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Longe and Wrightson: Conservative Critics of George's Wage Theory

By FRED HARRISON

The wage-fund theory was one of the orthodox theories of political economy taught during the nineteenth century. It sought to explain the source of wages and the principles by which these were distributed. John Stuart Mill embodied a definitive statement of it in his influential *Principles of Political Economy*. Henry George knew that, if he was to offer an explanation of the cause of poverty in industrial society that both challenged the conventional wisdom and stimulated reform, he would have to destroy the theory. This was an aim of the opening chapters of *Progress and Poverty*.

The formula with which we are concerned is this: $W = K/L$. For the classical economists, this explained how wages were settled in a competitive market economy. Wages (W) were a function of the ratio between the size of the labouring population (L) and the portion of circulating capital (K) that was set aside by capitalists to pay out as wages. If, therefore, population rose at a faster rate than capital, the ratio turned against the workers; more of them would be competing against each other for money, and so ruling wage rates would come down.

This was an intensely conservative theory. For Henry George, the most outrageous feature was the way in which it shifted responsibility for poverty onto the sexual proclivities of working men and women. The latter, wrote Mill, "obey a common propensity, in laying the blame of their misfortunes, and the responsibility of providing remedies, on any shoulders but their own."¹ Their reproductive habits and shortsightedness, rather than institutional factors, were the cause of hunger, poor shelter, bad education—the whole gamut of deprivation. In Mill's revealing phrase, labourers may momentarily enjoy a higher living standard, but they tended to "people down to their

old scale of living.”² From this it followed that poor living standards were built into the framework of the economy. For, given a growing population, today’s workforce relied on the capital created by yesterday’s labour: “a stock, previously accumulated, of the products of former labour,” wrote Mill.³ Since yesterday’s workforce (which created the capital out of which today’s wages are paid) was smaller than today’s workforce, it followed that the rate of growth of the labouring workforce was normally ahead of the growth of the wage fund. Ergo, the tendency to beat down wages in the long run, unless people were wise enough to learn that they were their own worst enemies. Capitalist and landowner were absolved of responsibility. Economic reforms that reduced the cost of living were of little use if marriages and fertility were not prudently controlled.⁴

Pursuing a Malthusian chain of reasoning, Mill argued that the labouring class tended to deploy increased wealth not in enjoying higher per capita living standards, but in having more children.⁵ Thus, only by restraining births would this class improve its condition, “and every scheme for their benefit, which does not proceed on this as its foundation, is, for all permanent purposes, a delusion.”⁶ The real choice was a simple one: “Wherever population is not kept down by the prudence either of individuals or of the state, it is kept down by starvation or disease.”⁷

Henry George was one of those whom Mill would have counted among “the enemies of the population principle.”⁸ For by a painstaking description of the productive process, he showed that wage earners did not rely on a previously accumulated wage fund for their income. In fact, they created their own wages as they laboured. Employees were paid out of current production. They were sometimes paid at the end of the day, or the week, or the month; but while the time scale varied, the principle did not: they were paid only if they demonstrated that they had contributed to the process of wealth creation. Workers, therefore, did not rely on the goodwill of capitalists and their fictitious wage fund. They manufactured their own wages. But if this was correct, George had to account for low living standards and involuntary unemployment. For if people financed their own day-to-day living, why was it that a technologically progressive economy was associated with poverty? At least Mill was free to argue,

with some degree of superficial plausibility, that poverty was the result of an increasing population competing for a share in a wage fund that lagged behind in its growth. What competing thesis could George advance to explain how men created their own wages and yet account for the apparent paradox of involuntary poverty?

George argued that Mill failed to integrate his law of wages with those laws that determined the size and distribution of rent and interest, thus producing a fatal incoherence. The American therefore embarked on a lengthy process of defining economic concepts, describing capitalist production, and accounting for those discontinuities in the productive process that created unemployment, low wages, and human misery. His central thesis was that land monopoly was the fundamental cause of poverty and that the margin of cultivation established the base rate for wages.⁹ A free man would not agree to switch to wage labour unless his income was going to equal what he could earn at the margin of cultivation, where he could apply his labour without paying rent. Employers, on the other hand, under the pressure of competition, would not offer wages higher than those that were just sufficient to attract labour away from self-employment on the land and into manufacturing and commerce.

George's two key propositions, therefore, were these:

(1) Wages depend upon the margin of production, or upon the produce that labour can obtain at the highest point of natural productiveness open to it without the payment of rent.

(2) Where natural opportunities are monopolized, wages may be forced by the competition among labourers to the minimum at which they can reproduce.

Two Britishers, Francis D. Longe and Francis Wrightson, lost little time in publishing what they thought were refutations of this alternative theory of the wage determination process. Longe, an Oxford-educated barrister, occupied various minor governmental posts. He had been the author of two prior economic monographs, and later wrote on other subjects. No information about Wrightson seems to be available, apart from his claim to have had "practical experience of land" in both Britain and California, and the fact that "Ph.D." appears after his name on the title page of his critique.

Longe*1. The Wage Fund*

Francis Longe coupled his attack on Henry George with a restatement of his objections to Mill's wage-fund theory.¹⁰ He had earlier expressed these objections in his *Refutation of the Wage-Fund Theory of Modern Political Economy* (London, 1886). Yet his critique of the wage-fund theory is far less radical than was that of George or even that of Walker; despite his "refutation" of the theory, he continued to accept so many of its assumptions that he may be regarded, for all practical purposes, as a representative of it in the context of his assault on George.

Longe apparently believed the following:

(1) *Labour is dependent on capital for employment.* While labour may originally have fashioned the first pieces of capital equipment, when it comes to "material progress, or the increase of wealth and population, the factor that plays the first part is capital";¹¹ indeed, "it is the capitalist who provides the materials on which alone the labourer can exert his labour. It is, accordingly, the capitalist, and not the labourer, who commences the process by which wealth is increased."¹² He did not see any possibility of realising Henry George's hypothetical proposition that "where land is free and labour is assisted by capital, wages will consist of the whole produce, less that part necessary to induce the storing up of labour as capital."¹³ Longe had evidently not considered either the circumstances under which farmers worked on marginal land, or the conditions under which migrants worked in the early stages of the colonization of Australia or North America.

(2) *Wage rates are determined by the increase of population.* George's thesis that wage rates were heavily influenced by income earned at the margin was unacceptable to Longe, who held that "it is labourers who are out of employment, not labourers who are actually employed, whose competition lowers wages."¹⁴ If anything, Longe's Malthusianism was stronger than Mill's, for the latter allowed for the possibility that education could enable people to appreciate

that lower fertility rates meant higher living standards. For Longe, however, "the tendency of population is to exceed the means of subsistence"; in the long run there was a permanent "excess of candidates for employment."¹⁵ Responsibility, then, lay with the fecund disposition of the labouring class, "and to attribute the whole responsibility to employers or landowners, or some vague abstraction such as the 'social maladjustments that in the midst of wealth condemn men to want,' is, to say the least, a one-sided and misleading representation of the matter."¹⁶ It was, he pronounced, "fruitless to combat, and pernicious to disguise" the laws of wages and population.¹⁷

