

**Henry George  
and  
Contemporary  
Economic Development**

**Edited  
by  
Stephen R. Lewis, Jr.**

**Williams College  
Williamstown, Massachusetts**

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## Free Trade and Economic Development: Insights from Henry George<sup>1</sup>

C. Lowell Harriss  
Columbia University

Human freedom is a *means* as well as an *end*. Progress, though in itself “the” end, is also a means to its own advance. Henry George thought and wrote about both freedom and progress — and much else — a century ago. What he had to say can still benefit mankind, for much (most) of his wise advice has not been followed. The world would be a vastly better place today if George’s wisdom about free trade had been accepted more widely.

Potentials of promise and hope remain — the poor can become less poor, the productive more highly rewarded, the restricted freer. Avoidable errors of economic policy plague the world. George writing a century ago was not the only economist, nor the only popular writer, who saw the merits of freedom and the human costs of man-made restrictions on exchange. Academe has been well supplied with economists who pointed to the effects of tariff and non-tariff barriers. There has been progress in freeing exchange, but many economies seeking to develop have made errors costly to their own populations (present and future) and to their neighbors (close and distant). One reason for the acceptance of foolish practices has been weakness where George was powerful — in exposition by those who support freedom. George said things so very well. He wrote about matters of deep and broad concern. He wrote with conviction and style, with passion and vigor; yet too few of the potential beneficiaries have had exposure to his message. There remains, at least for me, a sense of an unending job — to convey the fruits of logic, the evidence. Deception can be exposed, waste revealed.

### *George’s Concern with Economic Development*

Henry George was writing about what we would call economic development. Terminology changes, but concerns continue. A century ago, America itself was a developing country: George’s interests took him beyond our borders. He wrote with bitterness about poverty here and abroad, poverty greater than then necessary and reducible. He was a most exceptional person. A master of brilliant style, he dealt with topics of enduring importance.

Much of what George says has relevance, direct and indirect, to present conditions. Some retains its original validity, but not all. Our

critical faculties must not be dulled by admiration for what stands as valid. Today's world differs from that which George knew. Yet his insights and conclusions, resting in part on observations about human nature, are often valid; and they can always serve his stated objective of stimulating us to *think*.<sup>2</sup>

He did not get the academic acceptance which the quality of his work justified (compared with the work of others in the academic world). He failed to profit from the development of marginalism in economic theory. Neither did Marx; perhaps he died too soon. George, however, lived 14 years after the death of Marx and should, it seems to me, have gotten a grasp on marginalism.

Can things written a century ago have value today? Of course, they can. We would be foolish to overlook wisdom of the past. Yet the world changes. No one writing a century ago (one may think of Marx as well as George) could possibly know what has developed in the last generation or the last decade. Experience has accumulated. There are lessons to be learned from the records of dozens of new countries.

#### *Free Trade, Not Obstruction*

*Protection or Free Trade* was published in 1886. It would be good reading today for leaders of countries seeking to speed development. College students and others in this country should find the exposition both revealing and stimulating. Let me give a few examples. "Trade is not invasion. It does not involve aggression on one side and resistance on the other, but mutual consent and gratification." (PFT, 46).

The division of labor and exchange facilitates man's efforts to rise from barbarism to civilization, from poverty and gross inequality toward generalized economic well-being.

Where each family raises its own food, builds its own house . . . none can have more than the barest necessities. . . . A people living this way will be independent, but their independence will resemble that of the beasts. . . . This social condition, to which the protective theory would logically lead, is the lowest in which man is ever found — the condition from which he has toiled upward. He has progressed only as he has learned to satisfy his wants by exchanging with his fellows and has freed and extended trade. (PFT, 51)

If to prevent trade were to stimulate industry and promote prosperity, then the localities where he was most isolated would show the first advances of man. The natural protection to home industry afforded by rugged mountain-chains, by burning deserts, or by seas too wide and tempestuous for the frail bark of the early mariner, would have given us the first glimmerings of civilization and shown it its most rapid growth. But, in fact, it is

where trade could best be carried on that we find wealth first accumulating and civilization beginning. It is on accessible harbors, by navigable rivers and much traveled highways that we find cities arising and the arts and sciences developing. And as trade becomes more free and extensive . . . so does wealth augment and civilization grow. (PFT, 51-2)

