

Henry George as social economist and radical reformer

Francis K. Peddle, 2009

International Journal of Social Economics, Vol. 36, No. 4

Introduction

This Special Issue of the *International Journal of Social Economics* focuses on the ideas of the nineteenth century American social and economic philosopher, Henry George, (1839-1897). George published *Progress and Poverty* in 1879 and it very quickly became the most widely read book on economics in the late nineteenth and early twentieth centuries. This fact will astonish many people today. The historical influence of *Progress and Poverty* has become obscured, indeed almost obliterated, since the Second World War. George was an autodidact, populist reformer, skilled orator, and elegant philosopher of economics, who had a global following which reached its pinnacle in the first decade of the twentieth century. This was a popularity that had substantive political and legislative effects in such diverse places as the USA, UK, Australia, and Africa. George's ideas, his corpus of publications and its scholarly commentary, long since relegated to the outermost margins of the academic discipline of economics, are once again finding a renaissance. And for good reason.

The recent pandemic collapse of the financial systems of most countries and the now resurgence talk of a Global Depression reminiscent of the 1930s; talk that until only a few months ago would have been dismissed as feverish and apocalyptic, has once again made *Progress and Poverty* seem not only prophetic but revelatory of economic truths long buried by an economics profession that has lost the confidence and respect of average people everywhere. Even after the frightful events of the past few months, the now so-called Crash of 2008, the representatives of the economics profession try to explain the downturn in terms of a credit crisis, a "natural" cycle of ebb and flow, an unwillingness to buy, excessive deregulation, predatory lending, global deleveraging, greed or simple managerial stupidity. George would have characterized all these shibboleths as mere symptoms of far greater tectonic shifts in the laws of functional distribution. These laws have been systematically ignored, or even outright dismissed, by policy makers and their economic advisors. Contemporary illusions about what constitutes wealth would have appalled George. The mischaracterization of debt obligations as capital, the failure to distinguish value from production and value from obligation, and most fundamentally the coordinated consignment, tacit and overt, of the concept of economic rent to the museum of economic antiquities are the continuance of a long tradition of cultivated misperceptions about wealth and its relation to value.

Without radical change to how society deals with economic rent, the re-capitalization of banks, the loosening once again of credit, the globalization of financial regulation and the partial

nationalization of key industries will only be, in George's view, an exercise in slashing at leaves, destined to set us up once again for another cycle of boom and bust. Just as John Dewey, in 1933 at the height of the last Great Depression, stated that George's views, then over 50 years old, apply to that era, only to a more intense degree, so the same could be said today. Dewey's "Steps to Economic Recovery" requires a twenty-first century equivalent. Philosophy and economics now need once again to proceed hand in hand to make a normative declaration about the true nature of wealth, about the unnecessary injustice of poverty and about the necessity of restoring the fruits of labor to the laborer. It is the intent of this Special Issue on Henry George to contribute to a hopefully expanding and newfound dialogue on his ideas and their practical application to the current unsettled period in economic history.

The content of this volume is both historical as well as analytical with respect to the application of George's ideas to contemporary systems of public finance and more particularly to the area of tax reform and the problem of reconciling equity and efficiency in the raising of public revenue. Concern about the relation of economics to the environment, the inadequacy of a tax base for municipal governments and the inability of national governments to tax international capital flows have led to a radical re-thinking of what should constitute the ideal tax base in such fields as ecological economics, public finance, and fiscal policy development in general.

It is the intent of this Special Issue on Henry George to demonstrate how his ideas can be applied, in a modern setting, to systemic distortions in national and sub-national economics with respect to the provision of public infrastructure, urban renewal, efficient land use, affordable housing, and a wide range of associated problems. These are, of course, complex and pervasive structural problems that require an extended range of solutions. On the other hand, they also require the illumination of a sound and unified theory of wealth creation and distribution that has been utterly lacking in modern neo-classical economics. This Special Issue provides guidance for a significant change in direction for public finance reform. That change in direction has implications for both normative appraisals and efficiency gains in wealth creation and distribution.

George's biography, work, and influence are little known today, so a brief sketch is in order. Secondly, there follows a discussion of what constitutes a "social economist" and radical reform in economics, the latter also sometimes referred to as heterodox economics. Thirdly, the question of whether George is in fact a social economist is addressed. Finally, there is a short analysis of how the authors in this Special Issue go about applying George's problems to contemporary economics and tax reform.

