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The Political Economy of Henry George:

Its Ethical and Social Foundations

By JOSEPH HORTON *and* THOMAS CHISHOLM*

ABSTRACT. *Henry George* was the creator of a distinctive system of *political economy* which has a rich ethical and social foundation. George's conceptions of the nature of political economy, of *value*, and of *wealth* have important implications for the analysis of *economic policy*. The same is true of his contention that the laws of *distribution*, no less than those of *production*, are *natural laws*. His hope and optimism for a future of *freedom* and *prosperity* are as important as his approach to economic analysis.

I

Introduction

HENRY GEORGE is best known as the author of *Progress and Poverty* and as an avid advocate of a tax on land values. The tax on the value of land is, indeed, a major contribution and it is generally believed today to have been his primary public policy goal. While this idea should not be neglected, neither should it be allowed to obscure the broader importance of Henry George as a political economist who originated a distinctive system of economic inquiry.

The work of Henry George, although done in the late nineteenth century, is especially relevant to us today when policy oriented economists are once again using the term political economy to designate their special interests. Moreover, George's system of economics is heavily based on moral values and human rights. More and more today, economists, especially those interested in economic policy, recognize that it is not possible to separate economics from a value or ethical base.

Although *Progress and Poverty* was George's first and most widely read book, he wrote five other books and numerous articles and monographs. The two of these which are most relevant to an understanding of Georgian political economy

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are *Social Problems* and *The Science of Political Economy*. *The Science of Political Economy* was published posthumously and was not fully completed. Nonetheless, it gives the fullest and most mature statement of Henry George's approach to economics.

II

The Nature of Georgian Political Economy

THE SCIENCE OF POLITICAL ECONOMY is, according to George, based on natural law in the same sense that physics is based on laws of nature. Both are based on natural law in that there are regularly observable sequences of events in which effect can be derived from cause.

The fundamental law upon which political economy is based is that people seek to satisfy their desires with the least exertion. This is not the same as selfishness or self-interest in any narrow sense. Whether the desires which people seek to satisfy are selfish or generous is not really a matter for political economy. Since observation reveals that people behave both unselfishly and selfishly, selfishness or "economic man" as the basic principle of economics must be rejected. Even if most people usually follow selfish goals, the basic principle of economics, especially if it is to be termed a natural law, should also include an understanding of those who do not.

Although George recognized that some of his own proposals such as government ownership or regulation of natural monopolies would be considered socialistic, he was a vigorous opponent of what we might today call Stalinism and which he refers to as socialism in *The Science of Political Economy*. (7, 198) He views it as dividing humanity into two classes: the directors and the workers. George is always on the side of the workers. He opposes socialism on the grounds that it has no system of individual rights and no limits on what the state may do in restraining individual liberty.

George also objects vigorously to Austrian economics. Originating within a group of economists in Austria, it spread throughout the world. The founders of this school include Carl Menger, Eugene Bohm-Bawerk, and Friedrich von Wieser, contemporaries of Henry George. The best known member of the Austrian school today is Friedrich von Hayek. Murray Rothbard, Israel Kirzner, Tyler Cowan, Laurence Moss, and Karen Vaughn are prominent American members of the Austrian school. George's opinion of Austrian economics is particularly interesting in that his own approach to economics involves elements which are very similar to some modern Austrian ideas. One could almost see the libertarian, natural rights stream of Austrian economics developing from Georgian economics.

George worked in an intellectual atmosphere suffused in social Darwinism. He both breathed that atmosphere and contributed to it. He considered human society and the science of political economy to be products of continuing evolution. He was, in this sense, a precursor of evolutionary or institutional and social economics. His comments about the subservience of higher education to the powerful of society are as caustic as any of Veblen's. He conceived of economics as the search to discover natural laws. The discovery of these laws, including moral laws, would help the institutions of society to adapt thus furthering human progress and eliminating poverty. His message is one of a better future through the moral and institutional development of human society.

George agrees with Adam Smith in defining political economy as "the science which treats of the nature of wealth and the laws of its production and distribution." (7, 301) The laws of the production and distribution of services are the same as those applying to wealth. Given the importance of wealth to the science of economics, George devotes considerable effort to carefully defining first value and then wealth and to examining the relationships between the two.

