

Marshall: A Professional Economist Guards the Purity of His Discipline

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In 1883 the name of Henry George was more familiar on both sides of the Atlantic than that of Alfred Marshall. Marshall was to achieve lasting recognition a decade later as the foremost British economist of his day, but George's *Progress and Poverty* had already achieved an unusual measure of success for a work in political economy. Sales of that volume reached 100,000 in the British Isles a few years after its appearance in a separate English edition. This popularity (in a period when "best sellers" were less well received than now) was undoubtedly one measure of the British sentiment for land reform—a sentiment that had been carefully nurtured for several decades, especially by John Stuart Mill and Alfred R. Wallace. Additional sympathy for George and his ideas was also stirred by his controversial arrests in Ireland in 1882.¹

Most economists of the late nineteenth century paid little attention to the lively subject of land reform, but Marshall was an exception. Intellectually, he was akin to John Stuart Mill—both were simultaneously attracted and repelled by socialist doctrine. Marshall admitted a youthful "tendency to socialism," which he later rejected as unrealistic and perverse in its effect on economic incentives and human character. His early writings, however, clearly identify him as a champion of the working class. Marshall cultivated this reputation in his correspondence, and he continued to take socialism seriously, even after his "flirtation" with it ended.

In the winter of 1883 Marshall gave a series of public lectures at Bristol on "Henry George's subject of Progress and Poverty." These lectures have only recently become accessible to American readers.³ In retrospect they appear to be Marshall's first deliberate attempt to renounce his socialist "ties," such as they were. Still, Marshall was a reluctant critic—a fact seemingly denied by his open antagonism

to George, but affirmed by his personal correspondence. Urged by a colleague, Henry Foxwell, to publish the George lectures, Marshall politely replied:

As general propositions I maintain that it is more important to establish truth than to confute error; & that controversy should be left to people with sound digestions.

It seems to me infinitely more important that I should solve difficulties which still perplex me than that I should tilt at a successful rhetorician. The one thing that he [George] says which is important, I think, is that economists are—to outward appearance at least—at loggerheads with one another. I would rather put in one brick just where it should be in the slowly rising economic edifice than plant a hundred brickbats with the utmost dexterity between the eyes of Mr. George.

Still the book has had so many buyers (though I doubt whether one in fifty of them has read to the end) that I almost determined to publish something about him. My weak point was that I did not know what to attack: a book as large as his own would be wanted to refute all his fallacies. But I hope[d] that I should find out in the course of my lectures at Bristol, which of his fallacies had stuck. I failed utterly. Trying to refute George in Bristol was like throwing oneself against a door that is not fastened. There was no resistance anywhere. There was plenty of enthusiasm for nationalization of the land: if I had gone on fighting against that, I could have had opposition for ever. But there was no opposition to my attacks on George; & I practically had to leave him entirely out of the argument. . . .

When I go to Oxford⁴ I shall hold out to my pupils there the same challenge that I held out to my pupils at Bristol. I shall defy them to shew me anything in George that is new & true; also to shew me any attack of his on Mill's doctrines that is even verbally valid against that rendering of Mill's doctrines that is to be found in the [E]conomics of [I]ndustry. (It seems to me that very few even of George's false sayings are less than fifty years old). . . .

Well, by this means I shall find out which of George's fallacies are worth attacking, & if I find that the book is not already fast losing its hold (which I expect) I shall probably write a review article or two at Xmas or Easter.⁵

The review articles alluded to never came, probably because Marshall was busy with his new duties at Oxford, and because he soon resumed work on his *Principles of Economics*.⁶ However, Marshall's move to Oxford afforded a chance for a personal confrontation between himself and George. The occasion was a public

lecture given by George at the Clarendon Hotel, Oxford, on the eve of 14 March 1884. In an audience consisting mainly of university students and faculty unsympathetic to George, Marshall led the questioning from the floor. In his initial foray, Marshall made so many points that George complained he was “piling them a little too thick.” Marshall protested George’s neglect of productivity and thrift; his failure to see the interdependence between land and other forms of property, to “prove his proofs,” and to understand the authors he had undertaken to criticize. George was irresponsible, said Marshall, and he had “instilled poison” in the minds of his listeners. After Marshall rephrased a single question concerning thrift and productivity, George answered that thrift alone would be rendered ineffective by the monopoly privilege of land ownership, which would drive wages down to subsistence. Repeated attempts by Marshall to establish the competitive nature of the supply of land elicited no appreciation from George of the theoretical issues involved. Thereafter Marshall relinquished the floor. In all likelihood neither antagonist was especially pleased with the outcome of the confrontation. Nevertheless, the event clearly demonstrated George’s ability to arouse passionate controversy. George was rudely treated by the audience, and the meeting, which became increasingly disorderly as the evening wore on, was adjourned early.⁷

The intellectual cleavage between Henry George and Alfred Marshall is revealing in several respects, not the least of which is the ambivalence of Marshall toward questions of land tenure. This study seeks to analyze the essence of the intellectual differences between these two antagonists, relegating to a minor place any personality traits that may have intruded on the “debate” (if it can be called that). Properly understood, the disagreement, as perceived by Marshall, was over the scope and logical method of economic science.

