

Seeking Institutional Signposts in the Work of Henry George: Relevance Often Overlooked

Author(s): James H. Horner

Source: *The American Journal of Economics and Sociology*, Vol. 52, No. 2 (Apr., 1993), pp. 247-255

Published by: American Journal of Economics and Sociology, Inc.

Stable URL: <https://www.jstor.org/stable/3487068>

Accessed: 15-02-2022 22:00 UTC

---

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact [support@jstor.org](mailto:support@jstor.org).

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at <https://about.jstor.org/terms>



JSTOR

*American Journal of Economics and Sociology, Inc.* is collaborating with JSTOR to digitize, preserve and extend access to *The American Journal of Economics and Sociology*

# Seeking Institutional Signposts in The Work of Henry George:

## *Relevance Often Overlooked*

By JAMES H. HORNER\*

ABSTRACT. When one seeks institutional signposts in works published before the time of *Thorstein Veblen*, *Henry George* is often overlooked. This oversight on the part of institutionalists is understandable given George's emphasis on "natural laws," *individualism*, *religious teachings* and his defense of the *market system*. Orthodox economists have also ignored these signposts as a result of their rejection of *institutionalism*. They have rejected George's work in general because of his attack on the economics profession and his challenge to the status quo. While George is usually not classified an institutionalist, there are, however, definite institutionalist signposts to be found in his work. George recognized the ceremonial and pecuniary nature of the *economics profession* and analyzed the institutional foundation of *property*. Furthermore, George was a *social reformer* and understood the discretionary and normative nature of the *economy*.

### I

#### Introduction

INSTITUTIONALISTS do not claim Henry George as one of their own. George's work in general would be considered teleological and thus removed from the evolutionary approach to political economy. Much of Georgian economics is based on natural laws and religious teachings which institutionalists have challenged since the time of Thorstein Veblen. The evolutionary approach is centered on an analysis of constant change and rejects predetermined ends or finality in economics; yet, a closer look at Georgian economics reveals that his work is more processual (and thus more evolutionary) in nature than is commonly thought. Important institutionalist signposts can be found in the work of Henry George.

\* [James H. Horner, Ph.D., is professor of economics at Cameron University, Lawton, OK 73505.] Helpful comments were received from Kendall P. Cochran, William Dugger, and Nicolaus Tideman. Special thanks go to Joe Horton for inspiring this article. An earlier version was presented to the Association for Evolutionary Economics at the Allied Social Science Association Meetings in New Orleans, January 2-5, 1992.

American Journal of Economics and Sociology, Vol. 52, No. 2 (April, 1993).

© 1993 American Journal of Economics and Sociology, Inc.

One of the most important signposts is the recognition and analysis by George of institutions. Both George and Veblen described the nature of institutions as being habitual forms of behavior and thought. George explored the invidious nature of institutions (especially private property) which would lead to an inequitable distribution of income and wealth and thus ensure the perpetuation of poverty. As Jurgen Backhaus and J.J. Krabbe note, George understood that there are “institutions in society which hold back economic progress.”<sup>1</sup>

George warned of the inclination of orthodox economics to serve as apologetics for an unjust system. Institutionalists from Veblen to William Dugger would later follow in this critique of the economics profession. As a result of this, both institutionalists and George have at best been ignored and at worst been ridiculed by orthodoxy. They are in effect professional outsiders within their own discipline.

Henry George was a social reformer. He was not satisfied with merely describing the unjust poverty of his time; to the contrary, he advocated major social reform of the system. The call by George for reform was later incorporated into the work of John R. Commons and now appears in the neoinstitutionalist work of Marc Tool and Kendall Cochran.

The purpose of this paper is to explore the institutionalist signposts which appeared in the work of George long before the institutionalist school began. The recognition of these signposts should generate an increased appreciation for the relevance of Henry George.

## II

### **The Economics of Henry George**

RENT WAS UNEARNED INCOME to George. People were entitled to keep only that income which resulted from their own labor. It is important to note that George advocated the confiscation of rent and not of land; consequently, he did not favor the nationalization of real property. Private ownership could be tolerated as long as the landowner received the same compensation as the other factors of production—a normal rate of return.

