Henry George and the Classical Scientific Research Program:

The Economics of Republican Millennialism

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ABSTRACT. *Henry George's* classicism was evident in his acceptance of *"hard core" assumptions* inherent in *classical economic analysis,* notably that *rational self-interested behavior* exercised in *competitive markets* maximized economic *welfare.* However, George's *"stage theory,"* the "Law of *Human Progress,*" led him to reject the classical nexus between *social* and *economic welfare.* The emergence of an *exchange economy* improved *efficiency* and economic welfare, but *institutional* changes lagged behind, particularly the redefinition of *property rights.* Consequently, *economic growth* based on *land* as a *private* rather than *public good* widened the gap between economic efficiency and social welfare. Hence George's paradox of *poverty* amidst *progress.* George resolved the equity-efficiency conflict by treating land as a public good. Then, the sale of *monopoly* rights to land through the "*single tax*" on *land rents* captured the difference between the private and social costs of *land use.*

I

Introduction

CONTEMPORARY HISTORIANS of economic thought view Henry George as a late 19th century American classical economist little esteemed by his contemporaries and, until recently, largely ignored by several generations of modern economists.[1] They also recognize George's republican millennialism as a by-product of his economic analysis and its policy imperative, the "single tax". George's millennium was prosperous and just: "Society would . . . approach the ideal of Jeffersonian democracy, the promised land of Herbert Spencer, the abolition of government. . . . as a directing and repressive power."[2]

Although George's millennium was rooted in his classical economics, scholars have ignored the link between George's republican millennialism and his modification of classical economics. This paper will show that George's original vision concerning the causes of poverty and social decay—the monopolization of land—was rooted in Jeffersonian republicanism and manifested itself in George's version of 18th century "stages theory" of socioeconomic development. George's theory, the "Law of Human Progress," led him to modify classical economic analysis. George's modification began with several of the crucial "hard

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core" propositions of the classical "scientific research program" but, of necessity, it eventually manifested itself in a Georgist version of the classical research program involving a revised "protective belt" and "positive heuristic."

As guideposts to understanding the development of George's economics, this paper draws from the methodology of scientific research "programmes" developed by Imre Lakatos in part as an alternative to Thomas Kuhn's theory of progress in science through paradigm shift.[3] According to Lakatos, "All scientific research programmes may be characterized by their *hard core.*" By the methodological decision of advocates of the research program, the hard core propositions are "irrefutable" and not in themselves legitimate subjects for research. Instead, Lakatos argued, it is the "protective belt," a series of specific theories or core supporting ". . . auxiliary hypotheses. . . . which has to bear the brunt of tests and get adjusted and re-adjusted, or even completely replaced, to defend the thus-hardened core." Thus, scientific progress in the research program occurs in the protective belt. The hard core propositions and protective belt are linked by the "heuristics" of the research program, a series of rules or conventions which determine "what paths of research to avoid" (negative heuristic), and "what paths to pursue" (positive heuristic). It is the negative heuristic of a research program which prohibits direct testing of the hard core propositions.[4]

II

George's Vision and His Republicanism

THE VISION which motivated George's work was simple, inspirational, and enduring. It came to George in the lightning flash of revelation, first encountered in the streets of New York, then experienced again by George during a walk through the Oakland foothills: "Like a flash it came upon me . . . the reason of advancing poverty with advancing wealth. With the growth of population, land grows in value, and the men who work it must pay for the privilege."[5] The vision, which changed little from George's 1871 pamphlet, "Our Land and Land Policy" through the writing of his last work, *The Science of Political Economy,* was more than ideology in its pejorative sense. Rather, it was ideology qua "research worker's vision," a "pre- and extrascientific" view of the economic process which spurs the generation of economic hypotheses.[6]

Moreover, George's vision and the millennialism of the "single tax" solution were deeply rooted in Jeffersonian republicanism. In his *Notes on the State of Virginia,* Jefferson said:

> Those who labour in the earth are the chosen people of God . . . whose breasts he has made his peculiar deposit for substantial and genuine virtue . . . Corruption of morals in the mass of cultivators is a phenomenon of which no age nor nation has furnished an example. It is the mark set on those, who not looking up to heaven, to their own soil and industry, as does the husbandman, for their subsistence, depend for it on the casualties and caprice of customers. Dependence begets subservience and venality, suffocates the germ of virtue, and prepares

> fit tools for the designs of ambition. . . . While we have land to labour then, let us never wish to see our citizens occupied at a work-bench, or twirling a distaff.[7]

However, George realized that the Jeffersonian preference for agriculture over manufacturing as the preserver of republican values was inappropriate for late 19th century America. The rise of manufacturing and the receding frontier and public domain was a fact of life. Still, in George's mind the virtuous Jeffersonian republic could survive and prosper through the socialization of rent rather than the socialization of land.[8]

The republican imperative in George's vision–the republic must survive–echoed throughout his work as a choice between the republican millennium or economic armageddon and the triumph of evil.[9] George's "body politic or Leviathan" depended on the "body economic or Greater Leviathan." Infect the latter and you corrupt the former; and "A corrupt democratic government must finally corrupt the people, and when a people become corrupt there is no resurrection. The life is gone, only the carcass remains. . . ." George was convinced that public faith in republican values and institutions had declined, transmuting itself into despair and political cynicism. Civilization was in crisis and ". . . unless a new start is made in the direction of social equality, the 19th century may to the future mark its [civilization's] climax."[10] Without social change, the consequences were inevitable:

> Where that course leads is clear to whoever will think. As corruption becomes chronic; as public spirit is lost; as traditions of honor, virtue, and patriotism are weakened; as law is brought into contempt and reforms become hopeless; then in the festering mass will be generated volcanic forces, which shatter and rend. . . . Whence shall come the new barbarians? Go through the squalid quarters of great cities, and you may see, even now, their gathering hordes! Men will cease to read, and books will kindle fires and be turned into cartridges![11]

Although George believed civilization was the destiny of the human race, civilization in decay was unacceptable. He never romanticized the "savage state" of society, yet George was convinced that just as the poor backwoods farmer was better off than the city beggar, the free, independent and resourceful savage was far better off than the helpless unemployed of industrialized society.[12]

III

Republicanism and Stage Theory

HENRY GEORGE'S REPUBLICAN millennialist vision was manifested in George's stage theory, the "Law of Human Progress." Although examined in the final Book of *Progress and Poverty,* its placement in Book I, Chapters 1 through 7 of *The Science of Political Economy* suggested a significant relationship between George's theory of socioeconomic change and his economic analysis.

Mid-18th century stage theory as found in Montesquieu's *The Spirit of the Laws* (1748) and its subsequent refinement by French and Scottish authors, particularly Adam Smith, postulated the evolution of society through four distinct and consecutive stages. Each corresponded to a unique mode of subsistence, namely, hunting, pasturage, agriculture, and commerce. More importantly, to each mode of subsistence, ". . . there corresponded different sets of ideas and institutions relating to law, property, and government, and also different sets of customs, manners and morals."[13] Stage theory tended to be historicist and perfectibilist in nature. The institutional by-products of the inherent process of development were largely beyond human control; and, progress and perfection occurred simultaneously because each higher stage of development was considered better than the last. Although an important force during the 19th century, after 1800, "four stages theory" was not crucial to the development of mainstream classical economic analysis. Even Adam Smith, a principal contributor to the theory, relegated stage theory to the later chapters of the *Wealth of Nations,* particularly those dealing with defense and justice.[14]

In contrast, Henry George's stage theory was millennial rather than historicist in character. The laws of historical progress were ordained by nature and God. As George said, "The law of human progress, what is it but the moral law?" Moreover, his stage theory was realistic and optimistic rather than perfectibilist in character. The "genesis" of civilization and human progress resided in man's power to think, to relate cause and effect. Thus, advanced stages of society were not better; rather, they were different and potentially beneficial. For example, the American Indian perished because they ". . . lost the strength and virtues of their former state, without gaining those of a higher." Both "degradation" and "advance" were possible outcomes for civilization. "In no race and at no place has the advance of man been continuous." In fact, unlike traditional stage theory, George believed civilization tended towards self-destruction: ". . . the obstacles which finally bring progress to a halt are raised by the course of progress; that which has destroyed all previous civilizations has been the conditions produced by the growth of civilization itself."[15]

But if humanity's god-given intellect was the "genesis" of civilization, it was also its salvation since people can prevent the evil consequences of "human progress" through institutional change: ". . . these evils are not imposed by natural laws . . . they spring solely from social maladjustments. . . ." Consequently, George rejected the view of Spencer and others who believed that "social evils" or differences in civilization were attributable to the differences which "inhere in the individual" rather than the differences which "inhere in the society." Equally repugnant to George was the notion that people's efforts to establish the republican millennium depended on the "hopeful fatalism" of Darwinian selection and survival of the fittest. Under these conditions no reform was possible since, as George concluded, ". . . no change can avail save these slow changes in men's natures."[16]

The predictions of George's stage theory were derived from categories more abstract yet comparable to the traditional stage theory categories of hunting, pasturage, agriculture, and commerce. Since George was concerned with the methods society used to produce wealth, he defined his stages as the three "modes of production"—Adapting, Growing, and Exchanging:

> In the first mode we make use of powers or qualities inherent in all material things; in the second we make use of powers or qualities inherent in all living things, vegetable or animal. But this third mode of production consists in the utilization of a power or principle or tendency manifested only in man, and belonging to him by virtue of his peculiar gift of reason—that of exchanging or trading.[17]

The second and third "modes of production" corresponded to the agricultural and commercial stages of traditional stage theory; however, George's first mode of production encompassed a wide range of activities common to different stages of development from hunting, fishing, and mining to refining, manufacturing, and transporting.[18] Nevertheless, George believed:

> *These modes seem to appear and to assume importance in the development of human society much in the order here given.* . . . In the primitive stage of human life the readiest way of satisfying desires is by adapting to human use what is found in existence. In a later and more settled stage it is discovered that certain desires can be more easily and more fully satisfied by utilizing the principle of growth and reproduction, as by cultivating vegetables and breeding animals. And in a still later period of development, it becomes obvious that certain desires can be better and more easily satisfied by exchange. . . .[19]

Each mode of production in George's stage theory corresponded to a complex institutional framework or as George put it, social growth implied society weaving for itself a ". . . garment of laws, customs, and political institutions. . . ." The base cloth of this institutional "garment" was the "body economic or Greater Leviathan" which ". . . always precedes and always underlies the body politic or Leviathan." Consequently, the nature of the laws and institutions enacted and enforced by the State reflected the "character of the underlying civilization" or mode of production.[20]