Georgist Lemmas and Marshallian Criticism

As he indicated in his letter to Foxwell, Marshall did not attempt in his lectures on *Progress and Poverty* to refute every detected fallacy in George’s system. He declared his intention to address George’s “subject,” and to test for resistance to his specific criticisms of

George. This section concentrates on four basic propositions found in George's *Progress and Poverty*, and analyzes Marshall's criticisms of each.

Lemma 1: Progress Causes Poverty

In *Progress and Poverty* George argued that the lowest class of society did not generally share the fruits of economic and technical progress. There is a meaningful sense in which Marshall shared George's concern for this pauper class, although the tenor of Marshall's comments in his first Bristol lecture was calculated to deflate George's argument. Citing increases in real wages, Marshall argued that living conditions had improved among the British working class during the eighteenth and nineteenth centuries. "On the whole," he calculated, "a shilling now [1883] will purchase nearly as much of the labourers' necessaries, comforts, and luxuries of life as two shillings would then [1803]."⁸ Marshall cited national income statistics to the effect that labor's relative share of total income had also increased, from roughly one-fourth of total income in 1688 to over one-third of total income in 1883.⁹ These facts do not literally contradict George's argument, but Marshall insisted that they placed the problem of poverty in better perspective. He concluded:

Mr. George says that progress drives a wedge into the middle of society, raising those that are above it but lowering those that are below it. If this is true at all, I think it is clear that the great body of the working classes are above the wedge, and that progress is pushing them upwards, though unfortunately at a very slow rate. If there are any whom the wedge of progress is pushing down, it is the lowest stratum of all. The existence of a large pauper class is a disgrace to the age; but there is no use in making even this evil appear greater than it is. Pauperism is the product of freedom. No sensible man gives insufficient food to his horses, and slaves are managed on exactly the same principles as horses.¹⁰

Changes in labor's share of total output over long periods are difficult to measure because of virtually insurmountable statistical problems involved in identifying functional shares of national income.¹¹ Therefore, over time, economic history has often focused on the behavior of real wages. Much of the "evidence" on this issue remains

in the realm of unsupported assertion. However, studies employing the more sophisticated econometric techniques seem to support Marshall's claim that real wages were increasing during the eighteenth and nineteenth centuries.¹² Since modern Georgists have generally conceded the weak empirical foundations of George's premise, the issue retains little more than historical interest. Nevertheless, Alfred Marshall was an economist who had a reputation for "getting his facts right," and his opinion of other economists was undoubtedly colored by whether or not they did the same.

Lemma 2: High Rents Cause Low Wages and Interest

The *theory* of income distribution—as against the historical change in relative shares—affords a more substantive issue on which to compare George and Marshall. George's criticism of the wages-fund doctrine was extensive and cannot concern us here in all its detail. Much of it was "empty" in the sense that George's rendering of the doctrine simply does not stand up to a careful reading of the classical economic literature. Still, almost from its inception the doctrine was subject to much confusion—a situation greatly exacerbated by John Stuart Mill's eleventh-hour "recantation" in 1869.¹³ Taussig captured the significance of George's role in the lengthy controversy when he wrote:

As to the wages fund doctrine, George's attacks are chiefly significant of the ease with which the old statements could be shaken, and of their failure to put in any clear light the basis of truth and fact on which the doctrine might rest.¹⁴

The basis of truth and fact on which the doctrine rested concerns the following propositions: (1) in advanced, capitalist economies, production is not instantaneous, so that a stock of produced goods must exist at any point of time in order to enable future production to be carried on; (2) the amount of such goods available for the support of labor provides a rough-and-ready measure of the aggregate demand for workers' services; and (3) the "average wage" in the economy will depend on the relationship of the aggregate demand for labor to its aggregate supply (the classical economists used population as a proxy for the latter).

George's criticisms of the *popular* notion of the doctrine were timely and in many respects justified by the failure of economists to clarify the issues involved. However, his reaction was to throw out the (analytical) baby with the bathwater. In other connections, George at least paid lip service to demand and supply. But in this case he ignored the crudely formulated demand/supply framework of the wages fund and made the determination of wages (as a functional share) depend entirely on the behavior of land rents (another functional share). This raises a host of analytical questions. If the determination of one functional share depends on the prior determination of another, which is determined first, and how? George had no problem supplying an answer to these questions because of the primacy of land in his system. Marshall, however, opted for a general analytical framework that would allow all functional shares to be determined on the same principles and more or less simultaneously. He found this framework in the demand/supply apparatus of the received wages-fund doctrine.¹⁵ Marshall's acquaintance with, and respect for, the "ancients" served him well in this regard, and his conviction that analytical progress in economics is the consequence of an evolutionary process is demonstrated in his passionate defense of the intellectual tradition of classical political economy. Still, Marshall did not treat George fairly. He maintained on more than one occasion that there was nothing new and true in George's writings. What he overlooked in George's criticisms of the wages fund was the American's valuable insight that production is a continuous, value-added process rather than the point-input, point-output process assumed by the classical economists. Even though the rigid "yearly harvest" notion of classical economics is not a logically necessary requirement of the wages fund, George may well have been the first writer to explicitly suggest a continuous production function.¹⁶ The ramifications of this notion cannot be fully explored here, but it has proved useful in certain neoclassical developments in economics, notably in the theory of capital.