What protection teaches us, is to do to ourselves in time of peace what enemies seek to do to us in time of war. (PFT, 47)

Men of different nations trade with each other for the same reason that men of the same nation do — because they find it profitable — because they thus obtain what they want with less labor than they otherwise could. (PFT, 58)

Two more illustrations of George's exposition:

Who would think of recommending a site for a proposed city or a new colony because it was very difficult to get at? Yet if the protective theory be true, this would really be an advantage. Who would regard piracy as promotive of civilization? Yet a discriminating pirate, who would confine his seizures to goods which might be produced in the country to which they were being carried, would be as beneficial to that country as a tariff. (PFT, 35)

To have all the ships that left each country sunk before they could reach any other country would, upon protectionist principles, be the quickest means of enriching the whole world, since all countries could then enjoy the maximum of exports with the minimum of imports. (PFT, 117)

The struggle for human freedom as against restriction of trade in America brought more defeats than victories for much of the half century after George began his efforts. (No one, of course, can know how American development would have differed if the economy had been freer.) Then this country took the initiative in reducing barriers, first on a bilateral basis, then on a broad scale. Drastic reduction in U.S. tariffs has been one of the outstanding achievements of political economy. And American leadership played a prominent role in the general reduction of tariff barriers over the world. We owe much indeed to Cordell Hull. As he became Secretary of State in the 1930's, he set the course of tariff reduction which spread through much of the world. His ideas were formed in an era when George's efforts must still have been rather directly influencing opinion. Although I have not tried to explore what record there is of the intellectual development of the years when Cordell Hull was preparing for, and then serving in, Congress, I feel rather confident that the reforms of American tariff policy before (then after) World War II owe something to the efforts of Henry George.

Arguments probably unknown when George wrote have been used in recent decades to justify obstructing what would be the natural flow of trade. Modifications of older arguments appear. Some have elements of plausibility. Special interests, of course, exert influences from crude to subtle. Nothing written a century ago can assuredly cover all the complexities of modern life — yet. . . The “yet” represents my profound skepticism (but not absolute conviction) about the possible merit of politically determined or protected restrictions.

Each passing year provides more experience in more countries. The scrutiny of actual results may seem more helpful than “theorizing” of the distant past. My experience has not qualified me to judge the results of various policies in developing countries and to compare the records against a scale representing freedom as George would endorse. Practices as regards politically (governmentally) directed efforts to modify what would be the natural and free conditions of trade differ enormously. The comparisons of results would need to take into account many elements other than policies affecting foreign trade and investment. My reading about developing countries has disclosed not a few references to lack of competence in decision-makers and bureaucracies responsible for implementing regulation — and to graft and corruption. George’s advocacy of free markets and his condemnation of restrictionism included explicit prediction that fraud and corruption are to be expected. The larger the scope of governmental action, the larger the scope for corruption (which will not be corrected by bankruptcy in the market place). Political realities can lead to results rather unlike the dreams of advocates — because of the most outrageous corruption, stupidity not checked in the market place, and other human frailties. The poorer an economy, the greater the deprivation of the already poor.

George’s view of human nature and governmental processes enabled him to draw conclusions about the realities of intervention as actually implemented. For example:

The result is, and always must be, the enactment of a tariff which resembles the theoretical protectionist’s ideas of what a protective tariff should be about as closely as a bucketfull of paint thrown against a wall resembles the frescos of Raphael. (PFT, 92)

The figure of speech does not prove anything, but it should alert any reader tempted to support a program to divert economic life from patterns formed (and constantly adapting) by freely made choices in markets.

Conscious, deliberate effort to direct whole economies has almost been accepted as normal for developing economies. Countries obtaining political independence after World War II, and some others with different histories (e.g., in Latin America), have been governed by men and women who used political processes for more than establishing a framework and performing those functions which are inherently governmental. Such ambitions have been evident through human history. *Political* forces influence *economic* affairs on an increasing scale.

George a century ago had insights about what to expect. He pictures society as an organism. It functions not as a machine which can be controlled at a central point but as living human beings carry on their lives.