Aware that Herbert Spencer failed to explain cyclical social variations in his theory of evolutionary progress, George carefully examined the "causes which forward or retard" the progress of society through the different "modes of production." He discovered the causes of social decay not in the predominantly "adapting" or "growing" modes of production, but in a civilization characterized primarily by "exchanging." An exchange economy was the product of an evolutionary process where man came to recognize that ". . . association in equality is the law of progress." The increased association of men in communities ". . . permits the division of labor and all the economies which come with the cooperation of increased numbers. . . ."[21]

But, paradoxically, civilization's greatest social achievement became its Achilles heel, since George viewed progress through association and exchange as the cause of inequality and social decay. George thought social decay was the inevitable consequence of the "third" mode of production for several reasons. First, growing cooperation, specialization, and the division of labor entailed the growing interdependence and vulnerability of people in society. Second, the "exchanging mode of production" created specialized social functions and its consequent, the formation of a class structure which in itself might promote inequality. Although he did not cite Adam Smith, George's argument was a synthesis and adaptation of Smith's case for government activity as society evolved from the "rude and primitive" to the "advanced state":

> There is a manifest gain in productive power when social growth has gone so far that instead of every producer being summoned from his work for fighting purposes, a regular military force can be specialized; but this inevitably tends to the concentration of power in the hands of the military class or their chiefs. The preservation of internal order, the administration of justice, the construction and care of public works, and, notably, the observances of religion, all tend in similar manner to pass into the hands of special classes, whose disposition it is to magnify their function and extend their power.[22]

George's final argument was the most significant: inequality occurred and progress was jeopardized because of an institutional or cultural lag between the mode of production and the framework of laws, customs, and institutions it created. Although not fully developed by George, his insight was remarkable. In effect, George believed the mode of production changed more rapidly; consequently, the forces which insured efficiency in economic growth—specialization through "association in equality"—exceeded the efficiency of cultural adaptation, or "changes in social adjustments." As George noted: "I mean, so to speak, that the garment of laws, customs, and political institutions, which each society weaves for itself, is constantly tending to become too tight as the society develops." Consequently, their influence continued ". . . long after they have lost their original usefulness. . . ."[23]

Perhaps because of its embryonic form, George chose not to use his concept of "culture lag" to explore the broad spectrum of institutions and their contributions to inequality and social decay. Instead, George focused on one institutional anachronism, private ownership in land. Unlike traditional stage theory where the relative importance of land and its influence on economic growth depended on the existing stage of development, George believed labor and capital always required land. In combination, they "impress upon matter [land] the character of wealth" in all three modes of production. Thus, ". . . the universal law or condition that all material existence, and consequently all production of wealth, requires space." During the hunting, pasturage, and early agricultural stages of development, the common ownership of land was generally recognized. As the concept of property rights evolved in conjunction with the production of private wealth, the concept of private property was, George thought, "easily transferred to land," an acceptable arrangement when "population is sparse" and the "improver and user" of land received the "due reward of his labor." But in the "exchanging" mode of production, private property in land was both inappropriate and unjust; it was a cultural artifact whose time and usefulness had long since passed.[24]

IV

Stage Theory and Property Rights

THE CONTRAST between the concept of property rights derived from traditional as opposed to Georgist stage theory was sharp and pervasive. For example, the classical economic view as typified by Adam Smith abhorred monopoly property rights in commodity markets, yet accepted monopoly property rights in land as a necessary part of growth and civilization. For Smith, the establishment of "an exact administration of justice" by government was a necessary condition for the security of all property and a requisite for continued economic growth. In the early stage of society there was little need for the "magistrate" since "Among nations of hunters . . . there is scarce any property, or at least none that exceeds the value of two or three days labour. . . ." But as society progressed through higher stages, property is accumulated and,

> Wherever there is great property, there is great inequality. . . . The affluence of the rich excites the indignation of the poor. . . . It is only under the shelter of the civil magistrate that the owner of that valuable property, which is acquired by the labour of many years, or perhaps of many successive generations, can sleep a single night in security.[25]

The classical justification for property rights was repugnant to Henry George. Nevertheless, George appreciated the conceptual problems experienced by classical economists, particularly John Stuart Mill, in dealing with private property in land. For example, George thought it was Mill's utilitarianism which locked him into a narrow, contractual definition of private property in land, even though Mill clearly perceived the "essential injustice of private property in land." However, Mill's idea to tax "future advantages" accruing to land, or other prevailing solutions to the land question involving free trade in land and the equal partition of land among heirs to an estate were, to George, palliatives that recognized but did not alleviate the real source of social distress.[26]

Fundamentally, then, the classical economists considered resources–land, labor and capital–and commodities as private goods. A *pure private good* is one in which, for example, A's consumption of commodity X excludes B from consuming commodity X. If X were a *pure public good,* for example, national defense, A may consume X without affecting B's consumption of X. George recognized the concept of a private good and its basis in John Locke's "labor effort" theory of property. As George said: ". . . that which a man makes or produces is his own . . . to enjoy or to destroy, to use, to exchange, or to give. . . . This right of ownership that springs from labor excludes the possibility of any other right of ownership."[27]

