

Rae: A Journalist Out of His Depth

By AARON B. FULLER

John Rae (1845–1915) was a successful British journalist and author who is best known to students of economics as Adam Smith’s principal biographer.¹ For many years he was associated in an editorial capacity with *The Contemporary Review*, which was one of the leading British journals of fact and opinion. In addition to these activities and dozens of articles in *The Contemporary Review* and the *British Quarterly*, he wrote *Eight Hours for Work* (1894) and *Contemporary Socialism* (1884). It is in this latter work, which was so successful that it went through four editions (1884, 1891, 1901, 1908), that Rae turned his literary talents to describing and criticizing “the two main types of existing social democracy—the Centralist, which is usually known as Communism, Socialism, or Collectivism, and the Anarchist, which—though also Communist, Socialist, or Collectivist—is generally known as Anarchism or Nihilism.”² An entire chapter was devoted to Henry George because “although he is not a socialist, . . . his doctrines are in many respects closely allied with those of socialism, and because he has done more than any other single person to stir and deepen in this country an agitation which, if not socialistic, at least promises to be a mother of socialism.”³ This explanation provides us examples of Rae’s great strength as an expositor and social critic and of his great weakness as a theorist. He was precisely correct that the agitation created by George’s ideas would stimulate the growth of British socialism, but he was precisely wrong that George’s doctrines were allied with socialism. It is characteristic of journalists to be long on social commentary and perception and short on conceptual analysis, and Rae is no exception. It is from the perspective that Rae was a journalist criticizing George an economist that we investigate the substantive contents of Rae’s chapter, “The Agrarian Socialism of Henry George” in his book *Contemporary Socialism*.*

*I am, of course, aware that George himself spent most of his professional life in journalism, and that he had no formal training in economics. His *intellectual* life, *American Journal of Economics and Sociology*, Vol. 62, No. 5 (November, 2003).
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Overview

Rae devoted separate chapters to Karl Marx, Ferdinand Lassalle, and Carl Marlo in addition to Henry George, and this provides us with an index of the significance he attached to George's influence. Already in 1884 Marx's ideas were influential enough to require special attention in any survey of the status of contemporary socialism. Lassalle's famous phrase identifying an "iron law of wages" and his pivotal role in the formation of the General Association of German Workers (later to evolve into the German Social Democratic Party), qualify him as a major symbol of practical socialist activism.⁴ Carl Marlo is no longer well known, but in the mid-nineteenth century his writings contributed much to the popular conception of competitive capitalism as an inherently oppressive system of organization, and his political recommendations of industrial nationalization and cooperative corporate organization strikingly resemble the commercial structure of Western Europe in the mid-twentieth century.⁵ Rae's implied elevation of George's influence to an approximate equality with these three socialist standardbearers testifies to the seriousness with which he viewed George as a potential molder of British opinion.

Rae's criticisms of Henry George were uncompromising because he viewed George as a dangerous voice that had to be stilled to preserve the good order of British society. To achieve this purpose, it did not necessarily matter to Rae what the contents of George's theories were; whatever George said had to be refuted because it contributed to popular unrest. Discussing George's self-proclaimed search for an explanation of why poverty accompanies material progress, Rae clearly establishes his categorical rejection of George's reasonings.

however, displayed in his major written works, was spent largely as an economist—an economist whose scientific efforts were inextricably bound up with his intense involvement in questions of ethics and social reform, but an economist nonetheless. (See the judgment expressed in Joseph A. Schumpeter's conclusively authoritative *History of Economic Analysis*, p. 865, that George "was a self-taught economist, but he *was* an economist.") Whatever his limitations in this field, the appellation could scarcely be withheld from one to whose insight John Bates Clark admittedly owed the inspiration that led to his development of marginalism.

He first tormented his brain with imaginary facts, and has then restored it with erroneous theories. His argument is really little better than a prolonged and, we will own, athletic beating of the air; but since both the imaginary facts and the erroneous theories of which it is composed have obtained considerable vogue, it is well to subject it to a critical examination.⁶

Rae's critical examination is divided into three parts. In part one he challenges George on the empirical evidence of advancing poverty, denying that poverty was increasing and arguing that in proportion to population poverty was "considerably less in the more advanced industrial countries than in the less advanced ones."⁷ Reasoning by analogy, Rae described George's view of advancing poverty amidst advancing wealth as like riding on a moving train that is passed by a faster train on a parallel track. The slower train seems to be moving backward only because the faster train is moving farther and farther ahead, but in fact both trains are moving ahead. Rae explained that like the motions of the two trains, the incomes of the poor and wealthy were both moving ahead, but the more rapid progress of the wealthy made it seem as if the poor were losing ground when in fact they were not. Phrased more precisely, Rae agreed with George that real income growth was disproportionate between high- and low-income classes, but disagreed with what he interpreted as George's view that the rate of growth was positive for the rich and negative for the poor.

