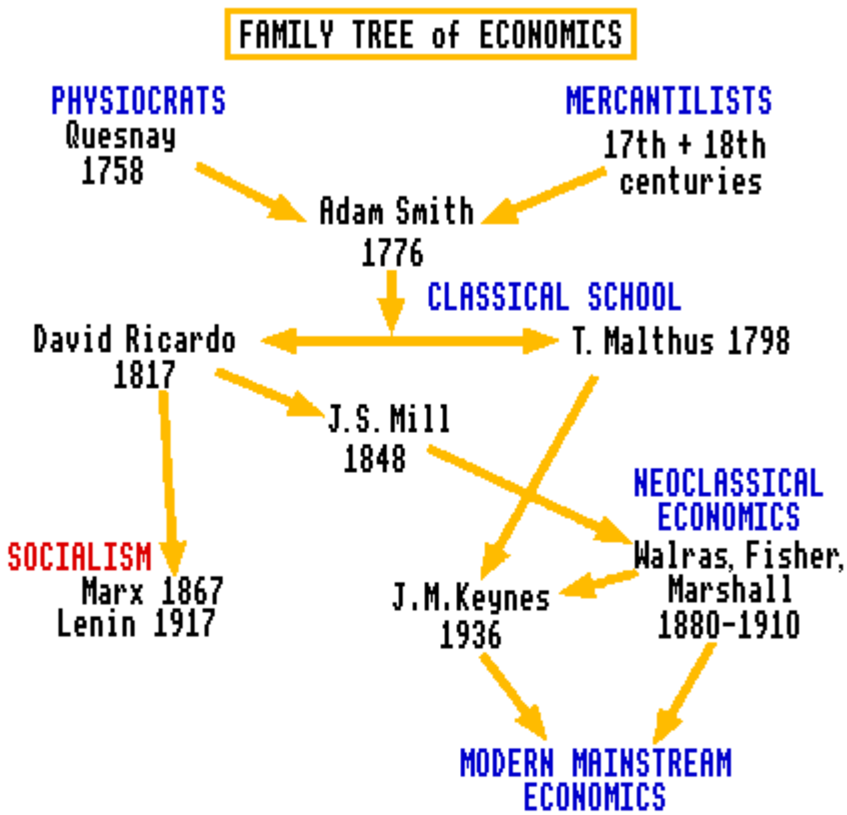
Why Henry George? Why this Course?

Inside the back cover of the 17th edition of *Economics* by Samuelson & Nordhaus there is a "Family Tree of Economics" that graphically summarizes the major trends in the discipline's modern history. It presents the most famous exponents of the main schools of economic thought: Mercantilism, the Physiocrats, the Classical School and Neoclassical Economics -- leading to the two modern "endpoints" of Modern Mainstream Economics and Socialism. The book's chart depicts the "value-free" science of economics in a rather partisan way: it places Modern Mainstream Economics center stage as the fulfillment of its precursors -- and leaves Socialism on the far left, trailing off into irrelevance.

My



experience with Samuelson & Nordhaus was unusual. I purchased it, not routinely as a college text, but in a self-study effort to provide context for a compelling set of economic ideas that I had encountered in the books of Henry George, and teachers/writers influenced by him. They had convinced me that Henry George's political economy offered a crucial remedy for the economic ills of modern society -- and so, the first thing I saw when I looked at this chart was the gaping hole where George and Georgist theory ought to be.

Over the years, courses like this one have been offered in an attempt to correct that omission -- to supply the missing piece of the economic puzzle. Many argue that it was not left out by accident. Henry George observed that society's technological advances -- thought to provide benefits for all -- really made it seem "as though an immense wedge were being forced, not underneath society, but through society. Those who are above the point of separation are elevated, but those who are below are crushed down." (1) George claimed to have identified the fundamental force that was driving that wedge -- and how the problem could be fixed. If he was right, it's little wonder that his views were suppressed. After all, the most prestigious universities were endowed by the major recipients of the privileges that George sought to expose. The academic reaction to Henry George's ideas confirmed Lord Macauley's famous observation that "were great pecuniary interests at stake, acknowledgment of the law of gravitation even now would be met with opposition."

The monied interests of the late 19th century found themselves in a pickle, because George's ideas were catching on in a big way. *Progress and Poverty* was a runaway best seller; it had made its author a household name. Furthermore, George was a self-taught economist who insisted that it was perfectly possible for -- and therefore incumbent upon -- any thinking person to understand basic economic principles. For George, political economy was, unlike other sciences, universally relevant and important, because no one can avoid the basic questions of "getting a living." Fortunately, however, George held that

> *For the study of political economy you need no special knowledge, no extensive library, no costly laboratory. You do not even need text-books nor teachers, if you will but think for yourselves. All that you need is care in reducing complex phenomena to their elements, in distinguishing the essential from the accidental, and in applying the simple laws of human action with which you are familiar.* (2)

If you roll your mouse pointer over the "family tree" image, you will see where we think Henry George's economic theory fits in. Of course, we must support this assertion. We will follow George's advice to "take nobody's opinion for granted; try all things: hold fast that which is good." (3) At the great risk of glibness (we'll offer links (4) to further reading), let's survey the main themes of the economic schools and their major exponents shown here.

