The Theoretical Background of Henry George's Value Theory*

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ABSTRACT. *Henry George* intended that his last work, *The Science of Political Economy,* (which his untimely death left unfinished), should recast *economics* in a new mold. He argued that if economics is the science of the nature of *wealth* and the laws of its production and distribution and if in present society there is some deep and widespread wrong in its distribution, if not in its producton, it is the office of an honest science to disclose that. He therefore sought a philosophical basis for an investigation into the nature of wealth which led him into an investigation of the idea of *value.* These investigations were preceded by an attempt to set out a *philosophy of science* with respect to one of the sciences, economics.

I

HENRY GEORGE'S LAST WORK, *The Science of Political Economy,* interrupted by his untirely death, was to have recast economics in a new mold. As such, it necessarily devolved upon him to start with the beginnings and work thence onward. His *Science* must be read in the light of his purpose for the first "Book," the "Meaning of Political Economy," is meaningless otherwise.

George divides his volume into five parts or "Books," treating in successive order, "The Meaning of Political Economy," "The Nature of Wealth," "The Production of Wealth," "The Distribution of Wealth," and lastly, "Money—The Medium of Exchange and Measure of Value." It can be noted that George lays stress upon "wealth" and its various manifestations and uses. The reason is set forth in his general "Introduction."

In all sciences certain fundamentals are recognized as true; in economics schools fight schools and nothing definite is agreed upon (1). Yet, if economics is ". . . the science which treats of the nature of wealth and the laws of its production and distribution" (2) there should be no quarrelling—wealth is the fundamental and ". . . in the present social conditions of the civilized world nothing is clearer than that there is some deep and wide-spread wrong in the distribution, if

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not in the production, of wealth. This is the office of political economy to disclose, and a really faithful and honest explication of the science must disclose it" (3).

Does this study require special knowledge or materials? The answer is no, "It requires no tools, no apparatus, no special learning. The phenomena which it investigates . . . lie about us, and are constantly thrust upon us. The principles on which it builds are truths of which we all are conscious, and on which in every-day matters we constantly base our reasoning and our actions. And its processes, which consist mainly in analysis, require only care in distinguishing what is essential from what is merely accidental" (4).

George therefore determines that his inquiry into the science of political economy is to be one of analysis, based upon definitions of terms agreeable to all, and is to revolve about the main term wealth. But he first must open the text proper in accordance with his general scheme.

The first chapter opens with God accepted as moving spirit and the world to be His creation. There is thus a soul or spirit and, besides this mind, there is matter, which includes the universe. Finally, there is motion or energy or force, acting upon matter and producing movement. Thus there is mind, matter, and energy (5). Man knew practically nothing save that originally ". . . presented to us in direct consciousness" (6), and gathered knowledge by his observations and reflections. He is dependent to such an extent upon his surroundings that a drastic change would mean his death; his powers are limited but are far superior to those of the other creatures! He can grow things "And so it is with the fulfilment of all his wants; the satisfaction of all his desires" (7). Man's desires are satisfied by his actions in bringing food into existence, the animals, he believed —as did his contemporaries—being unable so to do.

Can man's powers be extended? George answers affirmatively, ". . . but from the union of individual powers (8). Society can do what the individual cannot. "It is in this social body . . . that the extensions of human power which mark the advance of civilization are secured. The rise of civilization is the growth of this cooperation and the increase of the body of knowledge thus obtained and garnered" (9). The comparison with Hobbes' Leviathan brings the conclusion that the body economic is the Greater Leviathan which, through social life, satisfies man's economic one.

This economic body underlies the constitution of all political subdivisions; in man's efforts to supply his wants cooperation produces civilization; the State is an outgrowth of this process (10). Civilization thus springs out of man's ungratified wants and his attempts to satisfy them. He thus sees what the animals cannot, ". . . that by parting with what is less desired in exchange for what is more desired, a net increase in satisfaction is obtained" (1). And, concludes George, "To find a fully civilized people we must find a people among whom exchange or trade is absolutely free, and has reached the fullest development to which human desires can carry it" (12).