The analytical differences between George and Marshall are placed in bold relief when one considers the effects of population growth. Given an increase in population, George's theory reasons that the margin of cultivation will be extended (to meet the increased demand

for food), thereupon land rents will rise and average wages will fall. In a related argument, George also asserted that the increased settlement accompanying population growth will further drive rents up and wages down. Without the rudder of a supply-demand apparatus to guide it, George's analytical ship literally runs aground. The primacy of land is complete and total. For George, changes in the nonland shares of income derived from prior changes in the value of land, falling as land values rise and rising as land values fall.

Marshall's reaction was that this theory confused cause and effect. While lower average wages may accompany economic progress, they are not caused by prior changes in land values. Rather, wage changes are explained by the theory of competitive markets: an increase (decrease) in demand for labor will raise (lower) wages, *ceteris paribus*; an increase (decrease) in supply of labor will lower (raise) wages, *ceteris paribus*. It was in his *Principles of Economics* (1890) that Marshall gave the fullest expression to the theory of competitive markets, but the outline of this theory was already present in his lectures on *Progress and Poverty*. Thus Marshall wrote:

the great law of distribution is that the more useful one factor of production is, and the scarcer it is, the higher will be the rate at which its services are paid. . . . if the numbers of unskilled labourers were to diminish sufficiently, then those who did unskilled work would have to be paid good wages.¹⁷

The theory of competitive markets is more general and heuristically more appealing than George's land-based theory, and Marshall used it to expose some of the economic fallacies in George's analysis, such as George's general "law" that interest and wages are always high together and low together.¹⁸ Marshall argued, correctly, that like the wage rate, the interest rate is determined by the supply of capital relative to the other factors, so that "whenever population is plentiful and capital scarce, interest is high and wages low."¹⁹

Once such analytical differences between George and Marshall are exposed, their policy differences take on new perspective. Since George saw higher land rents essentially crowding out labor's share of income, he derived a policy to eliminate those differential advantages of land that produced higher rents. For his part, Marshall emphasized policies that would have the effect of raising the demand for

labor or of reducing its supply. The hope of the poor, he felt, lay in increasing their productivity as workers or in restricting their numbers relative to the other factors of production. In a general sense, Marshall seemed to believe that poverty could be “educated” out of existence.²⁰

Lemma 3: Land Rent Is a Monopoly Price

Even though most economists no longer hold the notion that land rent is a monopoly price, there is established precedent in the history of economic thought for doing so. The idea was conveniently stated by Adam Smith, whose conclusion that “the rent of land . . . is naturally a monopoly price”²¹ was based on an observed conflict between his own theory of competitive markets and the actual existence of ground rents. The theory of competitive markets asserted that the long-run equilibrium price of each good and each economic resource was determined by its average cost of production. In its natural state, however, land was regarded as a free gift, namely, a resource provided by nature having literally zero costs of production. By Smith’s value theory, therefore, the rent of land should have been zero. Since this contradicted experience, Smith concluded that land must be supplied under conditions other than those of competition. That is, rent must be a monopoly price. He went on to infer that as a monopoly price, rent was not a payment necessary for production to occur. In this way, classical rent theory made land rent eminently suitable for taxation.

Ricardo advanced the classical theory of rent by adding the principle of diminishing returns. But he also recognized that the value of land does not depend on the amount of labor expended on it, and to reconcile this fact with his empirical labor theory of value,²² he regarded land as a special agent of production. Subsequent treatments of value in classical economics generally deferred to Smith or Ricardo, thus reinforcing the notion that land is a unique factor of production, and that payment for it is not an economic cost.

This classical view of land rent ceased to be dominant once it was generally recognized that land commonly has alternative uses. For then a payment (in the form of opportunity costs) must be forth-

coming in order to secure land for a particular use, and this payment is a necessary economic cost of production. George did not seem fully aware of the analytical subtleties involved here: he clung to the classical conclusion that land rent is not a necessary cost, while simultaneously discarding the classical assumption that land has no alternative uses. Yet his two positions are mutually exclusive, as demonstrated by the logical structure of economic theory.

