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# Henry George, Protectionism and the Welfare of the Working Class:

## *The Economist Offered a Basically Conventional Approach to Protectionism, Different from Today's Issues*

By IAN INKSTER\*

ABSTRACT. *Robert J. Rafalko's* recent essay in this JOURNAL argued that *Henry George* provided a view of *protectionism* which was at once novel and relevant to contemporary debate in *economic theory*. In response, after arguing that George offered a basically conventional approach to *protection* and *free trade*, one which did not deviate substantially from the major body of theory available in the 1880s, this paper goes on to contend that the present debate surrounds assumptions and issues which were not considered in any detail by George. The general work of Henry George was certainly novel and of relevance today, but this may not be said of his position on *tariffs* and free trade.

### I

#### Introduction

IN A RECENT ISSUE of this JOURNAL, Robert J. Rafalko argued that Henry George's *Protection or Free Trade* (1886) provided an argument of relevance to the contemporary debate in economic theory between protectionists and free traders.<sup>1</sup> Rafalko's suggestion that protection is held as an article of faith by some does not sit easily with his notion that protection is normally treated of as instrumental, rather than as substantive. In fact, a growing body of economic theory yields arguments both for and against protectionism—whether as tariffs or subsidies—which certainly embrace George's position, but which do not in any way depend upon it.<sup>2</sup> Despite some ambiguities in Professor Rafalko's presentation, there is the strong suggestion (p. 113) that the contemporary relevance of Henry George lies in (a) his position being distinct, separate and essentially radical and (b) a similarity between the conditions operating in the 1870s and 1880s and those of today, (p. 114).

While point (a) will be questioned later, the second proposition can be addressed at once. It tends to deny the peculiarities of history, the importance of socio-economic context, the dynamics of institutional development and the fact

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that trade theory has been greatly influenced by the periodic resurgence of protectionist rhetoric and policy since the time of Henry George. More than this, it might be claimed that such a stance shows little sympathy with the condition of labor; 'the want and sufferings of the working class' in the 19th century were not similar to the effect of unemployment and technical change in the late 20th century.

However, we would also point out that many social science theorists would deny that it is *necessary* for two conditions to be 'similar' in order that an analysis of one might be transported to the other (p. 114). The relevance of theory transposition of this sort surely depends upon the sturdiness and generality of that theory. Whether, for instance, Marxian class theory may explain (*i.e.*, may not be 'anachronistic' or 'ill-designed') political and institutional phenomena at the present time is by no means entirely dependent on a close 'similarity' between actual social structures of today and those of the mid-19th century.

The position of Henry George on protection was essentially conventional in theoretical terms and therefore has little special relevance to contemporary debate. Furthermore, George's views on protection were linked to other aspects of his economic thought which were not merely conventional but, in the widest sense, sociologically conservative and inappropriate to the realities of working class employment, then or now. For all his sincerity and radicalism on the landowner/single-tax issue, George was, in most other respects, a conventional economist who believed in (or accepted "on faith") the automatic adjustment of labor and other markets within the total economic system.

## II

### **Henry George and Protectionism**

WITH SOME RELIANCE ON the physiocrats and J. S. Mill, George argued that as economies develop there is an increase in the demand for land. The property rights of the landowner ensure that incomes accrue disproportionately to rent, even where land is not improved by the initiative of that landowner. Welfare may only be increased when the 'unearned increment' is taxed away, allowing the untrammelled expansion of market forces. It is noteworthy that George does not go on to systematically argue that economic rents accrue to others (*e.g.*, capitalists) who are the recipients of property rights, and that the value of their assets may be increasingly independent of their productive contributions to the economy.

George's position on protectionism derives directly from his belief in the expansive power of free trade:

[R]estrictions imposed upon commerce or any of its instruments may operate to discourage production, as fully as restrictions imposed upon agriculture or manufactures. The tariff which

we maintain for the express purpose of hampering our foreign commerce, and restricting the free exchange of our own productions for the productions of other nations, is in effect a restriction upon production.<sup>3</sup>

As Rafalko summarises (p. 117), protectionism weakens labor and cuts wages. Henry George's repeated argument that an increase in a nation's prosperity may occur just as the distribution of income moves away from labor has no novelty and might be found in the work of most of the major classical writers from 1817 (Ricardo's *Principles of Political Economy*) onwards. To the theorists (the politicians are of no matter in this argument) the principle of comparative advantage made the defence of free trade an axiomatic component of all writing.

For the classical economists of the 19th century, free trade was, simply, the best of policies. If countries primarily trade in order to take advantage of their resource endowments (widely defined), and if markets are efficient, then protectionism can only yield short term *private* returns to specific groups or individuals. Surely Henry George's position on this is conventional.