The unearned portion of income in the economy came from the productive forces of the land and the landowner contributed nothing to this process. George advocated a “single tax on land value” that would confiscate the unearned income from the private ownership of land. The tax would “abolish all taxation save that upon land values.”<sup>2</sup> George thought such a tax would still allow the private ownership of land but at the same time eliminate the surplus of landowners.

For George, natural laws were “the immutable will of God” and could not change because of “observation and reason.” The classical school confused “laws of man” with “laws of nature.” For George, the intent of natural order was the equality of men. John Dewey believed that George adopted historical concepts of nature as “a means of expressing the supremacy of ethical concepts” and stated that “I think George was in the right.”<sup>3</sup> George’s concern for equality and ethics in economic analysis which distinguishes him from more traditional economists, is also shared by institutionalists.

As institutionalists emphasize today, George centered his analysis in an interdisciplinary approach. The questions he explored were forced upon him by the subject matter under consideration and not by some disciplinary boundaries that developed at other times and under other circumstances. As Jurgen Backhaus notes, “When George looks at the effects of his ‘remedy’, he takes them up in this order: Effects on (1) production, (2) distribution, (3) individuals and classes, and (4) social organization and social life.”<sup>4</sup>

### III

#### **The Challenge to Orthodoxy**

BOTH HENRY GEORGE AND THE INSTITUTIONALISTS posed a challenge to the normal science of their day as they have questioned the accepted paradigms of economics. George made many enemies in the profession as a result of his outspokenness and his biting attack on classical economic doctrines such as Adam Smith’s wage-fund theory and Malthus’s law of population.<sup>5</sup>

George rejected Malthusian population theory because the problem of poverty stems, not from the miserly “laws of nature,” but rather from the arrangement of social institutions. Malthus did nothing more than provide “the wealthy with a comfortable theory for putting upon the Originating Spirit the responsibility for all the vice, crime and suffering.”<sup>6</sup> The “unjust actions of men” were responsible for these factors and constituted “the black spot of our nineteenth century civilization.” A century later, Thomas DeGregori would refer to these unjust acts as “immoral.”<sup>7</sup>

George rejected the wage fund theory because the real conflict is not between labor and capital as the classical school assumed; instead the private ownership of land is pitted against both labor *and* capital. The increase in productivity from land, labor, and capital will not result in an increase in wages and interest. The gains from productivity will be absorbed by increases in rent at the expense of wages and interest.

In 1877 George presented "The Study of Political Economy" at the University of California in a failing attempt to gain an appointment on the economics faculty. His paper was a scathing attack on the state of economics instruction at American universities. George referred to the "pocket nerves" of the economics profession and the tendency to overlook evidence that contradicted classical theory. He urged students to challenge the theories of the status quo and to pursue their own inquiry. In one of his strongest indictments of the status quo of the academic world, he said:

All this array of professors, all this paraphernalia of learning, cannot educate a man. They can but help him educate himself. Here you may obtain the tools; but they will be useful only to him who can use them. A monkey with a microscope, a mule packing a library, are fit emblems of the men—and unfortunately, they are plenty—who pass through the whole educational machinery, and come out but learned fools, crammed with knowledge which they cannot use—all the more pitiable, all the more contemptible, all the more in the way of real progress, because they pass, with themselves and others, as educated men.<sup>8</sup>

George often charged orthodox economists with being beholden to those of privilege and wealth. He said "if there were any large pecuniary interests concerning the law of gravitation, that law would not be acknowledged to this day. It certainly would not be in universities and colleges."<sup>9</sup>

Thorstein Veblen would later recognize this same tendency. He believed the intrusion of business principles in the university would "weaken and retard the pursuit of learning" which in turn would defeat the purpose of the university.<sup>10</sup> William Dugger makes a similar charge today as he thinks free inquiry is being stifled to placate the privileged class, especially the big donors to universities and colleges. Dugger believes social scientists who participate in free inquiry "are bound to run up against resistance from the corporate interest represented by the non-academic boards."<sup>11</sup>

The plight of George is similar to institutionalists who are rejected today, not only because of the elitism of the profession, but also because of the threat they pose. Both George and the institutionalists have challenged the "ruling class" of economics and suffered the resultant rejection. Warren Samuels recognizes this struggle with the orthodoxy. He asserts that "George's status has been questioned not only out of snobbishness but because he was perceived as being unsafe."<sup>12</sup> Samuels emphasizes that George was rejected because he was a "professional outsider." Institutionalists face similar rejection as they too are considered "outsiders."

