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The Rise and Fall of Georgist Economic Thinking

Working Paper No. 40

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Prepared for Professor John Hall

Abstract: This inquiry seeks to establish that Henry George’s writings advanced a distinct theory of political economy that benefited from a meteoric rise in popularity followed by a fall to irrelevance with the turn of the 20th century. During the depression decade of the 1870s, the efficacy of the laissez-faire economic system came into question, during this same timeframe neoclassical economics supplanted classical political economy. This inquiry considers both of George’s key works: *Progress and Poverty* [1879] and *The Science of Political Economy* [1898], establishing the distinct components of Georgist economic thought. This rise in ‘Georgism’ is evinced through the broad distribution of his first book that clearly tapped into American sentiments after the depression decade. The decline in popularity of his ideas appears related to the misinterpretation and the misrepresenting of his ideas.

JEL Classification Codes: B12, B31, I3

Key Words: Georgism, Henry George, Poverty, *Progress and Poverty*, Single Tax

The deep and enduring depression of the 1870s brought the efficacy of the laissez-faire economic system into question. Though crippled by a persistent downturn in output and a dramatic rise in unemployment, still the system persisted. During this timeframe there took place a transition from the rich tradition of classical political economy to neo-classical economics. On top of this, what had been designated as ‘Reform’ Darwinism supplanted ‘Social’ Darwinism. What this inquiry considers and also seeks establish is that one Henry George served as a catalyst during these noted transitions. For one, he formulated and promulgated a distinct theory of political economy in an effort to address pressing issues at the tail end of this depression decade. George’s efforts and writings were met with a swift rise in mass popularity that was followed by a fall to irrelevance with the turn of the 20th century, rendering George as one of the great and last classical political economists prior to the arrival and dominance of neoclassical economics. The depression of the 1870s is still considered the most severe economic downturn during the full span of the 19th century. This depression brought with it a level of desperation that goaded the American public to seek creative solutions during these turbulent times—and George rose to the occasion and proposed solutions.

Henry George's Economic Thinking

In *Progress and Poverty* (1938) [1879] George introduces a novel approach to political economic inquiry. What George advances as his central thesis is that land speculation engenders strains that spill over and generate issues for the broader U.S. economy. That land is considered one of the factors of production, this proclivity for land price speculation contributes to imbalances and distortions that ripple through the economy. For George, such activities contribute towards economic depression and widespread poverty despite measurable gains in material progress. In the view of George (1879, 283-5), interactions of wages earned by labor with rents earned through land ownership, render the American working-class dependent. This dependency originates in what George recognizes as the specialization of labor in meeting America's productive capacity. To address this, George proposes a remedy in the form of a land value tax—the single tax—along with a clear call to focus the economics profession on improving the distribution of wealth to those who are most affected by economic depression. George's ideas addressed American sentiment at the time, leading to broad distribution of his first publication, despite the Discipline of Economics being considered a 'dismal science' and hardly a subject that appealed to American readers. With *Progress and Poverty* George associated land speculation and rising prices of real estate as

the root of economic hardship, sharing with his readers his answers that had never been addressed by economists or politicians.

The root causes of depressions had tended to remain unexplained. George changed this. What he did was to identify land speculation and its broader effects on capital and labor as the root sources causing economic hardships for the laboring masses. While his thesis claims that land speculation is the cause of depressions, George recognizes secondary variables as apparent symptoms. As one symptom, George identifies modern production technologies as the source for deskilling laborers. In addition, he considers problems associated with currencies. He also considers alterations in the volume of available credit, as well as protective tariffs. In the view of George (1938,263) based upon observations and principles of classical economic theory, land speculation catalyzes these variables that display themselves as prominent symptoms of the larger problem of land speculation. Given that land can be considered a finite resource, the other factors of production, namely labor and capital, fails to increase proportionately to the speculated increases of land values. The rising prices of one factor of production through land speculation, exerts pressure on the need of efficiency in the other factors, driving the advances in the efficiency of labor in the form of technology.