Civilization and knowledge grow together, and in communicable knowledge man differs from animals. "This part of knowledge . . . consists in a knowing of the relation of things to other external things, and may, but does not always or necessarily, involve a knowing of how to modify those relations" (13). What do we mean by "relations"? There are two kinds, coexistence, where phenomena exhibit themselves simultaneously or together, and sequence, where they succeed or follow. The latter is the one first noticed by humans. George will hereafter use "sequence" as that which follows or succeeds; the term "consequence" implies a necessary flowing from. These invariable sequences, or consequences, are immutable and are called laws of nature or natural laws. These laws are of the divine will and cannot be altered; they exist and man is powerless to do aught but obey them. "Whatever we observe as an invariable relation of things, of which in the last analysis we can affirm only that 'it is always so,' we call a law of Nature. . . . The term itself involves the idea of a causative will" (14), which we call God.

Sciences do not deal with human laws but with these laws of causation or natural laws. They seek to discover causes and thus economic science must seek to discover ". . . the natural laws which lie behind and permanently affect, not merely all external manifestations of human will, but even the internal affections of that will itself" (15). Economics deals with exchange phenomena in their totality, not with the individuals as units (16). It looks at *all* men, not at one or a group; thus we can divide the methods of individuals obtaining a living into, 1) by working or rendering service; and 2) stealing or extorting service (17). But men in general, man, can obtain a living only in the first way, by working or rendering service. And yet political economy ". . . does not concern itself with the character of

the desires for which satisfaction is sought. It has nothing to do, either with the originating motive that prompts to action in the satisfaction of material desires, nor yet with the final satisfaction which is the end and aim of that action. . . . Political economy is not moral or ethical science, nor yet is it political science. . . . it is directly concerned only with the natural laws which govern the production and distribution of wealth in the social organism, and not with the enactments of the body politic or State" (8).

These laws have no relation to human reason although it is because of desires that men act. In their actions they do not add or subtract anything but merely change the place or form of the materials. Access to the materials of the world is the first requisite. The primary motive, as distinguished from requisite, depends upon desires and their gratifications but we do not inquire as to its origin, it being an original element; it can act only in certain ways, however, and it is in these actions that it is subject ". . . to certain uniform sequences, which we term laws of nature" (9).

II

WE THUS SEE that all human actions are prompted by desires—to gain or escape something; to benefit or harm others, George goes on. They can be positive or negative, physical or mental, beneficent or injurious, yet they are invariably antecedent to human action. Desire is the prompter and its satisfaction is the end and aim of life—we can thus say that all man's actions are for satisfactions, or satisfactions of desires. Some desires are primary and more fundamental than others, lying beneath man's manifold desires which are illimitable, and we ordinarily term them wants or needs, the others being called desires. "And thus while the satisfaction of desire . . . is the end and aim of all human action, we recognize . . . a difference in relative importance . . . (as) the satisfaction of needs and the gratification of desires" (20).

George's distinction between subjective and objective desires is not, practically, a major one (21). He merely mentions it to show ". . . how nearly the field of material desires and satisfactions, within which the sphere of political economy lies, comes to including all human desires and satisfactions" (22). As a matter of fact, George continues, ". . . in the order of human desires, what we call needs come first, and are of the widest importance. Desires that transcend the

desires of the animal can arise and seek gratification only when the desires we share with other animals are satisfied" (23).

We thus see that man can satisfy his desires only by exertion which induces weariness, a distasteful feeling and therefore one that is avoided. Man seeks his satisfaction with the least possible expenditure of effort. This is the fundamental law of political economy. Adam Smith, continues George, committed error in assuming the fundamental law to be man's selfishness and his acts to be based on selfish motives, for ". . . a true political economy requires no such assumption" (24).