(3) *Labourers depend on capital for their wages.* This third proposition may at first appear controversial. In his analysis of Mill's theory, Longe specifically stated that "if labourers are not paid until after they have done the work for which they are paid, they are certainly not maintained on their employers' capital during the performance of that work."¹⁸ Whence, then, wages? We have seen that Longe ascribed primacy to the role of capital. He reinforced that claim several times. "It may be assumed that *so long as* an increasing amount of wealth can be employed so as to bring to the employer that minimum of profit which Mr. George allows the capitalist, so long will an increasing population find a subsistence in productive trade."¹⁹ If we are not to interpret this as meaning that wages came out of capital, or the profits of capital, his assertion that population can only increase in line with increases in capital accumulation²⁰ is less ambiguous. But one of the clearest statements is contained in a passage about peasants who had been dispossessed of their land. "While capital buys up the land, or occupies it in large firms, *capital buys off the poor man by wages* which offer him a better living than he can obtain without its assistance." He continued: "For these classes to complain of being excluded from the land by capital, would be to complain of *the very conditions which brought them into existence and supplied them with a means of subsistence which the land could never have given*; and for them to destroy the conditions on which capital lives and thrives would be to destroy *the only condition* on which they can themselves exist."²¹ Longe actually believed that a distinct wages fund existed, which consisted of circulating capital.²² In this he was following Adam Smith, who stated: "That part of the capital of the

farmer which is employed in the instruments of agriculture is a fixed, that part which is employed in the wages and maintenance of his labouring servants is a circulating capital."²³ We have seen enough to appreciate that, conceptually, he was very close to Mill, and ipso facto far removed from Henry George. We now turn to the criticisms that he advanced against the American.

2. Marginalism

Because of George's general law of wages, he was led—argued Longe—to “the grand fallacy which underlies his entire argument. This fallacy consists in identifying ‘product of labour’ with ‘labour.’”²⁴ Product of labour, Longe pointed out, was the thing produced, not the labour or work employed in producing it. Longe did not cite evidence for charging George with this confusion. George was meticulous—often to a fault—in defining his terms. Longe's mistaken criticism sheds light on the level of his theoretical reasoning. He asserted that the labourer “does not make or produce the wealth which he receives in wages, any more than the seller of a pig makes the money, or wealth, which the purchaser gives in exchange for the pig,” although the self-employed labourer did produce the wealth “with which he is supposed by Mr. George to pay the wages of his own labour.”²⁵ In an exchange economy, it is obvious that a labourer does not receive in wages that which he has produced, and George was well aware of this elementary fact. Why, then, did Longe erroneously perceive a fallacy underlying George's theory? An examination of this point yields some interesting insights into the history of the theory of wages, and so I shall conjecture an answer.

It is wrong, as Longe stated, to confuse “product of labour” with labour itself. But is there no connection at all? George's theory that the lowest wages were determined at the margin of cultivation related units of labour with the physical product that marginal land would yield to the cash wage that a labourer would demand of an employer if he agreed to change his employment. If one week's work yielded one cwt. of wheat that could be sold for £20, the self-employed farmer was not likely to accept less than £20 in wages to work for someone else. The component parts of this equation

are *equivalent* in terms of their value: 40 hours' work = 1 cwt. weight = £20. Now, this theoretical reasoning anticipated the marginalist revolution in economic theory, which is commonly associated with neoclassical economists like Alfred Marshall. Wage theory today still relies on the concept of marginal productivity, but there has been a shift in the perspective. George approached the problem from the supply side: how much a free labourer who had access to marginal land would require in wages before giving up his self-employed status. Today, theorists focus on the demand side: how many workers would be hired by employers at ruling wage rates. But the basic equation remains as George defined it: equilibrium is that point where the marginal *physical* product of labour = marginal revenue to the firm = the marginal wage. Longe simply failed to understand this relationship.

The marginal-productivity theory has been criticised as unrealistic: it relies on the assumption of competition, whereas economies are today disfigured by monopolistic encumbrances. This does not undermine the value of the working model into which one can build modifications for the purpose of deriving predictions. Marginal-productivity theory can be modified to take account, for example, of dominant firms wielding oligopolistic power in the labour market, or trade unions that can intervene in wage bargaining to influence settlements or restrict the productive process by practices designed to protect those already employed in a firm or industry.

Likewise, Henry George appreciated that the theory viewed from his perspective had to be adjusted; land monopoly meant that labour was not, in fact, free—did not enjoy unrestricted access to rent-free land at the margin of cultivation—and was therefore “captive” in the factor market. Dramatically, he characterised wages in those conditions as being no better than those in a society based on slavery.²⁶ As evidence, I can briefly note the workings of the most complicated wage structure to be found anywhere: society transforming from an economy based on slavery to a reliance on wage labour, within the framework of private property in land. Cuba between the 1840s and 1870s is an example. The cheapest and most suitable form of labour for sugar plantations was the African slave. As the supply of slaves began to dry up, wages of Creole and European workers rose²⁷—but

not as high as they would have been had the easily cultivated land been freely available to immigrant farmers. Aimes, in his study of the Cuban slave economy, noted that a proposal advanced in 1865 to reform the tax system (which had until then relied on customs duties) would have a beneficial effect: "a direct property tax would help in the problem of immigration because immense tracts of land were held by people who would not develop them nor sell them, because it cost nothing to hold unproductive property, and there seemed to be a difficulty in getting the land into the hands of small owners. A direct tax was ordered by Real Decreto, February 12, 1867, and the collection of this tax in the eastern part of the island directly caused the war of 1868."²⁸ But the availability of free land (or of fruit for the picking) created a problem for plantation owners. Aimes recorded that an unhampered supply of African labour would have resulted, by 1860, in all the arable land being owned and cultivated; and this, as George would have pointed out, would have resulted in a captive labour market. Aimes would not only have agreed, but would also have approved. For, he said, "One of the great obstacles to Cuba's tranquillity was that the settled parts of the island adjoined a great backwoods; consequently, society did not react against itself. The great open interior caused a constant evaporation of the labourer class. . . ." Ames did not like the way free men of all breeds exercised their right to avoid the back-breaking work at ruling wage rates on the sugar plantations. "There was always a great plenty of very fertile lands on which an easy living could be obtained. This kind of a life was far more attractive to the ordinary negro, mulatto, and low white than hard steady work in sugar ingenios, and they worked in them enough to get a small amount only of wages, with which to buy a few articles which they could not produce themselves."²⁹ The easy access to food on this tropical island meant that Negroes and mulattoes were able to enjoy a relatively free and easy life. This led Aimes to express a value judgment: "The free negro or mulatto was generally a parasite. They refused to apply themselves any more than was absolutely necessary to gain sufficient to live on." Clearly, a group of people in Cuba—uninhibited by European cultural constraints—felt disposed to maximise their leisure. This caused problems for the plantation owners, who wanted a hard-working—but cheap—labour

force; the absence of such a supply of workers was a brake on their plans for expansion. But they did, of course, have a solution in their hands (or rather, pockets): they could have paid wages that were so attractively high that the workers would have been lured from the back streets of Havana or the highlands of Scotland. But this, of course, would have cut the returns to the landowners.

Such are the complications that a theory of wages needs to encompass. While George's use of marginalism with respect to wages predated its use and development by the neoclassical school, his approach was the richer. For he explained the process of wage determination in full, whereas the later version was simply a theory of the demand for labour.³⁰ Marginalism has held the centre of the stage since George's time. Longe's rejection of George's theory exposed him as anachronistic; this conclusion supports my attempt to draw a strong parallel between him and the classical economists with whom he thought he disagreed.

