hindering even what it is intended to help (1898:391–92).

George did advocate public schools and government ownership of natural monopolies—hardly socialist policies by modern or even Victorian standards[8]—but asked that we imagine efforts to direct a socialist economy by even the very best and wisest of men:

> [t]he task that would be put upon them in the ordering of the when, where, how and by whom that would be involved in the intelligent direction and supervision of the almost infinitely complex and constantly changing relations and adjustments involved in such division of labor that goes on in a civilized community. The task transcends the power of human intelligence at its very highest. . . . And so it is the spontaneous, unconscious cooperation of individuals which, going on in the industrial body, . . . conjoins individual efforts in the production of wealth, to the enormous increase in productive power, and distributes the product among the units of which it is composed. It is the nature and laws of such cooperation that it is the primary province of political economy to ascertain (1898:428–29).

Thus George went to the heart of socialism's disintegration.[9] It is absolutely clear that he appreciated the benefits of allocating resources via markets and the role of independent, unregulated individual action to make markets function efficiently.[10] The principle of the individual rational actor is the starting point for all public choice analysis. It is the relentless application of this model in situations of collective action that gives the public choice approach its distinctive analytical slant and its emphasis on political markets. George's insight into the possibility of political market failure is all the more stunning for its having been so neglected.

In the process of developing his proposal for land tax policy, he provides—in 1879, we must remind ourselves—a startlingly clear statement of interest group analysis. He asks, if a land tax is so advantageous for raising revenue, why do governments use every other tax *but* that one? Here is his answer:

> [Members of] a large and powerful class are directly interested in keeping down the tax on land values . . . but to the other taxes upon which modern governments so largely rely there is no special opposition. . . . Nearly all of these taxes are ulti-

mately paid by that indefinable being, the consumer; and he . . . pays them in such small amounts and in such insidious modes that he does not notice it, and is not likely to take the trouble to remonstrate effectually. . . . Nearly all of the manifold taxes by which the people of the United States are now burdened have been imposed rather with a view to private advantage than to the raising of revenue, and the great obstacle to the simplification of taxation is these private interests, whose representatives cluster in the lobby whenever a reduction of taxation is proposed, to see that the taxes by which they profit are not reduced. . . . The large revenue which the civil war rendered necessary was the golden opportunity of these special interests, and taxes were piled up on every possible thing, not so much to raise revenue as to enable particular classes to participate in the advantages of tax-gathering and tax-pocketing. . . . [T]hese interested parties have constituted the great obstacle to the reduction of taxation; those taxes which cost the people least having, for this reason, been found easier to abolish than those taxes which cost the people most. And, thus, even popular governments, which have for their avowed principle the securing of the greatest good to the greatest number, are . . . used to secure a questionable good to a small number, at the expense of a great evil to the many . . . in the case of all such taxes, there are particular interests, capable of ready organization and concerted action (1898:428–29).

By discussing advisable limitations on the role of government and the likelihood of intragovernmental corruption, George, almost alone in the nineteenth century, outlined the modern theory of rent seeking.[11]

Rent seeking is a concept well developed in classical economics but lost during the marginal revolution, unfortunately (Kochin 1980). The idea, rejuvenated by Tullock (1967) and Krueger (1974), is that the state, by blocking free markets and by encouraging special-interest group redistribution, destroys the value of some of the product redistributed. Further, this unproductive activity burdens investment and, hence, reduces the effective capital stock. This phenomenon of rent seeking is a central cause of political market failure; it is an inefficient outcome of political processes. George used the example of the raising of an army to illustrate the development of inefficient rent-seeking behavior.

There is a manifest gain in productive power when social growth has gone so far that instead of every producer being summoned from his work for fighting purposes, a regular military force can be specialized; but this inevitably leads to the concentration of power in the hands of the military class or their chiefs. The preservation of internal order, the administration of justice, the construction and care of public works, . . . all tend in similar manner to pass into the hands of special classes, whose disposition it is to magnify their function and extend their power (1879/1929:517).

. . . [A] tendency to resist innovation . . . is observable in every special organization—in religion, in law, in medicine, in science, in trade guilds; and it becomes

> intense just as the organization is close . . . [There is] an instinctive fear that change may tend to throw down the barriers which hedge it in from the common herd, and so rob it of importance and power; and it is always disposed to guard carefully its special knowledge or skill. It is in this way that petrifaction succeeds progress (1879/1929:519).

