Henry George on Value from Obligation

By John Pullen[*]

Abstract

Henry George distinguished between value created by production and value created by what he called "obligation". He argued that value from production adds to both individual wealth and common wealth; whereas value from obligation adds to individual wealth i.e. the wealth of an individual who has the power to impose the obligation on others – but not to common wealth. It merely redistributes wealth from one individual to another. He claimed that there are numerous examples of values being created by obligations, the principal example being the ownership of land.

Although George's concept of value from obligation leaves a number of questions unanswered, this paper argues that the concept remains a useful analytical tool that does not deserve to be neglected in the history of economic thought.

Paper to be presented at the twenty-second conference of the History of Economic Thought Society of Australia, at the University of Notre Dame (Australia), Fremantle, Western Australia, July 2009.

[*] Honorary Fellow, School of Business, Economics and Public Policy, University of New England, Armidale, NSW, 2351, Australia. Telephone: 02 6773 2871. Email: jpullen2@une.edu.au

In the final years of his life, Henry George had been working towards the publication of a small textbook in which he proposed to "present in brief the principles of a true political economy"[1], and which, he believed, would constitute a "reconstruction of political economy"[2]. The work was commenced in 1891, after George returned from his lecture tour of Australia and a trip around the world in 1890. The manuscript remained incomplete at his death on October 29, 1897, but he had told his son that it was complete "in its main essentials". After some minor amendments, it was published later in 1897 under the title *The Science of Political Economy.* It was organised in five Books – viz. Book I, The meaning of political economy; Book II, The nature of wealth; Book III, The production of wealth; Book IV, The distribution of wealth; and Book V, Money – the medium of exchange and measure of value.

In Book II, Chapter 14,"The two sources of value. Showing that there is a value from production and also a value from obligation", he argued that there are two causes and two kinds of value – viz. value from production and value from obligation – and the mere recognition of this distinction "would of itself do much to extricate political economy from the utter maze into which a century of cultivation has brought it in the closing years of the nineteenth century" (George 1962, p. 261).

For George, value from production "consists in application of labor in the production of wealth which adds to the common stock of wealth". He said it is "the only kind of value which gives wealth", where wealth was defined as "natural products so secured, moved, combined or altered by human labor as to fit them for human satisfaction" (George 1962, p. 272). Value from obligation however, "does not result in increase in the common stock, or in the production of wealth; it affects the distribution, not the production, of wealth". It consists merely of "the power of one individual to demand execution from another individual", and "adds nothing to the common stock, all it affects is a new distribution of what already exists in the common stock" (George 1962, p. 259).[3]

In elaborating this difference between the two kinds of value, George distinguished "Individual Economy" from "the economy of the Society or the aggregate". He argued that from the point of view of an individual, it makes no difference whether wealth is obtained by adding to the general stock, or "simply because he holds the power of demanding exertion from others"; "in either case he gets and they give". But value created by obligation "adds nothing to the common stock, all it effects is a new distribution of what already exists in the common stock, and in the politico-economic sense, is not wealth at all" (George 1962, p. 259). According the George, value from production adds to both individual wealth and common wealth; whereas value from obligation adds to individual wealth – i.e. the wealth of an individual who enjoys the power to impose obligations on others – but not to common wealth. It merely redistributes wealth from one individual to another.

Although George usually admired and followed Adam Smith's arguments for laissez-faire, he criticized Smith for his failure to distinguish value from obligation and value from production.

> Smith started in by recognizing as value that which added to wealth, but he afterwards, and with seeming carelessness included as value that which adds to the wealth of the individual, but adds nothing whatever to the wealth of the community (George 1962, p. 259).

George therefore rejected "the common idea that the wealth of a community is the sum of the wealth of individuals", and argued that this confusion was fostered by the special interests of the wealthy class. He also suggested that political economy is influenced by this class bias. The failure to see the difference between value from obligation and value from production reflected "the disposition of the wealthy class to give a moral sanction to whatever was to their superiority, and has thus been perpetuated by economist after economist" (George 1962, p. 260).

George gave numerous examples of situations in which values recur from obligations. In feudal times large landholders enjoyed rights to hold markets, to have dove-cotes, to grind corn, to coin money, to collect firewood, etc. All such rights were valuable in themselves, and contributed wealth to the holders. Values from obligation also came from an annuity, an insurance policy, a bank account, a promissory note, a verbal promise, or any other instrument of indebtedness. They also come from protective tariffs, strikes, droughts and wars. But according to George, the most important kind of value from obligation is land value (George 1962, pp. 264 – 5).

It will be argued in this paper that George's concept of value from obligation is an important contribution to economic theory, with significant practical implications, not merely a minor refinement or afterthought, and that it has been unduly neglected. But at the same time, the concept, as elaborated by George, would seem to involve a number of problems requiring further clarification and refinement. He stated or implied that all forms of value from obligation are economically undesirable and do not contribute to the production of wealth, but it could be argued that, in the case of government–granted patents, for example, although the obligation on others not to produce the patented item during the life of the patent might artificially increase its value by restricting its supply, nevertheless the stimulus given by the exclusive patent to research and the development of new products might results in economic benefits that outweigh the harmful effect of a higher exchange value. Government-granted patents could therefore be regarded, not as government interference, but as government support for the Lockean labour theory of private property – a theory strongly advocated by George. It supports the right of an inventor to exclusive (at least for a defined time) ownership of the invention.