The chart doesn't mention *Feudalism*, but it was the set of political-economic assumptions that held sway at the beginning of the modern era. Feudalism was more a general set of practices than a specific doctrine. It amounted to a strictly hierarchical system of rights and duties, from the king on down to the serf. At best, it led to a steady state, in which producers provided goods and food to lords, who maintained government and defense. Stability was valued much more than growth and change; conformism was reinforced by the Church.

The ideas that came to be known as *Mercantilism* arose in the 1600s, as trade with newly-discovered colonial possessions was becoming important to the powerful nations of Europe. Each sought means to strengthen its central government, to compete militarily and, especially, economically, with its sea-going rivals. International trade was carried out by franchises granted by the sovereign; in this way the monarchy could take the profits of trade in the form of gold, with which it could shore up its power. The belief arose that the essential character of a nation is to be in competition with other nations. Therefore, domestic consumption merely wasted goods that could be sold at a profit to other nations. Riches, for mercantilists, came in the form of gold, not goods.

A modern observer might note that this way of looking at things explicitly equated the interests of a nation with those of its nobility. Democracy was not yet a consideration. The feudal notions of the dependency of subjects, and the responsibility of liegelords, still held sway, even though the parochial economic arrangements of feudalism were superseded in a broader, international frame of action.

If mercantilism embraced trade as the main engine of progress, the economic theories of the *Physiocrats* offered a counter-balance, identifying the source of wealth in agriculture. That is how people's most basic survival needs are met -- so, they reasoned, agricultural surplus is the key prosperity. Quesnay and Turgot, who both served as economic advisors to the king of France, identified three basic social classes: farmers, artisans and landowners. They saw the middle class of artisans and merchants as "sterile," handling and transporting wealth but not really producing it. Because overall prosperity arose from productive use of the land, the physiocrats held that land ownership should be the only source of public revenue. Their recommendations faced bitter opposition from landowning interests, and were never fully put into practice. However, the primary importance that the Physiocrats placed on free small farmers was a great influence on democracy advocates such as Thomas Jefferson.

The *Wealth of Nations*

The rise of the industrial revolution brought rapid, dislocating change in economic life. The processes of specialization, economies of scale, and economic interdependence became more important all the time. Adam Smith's *Wealth of Nations* offered a basic organizing principle that helped to explain this welter of entrepreneurial activity -- and for this he became known as "the father of political economy." For Smith, free markets, competition and secure property rights would lead to prosperity. Each person's self-interest would lead them to make decisions that created the highest level of prosperity for all. These *laissez faire* (free enterprise) principles were incompatible with mercantilism, which Smith stridently opposed.

Although Adam Smith is commonly identified with a right-wing call for limited government, he did affirm the need for public goods and services, and for public regulation of monopolies and cartels. Indeed, Smith was the first to formulate the classic "Canons of Taxation," holding that taxation should place an equal burden on the payers, should be certain and predictable, should be inexpensive to collect and should hinder production as little as possible.

The popularity and influence of Adam Smith's work led to the establishment of political economy as a field of study in its own right, and not simply a branch of philosophy. A number of writers contributed works to this new field. They sought to address the basic mysteries posed by industrial growth: Why did poverty seem to deepen as wealth-creating power increased? What caused of recurring economic slumps, or depressions?

One of the most controversial of the new *Classical School* was the English parson Thomas Malthus, whose *Essay on Population* influenced later work in many fields. Malthus identified the cause of chronic poverty in the tendency of human population to increase beyond the means of subsistence. If this tendency toward overpopulation is not held in check by actively reducing fertility, it will be checked by misery and death. Such ideas were popular among politicians who wanted to reduce or eliminate support for the poor -- for, according to Malthus, providing poor with higher wages would simply enable them to breed more rapidly.

Malthus also weighed in, later in his career, on the issue of rent, about which he engaged in a long debate with his colleague and friendly antagonist, David Ricardo. Rent -- the return to landownership -- had been held by Smith and the physiocrats to be a sort of "free ride" -- wealth that landowners enjoyed at the expense of the rest of society. Malthus, on the other hand, justified private collection of rent as a source of productive investment -- anticipating the view of the neoclassical economists who would follow at the end of the 19th century.