3. Speculation

Longe believed that there was no intersectoral link in the wage-determination process.³¹ This objection to George will be discussed in the section on Wrightson. Here we shall consider Longe's emphasis on what he called the "natural price" of agricultural labour.³² This was arrived at, he said, through "the unrestrained influence of competition among themselves."³³ This was an unexceptionable statement with which George would not have argued; but by itself it said little. We need to know the economic framework within which this competition operated; how, for instance, the rights to natural resources were distributed, and how these were used (or misused) by those who had access to the resources. If land was monopolized by a relatively few people and access to it restricted, the consequences would be wholly different from a regime in which there were fiscal penalties on people who chose to limit access to land for speculative purposes. Longe felt that such considerations did not affect the principle of "unrestrained influence of competition" among agricultural labourers: "This principle, which attributes the reduction of wages to a minimum to the competition of labourers rather than to any action

on the part of the wealth-owner, whether employers or landowners, cannot be excluded from any theory of social science, however reluctant the theorist may be to admit a principle which must to a great extent relieve the rich of responsibility for the existence of poverty, even in their midst."³⁴ Thus landowners were once again absolved of any responsibility for the level of wages. But this was a curious conclusion, for Longe appreciated that in land-abundant colonies wages were high.³⁵ How did he account for this? Not in terms of the strong bargaining power that labour enjoyed when it had free access to fertile land; for he insisted that "it is the law of the increase of population which underlies the law of natural wages."³⁶ And so Longe explained these high wages as owing to a high accumulation of capital. Eventually, however, the natural increase of population would drag down these high wages, for "there is at least some truth in the doctrine which asserts that the tendency of population is to exceed the means of subsistence."³⁷ This Malthusianism may appear plausible when we look at the number of poor people in third-world countries. But it begged an important question: When was poverty experienced *solely* because of ecological insufficiency in relation to demographic growth? It also fails to explain why, in industrial countries, falling birth rates have not removed poverty! In the end, as George repeatedly stressed, poverty was largely a distributional problem, and one could not overlook the institutional framework within which landlords and capitalists operated.

And yet, in the same way that he is difficult to disentangle from Mill's wage-fund theory, so Longe's declamations against George have to be qualified by certain of his admissions, which—if they had been pressed to their logical conclusions—would have brought him round to the Georgist thesis. But Longe avoided logical conclusions by introducing special pleading to justify the status quo. I shall note two examples. The first was embodied in the following damaging admission: "Undoubtedly Progress tends to exclude the poor man from the ownership and even occupation of land as a means of living, but if that is an evil who are the sufferers? If that is a grievance on whose behalf is it to be raised? Certainly not on behalf of those industrial classes whom Progress brings into existence, and supplies, on the whole, with a much better living and more means of enjoyment than

a poor peasantry can obtain.”³⁸ So here we have it; the “poor”—whether many or few, we are not told—were to be sacrificed in the name of progress. But what did Longe mean by *progress*, which he absolved of blame for poverty?³⁹ If he meant technological innovations, or improved organization to facilitate mass production, Henry George never held that these were, in and of themselves, responsible for poverty. Yet Longe did not mean this. And in referring to the poverty in Chicago, St. Louis, and San Francisco, Longe concluded that it was owing to “the presence and operation of other causes besides increase of population and rent.”⁴⁰ But what were these causes? Longe could not resist blaming the unemployed for their plight: “the indolent and ne’er-do-wells, the professional beggar and pauper, who hang about wealth as moths round a lamp, and seek to pick up the crumbs which fall from the rich man’s table.”⁴¹ And yet—and here we come to the second piece of special pleading—Longe felt obliged to take into account the effects of land speculation: “Mr. George has, probably, good ground for attributing the exclusion of the poor population of the thriving American towns from gaining a livelihood as settlers on lands near these towns, to the ‘speculation in land values’ and the acquisition by the capitalist of the more fertile and best situated land.”⁴² In admitting this, Longe was conceding defeat. Yet he would not finally throw in the towel. For, he responded, “this action on the part of speculative capitalists appears to be fully recognised as an evil by the politicians of these young communities, and laws restraining it are very general.”⁴³ Historically, this is not correct. But even if it were, Longe was not interested in thoroughgoing reform to remove the evil of idle land going a’begging while beggars went a’wanting. For, he said, “it is clear that the cause of this evil is the ‘possessory right’ which enables the speculators to exclude others, not rent.”⁴⁴ Rent, then, is exculpated from responsibility—as if it were unrelated to “possessory rights”!

Longe tentatively suggested a solution (one applicable only, apparently, to “young communities”): “If rent be the object of this practice of engrossing land, the condition of society in these young communities is peculiarly one in which any restriction required by the interests of the community at large might be placed on the powers of the landowners to raise rents, without interfering with vested rights or

long-established institutions."⁴⁵ Thus, he was willing to ameliorate the evil to the extent of preventing further increases in rent, but would not entertain a radical reform that would have removed altogether the cause of the problems under consideration: vested interests had to be protected.

In a revealing conclusion to what he thought was an attack on Henry George's proposal for land-value taxation, the British writer argued that the institution of private property in land was one that had been adopted in the United States because of its "intrinsic merit." For, he asked, would it otherwise have been acceptable to the wise founding fathers? Would they really have imported an evil institution from Europe?

Certainly no young society can undertake the task of settling the fundamental laws on which the property under its dominion is to be held or occupied with stronger grounds for prejudice against the institution of private property in land, than a society composed largely, if not entirely, of emigrants from other lands, who have been compelled to leave them under the force of those very conditions which this institution is charged with aggravating, if not originating. We find, however, *notwithstanding this reasonable ground for prejudice against it*, the right of private property in land adopted by State after State.⁴⁶

Again he repeated the claim that restrictions were generally imposed on the tendency to land speculation. Yet he admitted, without extrapolating the consequences: "But no restrictions are placed on the prospective wealth which Progress will confer on the fortunate Rip Van Winkles from the rent of the lands they purchase."⁴⁷

In view of his admissions, one is tempted to conclude that Longe had ideological, rather than honest scientific, reasons for opposing Henry George. How else do we explain his attempt to ridicule George's claim that economic growth arising from technological innovations tended to increase land values? George was quoted as stating that "this being the case, every labour-saving machine, whether it be a steam plough, a telegraph, a perfecting printing press, or a sewing machine, has a tendency to raise rent."⁴⁸ Longe responded sarcastically: "When an author himself supplies such a forcible *reductio ad absurdum* to his own argument it is needless to take up further time in showing its fallacy."⁴⁹ And yet, on page 29, he felt obliged to

admit that "the ground rent of land occupied by our factories, iron-works, and shipyards, is undoubtedly raised by the progress of trade." Time and again Longe set up an objection and then destroyed it himself!

One of the sharpest differences between the two economists lay in the emphasis each placed on the importance of land, labour, and capital. For George these were interdependent and equally important in the productive process, and no one component could be understood properly if studied in isolation. For Longe, however, primacy went to capital, which created land values⁵⁰ and brought the industrial classes into existence.⁵¹ Because of his false emphasis on capital, Longe was bound to reject the validity of George's solution: a tax on land values. And this brings us to yet another admission by Longe: "That the condition of the industrial classes who are brought into existence and maintained by capital is fraught with liabilities of which disappointment, poverty, and want are the outcome, no one can dispute."⁵² Yet, said Longe, a tax on land values would multiply and intensify this unhappy situation. For "the industrial classes under his system would be just as much 'slaves' to capital as they are now." He embellished this claim with several assertions that he did not adequately elaborate. For example, employment would be no more certain or regular under land-value taxation than without it.⁵³ To sustain that claim, Longe had to show that the removal of speculation, through a tax on land values, would *not* help to eliminate the economic crises that periodically caused unemployment. He did not even discuss the issue.