His view that protection leads to higher domestic prices and, therefore, lower real wages conforms to 19th century mainstream thought and much of modern economic doctrine. Similarly, George's view (pp. 118–20) that labor costs might be a relatively unimportant fraction of total costs, and thus that the argument for protectionism as a defence of domestic labor against 'cheaper foreign labor' is fallacious, is common to the general theory of conventional economics. From this I find it difficult to believe that Professor Rafalko considers the following perfectly accurate summary of the Georgian view to be other than conventional and mundane in its day, (p. 120):

When prices are raised as the result of tariff policies, then the workers suffer the increases at the market. This has the effect of *lowering* the wages of the average worker, since a greater part of his or her income must be spent to pay for the same items.<sup>4</sup>

What in fact emerges is that there were elements of distinct conservatism in George's thought, and that this is particularly so when his views on protection are brought into relationship with his views on the labor market. As is clear, his attack on protectionism is based on the workings of the competitive mechanism. Just as competition brought down prices with a renewal of free trade, so too would any displaced labor, or workers facing a fall in wages, find that through the labor market they could move into other sectors of a now growing economy. It is in proclaiming the last of these relationships that George's conservatism is identified. Rafalko, himself, gives a key passage:

[I]f at any given time, in any given place, a certain commodity cannot be produced for as low a price as it can be imported for, this is not necessarily proof that it would take more labor to produce it in the given place, but it is proof that labor then and there can be more profitably employed.<sup>5</sup>

While Rafalko allows that this result may not obtain if other industries are depressed, he does not go on to acknowledge that unemployment or low wages may remain even in a growing economy because of imperfections in the labor market, a subject of much contemporary conventional economic theory. George's belief that labor markets work as well as any is reiterated throughout his work, from the 1870s to the posthumously published and incomplete *The Science of Political Economy*, (conceived in the early 1890s and published in 1898). It is the cornerstone of his critique of protectionist policy.

For George, the reason that wage rates in one occupation are determined by and in turn determine wage rates in another is due to labor mobility:

[A]lthough barriers of greater or less difficulty may exist, the amount of labour which can be determined to any particular pursuit is nowhere absolutely fixed. All mechanics could act as labourers, and many labourers could readily become mechanics . . . on the verge of each occupation, stand those to whom the inducements between one occupation and another are so nicely balanced that the slightest change is sufficient to determine their labour in one direction or another.<sup>6</sup>

Neither free trade nor technical 'improvements' will actually benefit labor,<sup>7</sup> but this is not because of labor market imperfections but because of the argument that the property right of landowners ensure that income windfalls accrue to rent. Because it is land which erects the "obstacle" to employment when "labor wastes,"<sup>8</sup> George has no need to consider the impact of unemployment which might arise for technical change and labor market imperfections.

Even during a period of industrial depression, this leaves George's belief in market mechanisms undisturbed: "When, through all trades, men willing to work cannot find opportunity to do so, the difficulty must arise in the employment that creates a demand for all other employments—it must be because labor is shut out from land."<sup>9</sup> Because of its mobility, labor does not suffer inordinately in its bargaining with capital; "the power of capital to stand out is only some little greater than that of labor," a view quite different from that of the arch-exponent of market mechanisms, Adam Smith, who had argued that "masters must generally have the advantage."<sup>10</sup> In George, once the power of land is removed, any variations in the demand for labor, caused by the removal of a tariff or any other factor, would have no deleterious impact on wages or employment, for

[T]he ability of labour to employ itself, the freedom of indefinite expansion in the primary employments, would allow labour to accommodate itself to these variations. . . . For occupations shade into each other by imperceptible degrees no matter how minute the division of labour . . . so that there are in each occupation enough who could easily pass to other occupations, to readily allow of such contractions and expansions as might in a state of freedom occur.<sup>11</sup>

George placed more faith in labor mobility than had Smith, who also wrote in a period of rampant protectionism. Where George does admit at several points that employments vary as to “agreeableness or disagreeableness” he entirely neglects the other Smithian conditions of a perfect labor market—skill differentials and difficulties of entry, differences in job responsibility and in the risk attached to pecuniary success, and so on.<sup>12</sup> For such reasons, as well as institutional ones, Smith had acknowledged that “in a decaying manufacture [*e.g.* one faced by increased competition from outside] many workmen, rather than quit their old trade, are contented with smaller wages than would otherwise be suitable to the nature of their employment.”<sup>13</sup> Again, in George labor saving innovations do not necessarily have deleterious effects on employment or wages. Indeed, improvements should always tend to “increase the earnings of labor, never to increase the earnings of capital.”<sup>14</sup> That this demonstrably does not occur is not due to the nature of bargaining between labor and capital but because “labor cannot exert itself without land.”<sup>15</sup>

It appears that George’s approach to protectionism centred on tariffs and was, essentially, conventional to the body of economic theory developed during the 19th century. In addition, his notion that the removal of tariff protection in one or some industries would not affect wages even in those sections, nor employment overall, was based on a faith in the efficient workings of the labor market. Such faith points to a certain conservatism in his theoretical stance.