The life of Henry George

Henry George sailed the world as a curious and keenly observant teenager, who took in many of life's early lessons for future reference and refinement. After numerous adventures he eventually

settled upon journalism as a calling and quickly developed a translucent and endearing style. His first significant publication *Progress and Poverty* is also his most well-known. George was self-taught. This undoubtedly assisted in his appeal to the average worker. The absence of credentials also earned him the enmity of the academic world.

Progress and Poverty was an instant success and George was rapidly propelled to the forefront of the major economic and social issues of his day. The 1880s were for him prolific in literary output and political activism. There followed such works as *Social Problems*, *The Land Question*, and *Protection or Free Trade*. These books elaborate in different political and social contexts George's central theme of the necessity of collecting for government the surplus value created by a growing community in well-located land, or more broadly in the gifts or opportunities of nature as a whole. Classical economists, such as Adam Smith and David Ricardo, called this surplus value "economic rent," the unique, but not economically functional, return that is reaped by land owners or those who privately hold exclusive and privileged interests in what ought to be, for George, the privileged interest of the community as a whole.

George ran for mayor of New York in 1886 and was narrowly, if not fraudulently, defeated by Abram Hewitt, a well-known political operative and Tammany Hall front man. The young Teddy Roosevelt came third. This was a significant election and the landowning interests were well aware of the stakes. The mayorship of New York was seen as a stepping stone to the Presidency. One can only imagine what would have transpired had George achieved high political office in the USA. During this period George became one of the most famous personages in America, rivaled in celebrity status perhaps only by Mark Twain and Thomas Edison. The eclipse of George out of this triumvirate in the historical consciousness of the twentieth century can easily lead to conspiratorial ruminations. It is certainly a curiosity that some scholar ought to explain.

Europe and Australia were visited by George and popular movements of economic and political reform swiftly emerged in many countries. George and George's immensely powerful philosophy of economic egalitarianism were ubiquitous and threatening. The debates and the political controversies raged among progressives, unionists, the Knights of Labor, the industrialists, the pamphleteers, the journalists, the editors, the academics, the religious and the not so religious, the anarchists, and the landed gentry. The intensity of the Georgist engagement makes the present neo-classical, "value-free," monologue in economics seem like a cathartic effort of self-censorship.

In the 1890s George published *A Perplexed Philosopher: An Examination of Herbert Spencer's Utterances on the Land Question* and his last, uncompleted work *The Science of Political Economy*. During this period he also sharply critiqued Pope Leo XIII's encyclical *Rerum Novarum*. His critique was not so much aimed at what was included in the encyclical, but rather at its campestral and retrograde treatment of the land question. This was a curious paradox given the generally progressive and forward looking tenor of the encyclical as a whole. The

controversy and subsequent excommunication and then re-admission to the Church of the famous Father McGlynn of the very populist parish of St Stephen's in New York is yet another attestation to the fact that no institution was left untouched by the ideas of Henry George.

While writing *The Science of Political Economy* and running a second time for mayor of New York in 1897, George succumbed to exhaustion and ill health. His influence politically and intellectually reached its apogee in the first decade of the twentieth century. Winston Churchill, Lloyd George, Alfred Russel Wallace, Leo Tolstoy, Aldous Huxley, Albert Einstein, Helen Keller, and John Dewey are but a few of the many who acknowledged the import of George's economic philosophy.

Social economics broadly defined

E.K. Hunt provides three helpful criteria for judging what may be properly and meaningfully be designated "social economics" (Hunt, 2005). First, it must recognize that the concrete economic behavior "represents a complex intersection of the innate traits of human nature." This means that social economics makes a clear distinction between the universal aspects of economic activity found in every society, i.e. the application of human exertion to natural resources, the enlisting of capital in this application and the distribution of wealth among the members of any given society, and on the other hand the particular and culturally distinctive institutional forms this economic activity takes both historically and contemporaneously.

Secondly, social economics must be normative. The recognition of universal needs and capacities in human beings invariably requires a normative model, according to Hunt. He views such a model as entailing extraordinarily complex evaluations of how economic society ought to be critically evaluated. Social economics may evaluate a given type of economic society as superior to another, while at the same time suppressing the mechanisms whereby certain other needs or economic realities can be attained.

Thirdly, social economists as normative theorists must address:

- the historical genesis of social relations and institutions under study;
- the relative adequacy or inadequacy of these social relations and institutions in fulfilling human needs and potential;
- the probable course of the future development of these social relations and potential if there is a general moral and intellectual acceptance of them; and

- the concrete possibilities for changing or altering these social relations and institutions when they are judged to be ineffectual in the fulfillment of human needs and the promotion of the actualization of human potential.