In part two Rae discounts George's theoretical analyses and mistakenly suggests that George proposed his own version of the Malthusian population theory and "a new wages fund theory." This is Rae at his worst. Not only does he misstate what he offers as the then current contents of economic theory, but he also badly misunderstands the foundations and implications of George's analytics. This failure to capture the theoretical essence of his subject is characteristic of Rae's writing, and it is evidenced perhaps even more sharply in his *Life of Adam Smith* than in his *Contemporary Socialism*. In his biography of his Scottish countryman he spends more than 400 pages reconstructing the intimate details of Smith's life through hundreds of letters and notes, and yet nowhere in the narrative does he provide even the barest analysis of Smith's ideas. Even granting Rae an

unusual restraint not characteristic of biographers, it is difficult to explain how he could write about Adam Smith and not relate the man to his ideas. As an example, to Rae *The Theory of Moral Sentiments* is nothing more than Smith's first great work that brought him "immediate and universal recognition, in the first rank of contemporary writers."⁸ No hint is offered that he understands the significance of the concepts in *The Theory of Moral Sentiments* as the groundwork for what was to come later in *An Inquiry Into the Nature and Causes of the Wealth of Nations*. The best that Rae can manage is that *The Theory of Moral Sentiments* "is an essay supporting and illustrating the doctrine that moral approbation and disapprobation are in the last analysis expressions of sympathy with the feelings of an imaginary and impartial spectator."⁹ Rae entirely misses Smith's identification of passion, not reason, as the means to self-preservation. For Smith reason is the agent of substantive right, and by rejecting reason as the means to advancing self-preservation, Smith rejects the notion that the end of nature is a debatable proposition.¹⁰ Concerning the roles of reason and passion in human affairs, Smith elaborates that the passions direct us to self-preservation whether we seek that end or not, and the proper view of nature is that it is an inner-directed impulsion to survive. The passions will coordinate survival regardless of what we reason, providing us with an appetite both for the end of self-preservation and for the means to bring it about. Relating this to the fundamental propositions in Smith's *Wealth of Nations*, it is clear that even at this fundamental level of human motivations Smith structures his analyses around his advocacy of the unintended results of human action as preferred to the intended results of human design.¹¹ It is an important part of Smith's genius that his system of natural liberty, expressed in the ruling passions in *The Theory of Moral Sentiments* and in commercial economic society in *The Wealth of Nations*, utilizes an explanation of the ideal foundations of human behavior that is posterior to human nature and derivative from society. Had any of this occurred to Rae, he could have understood George's analytical foundations better than he did, because George was an accomplished student of Smith's ideas and much of the character of the analyses in *Progress and Poverty* reflects the character of Smith's conception of commercial economic affairs as the embodiment of

natural liberty. But it did not occur to Rae and it probably could not; if he did not understand the ideas of the man whose biographer he was, it is exceedingly unlikely that he would understand the ideas of a man whose influence on the British people he feared.

In part three Rae rejects George's proposals for land-rent taxation and denies the optimistic results that George claims for their adoption. Rae is more on his own ground here, using his literary talents to counter the rhetorical exaggerations that George attached to his practical policy proposals. But in addition to pouncing on George's hyperbole, Rae attempted some analytical comments on land rent, the nature of land as a unique economic commodity, and property rights, and because these comments are contradictory and inconsistent Rae introduced additional elements of confusion into his critique.

Rae's three-part critical examination of George's ideas is presented much like a set of "even-if" arguments encountered in the formal argumentation of a legal brief. He first rejects George's ideas because they are inconsistent with the empirical evidence—poverty is not increasing with progress. But, he contended, even if poverty were increasing, a second reason to reject George's ideas, independent of the empirical evidence, is George's alleged theoretical error and confusion. Finally, he maintained that even if the empirical evidence and the analytical arguments were on George's side, a third independent reason to reject George is that his solutions to the problems he identifies are either incorrect or inadequate. Such a scattered array of independent arguments is sometimes called the "shotgun" approach to argumentation. Potentially deadly at the close quarters of journalistic and legal persuasion where the form of the argument may be more important than its contents, it is less effective at the longer range of analytical scholarship where logical and factual consistency weigh more heavily than persuasiveness. Rae's journalistic shotgun approach to criticism, composed of scattered independent arguments, did little serious analytical damage to George's analyses. But serious analytical damage may not have been Rae's intent; instead, he may have been trying to persuade his readers that George was a dangerous agitator who, like the socialists discussed elsewhere in *Contemporary Socialism*, threatened to disrupt British institutions.