Society is an organism, not a machine. It can live only by the individual life of its parts. And in the free and natural development of all the parts will be secured the harmony of the whole. (PP, 321)

George articulated the concept of "spontaneous coordination." How I wish that the significance of this insight had occupied a larger role in economic theory. The "invisible hand" figure of speech has not conveyed, it seems to me, all of the meaning and substance needed to understand the functioning of an economy. The figures of speech identifying economic processes with physics are certainly misleading. Leaders of a developing country cannot press a button or a key and start a series of changes which will produce results as definitely predictable as implied in some thinking and in much dreaming (the utopian illusion).

George thus points to reality which plays — or should play — a vital role in any effort to appraise the potential of centralization of economic life. Developing economies should take note. George condemned socialism; centralized governmental management of the means of production would reduce the scope and effectiveness of spontaneous coordination. Two generations later this point had a central place in academic criticism of socialism.<sup>3</sup> Actual experiences provide the evidence to substantiate the point that George saw theoretically a century ago. Avoidable errors have resulted from failure to recognize the probable effects of political operations on a large scale in economic matters.

Note the figure of speech in the first paragraph of the following quotation:

[Attempting conscious direction of work that requires spontaneous coordination] is like asking the carpenter who can build a chicken house to build a chicken also.

This is the fatal defect of all forms of socialism — the reason of the fact, which all observation shows, that any attempt to carry conscious regulation and direction beyond the narrow sphere of social life in which it is necessary, inevitably works injury, hindering even what it is intended to help.

And the rationale of this great fact may . . . be perceived when we consider that the originating element in all production is thought or intelligence, the spiritual, not the material. This spiritual element, this intelligence or thought power as it appears in man, cannot be combined or fused as can material force. (SPE, 391-92)

Let me repeat the last sentence: "This spiritual element, this intelligence or thought power as it appears in man, cannot be combined or fused as can material force."

A second quotation adds to the force of the others:

In other words it is only in independent action that the full powers of the man may be utilized. The subordination of one human will to another human will, while it may in certain ways secure unity of action, must always where intelligence is needed, involve the loss of productive power. (SPE, 392-93)

This perception deserves careful thought. It may not lend itself to quantification, but it may help to explain the significant differences in achievements of economies.

Whether or not the leaders of a country (with or without extensive public support) conceive the system as "socialistic," many systems involve extensive governmental direction. The following quotation could not draw upon the mass of experience now available, but does it not stand up?

The proposal which socialism makes is that the collectivity or state shall assume the management of all means of production, including land, capital and man himself; do away with all competition, and convert mankind into two classes, the directors, taking their orders from government and acting by governmental authority, and the workers, for whom everything shall be provided, including the directors themselves. . . . It is more destitute of any central and guiding principle than any philosophy I know of. . . . It has no system of individual rights whereby it can define the extent to which the individual is entitled to liberty or to which the state may go in restraining it. (SPE, 198)



### *Incentives*

George's emphasis on freedom as both means and end had a counterpart in his belief in both the effectiveness and the moral correctness of earned rewards. He believed in the justice under natural law of private ownership of property.

It would not merely be gross injustice to refuse a Raphael or a Rubens more than a house-painter, but it would prevent the development of great painters. To destroy inequalities in condition would be to destroy the incentive to progress. To quarrel with them is to quarrel with the laws of nature. We might as well rail against the length of the days or the phases of the moon . . . And were we by violent measure to destroy wealth equally, we should accomplish nothing but harm; in a little while there would be inequalities as great as before.

This, in substance, is the teaching that we constantly hear. It is accepted by some because it is flattering to their vanity, in accordance with their interests or pleasing to their hope; by others because it is dinned into their ears. Like all false theories that obtain wide acceptance, it contains much truth. But it is truth isolated from other truth or alloyed with falsehood. (SP, 50)

Another expression of George's conviction that the producer deserves his rewards would seem clearly out-of-step with ideologies accepted more or less unquestionably in several economies.