George (1936, 284) notes that through introducing more advanced technology into the production process, accelerates the division of labor. This

acceleration separates the worker from skills that had in earlier times rendered that worker independent. This reduction in autonomy renders the worker increasingly reliant upon the productive capacity of modern technology. It is these processes that George singles out for deflating wages and increasing worker reliance on society to meet their needs. George offers an example describing savage tribes in which productive capacity is minimal, but with skill-levels so widely shared that exile from the tribe implies little more than an inconvenience for the banned member. In his *Progress and Poverty* George comes to the realization that the society that benefits from its laborers must also ensure the welfare of those who work to make that society increasingly productive through incorporating more advanced levels of technology that involve more specialized skills and a more elaborate division of labor.

Thus, George's answer to economic depression and poverty takes the form of taxation to provide to those who need it. George (1936, 393-405) finds that the funds drawn from land speculation can decrease pressures that lead to imbalances in factors of production, using the problem of land speculation to remedy the spread of poverty in his proposal of a single tax. At the time of his publication—and for many years thereafter—a prevalent theme in critiquing George's theories included asserting a socialistic connotation related to the confiscation of land. This accusation has no foundation. George explicitly states that confiscating land

remains wholly unnecessary. However, the appropriation of land rents for public use remains at the core of George's remedy. His *Progress and Poverty* served the primary objective of providing answers to pressing questions combined with a clear call to action. George admits to using fiery language to spread his ideas and would later develop his take on classical theory without such explicit motives in his posthumously published book, *The Science of Political Economy* [1898].

Posthumously published, *The Science of Political Economy* [1898] reflects contributions of classical economists, the likes of Adam Smith and David Ricardo. George seems influenced by both their erudite approaches to the structure of arguments, as well as their ambitious efforts to integrate legacies drawn from philosophy into their economic ideas. George agrees and critiques John Stuart Mill's utilitarianism as well as Smith's prescriptions for promoting a nation's wealth as well as Ricardo's understanding of differential rent. On the topic of property, George (1898, 454-5) advances the notion that property ownership abides by the same principle that determines the distribution of wealth. Namely, that property ownership and the distribution of wealth can be understood as two expressions of a single fundamental law. George (1898, 455) poses the question: is it the law of nature or the laws of man that captures the origin and basis of property.

In his chapter dealing with property, George advances his own views through critiquing John Stuart Mill's contributions. What irks George is Mill's failure to differentiate between land and property. In the view of George (1938, 333-7) land should be considered a public good. The problem arises when land falls under the category of property. This implies a land's shift from a public good to property with exclusive ownership rights and privileges. Land privately owned could then generate rents and enrich landowners oriented towards speculation, distorting the economy as returns on property increase faster than returns on capital invested and work performed for wages. Both George and Mill share a common position but then their opinions depart. In George's understanding, Mill takes the position that ownership is extended beyond land as property to that which is produced by labor or accumulated by their abstinence (1938, 360). Furthermore, Mill's plan to address the injustice involved in land speculation is to survey and estimate the market value of a nation's land and to nationalize all future additions in that value that are not the result of improvements by the proprietor. Mill proposes to nationalize land value and increases in that land value, while allowing the proprietors to retain earnings from rent and improvements. While George admits that this plan is better than nothing and would certainly not add to the injustice of the distribution of wealth, he claims that this plan would not remedy it. George ultimately recognizes Mill's plan as being a potential catalyst for more

impactful propositions to amend the injustice in land ownership. The divide between George and Mill lie within land rent. George (1938, 365-6) is firmly opposed to Mill's suggestion to allow land owners to take the rent: George believes that land rent is the creation of the whole community, and therefore should not belong to a single proprietor who did not labor for those gains. In a quest to identify the roots of economic depression and disparity, George extensively explores the economic philosophy behind property and ownership. Distribution and income are also considered.