In what follows we shall examine Rae's specific criticisms of

George's vision of poverty, his economic analysis, and his land taxation proposals.

On George's Perception of Poverty

Rae challenged and denied George's fundamental proposition that poverty increases with progress. He cited empirical evidence that, to him, proved the error of George's claim. There are three assessments that are relevant here: First, was Rae's criticism unique? Second, was Rae correct about the empirical evidence? Third, was Rae's criticism related to George's fundamental proposition? Let us examine each in turn.

Rae's denial of George's proposition that poverty accompanies progress was a commonplace criticism of George during the late nineteenth century. Perhaps the two leading critics among professional economists were Arnold Toynbee and Alfred Marshall. Both denied George's assertion of poverty's accompanying progress as part of their more general denials of the claims of socialists, radicals, and others that growing poverty was an inherent concomitant of expanding industrial capitalism. Marshall began a series of lectures on Henry George in 1883 with the judgment that *Progress and Poverty* "is the last outcome of the feeling that we ought not to be content with our progress as long as there is so much suffering in the world."¹² He admits that "Mr. George's book is the latest outcome of this yearning after a better state of things," but rhetorically asks if "we are sure that with the increase of wealth want has actually increased?"¹³ Citing historical evidence, Marshall answers his own query in the negative. Among his examples to disprove increasing poverty he cites increasing agricultural wages over the prior thirty years, rising per capita income among the working classes, and better food in the diets of the working population.

Toynbee declared that "economists have to answer the question whether it is possible for the mass of the working classes to raise themselves under the present conditions of competition and private property. Ricardo and Henry George have both answered, No." Citing evidence from various sources, including the *Contemporary Review*, of which Rae was an associate editor, Toynbee counters the idea of

increasing poverty by noting that “it is a fact that though the cost of living has undoubtedly increased, wages have risen in a higher ratio,” that there has been “strong proof of a rise in agricultural wages,” and that “the facts make it clear that the working classes can raise their position, though not in the same ratio as the middle classes.”¹⁴

It is almost certain that Rae was aware of these criticisms made by Marshall and Toynbee. Marshall was already a well-known professor and his lectures were published in various newspapers in 1883. Toynbee’s citations of evidence to prove that poverty was not increasing relied heavily on articles appearing in the *Contemporary Review*. In effect, Rae’s challenge to George’s proposition that poverty was increasing with progress amounts to a summary of one of the standard criticisms of George’s ideas readily available to Rae in the accessible literature. Rae’s challenge was not unique.

Unique or not, a separate question asks who was right concerning the empirical evidence. Was poverty in fact increasing or decreasing? The empirical evidence is contradictory, and even today it is impossible to determine with a high degree of certainty whether poverty, expressed as changes in the standard of living and changes in real wages, was increasing or decreasing in the decades immediately prior to the 1880s.¹⁵ Rae claims to have defeated George’s assertion of increasing poverty because George failed to cite the wage and income data familiar to Rae and others like Toynbee and Marshall. But these data were fragmentary and subject to criticism even in the 1880s, so that Rae cannot lay claim to empirical superiority compared to George when the data turn out to be unreliable.

Rae’s reiteration of the idea that George was wrong about increasing poverty’s accompanying progress failed to address the central issue of what George meant by his claimed observation. Rae correctly noted that at times George seemed to refer to absolute income levels and standards of living, while at other times George seemed to refer to relative differences between and among income classes. But Rae reads the mixture of absolute and relative income differences as confusion on George’s part, and does not attempt to analyze the implications of George’s treatment of poverty. In fact, George’s observation of progress’s accompanying poverty may be interpreted as an early assessment of the structural changes that occur when an economy

shifts from dependence on individual self-sufficient landownership to a dependence on interdependent specialized division of labor. In absolute dollar income terms, poverty emerges with progress because progress entails the growing division of labor with its associated dependence of one specialized producer on the products of other specialized producers, and the producers who do not own specialized factors of production like land will not enjoy the increased rents owing to the specialized factors from increased usage. According to George, progress creates poverty that did not exist in nonmarket or limited-market economies because it creates rental premiums for the specialized factors of production like land. Thus, as economies become industrialized and specialized in the name of progress, they evolve a real, absolute difference between those individuals who own specialized factors and those who do not. This is the nature of the "wedge" that is driven between different elements in an economy, a wedge between those who own specialized factors and those who do not.