Those theorists who believe that human nature is either metaphysically or genetically fixed cannot by definition be social theorists, or by extension social economists. Conversely, those theorists who think human nature is totally and infinitely malleable cannot engage in social theory because if there are no criteria for defining the essence of human beings, then there can be no criteria for evaluating human societies (Hunt, 2005, p. 424). Social theory, and social economists, must somehow engage both these horizons. Hunt's own preference is for an Aristotelian approach which sees the universal essence that defines human beings as a potentiality, but not "in terms of empirical actuality." (Hunt, 2005, pp. 424-5) There are in this science of human nature universal needs which, if fulfilled, make human self-realization an actuality. Henry George's philosophy is not incompatible with this approach. That certain encrusted social and politico-legal structures pervasively inhibit the self-realization of all humans in roughly equal measures is the great tragedy of civilizations and undoubtedly the singular tragedy which modern economics has failed to solve.

Hunt declares that on the basis of the aforementioned threefold criteria the utilitarian tradition in economic theory, represented principally by the neo-classical advocates of *laissez-faire* capitalism, is not social economics, while the theories of Karl Marx and Thorstein Veblen are representative of social economics. Although Veblen in, for example, *Absentee Ownership and Business Enterprise in Recent Times* is certainly closer to Henry George than George is to Marx, it is undoubtedly the case that the translation of economics into ethics, or perhaps more precisely today, the moralization of economics in Georgism requires a systematic critique of utilitarian economics. It is to Hunt's credit to point out that such trenchantly antithetical philosophers of economics as Marx and Veblen, and I would also add Henry George, can be equally classified as social economists.

There are ten separate tenets to utilitarian economics that make it decidedly anti-social economics (Hunt, 2005, p. 431, *et seq*). They can be briefly described as its:

1. asocial or ahistorical character;
2. its reduction of the human to rational, calculating utility maximization;
3. private ownership as natural and eternal;
4. the universalization of the peculiar social categories of distribution in capitalist forms of property ownership;

5. existing desires as the only source of human values;
6. unanimity must be a condition for social judgment, thus ruling out any re-distribution wherein one person's gain is another's loss;
7. only the actions of isolated individuals matter as voluntary exchanges;
8. a theory of exchange must predominate;
9. human welfare is only advanced when there is unanimous economic action, such as voluntary exchanges; and
10. these tenets are cross-cultural and universally applicable to all socio-economic organizations.

There is a reasonable objectification to Hunt's tenets with respect to utilitarian economics – it paints too broad a stroke. It is true that the Austrian school overly subjectivized the source of value and idiosyncratized desire. It is also true that John Bates Clark universalized, marginal productivity in such a way that the distinctive factors of production, and their distinctive forms of return were obliterated, or one might say, monothematized. The conflation of nature with capital and the commodification of our environment has certainly been a disaster. It may very well be the case that neo-classical economists were acting in bad faith when they narrowed the science of economics to a surreal paradigm which served to shield vested interests Gaffney (1994). If social economics is a high order evaluation of the justness of any socio-economic organization, then surely there can be no more forceful advocate of the discipline than George's uncompromising insistence on the socialization of economic rent. Further more, George's law of human progress – association in equality – necessarily involves social co-operation in order to free mental power for human improvement. Co-operation, or the lack thereof, shapes institutions and socio-economic structures, but it is the equality of rights, especially the necessity of the equality of natural opportunity, which imparts the moral backbone to the advancement of civilization and constitutes the bulwark against its decline.

The social economics of land value taxation

George satisfies some, but not all, of the above-noted features of social economics. His view of human nature is relatively static and Smithian. His belief in competition as advancing social welfare is definitely rooted in the Enlightenment. He subscribes to tri-factor economics, although in a distinctively pre-marginalist fashion and he objected to its devolution to bi-factor and uni-factor economics as marginalism developed. He was unrelentingly critical of J.S. Mill's mischaracterization of the laws of distribution as mutable, in contrast with the immutability of the laws of production. Distribution is the telos of production, but it is equally governed by

natural law as George presents the issue in *The Science of Political Economy*. He saw one form of private ownership as natural and eternal, i.e. product to the labor that produced it, and another as wholly unnatural, i.e. ownership of community assets without any corresponding payment to the community for the privilege. The issue of property was, for George, one of natural law, but it was the “social maladjustments” which became historically embedded in socio-economic organizations that twisted those communities into systematic and malevolent mechanisms for the spread of poverty, conflict, and misery.