The methods to be utilized in the investigation to be conducted are not the inductive *or* the deductive, since it ". . . is in reality but the triumph of one set of confusions over another set of confusions . . ." (25), but a combination of both. The *a posteriori* and *a priori* methods of reasoning are simple; the former seeks from the facts to discover general laws while the latter assumes them and seeks to discover if the facts jibe with the law. We should investigate the facts and, if a general law seems to be probable, we can infer it from the facts and then use this law as the basis for our deductive reasoning, amending our law whenever the facts so require. And George, looking about him, sees in the facts of life a universal law, applicable to all men at all times in all places—that man seeks to gratify his desires with the least effort. "Nor can we abstract from man all but selfish qualities in order to make as the object of our thought on economic matters what has been called the 'economic man,' without getting what is really a monster, not a man" (26). For George, therefore but one general law, above-stated, can be assumed at the outset, and ". . . objectively we may also reach the same law by an induction derived from observation of the acts of others" (27).

To summarize George's foundations, he divides the world into mind, matter, and energy. The earth came first, then man. Man is different from animals in his communcable knowledge and his power of producing and improving. These powers are magnified by cooperation through the Greater Leviathan. The economic body of exchanges grows, thus necessitating a free exchange economy for the highest civilization. Exchanges by production and distribution proceed in accordance with natural laws over which man has no control. True sciences investigate these laws only, seeking causal relations, and political economy thus deals with these natural laws as related to

the economic body. Man's acts are traceable to his desires and their satisfactions and natural laws are discovered, or reveal themselves, in these acts. Behind man's acts are, of course, his will or spirit but with this economic science is not concerned. The will desires satisfaction of its own and its bodily wants but, eventually, all are directly reducible to objective satisfactions. Fundamental are the desires for the continuance of life, the higher desires manifesting themselves thereafter. The fundamental law in economics is that man seeks the satisfaction of these desires with the least effort and, while a true science must first investigate the facts, formulating, if possible, a general law therefrom, we see in all ages that this general law has existed, unchanged, and that present facts support it. George thus will investigate the science of political economy solely with this fundamental law as his guide.

III

HAVING FOLLOWED George's theoretical background, and his opening Book, we can understand how, in limiting economics to the objective acts of man in producing or altering material, the definition of the science must logically be a materialistic one, and thus we see that political economy is ". . . the science that investigates the nature of wealth and the laws of its production and distribution . . ." (28). Before proceeding to a consideration of the laws governing the science, ". . . our first step is to fix the meaning that in this science properly attaches to its primary term" (29), wealth.

George briefly reviews economic history, culling from the works of J. B. Say to Marx and Marshall their definitions and statements and concluding that the most helpless confusion exists amongst professed economists. No consensus even exists as to whether or not wealth is material and external, or immaterial and "internal," including man and his attributes (30). The causes of this confusion are to be found in the fact that people are influenced by the beliefs and customs of their times so that they accept, without question, what they later regard as absurdities, and in the further fact that special or vested interests find it profitable to perpetuate this confusion, attacks against their own interests being thus diverted. All this has given rise to, and acceptance of, the ridiculous definition of wealth as all things having exchangeable power (31).

If we but turn to Adam Smith we can see that this first great economist spoke, not of the wealth of individuals, but of the wealth

of nations, and that it was the annual labor which was the fund supplying the nation with necessaries. Smith also said that the real wealth is the annual produce of land and labor but, grasping the essentials, he later falls into confusion by classing personal qualities and debts as wealth. George and Smith are thus in agreement until Smith relinquishes his original definition (32). The Physiocrats, while correct in speaking of one source from which man can draw sustenance, namely, land, are incorrect in limiting it to agricultural land. Their *produit net* is similar to the unearned increment or rent of Mill and George. If not for this one defect of limitation, the Physiocrats might well be the direct forebearers of George, since they likewise believed in abolition of all taxes save upon this *produit net* and perfect free trade. And, adopting an English author's (3) account of their economics, they likewise believed that wealth consists ". . . exclusively of material things drawn from land . . . by the exertion of labor, and possessing exchangeability" (84). Their limitation of land, in their definition, vitiated it.