In relative terms, the emergence of a market economy where individuals are dependent upon one another for varieties of products also signals the growth of human wants. A greater variety of products produces desires by individuals to enjoy the greater variety. These culturally determined wants become real elements in the standard of living, and their satisfaction becomes a measure of how well off an individual is relative to other individuals. Given that the set of culturally determined wants is much larger in a specialized market economy enjoying industrial progress than in a less-specialized pre-market economy without industrial progress, there seems to be little question that relative poverty, that is, relative nonsatisfaction of culturally determined wants, will be greater in the market economy.

Seen in the light of George's vision of industrial progress as a product of market specialization and the division of labor, where culturally determined wants grow dramatically with the specialization and division, both absolute and relative income differences become relevant to an identification of the character of poverty amid progress. Rae failed to understand any of this, and instead chided George for the seemingly simplistic error of confusing absolute income differences with relative differences.

On George's Economic Analysis

Rae attacks George's economic analysis with respect to population theory, the wages-fund theory, and the concept of economic rent. Although Rae claims and attempts to demonstrate that George is confused with respect to Malthusian population theory and its relationship to diminishing returns, and misunderstands Ricardian rent theory, it is in his treatment of the wages-fund theory that Rae assigns the broadest range of analytical failures to George. This is curious and indicative of Rae's own failures analytically, because George's treatment of the wages-fund theory is one of his soundest analytical exercises.

Rae's failure is highlighted first by his mistaken impression that the wages-fund theory was a dead letter. He criticized George for bothering with the theory because it "was refuted by Mr. Thornton in 1869, was almost instantly abandoned by the candid mind of Mr. Mill, and is now rarely met with as a living economic doctrine."¹⁶ Rae is again performing as a journalist faithfully reporting what he has heard or read of others but not bothering to assess for himself the validity of his reporting. It is correct that the wages fund was refuted by Thornton in 1869, refuted in the limited sense that Thornton offered arguments of refutation, but not refuted in the sense of its being shown as false.¹⁷ George correctly judges Thornton's essay as a more formal than real attack upon the wages fund, and he accurately notes that Thornton rejected only one element of the theory, the presumed existence of a predetermined wages fund.¹⁸ George's implication was that Thornton's attack left the wages-fund theory fundamentally intact, and Rae to the contrary, George was correct.¹⁹ Feeling that previous writers, including Thornton, had attacked the wages-fund theory but were unsuccessful in destroying its logic, George set out to do it on his own.

Rae's statement that the wages-fund theory was abandoned by Mill in response to Thornton's strictures is not in every sense correct. Mill, it is true, thought these strictures so persuasive that he acceded to them in his review of the book in which they were advanced.²⁰ Yet he did not delete the theory from the seventh (1871) edition of his *Principles*, the last to appear in his lifetime, although in a footnote to

his preface to that edition, he did direct attention to Thornton's book, his review, and Thornton's reply, without, however, indicating that his review contained a repudiation of the theory. Neither was it deleted from subsequent editions. The active debate over the wages fund had begun in earnest in 1879 with the publication of Henry Sidgwick's "The Wages Fund Theory" in *The Fortnightly Review*, and it continued throughout the 1880s and into the 1890s in the journal articles produced by a host of economists including Walker, Carver, Clark, Commons, Davenport, Hadley, Hollander, Johnson, Laughlin, Macvane, Veblen, Taussig, Edgeworth, Webb, Marshall, and others.²¹ Rae's claim that the wages fund was not to be met as a living economic doctrine is an indictment of his appreciation of the status of the concept when George attacked it in 1879, and provides an explanation of why he thought George was wasting his time on a long-settled issue. Rae himself did not understand that the wages fund was alive and well.

On George's "Remedy"

Rae discussed George's proposal for a tax on land rent in the final section of the chapter. Contrasting George's expansive claims for the effects of such a tax with the dictates of common sense, Rae suggested that George expected too much to flow from the imposition of a tax on land rent. Rae's moderation, with which we can agree, is not carried over into his analysis of the land-rent proposal. In general, Rae misrepresents and misinterprets the implications of a tax on land rent. As an example, he is astounded at George's "scheme" to destroy individual ownership but not individual occupation. What Rae fails to recognize through the veil of the rhetoric is that it is not the property right to utilize a piece of land that George's taxation will change, but the right to acquire the economic rent of the land. There is nothing inconsistent in proposing that physical ownership of land be preserved while the property right to acquire, buy, and sell the expected rental increments is appropriated to a central authority. Given that individuals attempt to make themselves as well off as possible, and do not attempt to make themselves worse off, the removal of the property right to acquire economic rents will encourage land to be

utilized in its highest valued uses, that is, those uses where its contribution to the real product of economic activity is greatest. This is the fundamental basis for George's rhetorical claims of advantage under a system of land-rent taxation.

