

CHAPTER VI

Henry George and the Classicists

I BECAME INTERESTED in economics—or political economy, as he calls the discipline—by studying Henry George. His treatment of the subject removes from it the “dismal” label that had long been attached to economics. His clear-cut definitions of vital terms, his impeccable logic, his use of telling illustrations and, above all, the well-rounded Victorian sentences in which he clothes his ideas, make the subject pleasurable. Furthermore, his demolition of the Malthusian theory and the equally discouraging wages-fund theory (and other notions of the classicists) lifted the veil of “dismalness” which had hung over the subject of political economy; he gives it vitality and hope. There is plenty, and for all, he maintains, if production and trade were freed from the shackles of institutions founded on ignorance of the natural laws of economics. In this respect—his insistence that natural laws obtain in the realm of economics even as they do in the physical sciences—he traces his intellectual lineage back to the classicists, or old-fashioned liberals.

The liberal approach to economics followed from the primary premise of the liberal revolt against the State. The liberals rejected the notion that political authority was born in heaven; rather, it was manufactured by men out of whole

cloth, and for a specific purpose, that of maintaining social order. It had no other function and no competence for anything else. It was devised for the simple business of seeing that men do not transgress on one another's rights (which were born, if anywhere, in heaven), and having done that, it was finished. Certainly, neither its character nor its composition gave it any competence in economic affairs. As proof thereof, the liberals could point to the troubles that arose whenever government presumed to intervene; it always made the making of a living more difficult. Therefore, any investigation of the principles governing the production and distribution of wealth, which is the field of economics, must begin by eliminating government as a factor. It does not belong. Economics, the liberals declared, might throw light on the subject of politics, or even ethics, but it is a subject of its own. It is *sui generis*.

To the liberal mind—of the eighteenth or early nineteenth century—all the answers to the whys and wherefores conjured up by the human mind were lodged in the "nature of things." It was taken for granted that nature has her own ways of applying means toward ends, and the best that man could do in furthering his own welfare was to discover nature's secrets and then make judicious use of them. That is, the liberal took his stand with natural law, in economics as well as in other disciplines. It will take some hard digging to find these immutable causative relationships, these self-enforcing and self-operating laws of economics, but there is nothing else the student can do. He will make a lot of mistakes, a lot of erroneous observations and false conclusions; when experience shows that he has, he must carefully retrace his steps, always going back to the

“nature of things” as his starting point. Never must he lose faith in the harmony of nature, in its pattern of perfection, nor in his ability to penetrate its enigmas. Above all, he must avoid the heresy that economics is the handmaid of politics.

Obviously, from that point of view there is no such thing as a successful “controlled economy.” As in the case of physical laws, the natural laws of economics cannot be managed nor manipulated by parliaments, and any attempt at doing so must produce results quite the opposite of those promised. If one steps off a high building one does not stop the operation of the law of gravity, but suffers a broken neck; so, defiance of the laws of economics brings results not contemplated by the defier. Thus, the liberals would hold, if there is a natural law of wages, an attempt to politically manage wages must ultimately result in the lowering of the general level of wages, even if at first the semblance of a rise is produced. Or, if in the nature of things a law of property operates, the result of trying to defy it is to discourage the production of things that can be owned. The long term consequences, the end results, are the final proofs that natural law has been on the job all the time. Nature has time on her side.

In short—the goal of liberal inquiry into economics was to find absolutes. With anything less, its greatest exponents—Adam Smith, the Physiocrats, Ricardo, Malthus, Bastiat, Say and the others—simply would have nothing to do. They remained adamant in their purpose, even though their findings proved to be erroneous, even though they disagreed violently with one another in their estimates. It was a brand new science they were tackling, and it was not to be expected that nature would reveal her secrets at the first try;

HENRY GEORGE AND THE CLASSICISTS

she is too proud a hussy to succumb to the blandishments of neophytes, no matter how sharp and brilliant they might be. Besides, economics presents special difficulties for the investigator. It is not concerned with how Robinson Crusoe makes a living, but how men cooperating with one another for their mutual benefit manage the job. That is, it is a social science, and the investigator is under the necessity of studying the living organism of society in time and space; there is no way for him to submit society to laboratory conditions for observation. He has to, so to speak, catch society on the run.