#### IV

#### **The Recognition of Institutional Factors**

GEORGE EMPHASIZED the dominating influence of "institutional" factors long before the term was coined by John R. Commons. As Commons himself would

later argue, the ownership of land emanates not from some natural right, but from the institutions devised from human beings.<sup>13</sup> George emphasizes this in *The Science of Political Economy*:

[A]n injustice that impoverishes the many to enrich the few shifts the centers of social power, and thus controls the social organs and agencies of opinion and education. Growing in strength and acceptance by what it feeds on, it has only to continue to exist to become at length so vested or rooted, not in the constitution of the human mind itself, but in that constitution of *opinions, beliefs and habits of thought* [emphasis added] which we take, as our mother tongue, from our social environment, that it is not perceived as injustice or absurdity, but seems even to the philosopher an integral part of natural order, with which it were as idle if not as impious to quarrel with as the constitution of the elements.<sup>14</sup>

Veblen recognized these same habits of thought. He maintained that the twentieth century view of property was “an outgrowth of traditions, experiences, and speculations of past generations.”<sup>15</sup> At any given time and place, the perception of property was determined by the “habitual attitude of men.” Ownership of land depended not on the right of workmanship but on “the ancient feudalistic ground of privilege and prescriptive tenure, vested interest, which runs back to the right of seizure by force and collusion.”<sup>16</sup> Clarence Ayres also identified the ceremonial nature of property when he emphasized the role of status. He notes:

The substance which is perpetuated with modifications in the legal system of industrial society is that of status. . . . This is true even of property, of which, the original (feudal) basis of investiture was by birth, marriage, and death, each of which was the occasion of a sacrament by force of which alone the physical event became ceremonially adequate.<sup>17</sup>

George saw private property as the root of all evil and the greatest impediment to equality. Economic progress would not result in equality as long as there was the private ownership of land. When economic progress did occur, it would bring with it a greater incidence of poverty. Drawing on the ideas of Ricardo, he contended that land values would increase with population and economic growth as more marginal land would be brought into production. Thus, the landowner would profit from the increase in output without a corresponding contribution. Speaking on this matter, George notes:

We have traced the unequal distribution of wealth which is the curse and menace of modern civilization to the *institution* [emphasis added] of private property in land. We have seen that so long as this institution exists no increase in productive power can permanently benefit the masses; but, on the contrary, must tend still further to depress their condition. We have examined all the remedies, short of the abolition of private property in land, which are currently relied on or proposed for the relief of poverty and the better distribution of wealth, and have found them all inefficacious or impracticable.

There is but one way to remove an evil—and that is to remove its cause. . . . *We must make land common property.*<sup>18</sup>

Hence, George was not content to simply recognize the institutional nature of property; he advocated social reform to address the “evil.”

## V

**The Discretionary and Normative Nature of Economics:  
The Drive Toward Social Reform**

PERHAPS the most important institutionalist signpost of George was his recognition of the normative and discretionary nature of economics. George notes that the “great struggle” among humans has always been for the possession of wealth. He then asks: “Would it not then be irrational to expect that the science which treats of the production and distribution of wealth should be exempt from the influence of that struggle?”<sup>19</sup>

George understood that institutional arrangements could result in the deprivation of basic human rights to the social goods required for equality. He believed that all people should have the right to the fruits of their labor. This right was threatened by the private ownership of land—the major source of income and wealth in the day of George. This is similar to the thoughts of Kendall P. Cochran and Marc Tool who argue that no one should be denied the right to the basic social goods as a result of lack of income, or as the result of arbitrary distinctions among people.