There is another sense in which George exceeded the limits of classical rent theory: he rooted his own doctrine of rent in ethics rather than in economics. Undoubtedly a large measure of George's popular appeal, in his day as well as our own, stems from his knack for combining economic analysis with moral outrage. But George's ethics often intruded on his economics, leaving certain strictly economic issues muddled in a wake of passionate declamation. One example of this concerns the very issue of land rent as a monopoly price. In *Progress and Poverty*, George asserted:

The value of land does not express the reward of production. . . . It expresses the exchange value of monopoly. And the value of land expressing a monopoly, pure and simple, is in every respect fitted for taxation. That is to say, while the value of a railroad or telegraph line, the price of gas or of a patent medicine, may express the price of monopoly, it also expresses the exertion of labor and capital; but the value of land, or economic rent, . . . is in no part made up of these factors, and expresses nothing but the advantage of appropriation.²³

There are really two separate issues in this passage that deserve consideration. The first is the strictly moral issue of land ownership and its legitimacy. Because George's position on this topic is discussed in a later section of this paper, let us pass over it for the moment. The second issue concerns the question of whether or not land is supplied under conditions of monopoly. From an economic standpoint, George used the term *monopoly* loosely, as did most thinkers in the classical tradition. He did not bother to distinguish between monopoly and ownership, so that his writings frequently gave the impression that exclusive ownership is a necessary *and* a sufficient condition for monopoly. Yet the difference between monopoly and ownership is one of substance. Monopoly is a *market* phenomenon. It refers to the absence of actual or potential rivalry in the sale of

goods. Ownership is a *legal* phenomenon that refers to the right to use (or not use) resources. Ownership can be absolute—which means that the owner's choice of how a particular right will be exercised dominates the decision process that governs actual use. But even absolute ownership does not necessarily imply monopoly. Absolute ownership can be diffuse or concentrated. Diffuse ownership is conducive to competition, whereas concentrated ownership is conducive to monopoly. The reason concentrated ownership conveys monopoly power in the marketplace is that it enables the owner to restrict the number of substitutes for the monopolized resource. Thus, if individual A owns one square block of French Quarter land in New Orleans and there are forty-nine other blocks of French Quarter land owned by forty-nine other owners, A can exclude others from using his block, but there is no meaningful sense in which he has a land monopoly, since there are forty-nine reasonably good substitutes for his block. If, on the other hand, A owned all fifty blocks of French Quarter property, he would have an effective monopoly to the extent that only imperfect substitutes exist for the said property.

George was not sympathetic to this view because he tended to define land in terms of location instead of in terms of use. The reason he could argue that taxation of economic rent cannot diminish production is that he held the supply of land to be perfectly inelastic. This view is correct only insofar as land is defined in terms of location. Given the fixed location of individual parcels of land, there can be no real supply response to changes in the price (i.e., rent) of each parcel. But if land is defined in terms of its *use*, higher rents will call forth additional supply as long as each plot of land has alternative uses. Marshall seemed to be aware of this last point and he therefore saw a degree of competition in the supply of land that George would not admit, possibly because George insisted in classifying every product or resource not according to its economic function but according to whether or not it was the product of labor and capital. In their Oxford confrontation, Marshall attempted to get George to see that as long as land has alternative uses and many owners it comes to be supplied under conditions approaching competition. That is, a number of available, but not perfect, substitutes exist for each plot of land in a specific use, so that the buyer of land is not

at the mercy of any one seller. However, the argument was lost on George. He continued to assert that land rent is a monopoly price, citing Adam Smith as his authority.²⁴

In his *Principles*, Marshall raised other objections, although indirectly, to George's characterization of land rent as a monopoly return. Marshall admitted that land rent was monopolistic to the extent that it represented a return to the uniqueness of location or fertility. But the observed value of land commonly includes the reward to foresight and, since foresight comes under the broad rubric of entrepreneurial talents, its reward may be economically justified. The difficulty of separating that portion of rent that represents the return to foresight from that which represents the return to uniqueness appeared insurmountable to Marshall, and he felt that George had overstated his case by identifying rent purely and simply as a monopoly return. He was either unaware of, or chose not to recognize, George's proposal to allow landowners to retain part of their annual rent as a sort of "agency fee."²⁵

Lemma 4: Land-Value Taxes Stimulate Production

The exclusive ownership of land raised another Georgian bugbear: land speculation. George's attack on land speculation was two-pronged. First, he based his theory of business cycles on the proposition that the speculative advance of rents that accompanies economic development drives down the earnings of labor and capital, thus producing industrial depressions. Second, speculators generally hold land out of use, thereby curtailing production. The first conclusion is based on a questionable theory of income distribution, which Marshall made an earlier point of attack. As we have seen, Marshall argued that high or low ground rents do not of themselves cause income fluctuations; instead, these fluctuations are the outcome of changes in the demand and/or supply conditions of the agents of production.

George's second argument was of more concern, and in his *Principles* Marshall admitted that "antisocial" forms of speculation posed a potential threat to economic progress. Yet he saw a side to speculation that George never acknowledged:

It has been well observed that a speculator, who, without manipulating prices by false intelligence or otherwise, anticipates the future correctly; and who makes his gains by shrewd purchases and sales . . . generally renders a public service by pushing forward production where it is wanted, and repressing it where it is not: but that a speculator in land in an old country can render no such public service, because the stock of land is fixed. At the best he can prevent a site with great possibilities from being devoted to inferior uses in consequences of the haste, ignorance, or impecuniosity of those in control of it.²⁶

Marshall thus shared George's distrust of speculators, but unlike George, he was not willing to condemn all land speculation out of hand. In fact, he thought that great harm usually came from "hasty attempts to control speculation by simple enactments."²⁷