Smith, who followed, in point of time, the Physiocrats, agreed and disagreed with them on several points. Both were free traders and both believed in a "natural order." Both believed in wealth being the product of land and labor (the Physiocratic limitation being waived for the moment), although Smith thereafter veered from this definition and included skill and personal qualities. His logic showed him the necessity of a single tax but prudence forbade; he was undoubtedly influenced by the Physiocrats in his regard of manufacturers as less productive than agriculturalists. Smith's investigations are concluded, at times, abruptly, and George intimates that Smith desired a little, rather than nothing, and so did not care to antagonize special interests. Smith thus succeeded where the Physiocrats failed (35).

But this temporary success proved costly in the succeeding years since Smith's defects and fallacies were accepted without much questioning, and Malthus and Ricardo definitely set the new, and wobbly, science along the path of error. The result was disagreement among economists with respect to the conclusions derived from the fallacies; and statistics (results) proved more interesting than a true inquiry. All of these men saw the course of the science but failed to see that the true reason for its erroneous path was the failure to define wealth (36).

Smith did not set forth any definite principles but evaded them. He failed to define wealth and his *Wealth of Nations* was consequently illogical; nevertheless he obtained a hearing where others failed. Shortly thereafter "Malthus by giving a scientific semblance to a delusion which tallied with popular impressions, and Ricardo, by giving form to a scientific interpretation of rent, soon provided what passed for axioms, one of which was wrong, and the other of which was wrongly or at least inadequately stated. While between them, all was left at sea" (37).

IV

THE DEMAND FOR COURSES in the new science caused chairs at the universities to be founded but, based on misconceptions, they continued their ineffectual gropings (38). Other writers, here and there, touched upon the truth but, if not lost or overlooked, recanted or committed economic apostasy (39). The results were soon obvious. A protectionist school arose; the German historical school flourished; the Austrian school built its foundations on individual "values"; the inductive, historical, socialistic and other schools had their own adherents so that, instead of simplicity eventuating, chaos reigned. The workers organized as a class and fought for restrictions favorable to themselves; Karl Marx was their spokesmen and, holding correctly that there were use and exchange value, he incorrectly held ". . . that through some alchemy of buying and selling the capitalist who hires men to turn material into products gets a larger value than he gives" (40).

George derides socialism since it does not take account of natural laws, is without religion, and indeed is decidedly atheistic: "It is more destitute of any central and guiding principle than any philosophy I know of" (41). This school of socialism, together with the others above-mentioned, made great headway and, at the beginning of the 1880s, such was the general condition when English economics, the only one making any pretentions to be a science, received a fatal blow. *Progress and Poverty* appeared and its simple and thorough reasoning was never refuted or, much less, met. Nevertheless its influence was shown by the change in the article on economics in the next edition of the *Encyclopaedia Britannica.*

This transitional state enunciated by the new article set the style for fresh volumes until all the old teachings were discarded. There are no laws with which economics deals; categorical answers are impossible; economics can be either good or bad, according to time and

place; protection may or may not be necessary; in short, the "classical school" has become obsolete and the Austrian school holds away (42).