How then does one get out of the miasma of utilitarian, neo-classical economics with its abstract and desiccated philosophy of human nature and out of the equally abstract and unanchored philosophy of institutional and historical economics, such as is found in J.S. Mill’s genealogy of property as a social and legal institution? George’s answer is both normative and descriptive. We can hypothesize ourselves as utility-maximizers, as homo economicus, without displacing our humanity, our spirituality or our artistic aspirations. Indeed, political economy as a science is not an art or an amalgam of moral maxims. We can have our right to private property through human exertion without supplanting the universal and equal right of all to natural opportunities. And we can have a relatively free market of voluntary exchanges without requiring unanimity for a more proper distribution, not re-distribution, of wealth produced by all communities. Land value taxation was George’s modus vivendi for achieving these ends in a radical, but non-revolutionary change in the economic order. Modern economic history has exhausted all other options.

Tax reform

The Crash of 2008 is now spreading to the much broader economy and a severe global contraction in productivity appears imminent. Nominal interest rates in the United States have been reduced to almost zero as this Special Issue goes to press. This indicates more the failure of monetarism than its final victory since interest manipulation in itself has done little to stem the economic downturn. Drastic fiscal measures are also in the works. A radical Keynesianism also seems inevitable, although the economic outcomes are uncertain. The seeds are once again being laid for another cycle of inflated expansion and traumatic contraction and economic dislocation. Governments are now pump-priming, but in a few years there will be once again a seemingly new politics of deficit-reduction and spending restraint.

Henry George would see it all as predictable and tragic. Nowhere in these debates are deep philosophical reflections on the radical reforms necessary to end the almost religious devotion to the mantra that economics is “naturally” afflicted with these boom and bust cycles. Symptoms are endlessly mistaken for causes and surface financial complexes regularly seen as determining the real economy. Keynesianism does nothing to change the current incentive system, which rewards those who extract value via various parasitic schemes of debt obligation, while those who add value through productive labor and the exercise of knowledge skills are penalized for their efforts. The inverted value-from-obligation pyramid erected by the global financial industry

in recent decades will only be re-inverted to a pyramid of value from production when George's central insight is legislatively and culturally adopted by a broad section of society.

The centrepiece of this Special Issue, Mason Gaffney's "The hidden taxable capacity of land: enough and to spare" provides multiple insights into how modern adaptations and applications of George's basic insight can counter the mystical belief in the boom/bust cycle and lead to a more balanced and productive economy. The overt and subtle means whereby economic rent can be appropriated for the benefit of the whole community and the concomitant unleashing of opportunities for the realization of human potential and the common good are plumbed in excruciatingly relevant detail in Gaffney's article. These are *aperçus* which clamor for greater empirical and statistical elaboration. More so, they are a clarion call for governments to act in the universal interest and relegate the heavy taxation of labor and capital to the moral trash heap.

Mary Cleveland's "George, Wicksell, and Gaffney: A three-factor model of the boom and bust cycle" is not only timely, but reminds us that the boom and bust cycle arises in the real economy and not just in the financial sector. Value from obligation should not be substituted in reflections on the current economic crisis for value from production and it is to the latter that our greatest attention ought to be focused.

Edward Dodson's thoughts on "Benjamin Franklin's Principles of Political Economy: A Speculative Enquiry" discuss the still important and relevant views of the French physiocrats with respect to land taxes. George may, of course, be seen as the foremost of "urban economists" for he had his eye on urban ground rent as the principal source of fiscal socio-economic organization. The physiocrats, as is well known, limited their *impôt unique* to agrarian economic rent.

John Médaille in "Justice and Mr George: what Henry George knew, what the neoclassicists forgot, and why it matters" argues that without some conception of justice, especially in property relations, it is impossible to have a complete or accurate description of any economy. Furthermore, equilibrium is not attainable without equity. Médaille develops these crucial connections between social economics and economic justice in larger work *The Vocation of Business* where he points out that George developed a philosophy of socializing the land while privatizing its development (235).

William S. Peirce in "Henry George, John Rae, and the theory of capital in a rapidly transforming economy" contextualizes George's theory of capital within the rubric of rapid economic transformation. By comparing the frontier experiences of George and the Canadian economist John Rae, the author shows that capital is the result of economic achievement not its precondition.

All of the articles in this Special Issue tell us that the discipline of economics as an intellectual endeavor is under severe stress. Equally, these articles declare that the history of modern political economy and economics is a rich and vibrant tradition which contains, primarily in the philosophical economics of Henry George, the tools to confront and decisively arrest the current economic crisis.

Francis K. Peddle

Guest Editor

References

Gaffney, M. (1994), *The Corruption of Economics*, Shephard-Walwyn, London

Hunt, E.K. (2005), "The normative foundations of social theory: an essay on the criteria defining social economics", *Review of Social Economy.*, Vol. LXIII No. 3, pp. 429–30