He did, however, claim that toiling labourers would have as much reason to feel embittered by the sight of wealth and "the lavish expenditure of the rich" in a Georgist society as under the existing system. Admittedly, no human society could expect to remove all of the base emotions. For instance, in a society that forcibly ensured that everybody received precisely the same income, people capable of contributing more than the average in creative effort would resent the coercion that enforced strict equality; this would embitter some of them toward less capable people who received more than they contributed. But in the system advocated by Henry George, inequalities of wealth would only represent the differential contributions of

individual people to the wealth-creating process through the exercise of physical or mental effort or entrepreneurial skills. No one would enjoy the benefits of unearned income from land. Longe could not perceive this, and so his objections to land-value taxation failed to allow for the transformation of public attitudes arising from a reform of the economic system. In fact, he would have considered the attitudinal effect of income redistribution irrelevant. For he argued that the accumulation of wealth in the hands of capitalists and landowners was not at the expense of the portion going to labourers, who therefore had no justifiable right to feel aggrieved. This was a consistent conclusion for the wage-fund theorist, but one that produced all kinds of confusions and no logical solutions to economic problems like the presence of poverty in the midst of plenty.

Wrightson

1. The Theory of Rent

Francis Wrightson wrote that after reading *Progress and Poverty* twice he suspected that there was something wrong, “but could not lay [his] finger on the spot.” The third time lucky, he discovered “a palpable falsehood masquerading as truth.”⁵⁴ On this discovery hung his attempted refutation of Henry George’s book. The falsehood, however, lay with Wrightson. His mistake perhaps lay in his initial overconfidence:

That I have arrived, starting from the same principles and adopting the same theory so far as it was applicable, at the contrary conclusion to that of Henry George, viz.—that *Poverty and low wages are NOT caused by landowners taking all the surplus wealth*, is due perhaps to the fact, that I have had the advantage both of scientific training and of some practical experience of land, both in this country, and in the frequently referred to country of California—of which experience there is internal evidence in George’s book to show he has had none.⁵⁵

So the “prophet of San Francisco” who spent so many of his formative years in California was wrong. And what verities did the British critic offer the world? Precisely none! “I am not so rash; I do not believe in the existence of any law with regard to rent,” he declared.⁵⁶

And in the penultimate of his thirty-six pages he confessed abjectly: "The evil of the unequal distribution is still to be solved." The powers of this scientific training, it would appear, were limited, and this revealed itself in his critique of Henry George.

Wrightson argued that George made two fundamental errors. The first was in generalising a theory of rent that was relevant only to the agricultural sector. The second was in explaining wages as being determined at the margin of cultivation. We shall first consider the law of rent, which was so crucial to *Progress and Poverty*.

Wrightson rested his critique on the assertion that the element that determined rent was soil fertility, "the *inherent* and *permanent* property of *fertility* in *the soil*, for if this were temporary or accidental, easily lost or diminished, no fixed rent would be possible."⁵⁷ He cited Ricardo and J. S. Mill as his authorities.

Wrightson did not quibble with George's initial definition of the rent of land as being "determined by the excess of its produce, over that which the same application (of labour and capital) can secure from the least productive land in use rent free."^{*} His central objection was George's claim that the law also operated in the urban, industrialized sector.⁵⁸ George was under the impression that the law of rent per se was not a controversial one. "Mr. George is obviously wrong in this," wrote Wrightson, "as Ricardo *strictly* limits the rent law, or 'margin of cultivation' to agriculture; to the 'inherent indestructible powers of the soil,' of its varying fertility. And I think Mr. George can quote no writer who extends the law as he has done."⁵⁹ Wrightson was mistaken. Fertility was no doubt the defining characteristic of the law of rent that an economist in a largely agrarian economy would single out for prominence and repetition, but *location* was also crucially important. Transport costs were part of the cost of production; they therefore helped to determine the amount that a landowner could claim as being "surplus" to the total costs of an enterprise, whether agricultural, commercial, or industrial. A plot of land, therefore, whatever its use—rural or urban—had ascribed to

^{*}Wrightson gratuitously added "rent free" to George's definition in bk. 3, chap. 2 of *Progress and Poverty*. Actually, George equated the least productive land in use with the *most* productive rent-free land.

it a value depending on whether it was close to, or far from, the markets or places of employment.

Nor was Wrightson correct in claiming that his authorities employed only his narrow definition. Mill, in noting the high quality of land used in the United States, said this was so “except sometimes in the immediate vicinity of towns, where a bad quality is compensated by a good situation.”⁶⁰ This was a throwaway observation, in parenthesis, so that we might forgive Wrightson for overlooking it. But his failure to take account of Ricardo’s analysis of the importance of location in determining rent is not so easily tolerated. Ricardo said that if all land was of equal fertility, in theory there would be no rent; but that since some land would be further away from the markets and was therefore burdened with the costs of carriage, rent would be a measure of locational advantage.⁶¹ Marginal land would be the least advantageously situated land that the demands of a community required to be brought into use. Ricardo, admittedly, was not always comprehensive in his definitions. For example, he stated that “whenever I speak of the rent of land, I wish to be understood as speaking of that compensation, which is paid to the owner of land for the use of its original and indestructible powers.” He did not include the locational element here. Nonetheless, Ricardo soon extended his definition and theory in the following clear terms: “If all land had the same properties, if it were unlimited in quantity, and uniform in quality, no charge could be made for its use, *unless where it possessed peculiar advantages* of situation. It is only, then, because land is not unlimited in quantity and uniform in quality, and because, in the progress of population, land of an inferior quality, *or less advantageously situated*, is called into cultivation, that rent is ever paid for the use of it.”⁶² From that point on there was no reason why Wrightson should have overlooked location in the theory of rent. Ironically, however, he did indirectly admit that location was relevant, for in dealing with international competition he referred to “the smaller expense of placing [produce] in the English markets,” which had an effect on production costs and therefore on rents!⁶³

Since Wrightson rejected the relevance of the law of rent in the nonagricultural sector, how did he explain the payment of rent for urban land? This, he declared, was compensation to the landowner

for destroying the agricultural value of the land, and for "putting a dirty, smoky factory thereon."⁶⁴ There was no competition for land on which to erect buildings for manufacturing or any other purpose but agriculture, he asserted. "In fact, one has only to observe the notice boards all round the suburbs of towns to see that it is building land which goes a begging for tenants, and the landowner who should try to stipulate for even a one hundredth part of the 'surplus produce' on the faith of George's theory, would simply be laughed at as a lunatic!"⁶⁵ In this sentence, Wrightson added, in parenthesis, a damaging admission. The unused plots, he said, were "frequently not held for speculation." Perhaps so; but he was conceding that, in some cases, speculation *was* the motive! What advantage was there in speculatively holding land idle if the owner could expect compensation only for damage done through pollution? There are other problems with Wrightson's eccentric theory. The difference between urban and rural rents could not be accounted for in terms of the loss of the agricultural use of an acre of land in, say, New York's Broadway or London's Mayfair. Nor could Wrightson explain why two plots of urban land of equivalent size, with identical disfigurements upon them (say, two-storey detached houses of similar appearance), yield different rents. The difference, of course, must be ascribed to location, which landowners exploit because of their monopoly power.