### III

#### Henry George and the Contemporary Debate

ONE SIMPLE ARGUMENT against the relevance of George is institutional. Today, protectionism rides on the back of international economic relations in the form of non-tariff barriers of many kinds. Some non-tariff barriers are part of national legislation designed to promote public health or to abate pollution, *i.e.*, they are not expressly designed to restrict trade but at times have such an effect.

Of more immediate relevance are the host of formal barriers, ranging from quotas and ‘voluntary’ restraints, government procurement policies (*e.g.*, the United States Buy American Act of 1933 and much subsequent intervention along these lines ever since), administrative and technical regulations (countervailing duties, anti-dumping laws, etc.), as well as ‘cultural and institutional boundaries,’ the latter often associated with the difficulties of contracting, selling and distributing foreign products in Japan. All of these are active ingredients of protectionism today, and they almost certainly have internal impacts on employment and wages which are not similar to the impact of either tariffs or subsidies.<sup>16</sup>

Of more importance here, most contemporary, conventional economic debate is embraced within the body of theory laid down at the time of George and developed thenceforth, thus from Frank W. Taussig's (1859–1940), *Tariff History of the United States* (1888, *i.e.*, two years after George's book) to Gottfried van Haberler's classic and often amusing summary statements in *The Theory of International Trade* (1933). In this period and in the subsequent post-war literature no significant mention is made of Henry George on protectionism. Of course, given that his views on this matter were conventional, much of what George believed is automatically contained within the body of trade theory.

The argument that protectionism might raise wages or that free trade might result in an international equalization of wages was attacked by Taussig and his view has since become a mainstay of conventional theory. As Taussig put it, "perhaps most familiar and most unfounded of all is the belief that complete freedom of trade would bring about an equalisation of money wages the world over. There is no such tendency to equalisation."<sup>17</sup> The same writer even allows that any increase in national wealth as a result of tariffs is anyway not equivalent to an increase in wages: "Under certain contingencies, it is conceivable that protective duties will affect the process of sharing and so will influence wages otherwise than through their effect on the total product."<sup>18</sup> In classical theory, as in Henry George, the removal of a tariff only affects workers employed in that industry for a very short period, because prices will fall at a greater rate than wages overall, and unemployed labor in the previously protected industry will move into those industries boasting a comparative advantage, *i.e.*, resources will be more effectively employed. To quote Taussig once more: "The free-trader argues that if the duties were given up and the protected industries pushed out of the field by foreign competitors, the workmen engaged in them would find no less well-paid employment elsewhere."<sup>19</sup>

When considering the theory that the general level of wages might be increased under tariffs, Haberler is adamant that "this view is proved false by the theory of comparative costs."<sup>20</sup> However, he goes far further than George in admitting a problem under a renewed free trade for directly affected workers, and in this, he moves closer to the contemporary theoretical argument for optimal protection. One further long quotation will show that Haberler's classic statement of the 1930s acknowledged possibilities which are inherent in Smith but neglected by George:

We may consider that in the long run the working class as a whole has nothing to fear from international trade, since, in the long run, labour is the least specific of factors. It will gain by the general increase in productivity due to the international division of labour, and is not likely to lose at all seriously by a change in the financial distribution of the national income. . . . But, in the short run, specialised and immobile groups of workers, like the owners of

specific material factors, may suffer heavy reductions in income when for one reason or another they are faced with more intense foreign competition . . . wages are less flexible than most prices.<sup>21</sup>

In addition, if workers, who are directly affected by tariff removal, combine to counteract the effect on wages, this could lead to the initial short-term effects spreading to “chronic unemployment” in the industries affected by the change in conditions.<sup>22</sup> That is, the deleterious sectoral but short-term effects of tariff removal might, under certain institutional conditions, translate into deleterious general and long-term effects. This appears to be a position more sympathetic to the welfare of the working classes than that of George. At the same time, Haberler even goes on to enlist Pigou and Hicks to show that there is a “complete analogy” between technological progress and tariff removal in terms of their possible impacts on the share of wages in national product, a position shared by George.<sup>23</sup> Thus, on the one hand, George was conventional in his treatment of labor and protection, on the other he was seemingly more “conservative” than the conventional writers with regard to the workings of the labor market.