That difficulty was as nothing compared with another that is peculiar to the science of economics. The seekers for natural law were confronted with the obstacles of prejudice, vested interests, established institutions, and were under the further handicap of piercing their own preconceptions and biases. In the making of a living men are inclined toward the easiest way, and if the easiest way involves robbery (which is a denial of natural law), they will try to institutionalize the practice and make it morally acceptable. Once speculation is regularized, and practices are built on the regularization, it is difficult for the keenest eye to penetrate the fog of tradition to the basic error. And, if the scientist does manage to detect the basic error, his exposition of it meets with the opposition of those whose comfort might be disturbed and who will therefore do their utmost to discredit the discovery. Thus, prudence inclined the liberal economists to treat gingerly the long-established institution of slavery. In their several attempts at definitions (which are prerequisite to orderly thought), they found it difficult to describe wealth—their basic noun—as the product of

human labor and natural resources; that definition almost writes itself, but it puts the slave in the category of labor, not wealth, and stamps the ownership of the products of slavery as confiscation; that would not meet with the approval of the gentry engaged in the extensive slave-trading business. Or, if capital were defined as goods used in the production of more goods, where does that put the owner of land? Does he own capital or does he own the raw materials from which capital comes? In the latter case, he has to establish his moral right to raw materials—which he finds it difficult to do.

Such barriers to objectivity, plus the difficulty of examining society in a state of flux, gave liberal economists a bad start. In their haste to hit upon laws which they assumed nature had disclosed to them, they formulated contradictory and ill-founded concepts. For instance, Ricardo hit upon the "iron law of wages"—that wages could not go up without attracting more laborers, thus cutting the average down; but this was based on the wages fund theory—that there was only a given amount which capitalists set aside for wages at the beginning of the year, which is, of course, an erroneous conception. Or, when Malthus declared that population tends to exceed the food supply, and that nature prescribes famines and war to recreate a balance, he overlooked that fact that, given freedom, man will make two blades of grass grow where one grew before. It was such errors of observation or miscalculation of estimates that caused confusion and threw doubt on the whole subject of economics.

For that reason, in the latter part of the nineteenth century a new crop of economic thinkers declared it was high

time to abandon the natural law approach; there are no such things as absolutes in economics, they said. Economics, they further declared, was not a science at all, but rather a study of the legal and institutional arrangements by which men produce and divide up economic things. They declared it to be a purely descriptive and pragmatic study. It describes how men make a living under existing custom or law, and it accepts as "truth" whatever "works." If custom and law change, "truth" goes along with the change, and the economics text books have to be rewritten to conform to the new "truth." It is a photographic record of the prevailing *modus vivendi*, and it sights its lens in all directions. Thus, we have "economics of retail merchandising," "banking and bonds," "agricultural economics," "real estate economics" and all the other titles that adorn the college curricula. If privateering were legalized and institutionalized there would undoubtedly be added a course on the "economics of privateering."

The modern vogue makes of economics a branch of political science. If, for instance, the occupation of farming is regulated by law, then the student of "agricultural economics must know the law and apply himself to the results of its operation; a change in the law necessitates a redirection of the study. Or, if the incidence of taxation should fall with particular impact on railroading, that fact must be taken into account in the study of the economics of railroading. From this it will be seen that modern economics is an atomism. Under the divine right doctrine the king was presumed to have the capacity to regulate wages, prices and the condition under which men could produce and exchange things; the modern economist endows the State

with the same capacity. It was, indeed, to deny the validity of the Mercantilist State, with its economic presumptions, that Adam Smith wrote his *Wealth of Nations* and began the vogue of treating economics as a natural science. The modern economist, rejecting the idea of the naturalness of economics, is a mercantilist of the first water. He might object to certain interventions of the State, as inadequate or unfair, but he takes for granted that intervention is not only proper but essential to the management of economic affairs. Since this notion was abhorrent to the liberals of old, it is odd that the modernists should assume the character of "liberals."