Concluding Evaluation

John Rae's criticisms of Henry George's ideas are surprisingly unsophisticated for someone who could have been expected to be familiar with Adam Smith's conceptual foundations in *The Theory of Moral Sentiments* and the *Wealth of Nations*. George was a student of Smith's ideas, and much of the structure of the concepts in *Progress and Poverty* as well as George's other works is derived from George's understanding of Adam Smith. The Smithian connection has not been extensively pursued here because Rae did not pursue it, even though we could have expected it of him as Smith's principal biographer. If Rae had understood Smith's conception of commercial society as the embodiment of natural liberty, which is in turn an embodiment of Smith's conception of the passion for self-preservation, he would have had the perspective from which to view George's ideas in their proper context. But Rae was not aware of the fundamental elements of Smith's conceptual foundations, and in turn could not be aware of the elements of George's foundations. Instead, he was caught up in George's rhetorical dash and sought to combat the impact of the rhetoric with rhetoric of his own. This caused him to misread George's doctrines as being closely akin to those of socialism, when in fact George was a thoroughgoing free-market advocate.

Notes

1. John Rae, *Life of Adam Smith* (1895; reprint ed. New York: Augustus P. Kelley, 1965), with an introduction by Jacob Viner. Rae's biography is the major source for what we know of Smith's life. It replaced Dugald Stewart's *Biographical Memoir of Adam Smith* (1811) as the standard Smith reference. Economists may be familiar with the name John Rae in another context. There was an economist named John Rae who was born in Scotland in 1796, migrated to Canada in 1822, and in 1834 published *Statement of Some New Principles on the Subject of Political Economy Exposing the Fallacies of the System of Free Trade and Some Other Doctrines Maintained in the Wealth of*

Nations. This other Rae made important contributions to capital theory and directly influenced the builders of modern capital theory, Böhm-Bawerk, Irving Fisher, and Knut Wicksell. As far as I know, the John Rae of this inquiry, the journalist and author, was not directly related to the earlier economist John Rae.

2. John Rae, *Contemporary Socialism* (London: S. Sonnenschein and Co., Ltd., 1908), p. 57.

3. *Ibid.*, p. 446.

4. Joseph A. Schumpeter, *History of Economic Analysis*, ed. Elizabeth Booddy Schumpeter (New York: Oxford University Press, 1954), p. 650.

5. *Ibid.*, pp. 459–60.

6. Rae, *Contemporary Socialism*, p. 445.

7. *Ibid.*, p. 446.

8. Rae, *Life of Adam Smith*, p. 141.

9. *Ibid.*, pp. 141–42.

10. Adam Smith, *The Theory of Moral Sentiments* (1759; reprint ed., ed. E. G. West; New Rochelle, N.Y.: Arlington House, 1969): 110.

11. Aaron B. Fuller, "The Passions of Adam Smith," History of Economics Society Conference Paper (Chicago, 1976).

12. George J. Stigler, "Alfred Marshall's Lectures on Progress and Poverty," *Journal of Law and Economics* 12, no. 1 (1969): 181–226.

13. *Ibid.*, p. 184.

14. Arnold Toynbee, *Lectures on the Industrial Revolution in England* (London: Rivingtons, 1884), pp. 121–22.

15. T. R. Gourvish, "Flinn and Real Wage Trends in Britain, 1750–1850: A Comment," *Economic History Review*, 2d ser., 29 (1976):136–45; Eric Hopkins, "Small Town Aristocrats of Labor and Their Standard of Living, 1840–1914," *Economic History Review*, 2d. ser., 28 (1975):222–42; M. W. Flinn, "Trends in Real Wages, 1759–1850," *Economic History Review*, 2d ser., 27 (1974):395–411.

16. Rae, *Contemporary Socialism*, p. 464.

17. William Breit, "The Wages Fund Controversy Revisited," *Canadian Journal of Economics* 33, no. 4 (1967):510–28.

18. Henry George, *Progress and Poverty*, 75th anniversary ed. (New York: Robert Schalkenbach Foundation, 1954), p. 18.

19. Aaron B. Fuller, "Henry George and the Wages Fund," History of Economics Society Conference Paper (Chapel Hill, N.C., 1974).

20. Mill's review of Thornton's *On Labour* appeared in *Fortnightly Review* of May and June 1869, and was reprinted in John Stuart Mill, *Dissertations and Discussions* (London: Longmans Green, Reader and Dyer, 1875), 4:25–85.

21. H. Scott Gordon, "The Wage-Fund Controversy: The Second Round," *History of Political Economy* 5, no. 1 (1973):14–35.