III

The Nature of Value

GEORGE makes a subtle and appealing effort to relate the labor theory of value to value in exchange. He distinguishes between value in use and value in exchange, and criticizes the Austrians for failing to do so. He then concludes that value in exchange is the correct economic meaning of the term value. He believes that each person has a right to what his or her labor has produced. This is a basic ethical value in George's system. He concludes that value in exchange is the exertion which one avoids by inducing another to take it. Thus "The value of a thing in any given time and place is the largest amount of exertion that any one will render in exchange for it. But as men always seek to gratify their desires with the least exertion, this is the lowest amount for which a similar thing can otherwise be obtained." (7, 249) Value is, therefore, not based on any intrinsic quality or objective standard but only on desire. "Its essential element is subjective, not objective . . ." (7, 251-2) Given the emphasis of modern Austrians on the subjective nature of value and on natural rights it is somewhat surprising that George so disagrees with their predecessors.

George grasps the importance of expectations of the future as determinants of value. This, too, is a concept very similar to that of the Austrians he so despised. (10, 100) This leads George to consider two sources of value, one being production and the other obligation. Thus value may be created by the agreement to undertake labor in the future. George gives bonds and stocks as examples of

value arising from obligations with the value dependent upon expectations. (7, 253–8)

IV

The Nature of Wealth

GEORGE argues that there is no increase in wealth from society's point of view as a result of value created by obligation. (7, 258) All that this does, according to George, is to redistribute existing wealth. It is a claim to wealth, not a net addition to the wealth of society. Value by obligation is the legal authority to command labor.

Wealth to George is the power of rendering service or labor stored up in concrete form. He explicitly rejects things which today are often included in some definitions of wealth. No natural resource—that is, land—can be considered wealth. Only resources which have been changed in form or location by labor may count as wealth. Intellectual abilities or knowledge are not wealth to George. To him wealth is material and is the result of labor working on natural resources. (7, 292) That knowledge does not constitute wealth seems inconsistent with George's version of a labor-exchange theory of value. Surely knowledge can be exchanged for labor, and it is value in exchange, not value in obligation. Moreover, knowledge is accumulated through mental labor. Thus it would seem to be consistent with George's basic ideas to include knowledge as a component of wealth.

Value in obligation may come from impediments which make it more difficult for people to satisfy their desires. It may even come from destroying real wealth. Value from obligation then includes special monopoly privileges, the value of slaves, public pensions, patents, protective tariffs, and land rentals. Many of these values in obligation have the effect of restricting supply, of creating scarcity. George notes that scarcity may be in the interest of the few, but plenty is always in the interest of society because it means that desires may be satisfied with little effort rather than much. Among the things which harm society because they make it more difficult to satisfy our desires are "wars, tariffs, pirates, public insecurity, monopolies, taxes, and restrictions of all kinds. . . ." (7, 268) Governmental restrictions are not, therefore, in the interest of the community.

There is nothing immoral in the desire for wealth. Indeed, no one can increase his own wealth except by doing more for others. Each person is entitled to receive from others the equivalent of the services he renders to them. Thus a person who renders valuable services should receive great services in return. A person who receives more than he provides, however, is a robber. If a rich person is defined as one who receives more than he or she provides to others,

then the rich are robbers and the poor are the robbed. The only way a person can receive more than he provides is if he has the power to compel service without rendering service. (7, 304–7) Unjust poverty is caused by unjust richness. Note that this richness is not wealth since it is based on value in obligation, *i.e.* coercion.

v

Production and Spontaneous Cooperation

GEORGE has an almost Austrian view of the importance of time in the production process. Indeed, he stresses that labor acting through both space and time is essential to the production of wealth. Although it is beyond the scope of this paper, George's theory of the role of land speculation as a causative factor in the business cycle has a resemblance to Austrian malinvestment because of the period of production theory although he does not develop it except in relation to land. (7, 370)

George's economics also has a similarity to Austrian economics in its emphasis on spontaneous cooperation as a result of individual action. This is in opposition to coerced or centrally directed action. He notes that the most that coerced action can do is to add together the physical power of the people involved whereas spontaneous cooperation unites their intelligence. He uses a simple, and he says clumsy, mathematical expression to illustrate the superiority of voluntary, spontaneous cooperation. The productive power of centrally directed cooperation, which he associates with socialism, is equal to the number of individuals, while that of voluntary cooperation is equal to the number of individuals squared. (7, 392–3)

George also touches upon, although he does not develop it fully, the coordination problem. He says that for analytical purposes he ignores the inevitable tendency toward tyranny and oppression of those holding power and assumes them to have human intelligence at its highest. He concludes that the task of coordination is too great for any human intelligence. (6, 394–5)