These remarks refer to the United States of the late nineteenth century but are relevant today. Pressure groups abound, trying either to secure a larger piece of a newly designed pie or to hold on to an influential role that is threatened.

Henry George's emphasis on rent seeking and the likelihood of corruption in government (see Nock 1939) should not distract us from his keen concern with the political stability effects of inequality in the distribution of income. The effects of income distribution on political stability and the incentives for economic progress have become major topics of political economy research in recent years.[12] Anticipating the recent literature, George believed the high and increasing "disparity of condition" in society threatened the legitimacy of a representative political-market system. As such it was dangerous to individual liberty, to democratic institutions, and to economic efficiency.

> Given a community with republican institutions, in which one class is too rich to be shorn of its luxuries, . . . and another so poor that a few dollars on election day will seem more than any abstract consideration; . . . and power must pass into the hands of jobbers who will buy and sell it . . . or into the hands of demagogues who will seize and wield it for a time, only to be replaced by worse demagogues . . . [W]here there is gross inequality in the distribution of wealth, the more democratic the government the worse it will be. . . . To put political power in the hands of men embittered and degraded by poverty is to tie firebrands to foxes and turn them loose amid the standing corn; it is to put out the eyes of a Samson and to twine his arms around the pillars of national life (1879/1929:531–32).

George's remarks call to mind the uncertain situation in Russia today, where the social contract seems nonexistent, there is a long history of corruption, and a significant portion of the population longs for the predictability of the past.

> As corruption becomes chronic; as public spirit is lost; as traditions of honor, virtue and patriotism are weakened; as law is brought into contempt and reforms become hopeless; then in the festering mass will be generated volcanic forces, which shatter and rend when seeming accident gives them vent. Strong, unscrupulous men . . . will become the exponents of blind popular desires or fierce popular passions, and dash aside forms that have lost their vitality. The sword will again be mightier than

> the pen, and in carnivals of destruction brute force and wild frenzy will alternate with the lethargy of a declining civilization (1879/1929:537–38).

In spite of the apparent simplicity of Henry George's Single Tax policy, he was certainly aware of the complexities of a viable market economy and the potential for inefficiencies within governments.

George's concern with rent seeking was particularly relevant to trade policy, a major area of interest. In George's day, popular opinion still supported tariffs because they had been historically good revenue-raisers for the U.S. government. At a time when support for protectionism was widespread, Henry George produced an effective exposition in *Protection or Free Trade* (1886) of many of the major fallacies underlying protectionist policies.[13] His arguments, frequently published in magazine and newspaper articles, contributed significantly to the policy debates of his time and anticipated neoclassical theory of trade effects on relative factor prices.[14] He understood the wealth-enhancing role of trade and how protectionism led to costly inefficiencies in the allocation of resources.

> What protection teaches us, is to do to ourselves in time of peace what enemies seek to do to us in times of war (1886:47).

> However protection may affect special forms of industry, it must necessarily diminish the total return to industry—first, by the waste inseparable from encouragement by tariff, and second, by the loss due to transfer of capital and labor from occupations which they would choose for themselves to less profitable occupations which they must be bribed to engage in. . . . We see the large smelting works and the massive mill without realizing that the same taxes which we are told have built them up have made more costly every nail driven and every needleful of thread made throughout the whole country (1886:101).

Henry George recognized that tariffs generally reduce the real income of an economy. If tariffs are so bad for the economy, why are they so popular? George illustrated both parts of that question with a colorful statement.

> To introduce a tariff bill into congress or parliament is like throwing a banana into a cage of monkeys. No sooner is it proposed to protect one industry than all the industries that are capable of protection begin to screech and scramble for it. They are, in fact, forced to do so, for to be left out of the encouraged ring is necessarily to be discouraged. . . . [N]ow every tax that raises prices for the encouragement of one industry must operate to discourage all other industries into which the products of that industry must enter (1886:68–69).