A similar argument would be put forward by advocates (notably, Friedrich List) of protectionism, who see an increase in the price of protected home-produced goods as a temporary and small price to pay for the expansion and diversification of domestic industry and employment.

George also included franchises as an example of obligations that could cause undesirable increases in exchange value, and as interferences in the free operation of market forces. There could be arguments for and against this view in the case of government-granted franchises, such as the exclusive trading privileges granted to the

East India Company; but franchises granted by one private business to another could be regarded as a legitimate part of the laissez-faire system, with the resulting values attributable to competition rather than obligation.

Another doubtful feature of George's concept of value from obligation was his inclusion of debt. He endorsed the saying "debt is slavery", and described debt as an "obligation" to render exertion without return (p. 262).

> All debts and claims of whatever said, whether they be what the lawyers call choses in action or mere debts of honor or good faith unrecognized by law, all special privileges and franchises, patents, and the beneficial interests known as good-will, in so far as they have value have it as value from obligation (George 1962, pp. 262-3).

He appears to have either overlooked or rejected the notion that although loans and mortgages sometimes become a burden, leading to financial stress and even bankruptcy, they can also play an important role in initiating and promoting the production of wealth.

Even more contentious is George's view that the values of the services provided by banks, stock exchanges, and trust companies, and the values attaching to securities such as promissory notes, are values from obligations. There might be some justification for that view if the right to operate as a bank or stock exchange, etc, is as exclusive or limited privilege granted by government; but to say that the profits of all the activities of all such enterprises are the result of value from obligation would appear to be somewhat extreme. In his understandable enthusiasm to promote the concept of value from obligation, George appears to have been guilty of some degree of rhetorical exaggeration.

His argument is, however, more convincing when he refers to obligation resulting from the exercise of political power, either through formal legislation or through sheer force. Public pensions, "places" and appointments granted to friends of a monarch or a ruling political party, are obvious examples. He refers also to the monetary value of advowsons for religious appointments, and of army commissions. Feudal rights - such as the landlord's right to fifty per cent of the tenant's produce or fifty percent of the tenant's labour time – would also be examples of values arising from obligation. And a most striking example of value from obligation, an example used frequently by George throughout his writings and lectures was of course, slavery.

Although George put forward his concept of value from obligation in the context of a general theoretical obsession of the nature and definition of value and wealth, its main significance in the context of his economic policy was as a theoretical support for his land reform and land taxation proposals.

> the most important of these additions to value which do not increase wealth are unquestionably to be found in land value, the form of value from obligation which in the progress of mankind to civilization tends most rapidly to increase (George 1962, p. 265).

He estimated that in England, or the United States, or any alter civilized country, the value of land exceeds the value of all improvements and personal property i.e. exceeds all the value from production. He added that land value "is not part of wealth in the economic sense" and that "it rightfully belongs to no individual or individuals but to the community itself". The right of private ownership of land, he argues, is "in reality a 'value from obligation'" (George 1962, pp. 264, 265).

As George regarded land value as the most important instance of value from obligation, and as his main reason for introducing the concept of value from obligation appears to have been to give theoretical support to his land reform proposals, the discussion of value from obligation in the rest of this paper will be restricted to the particular example of land value.

In proposing that land value should belong to the community, not to individuals, George seems to have been suggesting that if land became communal property – by taxation or by nationalisation – then value from obligation would be abolished. However, value from obligation would surely still exist. The "obligation", or legally enforceable system, of communal property in land would merely be substituted for the obligations implicit in the system of private property in land. The economic system would still be operating within an institutional framework of law, with its accompanying obligations, even though the nature of that framework and of those obligations had altered.

As noted above, in establishing a theoretical distinction between value from production and value from obligation, George said that the latter affected the distribution of wealth, not the production of wealth. His land reform policies emphasised this distinction. He argued that the increase in value that occurs to land and other natural resources when their supply is scarce in relation to demand, does not contribute to the production of land and natural resources – (by definition, land is non-man-made) – but merely re-distributes their value amongst private owners. It is a form of value that adds wealth to certain individuals, but does not add to the wealth of the community.

George was not entirely happy with the term "value-from-obligation"; he said "the word obligation is the best word I can think of to express everything which may require the rendering of exertion without the return of exertion" (George 1962, 261). He said that it would have been preferable if the distinction between the two kinds of value had been recognised at the beginning of the science of political economy, and if they had been given separate names; but that as the one word, value in exchange, had been used for so long to include both kinds of value, it would be too difficult to introduce a completely new name; "the best theory I can do", he said, is to use the terms "value from obligation" and "value from production" to distinguish the two kinds of value (George 1962, p. 266).