However, George rejected the concept of land as a private good. Since all wealth creation in an exchange economy depended upon land, then the property right of individual A to private goods created by labor effort cannot be enjoyed unless A had the ". . . free use of the opportunities offered by nature. . . ." Thus, if land is considered a private good, that is, monopolized, the owner's use excludes individual A by definition. In effect, George argued that land *ought to be* a public good equally accessible to and consumable by all individuals. George's normative position was neither frivolous nor naive. Just as his concept of *private good* was grounded in Locke's "labor effort" theory of property, George's concept of land as *public good* was a 19th century extension of Locke's conditions governing the use of land prior to the origin of money and the emergence of exchange economies.[28]

Henry George's resolution of the social implications of land as a public good is consistent with modern economic theory's resolution of the negative externalities created by the use or abuse of nature's gifts, for example, air and water. If individual A's consumption or production of private goods entailed the "monopolization" or pollution of the air, then, A's exclusion of others from the consumption of "clean air"—the negative externality imposed upon others—can be resolved by either taxing A, or charging A a price—the right to pollute—reflecting the difference between the private and social costs of A's unrestricted use of the air. To George, the monopolization of land was a negative externality imposed on others excluded from the "use of land." After allowances for owner-created improvements, the "single tax" upon land rent resolved the negative externality. Thus, the landowner paid a price to monopolize a public good, a price which reflected the difference between the private and social costs of land use. George's treatment of land as a public good was alien to early classical economic analysis and, as Terence Dwyer has noted, surprisingly modern: ". . . rent reflects net externalities, so establishing private tenure but at the same time collecting the competitively determined economic rent for the public benefit will establish an optimal level of externality."[29]

V

George and the Hard Core Propositions of Classical Economics

HENRY GEORGE'S late 19th century classicism was evident in his acceptance of most of the classical research program's hard core assumptions. Similarly, George's divergence from classicism can be traced to his rejection of classical hard core elements, a rejection based on a concept of property rights in land derived from George's republican millennialism and stage theory.

The following hard core propositions characterized classical economics.[30]

(1) Consumers and producers are rational decisionmakers who know their wants.

(2) Economic activity is motivated by individual self-interest.

(3) More goods are better than fewer goods.

(4) Markets are characterized by competitive equilibria and determinate solutions.

(5) In a world of scarcity, everything has its opportunity cost.

(6) Abstraction and simplifying assumptions are valid tools of economic analysis.

(7) Given perfect knowledge and good government, economic welfare is maximized by competition in markets.

(8) Economic welfare is a good approximation for welfare in general.

VI

Rationality, Self-Interest, and the "Least Exertion" Principle

HENRY GEORGE NEVER QUESTIONED proposition #1. Rational individual behavior resided in human wants and desires: "All human actions . . . are prompted by desire, and have for their aim its satisfaction. . . . whether positive or negative, physical or mental, beneficent or injurious, so . . . is desire the antecedent of action. . . ." Thus, it was the will of people as producers and consumers who, consistent with their wants, altered the material world and created the phenomena of political economy.[31]

The sovereignty of wants in the rationality assumption was consistent with George's belief in proposition #2 concerning the efficacy of economic self-interest. However, evidence in support of the self-interest postulate in George's work was not unequivocal. George had said: "Shortsighted is the philosophy which counts on selfishness as the master of human action."

The "principle of human selfishness" inherent in the concept of "economic man" was not the rationale for rational economic activity. Such abstractions, George thought, produced ". . . a monster, not a man." Yet, in spite of these reservations, George believed "Self-interest is, as it were, a mechanical force—potent, it is true; capable of large and wide results." Moreover, individuals should be ". . . free to seek the gratification of their own desires in the ways that to them seem best. . . ."[32]

George's apparently contradictory views on economic self-interest can be resolved in several ways. For one, George did fear the rise of selfishness and attendant decline of man's natural sympathetic instincts as a prelude to Armageddon and the destruction of republican values. However, George believed this was not a consequence of economic self-interest; rather, as predicted by his stage theory, it was a social maladjustment accompanying the monopolization of land. For another, George distinguished implicitly between legitimate and excessive self-interest. Self-interest was legitimate as long as it ". . . does not interfere with the equal freedom of others. . . ."[33] However, like Adam Smith, George thought government could reduce excessive self-interest by adjusting and strengthening the institutional framework.[34] Finally, George believed the "principle of selfishness" was simply a subset of a benign and more universal proposition concerning human behavior: "The law of human nature which is really the postulate of a true science of political economy is that *men always seek to gratify their desires with the least exertion, whether those desires are selfish or unselfish, good or bad.*"[35]

George's "principle of least exertion" was significant and integral to his versions of several classical hard core propositions.[36] In particular, George's principle was embodied in classical hard core proposition #3, more is better than less or, more goods are better than fewer goods. George's concept was both a maximizing and minimizing principle which reinforced the motive force of economic self-interest. Subjected to the constraint of sacrificed labor effort, people always preferred more goods, or the maximum quantity of goods obtained with the minimum quantity of labor effort expended. Ultimately, George's principle was rooted in the equal "irksomeness" or "disutility" of man's labor, a concept George derived from Adam Smith's "labor command" theory of value:

> Equal quantities of labor, at all times and places, may be said to be of equal value to the laborer. In his ordinary state of health, strength and spirits; in the ordinary degree of his skill and dexterity, he must always lay down the same portion of his ease, his liberty, and his happiness. The price which he pays must always be the same, whatever may be the quantity of goods which he receives in return for it.[37]

VII

Market Equilibrium, Real Cost, and Methodology

HENRY GEORGE'S VERSION of classical hard core proposition #4 accepted unequivocally the competitive equilibria and determinate solutions of both output and resource markets. To begin with, market prices were the necessary consequence of competitive supply and demand:

> The Boston collar manufacturer who pays his girls two cents an hour may commiserate their condition, but he, as they, is governed by the law of competition, and cannot pay more and carry on his business, for exchange is not governed by sentiment.