2. Intersectoral Competition

We now return to the problem of wage determination. Soil fertility, and cultivation at the margin, may determine agricultural wages, said Wrightson.⁶⁶ But these had nothing to do with the wage of the industrial worker, for whom "competition there may be, between himself and his skilled fellow artisans, but it will be independent of 'the margin of cultivation,' and can have no relation thereto; therefore the general law of wages, as stated by Mr. George, is as fallacious as the general law of rent."⁶⁷

At the base of the labour force was what Henry George called "the lower and wider strata" of workers whose wages were the lowest. These wages were at, or above, subsistence levels, depending on

whether the ruling land-tenure system was a rational one, working for the benefit of the whole community, or an irrational one, working for the good of the relatively few monopolists. These wages were determined in the following manner:

Now, the primary and fundamental occupations, upon which, so to speak, all others are built up, are evidently those which procure wealth directly from nature; hence the law of wages in them must be the general law of wages. And, as wages in such occupations clearly depend upon what labor can produce at the lowest point of natural productiveness to which it is habitually applied; therefore, wages generally depend upon the margin of cultivation, or, to put it more exactly, upon the highest point of natural productiveness to which labor is free to apply itself without the payment of rent.⁶⁸

Wrightson considered this proposition of doubtful validity.⁶⁹ Yet today's agricultural workers, in all European countries, as a group receive the lowest wages. Firms seeking unskilled workers are hardly likely to offer wages greatly in excess of what they needed to pay to attract labour from the farming sector. Just how much these would have to be depends upon the various factors that George outlined, and taking into account the obstacles to mobility (such as the availability of housing, which to an important extent is a function of the way property rights in land are exercised).

But Henry George was referring to workers in all of the primary industries, not just the agricultural sector, and the wages of British miners are higher than for many in the manufacturing sector. This presents no problem to George's theory. It can be explained in terms of monopoly power. The mines having been nationalized under one employer (the government, ultimately), the workers simply had to organise themselves into a single powerful union to be able to exercise reciprocal power. So strong has the National Union of Mine-workers become that they were able to challenge and topple the Conservative government in 1974, and successfully negotiate a high wage claim under the incoming Labour government as an allegedly "special case." Agricultural workers, on the other hand, are so scattered as to be unable to wield the same kind of power; for them, wage bargaining has to operate within the context of the imperfectly free market.

But the kind of exception exemplified by the British miners does not invalidate the underlying tendencies that George isolated into economic laws. To see how his theory of wages operates, we can take a look at the relationship between peasants and artisans vis-à-vis landlords and urban employers following the Black Death in the fourteenth century.

The plague decimated the working population of Europe, and this left large tracts of land vacant. What happened? Not surprisingly, we learn from historians that the custom of searching for better working conditions became more common after the Black Death. Peasants who remained in the agricultural sector moved to better land yielding them higher returns. The revenue of landlords declined, for their bargaining strength weakened in favour of the peasants. Landlords who wanted to repopulate their land had to agree to pay higher wages or (what amounts to the same thing) agree to lower rents. As a result, bondage almost totally disappeared in Western Europe.⁷⁰

The movement of workers and wages in rural areas affected urban employment. Labour mobility equalised wages between the two sectors. Trout Rader states that “there is no reason to believe there were any significant wage differentials between town and country—except possibly to account for cost of living.”⁷¹ Landlords had no doubts that workers could influence wage rates, which was why the Statutes of Labourers were passed in Britain—to try and restrict the mobility of labour, and so diminish the need to compete with other employers in the labour market.

3. *National Income*

Having failed to perceive any connection between agricultural wages and those paid in the industrial sector, and having no alternative theoretical framework to offer, Wrightson tried to win his argument by being scathing. He drew isolated sentences from *Progress and Poverty* and relied on sarcasm to try to win his points. George had been led to the “utterly false conclusion, that *all* wealth is going into the pockets of landowners,” he observed.⁷² George had “levelled all wages down to what a man could earn at [the] margin.”⁷³ George had drawn the general conclusion that “*all* the surplus wealth over the

bare 'margin of cultivation' goes to swell the plethoric pockets of the landowners; while all labour is ground down to starvation point," and "neither increase of population, nor improvements in the arts and sciences, can increase wages or diminish poverty."⁷⁴ Wrightson had no difficulty in contradicting *this* account with evidence that rents had declined in the face of international competition,⁷⁵ and that there had been an increase in the income of a nonlandlord class (he did not make clear whether he was referring to workers or capitalists).

Whether this distortion arose out of maliciousness, or whether Wrightson had simply misread the published material (which he had done with Ricardo and Mill) we cannot determine, though so crude was his representation of the contents of *Progress and Poverty* that we are strongly inclined to believe that he deliberately sought to be mischievous. W. H. Mallock, whom Wrightson cited in verification of his arguments,⁷⁶ must be placed in the same category. Before digressing to look at Mallock's interpretation of George's theory, we need to clarify terminology used by the American that could give rise to confusion if not considered carefully.

George occasionally failed to make clear, in his discussions on the production of wealth and distribution of income, whether he was referring to individual productive enterprises on specific plots of land, or to the economy as a whole. Both, for example, are wrapped up in the following sentence: "Thus, increase of population, as it operates to extend production to lower natural levels, operates to *increase rent and reduce wages as a proportion*, and may or may not reduce wages as a quantity; while it seldom can, and probably never does, reduce the *aggregate production of wealth* as compared with the aggregate expenditure of labor, but on the contrary, increases, and frequently largely increases it."⁷⁷ In the first half of this sentence George drew attention to the effects on wages and rents at the micro-economic level as a result of the operation of the economic laws, which he defined, at the margin of production. In the second half of the sentence he alluded to total income in the economy. Mistakes arise if these two are confused. I illustrate the point in the following way.

Let us assume a two-factor (land and labour) economy, in which a plot of marginal land yields no rent. Then, following George, let us

assume an increase of population that extends to new marginal land. Because of the lower returns, owing to poorer soil fertility or higher transportation costs, the income of the labourer is reduced to what we can hold to be the minimum subsistence level. This, *ceteris paribus*, drags down the *level* of wages on all other land and raises rent. This was what Henry George emphasised, and it is the only economic effect that would matter to people at the bottom end of the wage-earning scale (who would not care about aggregate wages). Mallock chose to take this as representing the whole of George's theory, rather than just the beginning (albeit a vital beginning) to his exposition. By limiting himself to this one proposition, Mallock deduced, and attributed to Henry George, the conclusion that landowners took a growing proportion of *aggregate* income.

But George's example showing how the general rate of wages coincided with the margin of production, falling as it fell and rising as it rose, contained no reference to aggregate wages in the country. His references were to the general rate of wages; wages (rates) as a proportion to rent in specific locations; and wages as a quantity received by the industrial labourer. With an extension of the margin because of increased population and an increase in the arts of production, the aggregate wage bill of a country might rise or fall as a proportion of the total produce of the country or rise or fall in relation to rent, but none of this is relevant to George's thesis. Thus, even if it could be shown that the aggregate wages of a community had increased in quantity and/or as a proportion of total output, it would not destroy George's argument.