George claims that the economic controversies that arise are related to a deficiency in the distribution of income. To remedy the distribution conundrum, George (1898, 151) borrows from the French Physiocrat's concept and saying: *impôt unique*. This French term was used in the 18th century for describing a single tax. This single tax was based on what the French Physiocrats described as an "unearned increment" or "net product". George (1898, 150-9) advances his proposal for a single tax, borrowing from the physiocratic idea of agriculture as the only productive activity, and through applying Ricardo's understanding that differential rent can accrue to property owners. In addition, George considers Smith's appreciation of manufacturers/artificers as productive labor. Borrowing from these three traditions in classical political economy, George relates the taxes of levied on French agriculture by the monarch to how land speculation in the late

19th century places a burdensome “tax” on labor. George advanced the solution of a single tax—the land value tax—which he and his Georgist-followers viewed as an effective remedy for ending the depression of the 1870s.

The Rise of Georgism

Progress and Poverty [1879] is widely considered as the best-selling, most widely read, and influential book on economics ever published and distributed in the United States—at least up and through George’s day. Stephen B. Cord recognizes George’s successes. In *Henry George: Dreamer or Realist* (1965), Cord purports that professionally educated economists considered themselves above George’s plebian thinking directed towards the “common man”. However, his ideas could not be ignored, as the public at large were profoundly moved by the promises of hope associated with his solution to the 1870s depression years. Authors and editors of periodicals joined the bandwagon, furthering the dissemination of George’s ideas. Cord (1965, 34) attributed George’s success to what he refers to as his passionate “pen of fire” literary style, as well as his vivid depictions of economic woes burdening the American public. George’s notion of “a single tax and liberty unfettered” impressed and moved George’s most Victorian contemporaries. Cord also recognizes that, though wholly independent, Ireland’s

“land for the people” movement propelled *Progress and Poverty* to international relevance.

Cord (1965, 34-5) notes that George increased his popularity through writing on topics about which the American public cared deeply. With the economic system of George’s era dominated by laissez-faire and classical political economy, depressions and persistent poverty tended to remain neglected by theorists. Henry George sought to address pressing issues head-on. Cord highlights that George gave voice to a mass of people that had never been heard. With his broad-based, popular appeal, followers of Georgist economics were represented by an array of citizens: literary men, presidents and professors in academia, statesmen and jurists, merchants and manufacturers. Indeed, Georgism appealed to a broad base, setting him up for effectively communicating with the diverse communities composing New York City.

In New York George spoke not only to proponents for his single tax, but also to its critics. Cord (1965, 37) writes that George recognized many of the first attendees in support of his ideas would later become part of the “Society Savers” that stood in opposition to Georgism. Cord suggests that his ideas were part of a mass appeal until the popularity grew to the point that George’s ideas became political issues of his time. With the emergence of the Society Saver opposition, George reluctantly agreed to mounting pressure to organize a workingman’s group

that stood in support for his initiatives against the evils of poverty. This organization was short lived; however, his efforts are observable in his political career in New York City.

In 1886, Henry George agreed to the petition signed by 34,000 labor union members who insisted on George running on a third labor party ticket in the New York City mayoral election. Although George lost the election, he did succeed in some respects. Cord (1965, 36) considers losing the race a successful failure, noting that George won over more votes than Republican candidate Theodore Roosevelt. Furthermore, Cord suggests keeping historian John R. Commons in mind, considering the Tammany political force that was dominant in New York City during the election—later found guilty in charges of bribery and control of election machinery—as a potential cause for Georges failure to become mayor during the 1886 election. The election furthered George’s publicity. In the following year George felt encouraged to run for Secretary of State but the results were not in his favor. Although George failed to secure these positions, he did succeed in garnering the attention of the middle class and working people, as well as declared socialists. After 1887 and the success of *Progress and Poverty* behind him, George shifted his focus away from politics and towards the practical effects of a single tax. Cord (1965, 36-7) writes that George spent the 1890s as an editor, lecturer, and author until his death in 1897. Following his death and in the

hindsight of history, much of his legacy is found in inspiring the Progressive movement. The single tax became merely a footnote for those who took inspiration from George: George's economic theory would begin its decline while overshadowed by his legacy in progressive reforms and the emergence of a new school of economic thought.