An Australian Georgist advocate, H. G. Pearce, discussed the concept of value from obligation in his book *Value Normal and Morbid. An Exposition of the Georgian Theory of Economic Value*, Sydney, 1946, and in lectures given at the Australian School of Social Science (an organisation for the promotion of Georgism) and at other institutions.

He argued that values from obligation are in conflict with values from production, given that the former raise the costs of production and make profitable production more difficult. He saw values arising from obligation as liens on, or obstacles to, production, and described them variously as "spurious value", "anti-value", "morbid value", "antiproductive value", "value against production", "fictitious value", "value from obstruction" (i.e. artificial obstruction as destined from natural obstruction), "value from privilege", "political value", "anti-economic value", and "pathological value".

The common feature of George's examples of value from obligation seems to be that they involve non-market determinants of value, and arise from the exercise of some form of government power, whether it be from brute physical force of conquest and capture, or from political and judicial process, or from customs that have the force of law – as distinct from the value that would occur from the market forces of supply and demand in the absence of such government power.

An alternative term to describe value from obligation, and perhaps a more appropriate one, might therefore be "government value" or "state value", to indicate the portion of the value of a community or service that is caused by government intervention.

George seems to have implied that all value from obligation would be harmful to economic growth. But if "obligation" is understood in this broad sense of value from government power, then there are some obligations that would surely have to be classified as beneficial, and would surely have been regarded by George as beneficial, even though he used "value from obligation" in a derogatory sense. Such beneficial obligations would include laws and regulations protecting the rights of private property in the products of one's labour – a right regarded by George as essential for social progress. The value attaching to the products of one's labour would therefore be, to some extent, a value from obligation, but one that is socially desirable.

Other legally-enforceable obligations that could be classified as desirable could include public health regulations that present the spread of disease, and therefore enhance employment, wages and the value of property. They could also include town planning regulations designed to promote a safer and more pleasant environment – for example by segregating through and local traffic, by preventing the development of noxious activities in residential areas, and by limiting the amount of land available for development in order to preserve parklands or agricultural land. Whether or not one regards such obligations as desirable and justifiable will depend on one's estimate of their advantages and disadvantages, by comparison with what life would be like without them.

Regulations governing the registration of workers in occupation where inadequate qualifications could be a danger to the public – for example, medical practitioners, electricians, motor vehicle drivers and repairers – would also tend to introduce an element of government-created value from obligation into wages and salaries; but one that could be justified on social and humanitarian grounds.

Taxation is an obvious example of government intervention or obligation, and one that will affect values, either directly by being added to market values, or indirectly by affecting production and distribution. It is also an example of an intervention that will be considered by some to be beneficial and by others to be harmful.

George regarded tariffs and income taxes as harmful, and land-value taxation as beneficial; but the latter is just as much a government-imposed intervention as the former.

George's concept of value from obligation could therefore be developed, not by condemning all forms of value created by government stipulation, but by distinguishing between the beneficial and the harmful, and by attempting to eradicate the latter. His desire to eradicate the evils resulting from government favouritism and corruption pushed him at times towards what could be described as a form of anti-government paranoia, although at other times he strongly supported some forms of government controls – for example, the government ownership of railways that he witnessed in Australia.

George's comments on values from obligation were directed mainly at their effects on production. His emphasis was on the way in which they act as obstructions or impediments to production. The persuasiveness of his argument could have been enhanced if he had extended it to the effects of values from obligation on distribution and consumption, and had developed it along the redistributionist and underconsumptionist lines contained in the writings of earlier economists such as Simonde de Sismomdi and Thomas Robert Malthus. Although he had read widely in the history of economics, he seems not to have been aware of Sismondi, and his knowledge of Malthus seems to have been limited to the Essay on Population, which he ardently detested. He either was unaware of, or had rejected, the ideas on effective demand, wider distribution, and consumption-led growth in Chapter 7, 'On the immediate causes of the progress of. wealth", in Malthus's Principles of Political Economy, 1820. Using Malthus's argument that a wider distribution would stimulate demand, production and employment, George could have made out a macroeconomic case against "obligations" that redirect income and wealth from those with a higher propensity to consume to those with a lower, and Keynes might then have given him a high rank in the "brave army of heretics", in the company of Malthus, Silvio Gesell, and Major Douglas.

References

George, Henry. [1897] 1962. *The Science of Political Economy, New York: Robert Schalkenbach Foundation.*

George, Henry [1879] 1956. Progress and Poverty, New York: Robert Schalkenbach Foundation.

George, Henry Jr. 1962. Prefatory Note, in George 1962.

Notes

[1] George, Jr. 1962, p. v.
[2] George 1962, Preface, p. viii.
[3] The distinction between the two kinds of value was further developed in Book II, Chapter XV, "The meaning of wealth in political economy. Showing how value from production is wealth in political economy". The concept of value-from-obligation did not occur explicitly in *Progress and Poverty* or in George's other publications.