In addition, if competitive market prices or "values in exchange" reflected what George would have preferred to call "value in toil" or "value in exertion," then, competitive prices were also an "expression of exertion avoided."[38] Consequently, competition and George's "principle of least exertion" insured the lowest possible market equilibrium price:

> Thus . . . the value of a thing in any time and place is the largest amount of exertion that any one will render in exchange for it; or to make the estimate from the other side, that it is the smallest amount of exertion for which any one will part with it in exchange.[39]

Moreover, the competitive dynamic of the "principle of least exertion"—the market rewards "equal exertions under similar circumstances"—prevented disequilibrium prices between related markets and within a given market. For example, since labor and capital were direct and indirect ". . . forms of the same thing—human exertion . . . ," then their equilibrium returns, wages and interest, must reflect, as George stressed, "equal returns to equal exertions."[40] Since George believed equal applications of labor involved the equal disutility of labor, then in equilibrium the average wage return per unit of disutility must equal the average interest return per unit of disutility.

If wages and interest diverged, the quantities of capital and direct labor effort will change; "human exertion" will be directed into the activity yielding the greatest return per unit of disutility of labor effort until equilibrium was restored.[41] Similarly, a disequilibrium price within a given market was unsustainable: "For the higher are wages of any particular kind raised above their normal level with other wages, the stronger are the tendencies to bring them back." For example, a "printer's union" may set "typesetting wages" above equilibrium, but even the strongest union cannot prevent the long run consequences of excess supply.[42]

Henry George's "principle of least exertion" and his recognition that competitive equilibrium prices expressed "exertion avoided" shaped his version of the opportunity cost principle in classical hard core proposition #5. Although aware of the struggle between resource scarcity and the "seemingly illimitable" desires of people, George never measured the real cost of acquiring a given commodity as the amount of another commodity foregone. Inspired by Adam Smith's labor command theory of value, George saw the real cost of commodities rooted more in the disutility of "exertion" or utility of "exertion saved" than in resource scarcity:

> But when I exchange gold for exertion or toil, do I get rid of gold and acquire toil. . . ? Clearly not. No one wants exertion or toil; all of us want to get rid of it. It is not exertion in a positive sense which is the object of exchange, but exertion in a negative sense; not exertion given or imposed, but exertion avoided or saved. . . . Value, in short, is equivalent to the saving of exertion or toil, and the value of anything is the amount of toil which the possession of that thing will save the possessor, or enable him, to use Adam Smith's phrase, "to impose upon other people," through exchange.[43]

Thus George's real cost theory like Adam Smith's labor command theory became a theory of welfare. Given the "irksomeness" or disutility of labor effort, people clearly preferred leisure over work. Consequently, the exchange value of a commodity reflected the opportunity cost of work measured as foregone leisure. Or as George might have put the argument, the price of commodity X or value of wealth owned by individual A is the dollar value of "toil" imposed on others by A, or A's consumption of leisure viewed as "exertion avoided or saved."[44]

Clearly inherent in George's acceptance of classical hard core propositions #'s 1–5, was an implicit recognition of proposition #6. George's use of abstraction and simplifying assumptions as valid tools of economic analysis was remarkably consistent with classical methodology. For George, political economy was not a "moral or ethical" science—a "set of dogmas"—which argued the correctness of a given set of moral preferences; instead, political economy took men's wants and desires as given. Thus, like the physical sciences, political economy sought the causes and consequences of phenomena using a method as abstract and as "exact" as the "science of geometry." Although unable to test the implications of its hypotheses under "artificially produced combinations or conditions," political economy can follow ". . . the deductive method of examination, using induction only to test the conclusions thus obtained." In the place of laboratory investigations, ". . . its most useful instrument is a form of hypothesis which may be called that of mental or imaginative experiment, by which we may separate, combine or eliminate conditions in our own imaginations, and thus test the working of known principles."[45]

VIII

Markets, Efficiency and Welfare

THE HARMONY BETWEEN Georgist and classical hard core propositions is also evident in proposition #7. George accepted the notion that free competition maximized economic welfare assuming good government and perfect knowledge by all market participants. Although he never used the expression "perfect knowledge," still, as noted in hard core propositions #'s 1 and 2 above, George believed knowledge was optimal. Economic self-interest and knowledge of their wants made individuals the best judge of their own best interests. In competitive markets, individual self-interest promoted aggregate economic welfare.

George believed markets in the "exchanging mode of production" were characterized by "spontaneous or unconscious cooperation," a process which increased wealth by correlating the ". . . actions of independent wills, each seeking but its own immediate purpose, and careless, if not indeed ignorant, of the general result." Moreover, as evident in George's versions of hard core propositions #'s 3 and 4, the process of "spontaneous cooperation" in markets working through the "principle of least exertion" promoted *economic efficiency* by insuring, (1) the lowest possible market price, and (2) the equalization of factor rewards within and between resource markets premised on "equal exertions" of "irksome" labor effort "under similar circumstances." The results were efficient and improved economic welfare by promoting economic growth and the accumulation of wealth.[46]

Optimal market results presumed optimal government. For example, government attempts at the "conscious regulation" of a competitive "spontaneous process" reduced economic efficiency since it ". . . inevitably works injury, hindering even what it is intended to help." The only thing that government can do ". . . is to let it alone; to give it freedom to grow, leaving men free to seek the gratification of their own desires in the ways that to them seem best."