In any event, Marshall never regarded land speculation as a main issue of George's analysis. More fundamental was the question of whether a Georgist program would stimulate production and economic growth or merely redistribute income. George defended the first proposition; Marshall the latter. Marshall noted:

I do not say that the working classes would not be better off if those who had become owners of land would distribute its rent among the rest. What I say is that this would not make much difference. The diminishing productiveness of the free soil has a greater influence in lowering wages than the payment of rent fees. But even this has not a very important influence. So long as the population is not excessively thick, it is counterbalanced by the advantages for manufacturing and other purposes arising from the closeness of population. It need not make wages fall if the efficiency of the population can be kept up.²⁸

Marshall followed this with numerical estimates of national income, showing that in the year 1883 the transfer of taxes from labor and capital to land would have amounted to a per capita saving for workers of "less than a penny in the shilling on their income."²⁹ On the other hand, he estimated the social costs to be enormous:

For the sake of this [meager gain] Mr. George is willing to pour contempt on all the plans by which working men have striven to benefit themselves; he is willing arbitrarily to bring to ruin numberless poor widows and others who have invested their little all in land; he is willing to convulse society and run the dangers of civil war; and he is willing to run the risk of driving away capital and business ability so that their aid in production cannot be got by labour except on most onerous terms.³⁰

Possibly these remarks were calculated to strike terror in the hearts of the laborers to whom Marshall was speaking and who were, in his view, most susceptible to George's arguments. Nevertheless, they do not represent Marshall at his best. He did not bother to explain why George's tax program would have the above consequences, and in this respect he did not measure up to John Stuart Mill, who signaled the adverse allocative effects to be expected from a restructuring of property rights.³¹ We must recall, however, that Marshall did not choose to publish these lectures—probably because he recognized his performance therein as in many respects mediocre.

Ultimately, the question of whether or not a general land-value tax will lead to an increase in production remains problematical. It is not, however, crucial to a defensible neo-Georgist position on taxation. Given existing property rights, a sufficiently strong argument in favor of a land-value tax is the analytically sound proposition that such a tax does not disturb production and consumption as much as other kinds of taxes. Marshall himself continued to affirm this proposition throughout his professional career.³²

Land Tenure, Property Rights, and the Nature of Rent

George explicitly grounded his theory of taxation in the ethics of ownership. He argued that ownership is legitimate only if the property claimed as one's own was the product of human labor. The uniqueness of land, for George, is that it is *not* the product of human exertion, and therefore its value should accrue to the community. The labor theory of ownership thus provided the ethical foundation of George's single tax. It should be noted, however, that among land reformers, George was one of the most conservative. In order to secure the ownership of capital improvements already in place, and so as not to discourage future improvements, he would preserve, pro forma, existing property rights in land. The *benefits* of private property would nevertheless be transferred from individuals to the community.

Marshall's ethical presuppositions were much less obtrusive. Nevertheless, his explicit statements on property rights present some clues to his attitude. In the following passage, for example, Marshall almost seemed to have George in mind:

The rights of property, as such, have not been venerated by those master minds who have built up economic science; but the authority of the science has been wrongly assumed by some who have pushed the claims of vested rights to extreme and antisocial uses. It may be well therefore to note that the tendency of careful economic study is to base the rights of private property not on any abstract principle, but on the observation that in the past they have been inseparable from solid progress; and that therefore it is the part of responsible men to proceed cautiously and tentatively in abrogating or modifying even such rights as may seem to be inappropriate to the ideal conditions of human life.³³

This passage betrays Marshall's conviction that sudden economic and social change is suspect, but it does not provide much in the way of an ethical theory of property. This was undoubtedly intentional on Marshall's part, for where George was concerned he wished to focus attention on the economic rather than the ethical aspects of land tenure.

On strict economic grounds, the differences between George and Marshall on this subject were mainly taxonomic. The incidence of a land-value tax was treated by Marshall in much the same way as George had done. Moreover, Marshall's discussion of rent was bifurcated in a way that George might have found congenial if he had fully understood it. Rent is a surplus, Marshall argued, but land rent is merely one form of a more general genus. All economic surpluses are explained by either scarcity or differential advantages. There is dissimilarity between land and the other agents of production insofar as land is a permanent and fixed stock—at least in old countries. But there is similarity, Marshall maintained, insofar as some of the other agents of production cannot be produced quickly, so that in the short run their stock is practically fixed. The short-run payments to nonland factors of production (Marshall's "quasi-rent") therefore stand in the same relation to the value of the products they produce as does land rent to the value of the products produced by land.³⁴ On the other hand, differential advantages may persist in the long run, and such advantages of situation or fertility are often the result of the growth and dispersion of population or of industrial development. Marshall termed this part of the annual value of land (the result of human action, but not of the individual landholder) its "public value," and he argued correctly that this rent could be taxed away without adverse effects on production or consumption.³⁵