Ricardo explained the problem of poverty in terms of the natural laws governing how wealth is distributed among the factors that produce it: labor, capital and land. As population increases, people are forced outward to land that has lower productive potential. Because this free land is their last resort to employ themselves, wages will fall to the average amount that can be obtained there, at the "margin of production". This, Ricardo's Law of Rent, implied an "Iron Law of Wages" that government policy could do little to change. However, Ricardo argued that overall prosperity could be improved if, rather than exchanging goods locally, they were transported to places where they were worth more. This led Ricardo to articulate the principle of comparative advantage in international trade.

The Wrangle over Value

Political economy had long wrestled with the problem of value. What are things worth? Is something worth whatever one can get for it in exchange -- or is there a just, or fair, price, beyond which the seller would get an exploitative profit? It's not hard to see how this could become a "fulcrum point" in economic theory. There was a common-sense assumption that things had value in proportion to the amount of human labor that went into making them. This idea was venerable in Western thought; it was held by Aristotle, and by Thomas Aquinas among many others. But there was a clear problem with it: what about things that are valuable, yet are not produced by labor at all?

John Stuart Mill's *Principles of Political Economy* authoritatively summarized the state of economic science in the mid 19th century (as Samuelson's *Economics* did in the 20th). Mill's work explored the implications of classical political economy in greater subtlety than his predecessors had. Like Ricardo, Mill consistently espoused the labor theory of value, affirming that things have an intrinsic or "natural" value, around which their market prices will hover, according to changes in demand and supply. Also, Mill found no way to refute the "Iron Law of Wages." This led him to be sympathetic with various early forms of socialism, as a means to allow a wider enjoyment of the benefits of material prosperity.

Karl Marx took the labor theory of value to its logical conclusion. For him, the value of any thing amounts to the "labor time socially necessary" to create it. As labor-saving technology advances, less and less labor is needed to produce goods (or, in other words, labor becomes more productive). Marx coined the term "surplus value" for the difference between the market price of goods and their "labor value" -- a difference which inexorably tends to increase. This led to a dynamic historical model of economic development: because of the tendency for surplus value to be a greater and greater portion of the price of goods, the lot of workers can only get worse and worse, and the "capitalistic" economy carries the inevitable seeds of its own revolutionary overthrow.

By postulating "labor time socially necessary" as the source of value, Karl Marx gave Marxist economics its theoretical starting point. But this did not remove the basic logical problem with the idea; the labor theory simply could not account for the value of a piece of bare land -- something that was *not* produced by human labor.

The need was clear for a new formulation of value -- and, meanwhile, for an economic framework that didn't support revolutionary attacks on the status quo. The emergence of *Neoclassical economics* in the second half of the 19th century coincided with "the Gilded Age" -- a time when "robber barons" amassed gigantic fortunes, while wages and working conditions for the masses sank ever lower.

Neoclassical Economics

The neoclassical solution to the conundrum of value employed the concept of "utility" -- one's preference for a thing, as compared to other things. This led to the important concept of "marginalism" -- generally defined as the overall effect of adding or subtracting one unit of something. This leads to the conception of economics as the study of choices -- and thereby removes any moral, or "normative" element from economic science. If, as marginal theory contended, all "inputs" to production are simply chosen, or valued, according to their marginal utility, then it makes no difference how things were created, under what conditions, by human labor or not. Another important aspect of this "marginal revolution" in neoclassical economics was that the focus on "inputs," measured in strictly quantifiable units. This invited analysis in mathematical terms, a possibility that 20th-century economists eagerly rushed in to explore.

Classical economics tended (more or less) toward an emphasis on ***equity***, which could countenance state interference and regulation in the attempt to control the worst effects of that wedge that material progress drove through society. The neoclassical theorists emphasized ***efficiency***, arguing that unregulated laisses-faire competition would bring the greatest good for the greatest number.

The problems of chronic poverty and boom/bust cycles remained unsolved. In the 1920s, the long-standing tendency of periodic economic declines was ratcheted up by new investment strategies, such as mortgage-backed securities. The economic boom of the "roaring twenties" created massive fortunes -- and a massive slump ensued after the markets crashed.

John Maynard Keynes published his *General Theory of Employment, Interest and Money* in 1936 -- and the policy responses he advocated had already been put to use by Franklin D. Roosevelt's administration in addressing the suffering wrought by the Great Depression. Keynes contended that an overall propensity to save -- rather than invest in productive capital -- reduced consumer spending. In his view, this was a structural part of a modern economy which led to periodic downturns, unless it is countered with public "pump-priming" -- making more money available through deficit spending and lowered interest rates. Famously saying that "in the long run we are all dead," Keynes held that waiting for a depressed economy to right itself in a long-term general equilibrium would cause too much suffering; governments have a responsibility to step in with sound management.