From Relevance to Irrelevance

Georgist economic theory saw a fall out of relevancy following his death in 1897. George saw extensive—often unfair—criticism by professional economists misrepresenting his ideas before and after his death in 1897. Cord (1965, 206) also recognizes that the legacy of George continues from his work being a catalyst for the Progressive movement and societal reform more than his economic ideas. Finally, the major reason that Georgism has seen such a decline in popularity is due to the transition away from classical economics that much of Georgist theory relies on. Georgism as a distinct theory in political economy begins its decline both before and after his death, this is due to the unfair criticisms of his contemporaries and economists throughout various stages of American history.

Henry George: Dreamer or Realist? has a central thesis in considering Georgist economic theory: George's economic ideas have received a plethora

unfair critiques and misinterpretations. George's conservative contemporaries often regarded him as a vociferous enemy of society and private property. This conservative attitude is what led to the emergence of the "Society Savers" vocally opposed to his ideas at his lectures and rallies. These contemporaries regarded George as a communist and anarchist, often citing the single tax as confiscation of vested property in land. This is in direct opposition to George's unambiguous description of the single tax. Cord (1965, 44-8) states that this unfair criticism comes about in the work of Francis A. Walker, a leading American economist and author of economic textbooks of his time. One such example is Walker's declaration that he will not insult his readers by discussing George's project of a single tax based on land rent. Cord considers the conservative opposition as being responsible for the misrepresentation of George's ideas both during George's lifetime and during the conservative dominated economics scene of 1917-1933, summarizing critiques of Georgism at that time as falsely declaring it a land nationalization scheme. Cord (1965, 79) further notes that following his death and the beginning of the Progressive Era (1897-1916) there persisted poor relations between single taxers and their professors. This becomes apparent in Thorstein Veblen's professed affinity for *Progress and Poverty* where Cord (1965, 95) states that Veblen's teachers vigorously opposed the book, implying challenges faced by emerging economists supporting Georgist ideas, even those as influential as

Veblen. In modern times, Cord declares that modern historians simply pass lightly over his tax ideas in favor of the influence on reform and the Progressive era.

Within the subject of American history, interest in Henry George would eventually graduate from a legacy summarized by a failed 1886 mayoral campaign into a recognized intellectual of the Progressive Era. Cord (1965, 242) goes as far as to say that his impact is clearly recognized and that historians agree in considering *Progress and Poverty* as the first major rift in American complacency about the social problems of poverty and depressions. George's ideas filtered into many various fields but saw little development of his economic theories. The catalytic influence of George may have overshadowed his specific economic ideas; however, this influence wasn't what led to his economic ideas falling out of favor. It is the treatment of his specific ideas—by historians and economists alike—that would lead to this decline as mentioned before, paired with the dated classical economic theories throughout George's work.

The final primary reason for the fall of Georgism as an important theory of economics is due to the transition from classical economics to neo-classical economics. Cord (1965, 21) names George the last of the old-time classical economists, stating that *Progress and Poverty* became dated in its core economic foundations within 10 years of its publication. At the time of George's publication, articles on the laws of political economy replaced old ones with new laws which

surveyed the thinking of newer schools of economics, namely the Austrian and German Historical schools. The emergence of marginal utility theory took center stage over the increasingly archaic discussions of production and wealth. Although Georgism was dated with classical economic theory, many of George's observations are developed by Veblen in founding the Institutional Evolutionary school of economics. In his book *Great Economists Before Keynes*, Mark Blaug (1989, 85-7) considers Georgism as anachronistic and *Progress and Poverty* as an old-fashioned book steeped in the terminology of Smith, Ricardo, and J.S. Mill, opening his segment on George with "who nowadays reads Henry George's *Progress and Poverty*?" Blaug finishes this segment with recognizing the unfair critiques of the leading economists at the turn of the century: a nod to Cord's central thesis.

Conclusion

Henry George was a prevalent economist throughout the depression of 1870s America despite being an amateur in the field and developing the aging ideas of classical economics. In summation, this inquiry has sought to establish that Georgism was a distinct theory of political economy that saw a rise in popularity before the nineteenth century followed by a decline with the turning of the 20th

century. We visited this distinct theory with a reference to Cord's main points of George's economic analysis as well as the supporting theory within George's posthumously published book *The Science of Political Economy* (1898) recognizing the rise among the public and the fall due chiefly to the misrepresentation of George's theory.

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