George believed that extreme productivity increases result from spontaneous cooperation of large numbers of people. This belief led George to what would today be termed a pro-natalist position. He finds a large population to increase production and wealth per capita. He notes those nations most commonly cited as examples of poverty caused by overpopulation, such as India and China, are not in fact the most densely populated nations. Rather, George points out that European countries and Japan, all with high standards of living, are densely populated. He concludes that the earth could as easily support a population of one trillion as of one billion and that concerns about overpopulation are of the

same order as concern about the eventual extinguishing of the sun. (5; 113, 133)

Related to the extent of spontaneous cooperation is trade among nations. In *Protection or Free Trade* George makes one of the most persuasive cases ever produced in favor of free trade. His economic arguments are not novel, but their presentation is as persuasive as any book intended for an educated but non-specialist audience can be. Protection violates the ethical principle against the use of force to prevent people from mutually satisfying their desires. Free trade is an integral part of the overall system which George advocated. He strenuously objects to the case by case approach of many economists both then and now of evaluating the costs and benefits of each possible action.

VI

Distribution and the System of Natural Law

GEORGE opposes the idea that the laws of production are natural laws but that those of distribution are laws of man. (7, 428–9) By distribution George means the distribution of income among the factors of production or workers and the owners of capital and the owners of land.

This portion of George's system is brilliantly presented. He admits that "the distribution of things already in existence, is indeed a matter solely of human will and power." Thus the disposition of artifacts in a pharaoh's tomb is of no consequence for future production. On the other hand, the products of a continuing civilization with productive activity by living people is very different.

If the products of a living civilization are dealt with as grave robbers deal with those of the pharaohs, the result would be poverty, famine and death regardless of human law. The behavior of people would change. As soon as producers saw that what they produced would be taken from them, they would cease producing. This is as surely a natural law as is the law of gravity. (7, 437–8) Here, again, George notes the importance of expectations, time, and the future orientation of production. George goes on to discuss human laws which attempt to fix wages, rent, interest, and prices. In all cases he finds the laws to be evaded or harmful as they attempt to require people to violate natural law.

At this juncture George makes an important point relating to the ethical presuppositions of his economic system. The laws of production are physical laws. Those of distribution are moral laws, but both are laws of nature. Moral laws can not be broken any more than physical laws can be, and the attempt to violate either has consequences. Both types of natural laws are evidence of an originating will, superior to human will. Because it deals with moral laws, political economy allows us to see "that the government of the universe is a moral government,

having its foundation in justice. . . . the Lord our God is a just God.” (7, 451; 3, 372–75) So far as we are aware this is the only argument that economics provides proof for the existence of God, and that God is a just God.

Having established that distribution is a matter of natural law based on an ethical principle of justice, George goes on to consider property. He concludes that the natural law of property is really just a different expression of the law of distribution. This fundamental law of distribution is that the product belongs to the producer. George notes that since land is not produced, there is no producer to whom it belongs. (7, 461) This is the analytical basis for his advocacy of a tax on the value of land while his hatred of poverty provided the passion for this advocacy.

VII

Taxation and Government Debt

GEORGE was knowledgeable of the effects of taxes and of government debt. In some respects he anticipates Friedman and the supply siders. He views the ideal social state as one in which each person receives wealth in proportion to his contribution to the wealth of society. This would provide not “less incentive to exertion than now; there would be far more incentive.” (8, 57)

George notes that the people of one generation cannot borrow from another generation. The resources used to fight the Civil War came from existing wealth, not from some future production. It is physically impossible to force those not yet born to pay for consumption now. George recognizes the possibility of a transferable foreign indebtedness, but says that it does not apply in the case of the Civil War, since that war was financed with internal debt. (8, 76) It is internal debt, not external debt, which George considers in his discussion of the effects of government borrowing.

Public borrowing, to George, allows those who control government to get more money than they can by taxation. It leads to extravagance and corruption. The government, instead of taking from the rich, guarantees that it will use its taxing power in the future to make it profitable for the rich to let the government use some of their resources in the present. Government obtains control over resources now by borrowing from the rich. It promises the use of the power of government taxation to make this lending to the government profitable. The rich hold the public debt. One result of a large public debt, therefore, is a moneyed interest which wants a strong government and fears change, a powerful group on which a “corrupt and tyrannous government can always rely as against the people.” (8, 167) Taxes which are collected so that “the people are bled

without feeling it," (8, 167–8) are the second means of extravagance and corruption in government.