In recognizing land's public value and in insisting that land is unique among the factors of production, Marshall stood closer to George than he does to modern neoclassical economists. However, Marshall was careful to set forth certain *obiter dicta*. He made the helpful distinction between the supply of land in the aggregate and the supply of land for a particular use; and he investigated the effects of a land-based tax on each. While the aggregate supply of land is (perfectly) inelastic, the output from land (e.g., living units) is not, even though it is subject to diminishing returns. The effects of a tax on land therefore depends on whether it is a tax on the general capabilities of land or a tax on a particular use. Marshall argued that a tax on the value of output from land may have the effect of deterring improvements. He wrote:

If an improved method of cultivation develops latent resources of the soil so as to yield an increased return much in excess of what is required to remunerate the outlay with a good rate of profits; this excess of net return above normal profits belongs properly to true rent: and yet, if it is known, or even expected, that a very heavy special tax on true rent will be made to apply to this excess income, that expectation may deter the owner from making the improvement.³⁶

This argument does not necessarily undermine George's tax proposal, but it does place a heavy burden on the technical expertise required to separate, administratively, "true rent" from aggregate rent payments, and the "public value" of land from its "private value." Marshall reserved the latter term for the part of rent that can be traced to the work and outlay of individual landholders.

For his part, George argued that the whole of true rent is a community value. He recognized what Marshall called the "private value" of land, but he insisted that this be classified under interest rather than under rent. He further concluded that after long periods of time this "private value" becomes "public." His examples are of swamps drained or of hills terraced by the ancient Romans.³⁷

This taxonomic difference regarding the nature of rent led to an impasse between George and Marshall on the matter of compensation. George was adamant that compensation be denied, since to allow it would be a violation of the labor theory of ownership. Marshall meanwhile insisted that landowners be compensated in the amount of the private value of land.³⁸ The compensation issue thus

presents a curious example of how debates over taxonomy and terminology (however necessary in the development of science) sometimes serve to impede mutual understanding, and possibly even the pace of analytical progress.

It should be emphasized that Marshall often spoke in favor of land-value taxation and changes in land tenure. The most startling revelation in this regard is found in his lectures on *Progress and Poverty*. There he qualifiedly endorsed a plan whereby all land would become the property of the state after one hundred years. Under this plan the state would sell the usufruct of the land for one hundred years, thereafter taking it for public use, or again selling the usufruct with any new contractual conditions deemed desirable by the public. The advantage, Marshall noted, was that the plan would enable adopting countries "to dispense with the tax-gatherer."³⁹ This endorsement presents a genuine puzzle for the Marshallian scholar. It provides for a more explicit restructuring of property rights than even George proposed, while revealing none of Mill's awareness of the dangers to economic incentives inherent in such a plan.⁴⁰ Marshall must have thought better of the idea, for he never returned to it at a later date. But the fact that he entertained the notion in 1883 shows how far he was willing to accept change in land tenure even while simultaneously denouncing George's program.

Marshall was more guarded when he wrote for the record, but he held out the prospect of land reform again in his *Principles*. There he wrote:

From the economic and from the ethical point of view, land must everywhere and always be classed as a thing by itself. If from the first the State had retained true rents in its own hands, the vigour of industry and accumulation need not have been impaired, though in a very few cases the settlement of new countries might have been delayed a little. Nothing at all like this can be said of the incomes derived from property made by man.⁴¹

Finally, Marshall supported Lloyd George's budget of 1909, with its proposals for taxing land values. In a letter to the *Times* (16 November 1909), Marshall wrote:

In so far as the Budget proposes to check the appropriation of what is really public property by private persons, and in so far as it proposes to

bring under taxation some income, which has escaped taxation merely because it does not appear above the surface in money form, I regard it as sound finance.⁴²

It would appear, therefore, that not only did Marshall follow with interest the lively subject of land reform; he seemed never to have lost hope that meaningful land reform would be accomplished. The question of what reform meant to Marshall is, however, ambiguous. To Mill it meant stronger land tenure, namely, the widest possible distribution of property rights. By contrast, Marshall at least flirted with the idea of state ownership of land.

Conclusion

Despite the fact that he regarded sudden change pernicious, Alfred Marshall was not opposed to land-value taxation on economic or ethical grounds. What he attacked most vehemently was the Georgist notion that under nineteenth-century systems of land tenure, poverty was the inevitable result of progress. For Marshall, history and sound logic denied this proposition, as it did other crucial points in George's advancement of "reforms" under the aegis of economics, which in the more "scientific" state to which Marshall was seeking to raise it, did not support George's conclusions. Marshall's complaint against George can therefore be best appreciated as the defense of a professional economist against attacks on the integrity of his discipline. Marshall made this plain enough in his lectures on *Progress and Poverty*, although his remarks have usually been dismissed as mere intellectual snobbery. He called George "a poet, not a scientific thinker," amplifying his meaning a bit later by declaring that George "was not a man of science because he said erroneous things."⁴³ While these remarks could just as easily be overemphasized as underemphasized, I submit that they reveal Marshall's candid evaluation of George. There is, of course, no reason why Marshall should have felt personally threatened by George or his popularity, and I do not think that he did feel so threatened. George's shortcomings as an economist were obvious to Marshall, and he considered them serious. In Marshall's eyes, George argued from weak or invalid empirical

premises; he stumbled badly at several points in his analytical structure; he was insensitive to the long-run implications of economic change; and most important, he did not seem mentally equipped to handle the theory of competitive markets, which was to Marshall the essence of economic analysis.