George's faith in hard core proposition #7 was evident in his arguments against private monopoly and his belief that institutional changes which removed market imperfections always promoted economic efficiency and welfare. For George, the autonomy of market processes meant that good government was minimal government. However, George's dictum, one shared by virtually all classical economists from Smith through Mill, should not be interpreted as a general argument against government activity. In fact, ". . . the narrow sphere of social life" in which George considered government necessary was quite large. For example, George recognized the need for government regulation of natural monopolies (railroads, utilities) and government provision of a growing list of public services. Moreover, just as Adam Smith paid special attention to government maintenance of his system of "natural liberty," so too the consequences of "excessive self-interest" and the violation of the "equal freedom of others" evoked in George specific government responses, especially the necessary modification of the institutional framework in George's system of "natural liberty."[47]

George's revision of the classical research program in economics began with his rejection of hard core proposition #8. This proposition assumed that economic welfare was a good approximation for social welfare. Consequently, since economic welfare depended on economic efficiency, economic efficiency also promoted social welfare.

In its original form, this proposition threatened the heart of George's Jeffersonian republican imperative. For example, in Jefferson's writings, economic efficiency and social welfare clashed in the perceived social and moral decay induced by manufacturing rather than agricultural based economic growth. In George's republican millennialism, the conflict between economic efficiency and social welfare was a prediction of his stage theory. However, the classical version of hard core proposition #8 ignored the role of traditional stage theory. Instead, social institutions were considered beyond the pale of economic analysis. At best, it was assumed that economic progress involved symmetrical developments in both economic and social institutions.[48]

In sharp contrast to the classical position, asymmetry was the essence of George's "culture lag" concept. Developments in law, customs, and institutions—especially property rights in land—associated with earlier "modes of production" lagged the improvements in economic efficiency associated with the "exchanging mode of production." Although George believed economic welfare was improved by economic efficiency, social welfare depended on both economic efficiency and appropriate institutional growth. Without it, George predicted, economic progress bred conflict between equity and efficiency and created the social byproducts of injustice and decay. George solved the equity-efficiency conflict by treating land as a normative public good and selling ownership rights to land through the single tax on land rents.

In evaluating George's late 19th century classicism, it is important to remember the origins of economic efficiency and social welfare. For example, Terence Dwyer has correctly shown that for George, ". . . the public collection of land rent was a requirement of distributive justice . . ." or what we have termed social welfare. However, Dwyer also believes George's single tax was ". . . a necessity for market efficiency." Once the judgment is made about property rights, a question of distributive justice, ". . . commutative justice will be achieved by free exchanges and the State should not intervene to effect redistribution.. . ."[49] However, Dwyer's analysis overlooks both the implications of George's culture lag concept and George's acceptance of the classical hard core propositions concerning the operation of competitive markets (#4) and their consequence, the maximization of economic welfare (#7). That is, in Henry George's thought, economic efficiency and commutative or exchange justice were independent of distributive justice. The former was a consequence of the "exchanging mode of production"; the latter, or distributive injustice, was the result of culture lag. Thus in a disturbing paradox consistent with George's vision of poverty amidst progress, *markets in the "exchanging mode of production" become through "cooperation and association in equality" more efficient and more just in the commutative sense even as the lag in appropriate institutional growth promotes more economic inequality and distributive injustice*! Consequently, George would have agreed that even the "two cents an hour" paid to female labor by the "Boston collar manufacturer" was an *efficient* price as dictated by the "law of competition." The wage fulfilled the *quid pro quo* requirements of commutative or exchange justice because it reflected the prevailing worth of the "disutility" of labor effort and achieved the condition of factor rewards commensurate with "equal exertions under similar circumstances."[50]

However, economic welfare as measured by an efficient and commutatively just price did not yield social welfare as measured by distributive justice. George would have also agreed that "two cents" an hour was a distributively unjust income caused by the private ownership of land. The subsequent growth of rent at both the intensive and extensive margins created competitive pressures which decreased the reward for "human exertion" in both labor and capital markets.[51] The single tax promoted distributive justice. But the single tax did not make markets more efficient or equitable in the commutative sense; it only made their outcomes more equitable in the distributive sense.

Therefore, Henry George's republican vision of human progress through economic growth presumed the fulfillment of both economic and social welfare. The former was achieved through market competition premised on rational self-interest and the "principle of least exertion." The latter was insured by the single tax on land rents, the price landowners paid to monopolize a public good. Then, and only then, could progress be both just and prosperous for all.