And yet, the modern, political economists inferentially pay homage to the theory of natural law in their offhand dismissal of the long-term consequences of intervention. Lord Keynes' statement that "in the long run we are all dead" is in point. If the long term results contravene the immediate effects of some political intervention in the economy, it must be that a greater force has asserted itself and has invalidated the short term effect of the intervention. What is that greater force? It is a natural law. Thus, if the government attempts to fix wages it might succeed in so doing immediately; but the ultimate consequence of its acts is to discourage production. Why? The answer lies in the nature of man; he simply will not put forth productive effort without commensurate compensation. To be sure, he will do some work to avoid the lash of the slave master, but the amount is negligible compared with the incentive of private possession of the fruits of his labor. Slaves are notoriously poor producers. The point is that wage-fixing is not in consonance with natural law and therefore will pro-

HENRY GEORGE AND THE CLASSICISTS

duce results not contemplated by the wage-fixers, in the long run. The same is true of the regulation of commerce; it spawns smuggling. Every intervention in the economy must be accompanied with force, simply because it runs contrary to the natural law. And the insistence of the interventionists on a law "with teeth" is an admission that this is so.

It is sometimes said that economics cannot be a science—a study based on natural law—because in economic affairs the variable human will is involved. Thus, value, which plays a big part in all economic thought, is purely subjective and therefore not measurable. It is true that the value of a thing cannot be predetermined with exactitude; that is something which the higgling and haggling of the market must decide. But, the value put upon a thing by this higgling and haggling is simply an equation between supply and demand. If the supply is great, demand remaining constant, the value will drop, and the value put upon the last item in the supply will be equal to that of the first item. The natural law involved here is that in a free market value will find its own level. On the other hand, if this law is denied and an attempt is made to fix values, or prices, what do you have? A black market, in which the law of supply and demand continues to operate, despite the police and the conceit of the planners.

Socialism—a generic term with which must be included economic planning, economic regulations and economic controls—begins by assuming that there are no immutable economic laws. To substantiate that assumption it must first deny that man is born with an indigenous nature, that he is endowed with instincts and impulses which control his

behavior under any and all conditions. He has no character. To the socialist, the human is a bit of protoplasm which can be shaped by his environment. Therefore, having decided on his ideal, he proceeds to manufacture the environmental mold into which he shall pour this protoplasm. The principal feature of this mold is the elimination of the institution of private property; this institution, the socialist maintains, is the cause of man's fall from grace. If he finds difficulty in inducing the human to relinquish his interest in private property, the socialist does not ascribe this reluctance to a human instinct, but rather blames it on his previous conditioning; he has been trained for so long to look upon the possession of the fruits of his labor as desirable that he cannot conceive of the blessings of relinquishing possession to society. To put this concept into his mind, it is necessary to forcibly take from him all he produces until at long last he will be re-conditioned to the new ideal. Force, therefore, is the necessary instrument of all forms of socialism. Whether or not the use of force will produce the kind of society of which the socialist dreams, the fact remains that force must be exerted by one group upon another, and who can say that the group exercising it is possessed of a divine sanction for its use? At any rate, the use of force produces resentment, or the use of a contrary force, and this conflict results in chaos. And nature abhors chaos. Therefore, regardless of the claims of socialism, the instrument on which it relies to achieve its ends is contrary to the dictates of nature.

What is true of socialism, the doctrinaire kind, is also true of all attempts to politically regulate the commerce

of men. Such attempts are always accompanied by the use of force, coercion, compulsion. Politics is by definition the art of compelling men to do what they are not inclined to do, or to refrain from doing what they want to do. It is the business of restraint. In a primitive society, as in our frontier life, the use of restraint was entrusted to the individual; he carried a gun to secure his life and his property. In organized society, this duty is undertaken by government, and insofar as it does protect life and property its use of force is justified. But, when government undertakes the use of its monopoly of coercion for other purposes, it becomes a trespasser; it becomes a trespasser simply because it is not equipped to do anything else than the protection of life and property; it has no other competence. The sum and substance of its intervention in the economic affairs of men is to use its monopoly of coercion so as to deprive some people of their property in favor of another group, or, indeed, in favor of itself. That is all it is capable of doing; coercion is not a factor of production, it is neither labor nor capital nor land, and has no place in the production or distribution of wealth. In short, government is a non-producer. Therefore, the only function it can perform in the economic field is that of a robber; it takes what it cannot produce. Under the circumstances, therefore, government intervention in economic affairs becomes organized robbery, and even though this is done for presumably eleemosynary purposes, it causes dissatisfaction among producers and, eventually, a loss of interest in production.

No, politics is not economics. Economics is the science dealing with the production and distribution of wealth,

subject to natural law, while politics is the art of restraint, subject to expediencies. And, so long as the present vogue of treating economics as a branch of politics continues, the current confusion among economists will continue.

That much I learned from Henry George.