For at least three decades, "Keynesian" fine-tuning, along with other macroeconomic refinements, softened the impact of periodic economic slumps. Essentially, this involved using fiscal and monetary policies to manage a societal tradeoff between inflation and unemployment. Average living standards in Western nations steadily improved up until the 1970s. During that decade, Keynesian macroeconomics was stymied by the emergence of stagflation -- simultaneously high rates of both inflation *and* unemployment. For many decades, an unemployment rate of 4-6% has been routinely defined as "full employment," lest inflation start rising with uncontrollable speed.

Most prominent among the economic plans concocted to address the dilemma of stagflation was the "supply-side economics" of Arthur Laffer, *et al*. The Keynesian remedies of deficit spending and interest-rate cuts were called "demand side" policy, because they put more money in the hands of consumers, which would create demand for more production. Supply-side policy, on the other hand, focused on tax cuts, especially on higher incomes and more wealth. It was thought that this would stimulate more investment in production, increasing demand for labor.

In practive, however, neither of these major currents of macroeconomic policy, whether applied separately or in combination, proved capable of curing stagflation. Four centuries of refinement in economic science had still not solved the chronic problems of poverty and boom/bust cycles.

The Bigger Picture

However, as we noted at the beginning, the mainstream economic "canon" has a gaping hole, where one might hope to find a synthesis of left vs. right, freedom vs. justice, efficiency vs. equity.

Wikipedia's article on "History of Economic Thought" lays out the same economic milestones that I have very briefly summarized here. At the top, the management has inserted one of their little warnings to the effect that the ensuing public-generated text may not pass full scholarly muster. This one says, "The examples and perspective in this article may not represent a worldwide view of the subject." That's interesting. What might that mean?

If we step back and try to take a broader, more holistic view of these questions, we'll get a hint. The science of political economy, or economics, arose along with the rise of European political and, to a large extent, cultural dominance over the rest of the world. At the great risk of overgeneralizing, it is evident that the rise of industrial production and international trade, guided and facilitated by the development of classical economics, required a distinct understanding of such concepts as property, surplus and sovereignty. The importance of private property, for example, is explicit in the United States Constitution. Indeed, it is central to the next century, at least, of US history. It took a Civil War and constitutional amendment to resolve the issue of property in human beings. Mainly because of that initial compromise, the legal question of property remains an essentially arbitrary matter, without any reference to first principles. Land, for example, is private property, unless the community decides to take it away, with compensation to the owners -- but how much of land's value can be taken away before compensation is required? The wealth that people create, and the wages that they're paid, are their own private property -- until the government comes along and confiscates some of it, and does so according to rules that unconstitutionally invade privacy and require self-incrimination!

Of course there has been economic thought outside of the Western tradition. Other societies have had different notions of property, surplus and sovereignty. In particular, the idea that land could be private property and traded, as could a blanket or a weapon, was not recognized in many traditional societies. The economic institutions of private property, and secure land tenure, were needed for modern economies to develop. Yet there remains something about the idea of land being common property that feels right to most people -- though this "rightness" also seems a naïve, childish notion.

In recent years, though the age-old economic challenges of poverty and boom/bust cycles have by no means been solved, another chronic economic problem has taken its place beside them to complicate matters still further. Our pursuit of prosperity by means of "economic growth" has created a crisis of sustainability. Indeed, our modern environmental crises have brought back the old Malthusian "overpopulation" theory -- except that this time, instead of merely physically crowding each other to death, our constant "production of stuff" threatens to overwhelm the planet's capacity to absorb the pollution it creates. Now, the challenge of environmental sustainability takes its place beside the classic economic problems of poverty and boom/bust cycles.

This, in brief, is where the "dismal science" finds itself at the beginning of the 21st century. It doesn't seem very hopeful. And yet, we contend that Henry George's economic ideas -- properly understood and placed in a modern context -- point toward a constructive synthesis that allows political economy to tackle these seemingly intractable problems. As you begin this course, I leave you with Henry George's message about the prospects of our study:

> *Political Economy has been called the dismal science, and as currently taught, is hopeless and despairing. But this... is solely because she has been degraded and shackled; her truths*

dislocated; her harmonies ignored.... Freed, as I have tried to free her -- in her own proper symmetry, Political Economy is radiant with hope. (5)

-- Lindy Davies

NOTES

1. Henry George, *Progress and Poverty*, "Introductory: The Problem", paragraph 13. [Go back]
2. Henry George, *The Study of Political Economy*, [Go back]
3. Henry George, *The Study of Political Economy*, [Go back]
4. Most of Wikipedia's entries on these names and terms are concise and worth reading, but we trust you can find them for yourselves; our links are to other sites. [Go back]
5. Henry George, *Progress and Poverty*, "Conclusion", paragraph 20.

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