Notes

1. To cite only a few examples of the long overdue recognition of George's work: Aaron B. Fuller, III, "Selected Elements of Henry George's Legitimacy as an Economist," *American Journal of Economics and Sociology,* 42 (January, 1983); Warren J. Samuels, "Henry George's Challenge to the Economics Profession," *American Journal of Economics and Sociology,* 42 (January, 1983); Frank C. Genovese, "An Economics Classic and Plutology," *American Journal of Economics and Sociology,* 43 (October, 1984); Terence M. Dwyer, "Henry George's Thought in Relation to Modern Economics," *American Journal of Economics and Sociology,* 41 (October, 1982); Stuart Bruchey, "The Twice Forgotten Man: Henry George," *American Journal of Economics and Sociology,* 31 (April, 1972). For interpretations of George's work within a classical framework, see Charles Collier, "Henry George's System of Political Economy," *History of Political Economy,*

11 (Spring, 1979); Bernard Newton, "The Impact of Henry George on British Economists," *American Journal of Economics and Sociology,* Part I, 30 (April, 1971); Part II, 30 (July, 1971); Part III, 31 (January, 1972); Michael A. MacDowell, "Malthus and George and the Irish Question: The Single-Tax, Empiricism, and Other Positions Shared by the Nineteenth Century Economists," *American Journal of Economics and Sociology,* 36 (October, 1977); Frank Petrella, "Henry George, the Classical Model and Technological Change," and, "Henry George's Theory of State's Agenda," *American Journal of Economics and Sociology,* 40 (April, 1981) and, 43 (July, 1984). Hereafter cited as "George and Technological Change" and "George's Theory of State's Agenda."

2. Henry George, *Progress and Poverty: An Inquiry Into the Cause of Industrial Depressions and of Increase of Want with Increase of Wealth* (New York: Robert Schalkenbach Foundation, 1979), pp. 455–56. Hereafter cited as *Progress and Poverty.*

3. See Imre Lakatos, "Falsification and the Methodology of Scientific Research Programmes," in I. Lakatos and A. Musgrave, eds., *Criticism and the Growth of Knowledge* (Cambridge: Cambridge Univ. Press, 1970), pp. 91–196; Imre Lakatos, Proofs and Refutations. (I), (II), (III), (IV), *British Journal for the Philosophy of Science,* 14 (1964); Thomas S. Kuhn, *The Structure of Scientific Revolutions,* 2nd. edition (Chicago: Univ. of Chicago Press, 1970). For a concise summary of Lakatos' objections to Kuhn's theory of scientific revolutions, particularly Lakatos' belief that Kuhn's paradigm shift involves the "psychology" rather than "logic" of discovery, see Lakatos and Musgrave, *Criticism and the Growth of Knowledge,* pp. 177–80.

4. Lakatos and Musgrave, *op. cit.,* pp. 133, 132. Author's italics. Economists in particular have found the Lakatosian model superior to the Kuhnian model in explaining the development of economic science. See Mark Blaug, "Kuhn versus Lakatos, or Paradigms versus Research Programmes in the History of Economics," *History of Political Economy,* 7 (Winter, 1975); Joseph V. Remenyi, "Core Demi-Core Interactions: Toward a General Theory of Disciplinary and Subdisciplinary Growth," *History of Political Economy,* 11 (Spring, 1979). G. Fulton has been critical of attempts by various economists to specify the classical and neoclassical methodology of scientific research programs. Nevertheless, he sees the MSRP as a valuable tool for classifying and understanding past and present day economics, by ". . . highlighting the many elements, particularly the implicit metaphysical elements, in these theories, and by providing an impartial, but . . . criticizable, standard for judging these theories." G. Fulton, "Research Programmes in Economics," *History of Political Economy,* 16 (Summer, 1984), p. 204.

5. Charles A. Barker, *Henry George* (New York: Oxford Univ. Press, 1955), pp. 136, 121.

6. Joseph A. Schumpeter, "Science and Ideology," *American Economic Review,* 39 (March, 1949), pp. 350–351. Mark Blaug sees a similarity between Lakatos' concept of "hard core" and Schumpeter's notion of "vision". *Op. cit.,* p. 407.

7. *The Portable Thomas Jefferson,* ed., Merrill D. Peterson (New York: Penguin Books, 1984), p. 217.

8. Henry George, Jr. on "Jefferson and the Land Question," in *The Writings of Thomas Jefferson,* Albert E. Bergh, ed., (20 vols., Washington, D.C.: The Thomas Jefferson Memorial Association, 1903), XVI, pp. vi–vii, xii–xiv. Although never denying the necessity of agricultural values for the survival of the republic, Jefferson did moderate his views concerning the relative importance of agriculture and manufacturing in economic growth. Drew R. McCoy, *The Elusive Republic: Political Economy in Jeffersonian America* (New York: W. W. Norton and Company, Inc., 1982), pp. 248–49; William D. Grampp, "A Re-examination of Jeffersonian Economics," *Southern Economic Journal,* 12 (January, 1946), pp. 277–80.

9. According to Dorothy Ross, Henry George's millennial rather than phenomenal or historicist conception of history dictated his response to the decline of republican values evident in late

19th century industrialization. "The Liberal Tradition Revisited and the Republican Tradition Addressed," in John Higham and Paul K. Conkin, eds., *New Directions in American Intellectual History* (Baltimore and London: The Johns Hopkins Univ. Press, 1979), pp. 123–25.

10. Henry George, *The Science of Political Economy* (New York: Robert Schalkenbach Foundation, 1981), p. 27. Hereafter cited as *Political Economy.* Also, *Progress and Poverty,* pp. 532–33, 537, 540–41.

11. *Progress and Poverty,* pp. 537, 538.

12. *Ibid.,* pp. 8, 284–86.

13. Ronald L. Meek, *Social Science and the Ignoble Savage* (London, New York, and Melbourne: Cambridge Univ. Press, 1976), p. 2.