The denial of access to the social product is what Veblen and Tool would term an “invidious distinction.” Invidious distinctions are the primary means to deny access to the basic social goods necessary for effective participation in the democratic system. Tool notes invidious distinctions on the basis of “wealth,” “ownership,” “rank,” and “power” lead to social arrangements that confer “esteem and privilege on an elite segment of society” and are capable of “inhibiting or destroying the rights and opportunities of people to gain and use skills and knowledge.”<sup>20</sup>

Cochran makes a similar case when he argues for a more equitable distribution of income. To him, “each *being* is entitled to a share of the currently produced goods and services.”<sup>21</sup> Cochran is making the point that to deny one the access to a certain level of income is to deny access to the basic social goods such as education, medical care, and adequate housing. These services are to be accessible to all regardless of income. This is the equivalent of George’s call for a redistribution of land via the single tax.

Tool and Cochran would argue that a more equitable distribution of income promotes economic stability as well as the assurance that all are able to effectively participate in the economic system. The intended effect is the same—the right

to participate in the good life. Only the medium is different. For the institutionalists, the medium is the right to income. For George the medium was the right to land rent.

## VI

**Conclusion**

HENRY GEORGE has diverse followers. Schools of thought from the right to the left of the ideological spectrum identify with George. The socialist movement in England was more influenced by him than by Marx. Many libertarians claim George as their own. His appeal to the left springs primarily from his attack on the institution of private property. The right is enamored with the idea of a single tax which would curtail an excessive tax burden and consequently limit, to some extent, a perceived excessive power of government.

Considering the eclectic nature of Georgian economics, it is difficult to identify a particular school of thought with George. His commitment to capitalism would preclude the Marxists from identifying with him. George's commitment to social justice should induce the libertarian to take a closer look before identifying with him. The institutionalists could not identify with George as a result of his reliance on spiritual influences and natural order. These different schools of thought can find, however, certain parts of his work to be very relevant for their own research agenda. George's work is of value to all schools of thought in the social sciences.

Institutionalists have for the most part overlooked George's relevance. The possible exceptions to this would be Commons, Backhaus, and Samuels. George has particular relevance for institutionalists. He preceded institutionalists with his analysis of economic process and economic institutions. His writings are replete with institutionalist signposts.

Institutionalism can best be described as being processual rather than paradigmatic. The analysis of institutionalism is evolutionary in nature and is thus concerned with continual change. This requires the study of change as the result of cultural phenomenon and not of natural laws. Although George did concentrate on natural laws, it is possible to find the early evolutionary economics in many of his writings. Jurgen Backhaus emphasizes this when he suggests that George's evolutionary theory could take on "organistic traits."<sup>22</sup>

Institutions become a key element in understanding culture. The analysis of habitual forms of behavior and thought is vital in institutionalist economics. Such an approach to economics must be interdisciplinary in nature. The in-



terdisciplinary approach is shared by George with the institutionalists who came later.

Institutionalism is reform-minded. John R. Commons, who was heavily influenced by Henry George, introduced institutionalists to social reform. As a result, institutionalism has become concerned with those institutions that generate invidious distinctions. These distinctions prevent an equitable distribution of income and as such deny equal access to the basic social goods needed for full participation in the economic system.

The approach of the institutionalist school puts it at odds with the orthodox economic profession. It is this dissatisfaction with orthodoxy that Clarence Ayres argues is the cement that binds institutionalists. Institutionalists are treated as outsiders in their own profession today just as George was in his time. But it was George, not the institutionalists, who was the first to describe the ceremonial nature of the economics profession.

Hans Jensen asserts that the failure of orthodox economists to include institutionalist signposts in their economic works left the task of creating such signposts and developing alternative paradigms to the institutionalists. He also suggests that these institutionalist signposts could have served as “points of departure” for institutionalists.<sup>23</sup> This certainly holds true in the case of Henry George.