In 1884, the year before Wrightson published his tract, Mallock drew up a chart of national income⁷⁸ showing the proportion going to landlords if Henry George's theory—as he interpreted it—was correct. Given a gross income of £1,200 million, Mallock revealed that the theory contained in *Progress and Poverty* was such that large landed proprietors ought to be receiving £900 million, and the rest of the nation £200 million. In fact, one of the "truths" that he offered was this: "The rental of the landed aristocracy, instead of being, as Mr. George and various agitators imagine, something over 900 millions, is in reality under 45 millions."

Thus George was exposed as a charlatan, a man seeking to distort

reality for his own ends, a trouble-maker who refused to test his hypotheses against the facts. For an understanding of how Mallock deduced George's "supposed" position, let us turn to a book he published in 1914. *Social Reform*⁷⁹ provided a repeat performance of the statistical exercise, but by now national income had grown to £2,000 million. According to George—declared Mallock—the bulk of the population of Britain and Ireland should have been subsisting on £500 million, while the owners of the unimproved soil should be appropriating £1,500 million. In fact, he triumphantly revealed, the actual rental income, after deducting that portion that was interest on buildings, did not total £80 million, while the great landowners themselves received less than half that sum.⁸⁰ Furthermore, the proportion of national income going to landowners had decreased from 20 percent of £180 million in 1801 to 4 percent of £2,000 million in 1914.⁸¹

Mallock's reading of *Progress and Poverty* was of the same simplistic order as Wrightson's. The core of his understanding of George's work, which underlay his statistics, was this:

in whatever ratio the income of any progressive country increases, the portion of it which is taken by landowners as the rent of crude land, or land-rent as distinct from interest on human improvements, constantly increases in a ratio greater still. If the total income within a given period doubles itself, land-rent will within the same period continue till "the earnings of capital" (as he put it) no less than "the wages of labour" are so far absorbed by land-rent that the landowners appropriate the entire and increasing difference between the total of the national product, no matter how great, and the amount which is *just sufficient to keep the rest of the population alive*.⁸²

I shall note two points that not only render Mallock's debunking exercise null and void, but indicate how unreliable his own figures were. First, he used statistics that represented *income actually received* in the United Kingdom. These were the only figures of interest to the taxation authorities, who worked on the Smithian precept of taxing people according to their ability to pay. But when it came to rent, George was interested in only one figure: the *potential* income and tax yield from all land. Therefore, Mallock's statistics, if they were to be a fair test, would have to be adjusted to include rents imputed

to the owners of freehold land. For landowners either (a) used the land themselves, and therefore theoretically paid themselves rent in their capacity as landowners, or (b) held the land idle, for whatever reason, and so were choosing not to realise potential income. To calculate this "income," a new Domesday Book exercise would need to be instituted.

The second point is this. What if, after completing the valuation of all land in the economy, it was found that Mallock was right—that rent (as defined by Henry George) *was* diminishing as a proportion of national income? This in itself would prove nothing at all, for we can envisage a situation in which a growing population pushes up production by extending cultivation outward; this increases total output in such a way that, while wage *levels* on particular plots may drop, total wages may *increase* as a proportion of national income. Conversely, while rental *levels* increase, the *share* of rent in the economy's total output may decrease. So while the wages bill may have increased as a whole, who could deny that, in per capita terms, the landlords were the better-off class? It may be objected that this relies on an extensive use of land: Is this realistic when dealing with land, which is in finite supply? The objection causes us no difficulty, for George did not rely on an indefinite outward extension of the margin of cultivation. In fact, at the end of book 4, chapter 2, he revealed that he believed that concentration of economic activity on localised centres was by far the most important cause of increases in land values. In his chapter on the law of wages (bk. 3, chap. 6) he noted how rents *and* wages can both rise with "the advance of the arts or the economies that become possible with greater population." He continued: "the relative fall of wages will not be noticeable in any diminution of the necessaries or comforts of the laborer, but only in the increased value of land and the greater incomes and more lavish expenditure of the rent-receiving class." Here he dealt specifically with the rise of rents relative to wages on particular plots of land. We now know from experience that where there have been striking advances in the "arts" of production, and benefits accruing from further growth of population, aggregate wages paid out in the economy can increase enormously (which Mallock thought was fatal to George) while at the same time the growth of the level of rents

outstrips the growth of wage rates (the point that George knew caused problems for many wage earners). It was the failure to distinguish between rates of wages and total wages, and the reciprocal reactions of rent and interest, which misled many of George's critics, like Wrightson, and caused others to appear foolish because—like Mallock—they pushed their satirical criticisms to absurd lengths.

But was there no warrant for saying that everybody other than the landowner would receive an income “which is just sufficient to keep . . . alive?” In the preface to the fourth edition of *Progress and Poverty*, written in 1880, George did briefly outline a model that, if it reflected a real economy, would produce a close approximation to such a result. By holding technical progress constant, and assuming a growing population, the rising demand would push hard against an inelastic supply of land and so “increase the proportion of the aggregate produce which is taken in rent, and reduce that which goes as wages and interest.” But even if we assume, along with Mallock, that this was the situation for the United Kingdom in 1801, it is impossible to envisage a transformation of the share taken by rent over the course of a century from 20 percent to the 75 percent that he attributed to George's theory in 1914: the Malthusian influences favoured by Mill would most certainly have come into play with a vengeance to retard such a shift!

George's hypothesis was a simple theoretical model for testing the relationships and responses between given variables. It was not unrealistic: it was a legitimate construct for the purpose of scientific analysis of real-world problems, where these were limited to the specified variables. He elaborated on the analysis in book 4, chapter 2. Such reasoning, for example, would have enabled one to predict the consequences of the Black Death in the fourteenth century. But George did not intend this hypothesis to be his paradigm of nineteenth-century Europe or North America. Indeed, the very title of his book placed technical progress at the centre of his problematic. In book 3, chapter 6, he accounted for wages and salaries that were above subsistence level. He described the differential structure of income paid to the working class. Wage rates, he wrote—following Adam Smith—adjusted to allow for innate abilities, the disagreeableness of certain occupations, the cost of acquiring special skills, the

Distributive Shares as Percent of Home-Produced National Income: UK Decennial Averages*

	Wages and Salaries	Rent**	Profits
1876–1885	55.7	14.8	29.5
1886–1895	59.4	13.8	26.8
1896–1905	59.2	12.4	28.4
1906–1913	56.5	11.8	31.8
1926–1935	66.9	9.3	23.8
1936–1945	61.7	7.5	30.8

SOURCES: E. H. Phelps Brown and P. E. Hart, "The Share of Wages in National Income," *Economic Journal* (1952); L. C. Hunter and D. J. Robertson, *Economics of Wages and Labour* (New York: Augustus M. Kelley, 1969), p. 348.

*Except for 1906–1913, which is for an eight-year period.

**This category does not represent economic rent. It includes interest payments on capital (e.g., houses and factories) and does not include the rental income that can be imputed to the owners of freehold land.

security of employment, and special factors (such as where an employer had to repose trust in an employee). These considerations pushed up the wages of some people above minimum standards, and the list has not been improved upon by contemporary textbooks on economics.⁸³

Nonetheless, if Wrightson and Mallock were alive today they would point to trends in national income distribution over the one hundred years since *Progress and Poverty* was published and claim that they had been vindicated: that Henry George was wrong in attributing special status to the power of the landowning class in the industrial economy. For the trends apparently show rent declining as a percentage of national income. (See table.)