Our last analytical claim is that it is the development in and departures from the pre-war *classical* position which has led to a renewed (advocative) theoretical position on protectionism, and that this has in turn been met by conventional arguments which have little or nothing to do with the contribution of Henry George.

Not unexpectedly, the theoretical position changes as the simple assumptions about comparative advantage and efficient markets (assumptions held by George) are broken. What then arises are arguments which advocate optimum protection in the short-term, which is mainly seen as a policy mechanism for adjustment to payments imbalances, counters to dumping, retaliation, and the protection of infant or strategic industries. The argument for protection as a wage/employment policy is not a major one in the *theoretical* literature, except insofar as it relates to workers in key or infant industries. Whatever the political use which is made of their work, economists who have become proponents of protection seem to hold their views in a highly qualified sense, limit their propositions within a world of explicit boundary conditions and do not, as a whole, argue as “advocates of the working man;” (p. 117). (Arguments for tariffs which relate to such concerns as national self-sufficiency or military strength are not those which concern the bulk of economic theory and debate.)

Today, the argument for an optimum degree of protection rests principally on the existence of domestic and international market distortions or imperfections, and extends the Haberler qualifications to free trade policy already noted.<sup>24</sup> Certain sub-groups of the working class may be hurt by the removal of a tariff. Viner’s reply to this of 1937 remained classical but conditional:



[E]ven if labour on the average had low occupational mobility and were employed relatively heavily in the protected industries, its real income might still rise with the removal of tariff protection . . . if it was an important consumer of the hitherto protected commodities, and if the price of those commodities fell sufficiently to offset the reduction in money wages in a new situation.<sup>25</sup>

Harry Johnson's position is more recent and liberal. Acknowledging that internal market distortions do exist, Johnson nevertheless argued that protectionism yielded a result negative to total economic welfare and that correction must come from other forms of government intervention.<sup>26</sup> Prior to this, Stolper and Samuelson had argued that, even if an introduction of free trade should harm one factor of production (*e.g.*, labor), the total income loss is "necessarily less" than the gains accruing to the other factor (*e.g.*, capital). Therefore, rather than advocate protectionism they point out that "it is always possible to bribe the suffering factor by subsidy or other redistributive devices so as to leave all factors better off as a result of trade."<sup>27</sup>

More recent arguments for protectionism have met with similar theoretical rebuffs from within the body of conventional economic theory. Krugman points to the restitution of the old "external economies" arguments.<sup>28</sup> Namely, that protectionism might be considered an appropriate policy in the case of an industry which generates external economies which are useful to other sections of the domestic economy *e.g.*, knowledge. This is, of course, another version of the "market failure argument" (the distribution of resources within the market system is not such as to optimise the production of these externalities). Again, however, protection of that 'key' industry is but one of an array of possible policy measures. The state of play appears to be that while some of the older assumptions of free trade policy (assumptions shared by George) are no longer tenable, the medicine of protectionism is worse than the disease. The debate has moved from the dichotomy of free trade versus protection to that of free trade with some form of counteracting intervention.

#### IV

#### Conclusions

CONTEMPORARY ECONOMICS is, on the whole, still partial to the view that free trade is the optimum policy choice. It is true that another view has arisen, that *under certain conditions* a degree of optimum protection might yield positive social returns. However, the answer to the new protectionism is sturdy and appears to owe little to Henry George. The latter's view of the disadvantages of protection was conventional in essence.

There can be no doubt about the usefulness of Henry George's liberating and radical stance on matters of both economic theory and social policy. But this is

not to argue that all components of his thought should be seen as refreshing or enlightening. George provided much more to contemporary economic thought—a concern that economics, treated as a “science,” should nevertheless not conflict with its possible normative and welfare functions, a concern with the role of institutions (especially those confirming property rights) as mediators between economic and social systems, and a concern that all social scientists, economists and sociologists, should acknowledge the policy implications of their theoretical work. Such concerns are still rightly with us.