This and this alone, I contend for — that he who makes should have; that he who saves should enjoy. I ask in behalf of the poor nothing whatever that properly belongs to the rich. Instead of weakening and confusing the idea of property, I would surround it with stronger sanctions. Instead of lessening the incentives to the production of wealth, I would make it more powerful by making the reward more certain. Whatever any man has added to the general stock of wealth, or has received of the free will of him who did produce it, let that be his as against all the world — his to use or to give, to do with it whatever he may please, so long as such use does not interfere with the equal freedom of others. For my part, I would put no limit on acquisition. No matter how many millions any man can get by methods which do not involve the robbery of others — they are his; let him have them. I would not even ask him for charity, or have it dinned into his ears that it is his duty to help the poor. That is his own affair. Let him do as he pleases with his own, without restriction and without suggestion. If he gets without taking from others, what he does with his wealth is his own business and his own responsibility. (SP, 87)

One element of this quotation warrants emphasis — the emphasis on

strengthening the protection of property. The intrusions on an owner's ability to use property (or the preservation of value in times of inflation) must have adverse effects on human willingness to make the sacrifices required to add to real wealth.

A closing quotation from *Progress and Poverty*, written with property taxation in mind, has general application.

To abolish the taxation which, acting and reacting, now hampers every wheel of exchange and presses upon every form of industry, would be like removing an immense weight from a powerful spring. Imbued with fresh energy, production would start into new life, and trade would receive a stimulus which would be felt to the remotest arteries. The present method of taxation operates upon exchange like artificial deserts and mountains; it costs more to get goods through a custom house than it does to carry them around the world. It operates upon energy, and industry, and skill, and thrift, like a fine upon those qualities. If I have worked harder and built myself a good house while you have been contented to live in a hovel, the taxgatherer now comes annually to make me pay a penalty for my energy and industry, by taxing me more than you. If I have saved while you wasted, I am mulct, while you are exempt. If a man build a ship we make him pay for his temerity, as though he had done injury to the state; if a railroad be opened, down comes the tax collector upon it, as though it were a public nuisance; if a manufactory be erected we levy upon it an annual sum which would go far toward making a handsome profit. We say we want capital, but if any one accumulate it, or bring it among us, we charge him for it as though we were giving him a privilege. We punish with a tax the man who covers barren fields with ripening grain, we fine him who puts up machinery, and him who drains a swamp . . .

To abolish these taxes would be to lift the whole enormous weight of taxation from productive industry. The needle of the seamstress and the great manufactory; the cart horse and the locomotive; the fishing boat and the steamship; the farmer's plow and the merchant's stock, would be alike untaxed. All would be free to make or to save, to buy or to sell, unfined by taxes, unannoyed by the taxgatherer. Instead of saying to the producer, as it does now, "The more you add to the general wealth the more shall you be taxed!" the state would say to the producer, "Be as industrious, as thrifty, as enterprising as you choose, you shall have your full reward! You shall not be fined for making two blades of grass grow where one grew before; you shall not be taxed for adding to the aggregate wealth.

And will not the community gain by thus refusing to kill the goose that lays the golden eggs; by thus refraining from muzzling the ox that treadeth out the corn; by thus leaving to industry, and thrift, and skill, their natural reward, full and unimpaired?" (PP, 434-35)

*Notes*

<sup>1</sup> Sources of quotations will be referred as follows with page numbers in the Schalkenbach Foundation issues: PP for PROGRESS AND POVERTY; PFT for PROTECTION OR FREE TRADE; SP for SOCIAL PROBLEMS; SPE for SCIENCE OF POLITICAL ECONOMY.

<sup>2</sup> I ask no one who may read this book to accept my views. I ask him to think for himself. (SP, 242)

<sup>3</sup> The Lange-Lerner "answer" — effective, free competition — was not in itself complete in theory. In any case, the structures of most developing economies do not approximate the conditions of free competition.

## Comments on Harriss

Paul Clark, Williams College

As Professor Harriss has made eminently clear, Henry George's writing about the political economy of trade policy in the developing American economy of the 19th century was not just trenchant and relevant for its time. It was also forceful, imaginative, and vivid in its presentation — and thus unusually thought-provoking even today. I certainly appreciate, personally, the stimulus that this conference gave me to read George's *Protection and Free Trade* in the original, and thus to savor its distinctive flavor.

A number of strands in his analysis seem to me particularly notable, in view of their links to contemporary issues of trade strategy which we worry about here in the Center for Development Economics.