VIII

The Proper Role of Government

WHAT THEN IS THE FUNCTION OF GOVERNMENT in George's economic system? George has two somewhat conflicting principles here. One is "that it is the business of government to do for the mass of individuals those things which cannot be done, or cannot be so well done, by individual action." (8, 177) The other and predominant principle is "The first and main purpose of government is . . . to secure to men those equal and unalienable rights with which the Creator has endowed them." (8, 171)

George was a vigorous opponent of monopolies since these restrict the ability of individuals to achieve their goals with as little effort as possible. He felt that natural monopolies or public utilities should be regulated or owned by the government. Government regulation requiring equal access by all customers and insuring quality of service was a limitation of the liberty of these businesses which George felt was necessary to prevent them from limiting the liberty of their customers.

Moreover, he had a caution for modern advocates of privatization of government services through contracting out. He believes that contracting out leads to greater corruption as contractors attempt to buy influence with government officials. He cites the Post Office as an example in which private companies competing for the monopoly contract would lead to greater dishonesty than direct provision of the service by government. (8, 185)

In his discussion of the influence of small special interest groups George is almost a precursor of public choice theory. In different places he distinguishes between the common interest and the interest of those who gain power in government. He knows that government grants of monopoly power are injurious to the many in small amounts each while being of great benefit to the few. He recognizes that the aggregate harm is greater than the gain of the few. It is the use of government power to restrict the ability of individuals to accomplish their desires. He, therefore, opposes this use of government power.

George's views on banking are similar to those later espoused by Henry Calvert Simons and Milton Friedman in the 100% reserve system. The fractional reserve system allows banks to profit from issuing money which is guaranteed by the government. He distinguishes between "the legitimate business of banking—the safekeeping and loaning of money, the making and exchange of credits," which are the proper functions of business, and the issuance of the medium of

exchange which he would leave to government. (8, 179) There should be no private profit in the issuance of money. Issuing money for profit tends toward excessive issue causing inflation and eliminating the advantage of money with no metal backing. He admits that this has been true of government issued money as well, but there is nothing inherent in fiat money which insures that government issued money will become worthless. He believes government can restrict the supply of fiat money so that it will maintain its value while freeing gold and silver for other uses than monetary backing.

In spite of these very considerable functions which George assigns to government, he argued that government must be kept as simple as possible, as close to the people as possible, and restricted in its functions to those genuinely necessary for the common welfare. (8, 174–175) It must be remembered that even those functions which George assigns to government are for the purpose of insuring the equal rights of all by preventing one person from exercising monopoly power against another. Monopoly power involves unproduced income by restricting the ability of people to satisfy their desires. Indeed, it is income derived by placing obstacles in the way of production.

“Government should be repressive no further than is necessary to secure liberty by protecting the equal rights of each from aggression on the part of others.” (8, 173) This is the fundamental statement by Henry George on the role of government. His basic ideas have a strong free-market or libertarian orientation. “It is not the business of government to make men virtuous or religious, or to preserve the fool from the consequences of his own folly.” (8, 173) He argues that where people call for more laws, the evils they are designed to combat are generally the result of previous legislation. Laws which attempt to legislate morality are counter-productive. People come to confuse legal with moral, and the clever but dishonest person will find a way to stay within the law and use that fact to evade moral opprobrium. “The best use which could be made of our great law libraries . . . would be to send them to the paper mills,” and to greatly reduce the army of lawyers. (8, 173)

IX

Conclusion

HENRY GEORGE was an original thinker who had much to say which is important to us today. His distinctive approach to political economy is especially relevant to those of us who are interested in the rebirth of political economy, of the economic analysis of government policies. George’s emphasis on natural rights and on the laws of economics as natural laws which are also moral laws is more in accord with much of the most recent thinking of economists and philosophers

than it was with that of professional economists in his own day. He struggled to design a system which today would be considered economic democracy and insured the maximum freedom for the individual. George denied neither the importance nor the corruption of government. He insisted that it should be limited to insuring the equal liberty of all. This is to minimize its corruption and to maximize its effectiveness.

George's story of hope and optimism is as important as his approach to economic analysis. Society evolves morally and socially as well as technologically. Through reason, political economists can aid in that development. Political economists can help to show that freedom and prosperity are one and indivisible. His message is that we, too, can contribute to the coming dawn of freedom and prosperity. (1, 2, 4)

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Land Tax Revenue Estimate Updated

PROFESSOR EMERITUS STEVEN CORD (now president of the Center for the Study of Economics, 2000 Century Plaza #238, Columbia, MD 21044) has updated his July 1985 estimate of \$658 billion as the possible revenue yield of 100% tax on land values in the United States. This was based on 1981 data. His newer figure, which is very conservatively calculated using 1986 data, is \$681 billion. Cp. Steven Cord. "How Much Revenue Would a Full Land Value Tax Yield?" *American Journal of Economics and Sociology* 44 (1985): pp. 279-93.

F.C.G.