Recent investigations of Marshall's social thought have focused on Marshall's personal traits as the source of his aggressiveness toward George. Anastasios Petridis has underlined Marshall's personal sensitivity to criticism of economics (which George freely supplied); his abhorrence of controversy; and his strong distaste for socialism (with which he associated George).⁴⁴ Rita Tullberg has cited Marshall's "obsessive fear of change"⁴⁵ as a source of resistance. There is no doubt that Marshall was hostile, and that each of these claims has some degree of validity, but nevertheless they both seem to miss the essence of the entire Marshall-George episode in the history of economic thought. I believe that the explanation offered here accords more with Marshall's accepted stature in that history. For while historians of every stripe may be more prone than others to hero-worship, the *choice* of heroes is not a random process. Marshall has received a higher place than George in the common list of heroes simply because in the minds of the "faithful" in the discipline, he was a better economist.

George was a social reformer whose commitment to economics seemed to his critics to be of smaller consequence than his zeal for reform. By contrast, not even the severest of Marshall's critics questioned his commitment to economics. Marshall saw economics as a powerful tool for effecting meaningful and lasting improvements in the quality of life. In many respects, his zeal for social reform matched George's, and his own economic thought pushed him toward much the same kind of policy that George advocated. Therein lies the irony of the Marshall-George episode in the history of economic thought. For Marshall refused to accept George's organon. Marshall insisted that to be truly and lastingly useful, economics must be built on rigorously thoughtful theoretical foundations. George, he felt, had moved too hurriedly, and had consequently built on sand. For his part, George (and others) interpreted Marshall's hostility as intellectual snobbery, and responded predictably. But to Marshall the issue

cut much deeper. Against George, he spoke out in defense of scientific method and professional integrity.⁴⁶

George's influence was nevertheless wide ranging. On the one hand, he was claimed as a champion by the Fabian Socialists (the kind of influence Marshall should have welcomed). His pregnant suggestion of a continuous production function seems to have been ignored, but the idea resurfaced in later economic literature. F. W. Taussig, a frequent critic of George, wrote that "the stimulating effect of his writings on economic discussion during the last twenty years is too obvious to need mention."⁴⁷

It has not been the purpose of this chapter to defend either Marshall or George in a debate that is now a century old. The chief aim of this inquiry has been to shed light on the nature and essence of the disagreement between the two. There was no real debate between them in any meaningful sense. Marshall's lectures on *Progress and Poverty* were not published during his lifetime nor during George's. Obviously, therefore, George could not "respond," and the attack remained somewhat one-sided. But the nature of the disagreement between the two antagonists, however late revealed, raises questions concerning the scope and method of economics that are still alive to controversy. The reader will have to decide for himself whether or not George and his analytical system fit the mold in which they were cast by Marshall. He must decide, too, the import of Marshall's criticisms. He would do well, however, to reflect on the historical record. George stirred the emotions of the general public in his day and was very popular with a certain segment of the population. At the same time, Marshall's influence impacted with great force upon the appointed guardians of the "new" science of economics. Marshall had perhaps as little impact in George's sphere of influence as George had in Marshall's. Possibly this reveals much about the stuff of which heroes are made, and about the people who make heroes of particular individuals.

Notes

1. E. P. Lawrence, *Henry George in the British Isles* (East Lansing: Michigan State University Press, 1957), p. 8.

2. Alfred Marshall, *Industry and Trade* (London: Macmillan, 1919), p. vii; also Rita McWilliams-Tullberg, "Marshall's 'Tendency to Socialism,'" *History of Political Economy* 7 (Spring 1975): 75–111; also Talcott Parsons, "Wants and Activities in Marshall," *Quarterly Journal of Economics* 46 (November 1931): 101–40.

3. See [Ronald Coase], "Three Lectures on Progress and Poverty by Alfred Marshall," *Journal of Law and Economics* 12 (April 1969): 184–226.

4. Upon Arnold Toynbee's sudden demise in 1883, Marshall left Bristol College to assume the historian's duties at Oxford, which included a lectureship to the Indian Civil Service Probationers at Balliol.

5. Alfred Marshall to Henry Foxwell, 22 July 1883. Reprinted in J. K. Whitaker, *The Early Economic Writings of Alfred Marshall, 1867–90* (New York: The Free Press, 1975), 1: 24–25.

6. Three weeks after his last public lecture on George, Marshall enthusiastically wrote to Foxwell: "I am looking forward to nearly 6 months almost uninterrupted work on my book. I shall not spare the time that would be wanted for publishing my lectures on Progress & Poverty." Whitaker, *Early Economic Writings*, 1: 86.

7. As reported in [Coase], "Three Lectures," pp. 217 ff.

8. *Ibid.*, p. 188.

9. *Ibid.*, p. 187.

10. *Ibid.*, p. 188.