14. *Ibid.,* pp. 129, 177, 220, 223; Adam Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations,* Edwin Cannan, ed. (New York: Random House, 1937), pp. 653–82. Hereafter cited as *Wealth of Nations.*

15. *Progress and Poverty,* pp. 526, 501, 488; *Political Economy,* pp. 34–35, 23.

16. *Progress and Poverty,* pp. 544, 504, 480, 478–79.

17. *Political Economy,* p. 331 and pp. 327–32. Also, see *Progress and Poverty,* pp. 186–88.

18. *Political Economy,* p. 329.

19. *Ibid.,* p. 332. Italics added.

20. *Progress and Poverty,* p. 514; *Political Economy,* pp. 27, 26.

21. *Progress and Poverty,* pp. 478, 508.

22. *Ibid.,* p. 517. Also, see p. 514. For the apparent source of George's work in the *Wealth of Nations,* see pp. 653–68, 651, 669–81, 681–82, 740–66.

23. *Progress and Poverty,* pp. 514–15.

24. *Ibid.,* pp. 187, 517–18; *Political Economy,* p. 363.

25. *Wealth of Nations,* pp. 669–70.

26. *Political Economy,* pp. 454–59; *Progress and Poverty,* pp. 363, 360, 321–22.

27. *Progress and Poverty,* pp. 334, 336.

28. John Locke, "An Essay Concerning the True Original Extent and End of Civil Government," in *Great Books of the Western World,* Robert M. Hutchins, ed., (Chicago: Encyclopaedia Britannica, Inc., 1952), Chapter V, "Of Property", pp. 30–36. The essence of George's *Progress and Poverty* challenged Locke's conclusion, that "since gold and silver" and the development of exchange economies, ". . . it is plain that the consent of men have agreed to a disproportionate and unequal possession of the earth . . . and agreed in a way how a man may, rightfully and without injury, possess more than he himself can make use of by receiving gold and silver. . . ." p. 35.

29. Terence M. Dwyer, *op. cit.,* p. 366.

30. This section borrows heavily from Joseph V. Remenyi's work, *op. cit.,* pp. 55–59. Although Remenyi's analysis concerns the neoclassical hard core and its heuristics, Mark Blaug thinks post 1870 neoclassicism adopted the classical hard core "but with an altered positive heuristic and different protective belt." Blaug, *op. cit.,* p. 412. Although he realizes the difficulty in specifying hard core assumptions, G. Fulton acknowledges the common threads uniting the classical and neoclassical hard cores. *Op. cit.,* pp. 190–91.

31. *Political Economy,* pp. 81, 80.

32. *Progress and Poverty,* pp. 462; *Political Economy,* pp. 88, 99, 90, 391.

33. *Progress and Poverty,* pp. 459, 465; Henry George, *Social Problems* (Chicago and New York: Belford, Clarke and Co., 1884), p. 124. Also, p. 135.

34. Petrella, "George's Theory of State's Agenda," p. 279.

35. *Political Economy,* p. 99. Italics added.

36. For other expressions of the principle in George's work, see *Progress and Poverty,* pp. 12, 170, 198–200, 204; *Political Economy,* pp. 86–91.

37. *Wealth of Nations,* p. 33 as quoted in *Political Economy,* p. 230. Also see *Political Economy,* p. 87.

38. *Progress and Poverty,* p. 357; *Political Economy,* pp. 230, 249.

39. *Political Economy,* p. 251. Also, pp. 250, 253–55. To use Marshallian terminology, George is saying that competitive equilibrium is characterized by equality between rising supply price and falling demand price.

40. *Progress and Poverty,* pp. 204, 198, 199.

41. *Ibid.,* pp. 199–200. Fuller correctly perceives this equilibrating process in George as a formulation of the principle of factor substitution at the margin. Aaron B. Fuller, III, *op. cit.,* pp. 59–60.

42. *Progress and Poverty,* p. 312. Although sympathetic to labor unions, George believed they were ". . . necessarily destructive of the very thing which workmen seek to gain through them—wealth and freedom." *Progress and Poverty,* p. 316.

43. *Political Economy,* p. 245. Also, see p. 82. For a discussion of the interesting but disputable compatibility of George's exertion-saved value theory and Austrian value theory, see Leland B. Yeager, "Henry George and Austrian Economics," *History of Political Economy,* 16 (Summer, 1984), p. 160–63.

44. See *Political Economy,* pp. 235–49.

45. *Ibid.,* pp. 73, 72, 98, 100; *Progress and Poverty,* pp. 11–12.

46. *Political Economy,* pp. 383, 396.

47. *Ibid.,* p. 391; Also, Petrella, "George's Theory of State's Agenda," pp. 272–77, 280–82. For a discussion of the classical and neoclassical theory of policy, see Frank Petrella, "Individual, Group, or Government? Smith, Mill, and Sidgwick," *History of Political Economy,* 2 (Spring, 1970).

48. John Stuart Mill was the exception, especially his distinction concerning the different determinants of the laws of production versus the laws of distribution. Although George applauded Mill's efforts, he criticized the results. George believed that both the law of production and of distribution were "natural laws" flowing from the development of society. Eventually, the laws of production were the occasion, although not the cause, of increasing distributive injustice. *Political Economy,* pp. 450–51, 454–55. Also, see pp. 430–32, 438.

49. Terence M. Dwyer, *op. cit.,* p. 368.

50. *Progress and Poverty,* pp. 377, 204.

51. *Ibid.,* pp. 168–69.

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