To begin with, George points out that advocates of industrial protection argue for it as a policy intended to develop infant industries — not as a policy for all industries, and not as a permanent policy even for the infants. Indeed, he acknowledges, there are cases in which a temporary stimulus to profits in an infant industry is worthwhile. But in the political economy of the real world, he asserts, protection is in practice extended to all home industries. Established industries that get protection tend to crowd out nascent infant industries; infants that get protection rarely mature sufficiently to survive without it.

For the considerable number of developing countries, during the last two decades, that have undertaken to shift their trade strategies from import substitution toward export expansion, this is surely a recognizable problem. Somehow the established interests of import replacing producers need to yield ground to the new interests of the exporting producers.

George's analysis of the consequences for society as a whole of across-the-board industrial protection is recognizable as well. Although he doesn't use contemporary terminology, he distinguishes neatly among industries producing three kinds of goods — import replacing tradable goods, export tradable goods, and nontradable goods. Protective tariffs are ineffective (indeed, harmful) in encouraging export industries and nontradable industries, he argues, since the former are capable of exporting at pre-tariff prices anyhow, and the latter must be the source of domestic consumption. Tariffs are effective only in encouraging import replacing industries, and these industries' gains are losses for the society as a whole. Protection induces capital and labor to shift to these industries from more reward-

ing occupations in the export and nontradable industries.

Especially interesting is George's argument that, if some domestic industries are to be encouraged, bounties are a better policy instrument than tariffs. (There had been considerable experience with bounties in 19th-century America, as state or local governments offered to contribute to private organizers part of the investment costs of desired infrastructure projects like railroads. Bounties can of course be considered a species in the genus of budgetary subsidies for investment.) Bounties can be used to encourage certain export industries or nontradable industries, not just import replacing industries. Bounties to individual industries have relatively few repercussions on other industries, except through the general burden of taxes. Tariffs, on the other hand, tend to harm other industries that use protected goods as inputs, by raising their costs. The economic effects of bounties are relatively well defined, whereas the direct and indirect effects of tariffs are too complex to calculate, and in practice the tariff system is a huge muddle. (Practicable calculations of effective rates of protection were of course not yet dreamed of.) Bounties for particular industries are more easily brought to an end than are tariffs, to which many prices in the price system have had to adjust. Either bounties or tariffs can lead to corruption, but it is notable that protected industries prefer tariffs because their costs are obscure.

These distinctions between bounties and tariffs are suggestive for interpreting some aspects of South Korea's experience in trade strategy. As is well known, South Korea has been one of the relatively successful developing countries in shifting from an import substitution to an export expansion strategy, and it made a quite abrupt shift by carrying through an extensive series of policy changes within a few years in the early 1960's. The policy adjustments included fiscal, credit, interest rate, exchange rate, exchange control, tariff, and other elements. But one striking element is that export producers in particular were encouraged by tax benefits, credit at preferential interest rates, and guarantees on external borrowing. If Henry George were here to examine the South Korean experience, I believe he would see the overall policy package as a major move to freer trade, and would see these special incentives for exporters as bounties.

George's observations about the effects of industrial protection on natural resource industries, and on wage earners, are also intriguing. With respect to natural resources, he notes that in long-protected manufacturing industries that use resource inputs from extractive industries, competition among businesses will tend to result in just normal profit rates. Thus in the long run the higher profits due to protection accrue, for example, to owners of timber lands rather than

to manufacturers of wood products.

With respect to industrial protection and wage earners, it may be noted that the subtitle of *Protection or Free Trade* is "An examination of the tariff question, with especial regard to the interests of labor." George argues that it is essential to distinguish goods markets and labor markets. In labor markets, competition among laborers determines basic wages and wage differentials; American wages are comparatively high internationally because American labor is in a country with abundant natural resources. In goods markets, protection restricts availability of goods, raises prices, and reduces real wages of labor. Thus protection in goods markets is actually harmful to American labor. On the other hand, protection in labor markets, such as by restricting immigration, could be beneficial to American labor. Thus advocates of industrial protection, in George's eyes, not only deceived wage earners about its actual (adverse) effect on real wages, but also typically favored free immigration which further restrained real wages. Evidently George was concerned, as a contemporary development economist must be, with both the aggregate and the distributive implications of trade strategy.