If we accepted these trends at face value, we could still account for them in a way quite consistent with George's theories: in particular, the rapid capital accumulation, technological innovation, and the empire-building military adventures of European states. The increasing use of capital as a substitute for land has had an enormous effect. Chemicals, for instance, facilitate an increase in the yields of fixed acreages; the rewards for this are paid out as interest on capital,

although land values (and therefore rental income) can be pushed up as a result. For instance, the Green Revolution, which scientists hoped would increase crop yields in Asia and so reduce prices and poverty, also had the effect of pushing up the value of land that was well irrigated and therefore suitable for the new seeds.⁸⁴

European landowners, furthermore, found themselves competing with the new lands as settlers followed the gunboats and opened up the four continents of the world. The nineteenth century was unique for the way in which one part of the globe was able to enjoy access to, and plunder, resources in the rest of the world at very low cost. The economic effect was to severely temper the results of an interaction between rising demand and the relatively inelastic supply of land in Europe. In the twentieth century rental income has been held back for a variety of additional reasons. Institutional controls, for example, such as the freeze on rents during times of war or economic crisis, have held back income to landowners. Technical progress has necessitated fresh capital formation at an ever-faster rate, and a result of this, as J. S. Mill forecasted, was that the "tendency of profits to fall, is from time to time counteracted."⁸⁵ And many workers have raised their wages on the basis of what has been considered to be new socially acceptable minimum living standards, or because of the higher rewards that have to be paid for the higher skills required to operate modern machines in the computer age.⁸⁶

But we would be entitled to reject the trends revealed in existing national income statistics as being neither relevant nor fatal. We have already noted that annual income from land is not fully reflected in the statistics. But even if we restricted ourselves to considering the figures as given, we find that they present us with no embarrassment.

The share going to wages and salaries is shown in the table as having increased by 10 percent; profits, although periodically dropping, ended up at the same level at which they were a century earlier. So the decline in the proportion of rent over one hundred years has been just 10 percent: a small margin indeed. This shift may be explained by a variety of factors. One is that, for most of this period, rents paid by many leaseholders have been below true economic levels (because of undervaluations and the use of long leases with fixed rents). Another reason is the extension of land ownership. For

instance, most British people now own their homes. Owner occupiers have increased from 10 percent before 1914 to about 53 percent in 1977. They do not pay rent; therefore, the rental value of their land is "hidden" from the national income statistics that are collated for taxation purposes.* If all rental income had been taxed (including rents that people qua landlords "paid" themselves for using land that they owned) the decline in the share shown in the rent column would have been either much smaller or wiped out. Indeed, given the astronomical rise in the values of a great deal of land, we might get a rising proportion going to rent!

These national income statistics do not settle a question that Wrightson and Mallock thought was vital: namely, whether a drop in the share going to landowners necessarily meant that workers were receiving higher wages. For although the "decline" in rents is shown as having favoured labour, this does not mean that all workers have necessarily been raised by the economic system above subsistence level. For wages remained at an almost constant rate of 40 percent; the apparent improvement in income distribution was wholly to the advantage of those who received salaries. Wage rates, for many people, have in fact remained at subsistence level.

Conclusion

I shall end this discussion of the problem of wage determination by making three points. The first is located in the past, the second in the present, and the third in the future.

George's critics did not succeed in demolishing his account of how "the rate of wages in one occupation is always dependent on the rate in another, and so on, down, until the lowest and widest stratum is reached, in occupations where the demand is more nearly uniform and in which there is the greatest freedom to engage."⁸⁷ We have only to note the way groups of workers use widening or narrowing differentials in the pay structure to argue for wage increases to see the

*The same shift can be seen in the agricultural sector, where over half of the land in Britain is now owner-occupied. At the start of this century, nearly 90 percent of land under crops and grass was rented; this figure had dropped to 51 percent by 1960.

truth of George's statement. As for those at the lowest end of the wage scales, they have the weakest bargaining hands and so are glad of poorly paid menial jobs. At these levels wages were and often still are at bare subsistence levels. Throughout the industrial world millions of people earn barely enough to meet the minimum requirements of biological, let alone civilized social, living; many millions of them rely on transfers of income from others to supplement their wages and pensions, to ensure that they receive subsistence incomes. Poverty, as Henry George repeatedly emphasized, is the attendant of progress.

This review of the wage-fund theory controversy exemplifies the continual need to critically question conventional wisdom, and especially that which invites people to resign themselves to degradation and exploitation. For inertia is at the centre of those conservative attitudes that justify and propagate human suffering, especially where these are held to be "natural," inevitable, and therefore unalterable. Henry George, if he were alive today, would turn his iconoclastic powers onto the modern version of the wage-fund theory: the belief that the number of jobs is both given and inadequate when divided by the size of the working population. Hence the fatalistic policy prescriptions designed, allegedly, to deal with the troublesome economic events that disrupted the industrial world in the mid-seventies. Economists and politicians preach paternalism, the need to institute job-creating projects financed out of public funds. Social reformers are once again falling back on charity (early retirement, for example, is supposed to leave over some of the work for others to do). Trade unions, not surprisingly, are among the most conservative institutions—among their solutions are the "closed shop," restrictive make-work practices, and opposition to higher-productivity machines that threaten jobs. Political parties have divided themselves into predictable postures. The Left proposes closed economy solutions, such as tariff walls and quota restrictions on imports; and the Right resorts to naked prejudice (immigrants, for example, "take jobs from our own people"). These attitudes reflect a reactionary conservatism and superficial understanding of the industrial economy that makes Henry George's critique (the subtitle of *Progress and Poverty* in part reads

An Inquiry into the Cause of Industrial Depressions) as relevant today as it was 125 years ago.

Finally, let us turn to the use of statistics. These are often used to reinforce prejudices and obscure the theoretical insights that advance knowledge, as we have seen in the cases of Wrightson and Mallock. There is, however, a need for new research in this area, in order to test hypotheses. It is not sufficient to argue that available data do not refute George's theories. In order to press George's prescriptions—a tax on land values with a simultaneous reduction in taxes on earned income, to produce a free and flourishing economic system—we need to strengthen the case by means of quantification. Clearly, no one person or private organisation can hope to finance or carry out a full valuation of all the land within the territorial boundaries of a state: this could only be conducted (quite easily) by the responsible public authorities. Nonetheless, there is a great deal of partial work that can be carried out by individuals. One concern expressed forcibly by George is adequately documented: the degree of poverty associated with a technologically progressive industrial society. But for his other formulations we have had to rely largely on logic and impressionistic evidence. Some work on quantification is available in the existing literature. Take, for instance, the claim that in an advancing economy, while living standards for many workers may rise, and while profits may be high for some firms, landowners enjoy a rate of return rising disproportionately faster than that of the owners of the other factors of production. In their important study of "Accumulation, Productivity and Distribution," Phelps Brown and Weber⁸⁸ disaggregated the rate of return on capital. They confirmed the well-established theory that, in the long run, the rate of return on industrial capital declined. But they found that, for buildings, the rate of return consistently increased between 1870 and the beginning of the Second World War (except for the period of the First World War and its aftermath). This conclusion was reached by calculating the ratio of the total of rents (so far as this was recorded by Schedule A income tax assessments) to a total replacement value reckoned by valuing the physical stock of buildings at current building costs. Now, there is no reason why brick-and-mortar buildings should be more efficient, in terms of

yields, than metal machines. The rising rate of return, then, can be explained only in terms of increasing land values. As wealth is accumulated, so an ever-larger slice is creamed off by the landowners in the form of rising rents.