Most aspects of George's work were ignored (his quest for social justice) or severely criticized and rejected (“the single tax”) by the economics profession. Had it listened to George and his ideas, economics as we know it might have become a very different subject. The emphasis today might have been on a more equitable distribution of income, social justice, and social reform rather than the maintenance of the *status quo*. Instead, George was discredited and rejected, thereby discouraging many students of economics from concentrating on the institutional nature of the economy.

George recognized the pecuniary nature of the economics profession, stressed the role of institutions in economic analysis (especially in the case of property), understood the normative and discretionary nature of the economy, and sought remedies through social reform. Consequently, his work has relevance for institutionalists.<sup>24</sup> Perhaps Jurgen Backhaus best states the relevance of George for institutionalists:

George comes across as a scholar in the best tradition of political economy. His analysis is motivated by clearly defined social policy problem. He analyzed a problem in order to solve it. He succeeded in designing a solution—his remedy—which relies on an institutional reform. Thus George understood the interdependence between economic processes and the institutional order in which they take place.<sup>25</sup>

**Notes**

1. Jurgen Backhaus and J. J. Krabbe, "Henry George's Contribution to Modern Environmental Policy: Part I, Theoretical Postulates," *American Journal of Economics and Sociology* (Oct. 1991): 488.
2. See Henry George, *Progress and Poverty* (New York: Robert Schalkenbach Foundation, 1955) 406, 427.
3. See the preface to George Geiger, *The Philosophy of Henry George* (New York: Macmillan, 1933).
4. Jurgen G. Backhaus, "Henry George and the Environment," *Journal of the History of Economic Thought* 13 (Spring 1991): 92.
5. Ayres described the economics profession as the only contemporary social studies rooted in the "habits of thought" of the eighteenth century and "so long as the classical tradition persists, no one can neglect its challenge." C. E. Ayres, *The Theory of Economic Progress* (New York: Schocken Books, 1962) xviii.
6. Henry George, *The Science of Political Economy* (New York: Robert Schalkenbach Foundation, 1981)333.
7. Thomas R. DeGregori, *A Theory of Technology* (Ames Ia.: Iowa State Press, 1985)46.
8. Henry George Jr., *Life of Henry George* (New York: Robert Schalkenbach Foundation, 1900)276-8.
9. "The Single Tax Discussion," *American Social Science Association* (Sept. 5, 1890): 85.
10. Thorstein Veblen, *The Higher Learning in America* (Stanford Ca.: B. W. Huebsch, 1918)224.
11. William M. Dugger, *An Alternative to Economic Retrenchment* (New York: Petrocelli Press, 1984)141-2.
12. Warren J. Samuels, "Henry George's Challenge to the Economics Profession," *American Journal of Economics and Sociology* (January 1983): 64.
13. See John R. Commons, *Legal Foundations of Capitalism* (Madison: University of Wisconsin, 1957)52-7.
14. Henry George, *The Science of Political Economy*, 135.
15. Thorstein Veblen, *The Theory of Business Enterprise* (New York: Scribner's, 1935)70.
16. Thorstein Veblen, *Absentee Ownership* (New York: Viking Press, 1938)51.
17. Ayres, *Theory of Economic Progress*, 161-2.
18. Henry George, *Progress and Poverty* (New York: Robert Schalkenbach Foundation, 1955)328.
19. Henry George, *The Science of Political Economy*, xxxix.
20. Marc R. Tool, *The Discretionary Economy* (Santa Monica, Ca.: Goodyear Publishers, 1979), 166 and 295.
21. Kendall P. Cochran, "Tax Implications," Ed. Robert Theobold, *Committed Spending* (Anchor City, NY: Anchor Books, 1969)81.
22. Jurgen Backhaus and J. J. Krabbe, 488.
23. Jensen made this argument about the work of Alfred Marshall. Hans E. Jensen, "Are There Institutional Signposts in the Economics of Alfred Marshall," *Journal of Economic Issues* 24, (June 1990): 405-13.
24. Backhaus and Krabbe (1991) demonstrate the importance of George's evolutionary theory as it applies to environmental concerns in an earlier issue of this journal. The application of that theory will be demonstrated in a forthcoming issue.
25. Jurgen G. Backhaus, 92.