11. For a review of economic research in this area and a discussion of some of the statistical problems involved in measuring functional shares of national income, see Irving B. Kravis, "Income Distribution: Functional Shares," *International Encyclopedia of the Social Sciences*, ed. D. L. Sills, 8: 132–43.

12. See E. H. Phelps Brown and S. V. Hopkins, "Seven Centuries of the Prices of Consumables, Compared With Builders' Wage Rates," *Economica*, n.s., 23 (November 1956): 296–314.

13. J. S. Mill, "Thornton on Labour and Its Claims," *Fortnightly Review* 29 (1 May 1869). For a perceptive analysis of the issues and substance of the doctrine as well as Mill's role in its formulation, see R. B. Ekelund, Jr., "A Short-Run Classical Model of Capital and Wages: Mill's Recantation of the Wages-Fund," *Oxford Economic Papers* 28 (March 1976): 66–85.

14. F. W. Taussig, *Wages and Capital* (1896; reprint ed. New York: Augustus M. Kelley, 1968), p. 289.

15. Marshall criticized Mill for "putting his main theory of wages before his account of supply and demand, . . . [thus] cut[ting] himself off from all chance of treating that theory in a satisfactory way" (Alfred Marshall, *Principles of Economics*, 8th ed. [London: Macmillan, 1964], p. 678). Charles Collier (Henry George's System of Economics: Analysis and Criticism, Ph.D. dissertation, Duke University, 1976, p. 185), has recently complained that Marshall

emphasized supply factors to the exclusion of demand. Strictly speaking, this charge is inaccurate, although in his lectures on George, Marshall was preoccupied with the supply side. In this he was trying to restore balance to the classical doctrine of the wages fund, which, he felt, "laid excessive stress on the side of demand for labour, to the neglect of the causes which govern its supply" (*Principles*, p. 452).

16. Henry George, *Progress and Poverty*, 75th anniversary ed. (New York: Robert Schalkenbach Foundation, 1954), pp. 65, 74. I am indebted to R. B. Ekellund, Jr. for directing my attention to this aspect of George's writings.

17. [Coase], "Three Lectures," p. 193.

18. George, *Progress and Poverty*, p. 223.

19. [Coase], "Three Lectures," p. 195.

20. *Ibid.*

21. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (New York: Modern Library, 1937), p. 145.

22. This phrase is George Stigler's. See "Ricardo and the 93% Labor Theory of Value," *American Economic Review* 48 (June 1958): 357–67.

23. George, *Progress and Poverty*, pp. 412–13.

24. [Coase], "Three Lectures," Appendix, pp. 223 ff.

25. George himself did not emphasize this proposal in *Progress and Poverty*, but he does provide for landowners "a percentage of rent which would probably be much less than the cost and loss involved in attempting to rent lands through State agency . . ." (p. 405). Given the context of his remarks it seems that what George had in mind was not a payment to entrepreneurial skill but rather a small incentive payment to prevent abandonment of the land by existing owners.

26. Marshall, *Principles*, p. 359 n. Also see the perspicacious discussion of "constructive speculation" in Marshall's *Industry and Trade*, pp. 250–68.

27. Marshall, *Principles*, p. 598.

28. [Coase], "Three Lectures," p. 196.

29. *Ibid.*, p. 208.

30. *Ibid.*

31. See J. S. Mill, "The Claims of Labour," *Edinburgh Review* 81 (April 1845): 498–525.

32. See Marshall, *Principles*, p. 360; *idem*, *Industry and Trade* p. 825.

33. Marshall, *Principles*, p. 40.

34. *Ibid.*, p. 358.

35. *Ibid.*, p. 360.

36. *Ibid.*

37. George, *Progress and Poverty*, pp. 343, 426.

38. This seems to be the gist of the combined statements in Marshall's *Principles* (pp. 130, 134, 360) and in his earlier lectures on *Progress and Poverty* ([Coase], "Three Lectures," p. 205).

39. [Coase], "Three Lectures," p. 205.
40. See n. 31 above.
41. Marshall, *Principles*, p. 661.
42. Cited in T. W. Hutchison, "Economists and Economic Policy in Britain After 1870," *History of Political Economy* 1 (Fall 1969): 248–49.
43. [Coase], "Three Lectures," pp. 186, 199.
44. Anastasios Petridis, "Alfred Marshall's Attitudes to the Economic Analysis of Trade Unions: A Case of Anomalies in a Competitive System," *History of Political Economy* 5 (Spring 1973): 170.
45. Tullburg, "Marshall's 'Tendency to Socialism,'" pp. 89, 97.
46. On Marshall's assessment of the rewards to integrity in science, see "Some Aspects of Competition" (1890), reprinted in *Memorials of Alfred Marshall*, ed. A. C. Pigou (London: Macmillan, 1956), p. 264. The duties and responsibilities of economists and economics are discussed in "The Old Generation of Economists and the New" (1897), in *ibid.*, pp. 295–311. On the scope and method of economics, see Marshall's *Principles*, bk. 2, chap. 4 and Appendix C.
47. Taussig, *Wages and Capital*, p. 283 n.