III

A Concluding Observation

Henry George never uttered the words "public choice" or "rent seeking," yet he understood these concepts long before other economists began appreciating them. In this paper we have sought to demonstrate that Henry George was an important early developer of what has become called public choice analysis. Unfortunately, while George's contributions to rent-seeking analysis should be widely recognized, few public choice scholars who have contributed to the rapidly growing literature on the subject appear to be aware of them. Neither his neoclassical contemporaries nor modern scholars have adequately acknowledged George's contributions. An interesting epistemological mystery is why the marginal revolutionaries failed to understand what George, a self-taught man, keenly appreciated. Our speculation, following Kuhn (1970), is that George was not weighted down with the revolutionaries' highly technical paradigm but relied instead on classical insights that were more salient on issues of political economy and rent seeking.

Notes

1. George deserves the notice of mainstream economists. His ideas on factor payments, for example, inspired John Bates Clark to create his general law of distribution that makes factor earnings a function of marginal productivity (Oser and Blanchfield 1975:352).

2. Kamerschen (1978:491–2) briefly suggests that George could be claimed as the father of the notion of rent seeking. Our paper gives a more detailed analysis of George's contribution to the rent-seeking concept and its link with public choice analysis. See also DeLorme, Kamerschen, and Mbaku (1986) for a further discussion of rent seeking and George's link with modern political economy. As DeLorme et al. note, this rent seeking, generated by government interventions to limit artificially the operation of the market, differs entirely from the natural process of producer rent reduction. The former artificially limits the market's operation, while the latter accompanies market competition. For the latter, rivalry among sellers does not dissipate or waste rents but productively transfers them to consumers. The gain to buyers exceeds the losses to sellers. George emphasizes the well-known net wealth enhancement of market competition in his classic *Progress and Poverty* (1879), but he recognizes the dissipative character of political rent seeking as well.

3. According to McLean (1987:9), the two central problems of public choice analysis are collective action (decisions made by a group not in the marketplace) and aggregating preferences accounting for people's preferences not expressed in the marketplace. An example of the first is a legislature deciding on a tax or a trade policy; an example of the

second is a committee's voting rules structure or proportion-of-votes rules for electing members of a legislature.

4. Rational choice sociologists are just beginning to study politics and constitutions. They consider the effects of "social capital" on the political process (Coleman 1990). The entire "bowling alone" controversy over the lack of cohesion in society and the need for government (Putnam 1995) is perhaps the best-known example of this genre.

5. For a thorough treatment of public choice analysis, see Johnson (1991).

6. The Union of Radical Political Economists was an American Marxist organization of the late 1960s.

7. Interestingly, George's contemporaries in the academy—Edgeworth, Jevons, Marshal, Menger, Walras, Wicksell, to name the most prominent—largely treated government as an exogenous variable. The earlier classical school's approach, a pre-Georgist method lost in the technical excitement of the marginal revolution's analytic possibilities, was more concerned with the economics of government operations and, perforce, institutional design. Only since World War II has this classical tradition of political economy returned, but it is now fused with the marginalists' analytic insights. Today this is called public choice or new institutional economics. (The latter is the intellectual union, in the U.S., of the historical school of Ayres, Commons, Innis, Tugwell, and Veblen and the more theoretical and neo-classical group out of the University of Chicago, the University of California at Los Angeles, and the University of Virginia, which includes Alchian, Buchanan, Coase, Demsetz, Knight, North, Simons, Stigler, and Tullock.) For introductions to the new institutional economics see Coase (1991), Furubotn and Richter (1991), and Hutchison (1984).

8. Borcherding (1983) traces economists' analysis of the wisdom of this latter policy choice from Adam Smith through the marginalists to the more recent public choice revolution.

9. George (1883:45–48), like Adam Smith and, until recently, most economists sympathetic to the market, also worried that large, private, hierarchically organized entities were "bureaucratically" inefficient. Jensen and Meckling (1974) were the first to address this concern rigorously. Today, it seems clearer that the issue George raised is one of "agency," i.e., who controls the firm and the cost of affecting such control.

10. George was, of course, no laissez-faire economist. He recognized the role of externalities and public goods in generating market failures.

11. For a survey of the rent-seeking literature, see Tollison (1982).

12. See, for example, Alesina and Rodrik (1994) and Persson and Tabellini (1994).

13. See Martin (1989) and Harriss (1991). Harriss provides a nontechnical summary of the arguments for free trade. Ross (1991) points out that some of the founders of the American Economic Association—the institutionalist members in particular—enthusiastically advocated industrial policy.

14. See Martin (1989).

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