Regrettably, however, the level and trends in land values are almost totally ignored by governments and those private organizations (universities, policy research centres, and the like) that presume to instruct the rest of us on how to run our lives. The impact of such phenomena as land speculation, therefore, on vital areas—such as the construction industry and the business cycle—is neglected. Is it surprising that industrial economies lurch from one crisis to another?

Notes

1. John Stuart Mill, *Principles of Political Economy*, 3d ed. (1852), bk. 2, chap. 11, sec. 6.

2. *Ibid.*, 7th ed. (1871), bk. 2, chap. 11, sec. 2. All subsequent references to the *Principles* are also to the seventh edition, the last revised by Mill himself.

3. *Ibid.*, bk. 1, chap. 4, sec. 1.

4. Mill wrote: "I cannot, therefore, agree in the importance so often attached to the repeal of the corn laws, considered merely as a labourer's question . . ." (*Ibid.*, bk. 2, chap. 11, sec. 2).

5. *Ibid.*, bk. 4, chap. 3, sec. 4.

6. *Ibid.*, bk. 2, chap. 11, sec. 3.

7. *Ibid.*

8. *Ibid.*, sec. 6.

9. Henry George, *Progress and Poverty*, 75th anniversary ed. (New York: Robert Schalkenbach Foundation, 1954), bk. 3, chap. 6.

10. Francis D. Longe, *A Critical Examination of Mr. George's 'Progress & Poverty' and Mr. Mill's Theory of Wages* (London: Simpkin & Marshall, 1883). Mill renounced the wage-fund theory in 1869, in an article in the *Fortnightly Review*.

11. *Ibid.*, p. 20.

12. *Ibid.*, p. 21.

13. *Ibid.*, p. 8.

14. *Ibid.*, p. 17.

15. *Ibid.*, p. 18.

16. *Ibid.*, p. 19.

17. *Ibid.*, p. 18.

18. *Ibid.*, p. 45.

19. Ibid., p. 20; emphasis added.
20. Ibid., p. 20.
21. Ibid., p. 32; emphasis added.
22. Ibid., pp. 47, 48.
23. Adam Smith, *The Wealth of Nations*, bk. 2, chap. 1.
24. Longe, *Critical Examination*, p. 6.
25. Ibid.
26. George, *Progress and Poverty*, bk. 7, chap. 2.
27. H. H. S. Aimes, *A History of Slavery in Cuba 1511 to 1868* (New York: Knickerbocker Press, 1907), p. 170.
28. Ibid., p. 218.
29. Ibid., p. 261.
30. L. C. Hunter and D. J. Robertson, *Economics of Wages and Labour* (New York: August M. Kelley, 1969), p. 229.
31. Longe, *Critical Examination*, pp. 14, 27.
32. Ibid., p. 16.
33. Ibid., p. 9.
34. Ibid.
35. Ibid., p. 16.
36. Ibid., p. 17.
37. Ibid., p. 18.
38. Ibid., p. 32.
39. Ibid., p. 35.
40. Ibid.
41. Ibid., p. 36.
42. Ibid.
43. Ibid.
44. Ibid.
45. Ibid, p. 37.
46. Ibid.; emphasis added.
47. Longe, *Critical Examination*, p. 37.
48. George, *Progress and Poverty*, bk. 4, chap. 3.
49. Longe, *Critical Examination*, p. 14.
50. Ibid., p. 32.
51. Ibid., p. 33.
52. Ibid.
53. Ibid.
54. Francis Wrightson, *Henry George's 'Progress and Poverty': The Cause—The Remedy. An Analysis and a Refutation* (Birmingham: Cornish Brothers, 1885), p. 3.
55. Ibid., p. 17; original emphasis.
56. Ibid., p. 33; original emphasis.
57. Ibid., p. 5; original emphasis.

58. *Ibid.*, p. 7.
59. *Ibid.*, p. 20; emphasis added.
60. Mill, *Principles of Political Economy*, 7th ed., bk. 4, chap. 3, sec. 5.
61. David Ricardo, *Principles of Political Economy and Taxation*, in *The Works of David Ricardo*, ed. J. R. McCulloch (London: John Murray, 1888), pp. 35, 36. Johann von Thunen, in *The Isolated State*, published the first scientific treatment of the role of location in the formation of rent.
62. Ricardo, *Principles*, pp. 35, 36; emphasis added. See also chap. 14.
63. Wrightson, *Henry George's 'Progress and Poverty'*, p. 34.
64. *Ibid.*, p. 9.
65. *Ibid.*
66. *Ibid.*, p. 21.
67. *Ibid.*, p. 22.
68. George, *Progress and Poverty*, bk. 2, chap. 6.
69. Wrightson, *Henry George's 'Progress and Poverty'*, pp. 21, 22.
70. See papers by Sylvia Thrupp and Georges Duby in *The Middle Ages*, ed. Carlo M. Cipolla (London: Fontana, 1972), esp. pp. 182, 213, 268. See also Rodney Hilton, *Bond Men Made Free* (London: Methuen, 1977), pp. 153–57, and R. Faith, “Peasant Families and Inheritance Customs,” *Agricultural History Review* (1966).
71. Trout Rader, *The Economics of Feudalism* (New York: Gordon and Breach, 1971), p. 108.
72. Wrightson, *Henry George's 'Progress and Poverty'*, p. 17; emphasis added.
73. *Ibid.*, p. 22.
74. *Ibid.*, p. 25; emphasis added.
75. *Ibid.*, p. 33.
76. *Ibid.*, p. 18.
77. George, *Progress and Poverty*, bk. 4, chap. 2; emphasis added.
78. W. H. Mallock, *The Landlords and the National Income* (London: W. H. Allen & Co., 1884).
79. W. H. Mallock, *Social Reform* (London: John Murray, 1914).
80. *Ibid.*, p. 204.
81. *Ibid.*, p. 203.
82. *Ibid.*, pp. 301–02; emphasis added.
83. E. Nevin, *Textbook of Economic Analysis*, 3d ed. (London: Macmillan, 1967), chap. 15, sec. 4.
84. The conservatism of the landlord class has in the past led it to adopt a reactionary attitude to scientific and technological advances that, they felt, retarded the rise in their incomes. In the seventeenth century, for example, during the time of striking advances in agriculture, the landlords believed that innovations injured their income; agricultural improvements, wrote Sir William Petty, “be grumbled against by landlords, as the way to depress the

price of victuals" (as a result of the increase in the supply of produce). W. Petty, *Political Arithmetick* (London, 1690), pp. 69–70. Their attitude was conditioned by the correct belief that "corn is not high because a rent is paid, but a rent is paid because corn is high" (Ricardo, *Principles*, p. 39). See also Mill, *Principles of Political Economy*, bk. 4, chap. 3, sec. 4.

85. Mill, *Principles of Political Economy*, 7th ed., bk. 4, chap. 3, sec. 3.

86. See the interesting study by Gerhard Bry and Charlotte Boschan, "Secular Trends and Recent Changes in Real Wages and Wage Differentials in Three Western Industrial Countries: The United States, Great Britain and Germany," in *Second International Conference of Economic History*, Aix-en-Provence, 1962 (Paris: Mouton & Co., 1965).

87. George, *Progress and Poverty*, bk. 3, chap. 6.

88. E. H. Phelps Brown and B. Weber, "Accumulation, Productivity and Distribution in the British Economy, 1870–1938," *Economic Journal* (1953).