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1. *Science of Political Economy* (New York: Doubleday & McClure, 1898), p. xxxii.
2. *Ibid.*, p. xxxi.
3. *Ibid.*, p. xxiv.
4. *Ibid.*, p. xxv.
5. *Ibid.*, p. 9*ff*. This comprises the first chapter and is a brief summary. We shall thus treat the other chapters dealing with the subject-matter pertinent to our discussion, excluding the rest.
6. *Ibid.*, p. 11.
7. *Ibid.*, p. 18.
8. *Ibid.*, p. 20.
9. *Ibid.*, p. 21.
10. *Ibid.*, Chap. IV.
11. *Ibid.*, p. 36.
12. *Ibid.*, p. 37.
13. *Ibid.*, p. 42.
14. *Ibid.*, p. 55. The reader, of course, is aware that what George was attempting in this unfinished work was what we would now call a philosophy of economic science, not a systematic exposition of the science of economics. John Dewey pointed out that our generation has no difficulty in translating George's version of the 19th century concept of nature and natural law into the 20th century's concept of principle in science. See Dewey's foreword to George R. Geiger, *The Philosophy of Henry George* (New York: Macmillan, 1933), p. xii. Opinions vary on the quality of these philosophical writings. Arthur Twining Hadley, an admirer of George's "brilliant earlier work" but who "regretted" that the *Science* "was ever written," considered the philosophical parts "a somewhat commonplace metaphysics." Charles and Mary Beard, who had not been enthused by the earlier work, held the book eloquent "about the nature of civilization and humanity," and about George's religious and rational humanism. See Charles A. Barker, *Henry George* (New York: Oxord Univ. Press, 1955), pp. 585–87. The Beards' enthusiasm was shared by a number of the professional philosophers. Dewey, Lord Russell (Bertrand Russell) and others accounted themselves followers of George and as a social philosopher George won a place in the history of philosophic thought. Maurice M. Kaunitz, in *A Popular History of Philosophy*, including George among the "beloved thinkers" of our time (ranging from Freud to Santayana), considered him "the outstanding social philosopher of the past century" (*Loc. cit.*, Cleveland and New York: World Publishing Co., 1943), pp. 374–77.).
15. *Ibid.*, p. 59.
16. *Ibid.*, p. 69.
17. *Ibid.*, p. 71.
18. *Ibid.*, p. 72*ff*.
19. *Ibid.*, p. 80.
20. *Ibid.*, p. 83.
21. *Ibid.*
22. *Ibid.*, p. 84.
23. *Ibid.*, p. 85.
24. *Ibid.*, p. 90.
25. *Ibid.*, p. 94.
26. *Ibid.*, p. 99.
27. *Ibid.*
28. *Ibid.*, p. 104.

29. *Ibid.*, p. 115.

30. George exhibits his keen, sarcastic, wit when he pokes fun at a definition of economics as the science which treats of the laws governing the relations of exchangeable quantities. He says the device of holders of chairs in economics to take advantage of the usage of language to pass off their "scientific" economics is comparable to, and ". . . is as essentially dishonest as the device of the proverbial Irishman who attempted to cheat his partners by the formula, Here's two for you two, and here's two for me too." *Science,* p. 130.

31. Chap. II, Book II, *Science,* pp. 131–42.

32. Chap. III, Book II, *Science,* pp. 143–47.

33. Henry Dunning Macleod, *Elements of Economics,* London, 1881.

34. *Science,* p. 158. This quotation is George's own version of Macleod's words.

35. Chap. V, Book II, *Science,* pp. 160–69.

36. Chap. VI, Book II, *Science,* pp. 170–71.

37. *Science,* p. 183.

38. George points out that the "Special interests" saw to it that these new chairs kept "Barking up the wrong tree." *Laissez-faire* was defined as the liberal doctrine allowing people ". . . the most perfect freedom *compatible with the security* of prosperity," and, sarcastically, property ". . . was of course what was susceptible of ownership. Any fool would know that!" *Science,* p. 184.

39. George speaks of Herbert Spencer in this connection and makes reference to his *A Perplexed Philosopher* in which he condemns Spencer for being a turn-coat on land reform.

40. *Science,* p. 197. George continues, "Upon this economic proposition . . . or others similar to it, political schemes . . . have been promulgated after the manner of political platforms."

41. *Science,* p. 198.

42. To this point George has also set himself up as a paragon of economic learning and has not hesitated to praise himself. This is really not self-praise, under the circumstances mentioned, but it is, after all, unimportant. The only feature of George's entire work which does not ring true is his comment on ". . . the ponderous works of Eugen V. Böhm-Bawerk . . . (and) Professor Smart's 'Introduction to the Theory of Value on the Lines of Menger, Wieser and Böhm-Bawerk,' or to a lot of German works written by men he never heard of and whose names he cannot even pronounce. This pseudo-science gets its name from a foreign language, and uses for its terms words adapted from the German—words that have no place and no meaning in an English work." *Science,* p. 206.

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