### Notes

1. Robert J. Rafalko, ‘Henry George and the Contemporary Debate over Industrial Protection,’ *American Journal of Economics and Sociology*, Vol. 47, No. 1 (January 1988), pp. 111–23.
2. For a brief review of contemporary debate in its institutional setting see chapters 1–2 and 10–12 of James Foreman-Peck, *A History of the World Economy* (Brighton, Sussex: Harvester Press, 1983).
3. Henry George, *Social Problems* (London: Kegan Paul, Trench and Co., 1884), pp. 160–61.
4. In the period approximately 1850–1875 free trade theory dominated, with policy diverging for mainly *political* reasons. For background to ideas and policies see P. Bairoch, “Free Trade and European Development in the Nineteenth Century,” *European Economic Review*, Vol. 3 (1972), pp. 211–46 and J. J. Pincus, *Pressure Groups and Politics in Antebellum Tariffs* (New York: Columbia Univ. Press, 1977).
5. Henry George, *Protection or Free Trade: An Examination of the Tariff Question* (New York: Schalkenbach Foundation, 1980), p. 109.
6. Henry George, *Progress and Poverty, An Inquiry into the Causes of Industrial Depression* (52nd edition, London: The Henry George Foundation, 1943), pp. 151–2.
7. *ibid.*, pp. 180–81.
8. *ibid.*, p. 193.
9. *ibid.*, pp. 190–95.
10. *ibid.*, p. 223; Adam Smith, *The Wealth of Nations* (London: Dent and Sons; New York: E. P. Dutton and Co., 1936 in 2 volumes), Vol. 1, p. 60.
11. George, *Social Problems*, *op. cit.*, p. 177.
12. Smith, *op. cit.*, Vol. 1, p. 89 foreword.
13. *ibid.*, p. 104.
14. George, *Social Problems*, *op. cit.*, p. 187.
15. *ibid.*, p. 257.
16. For an introductory commentary see Leonard Gomes, *International Economic Problems* (London: Macmillan Press, 1978), chapters 1 and 7.
17. F. W. Taussig, *International Trade* (London: Macmillan Press, 1927), p. 38.
18. F. W. Taussig, *Principles of Economics*, Vol. 1, (London: Macmillan Press, 1939), p. 517.
19. Taussig, *ibid.*, p. 516; of course, he had already shown that tariffs would not raise wages, an argument which influenced Haberler: F. W. Taussig, *Free Trade, the Tariff and Reciprocity* (London: Macmillan Press, 1920).
20. Gottfried von Haberler, *The Theory of International Trade, With Its Applications to Commercial Policy* (London: William Hodge and Co., 1936), p. 250.
21. *ibid.*, p. 195.

22. *ibid.*, p. 259 *et. seq.*

23. *ibid.*, p. 195.

24. J. N. Bhagwati and V. K. Ramaswami, 'Domestic Distortions, Tariffs and the Theory of Optimum Subsidy', *Journal of Political Economy*, Vol. 71 (1963), pp. 44–50; A. K. Dixit and V. Norman, *Theory of International Trade* (Cambridge: Cambridge University Press, 1980).

25. J. Viner, *Studies in the Theory of International Trade* (London: Harper, 1937), p. 533.

26. H. G. Johnson, "Optimal Trade Intervention in the Presence of Domestic Distortions," in R. E. Caves, P. B. Kenen and H. G. Johnson, eds., *Trade, Growth and the Balance of Payments* (New York: North Holland, 1965), pp. 3–34.

27. W. F. Stolper and P. A. Samuelson, "Protection and Real Wages," *Review of Economic Studies*, Vol. 9 (1941), pp. 58–73 (quote p. 73); see J. Bhagwati, "Protection, Real Wages and Real Incomes", *Economic Journal*, Vol. 69 (1959), pp. 733–44.

28. Paul R. Krugman, "Is Free Trade Passé?" *Journal of Economic Perspectives*, Vol. 1:2 (Fall 1987), pp. 131–44, a good review of current thinking.

### ***A. James Meigs, His Career Choice***

DR. A. JAMES MEIGS, the noted authority on international monetary economics, has allowed us to quote the following from a letter he wrote to Dr. C. Lowell Harriss, the President of the Schalkenbach Foundation.

I might not be an economist today if it had not been for Henry George.

While I was stationed at a jungle airstrip in Guatemala during World War II, I answered an ad in *Nation* or *New Republic* for a correspondence course offered by the Henry George Institute. They sent a copy of *Progress and Poverty*, which I still have. Incidentally, it cost \$1.00 in those days. . . . I dutifully answered all the questions on the tests they sent me each week, and underlined passages in nearly every chapter of the book. As I recall, I was an A student (it was hard to miss on those questions). Nevertheless, I acquired a taste for Economics in that unlikely place that I never lost.

F.C.G.

### ***Lafayette College Conference on Henry George***

A HENRY GEORGE CONFERENCE will be hosted by Lafayette College, Easton, PA in June 1991. The primary purposes of the conference are to increase knowledge of Henry George's work in the academic community, and to examine his influence in economics and the other social sciences.

**Authors of conference papers will receive a stipend of \$1,000, plus expenses. A book containing the papers will be published.**

Requests for definitive information and proposals for papers should be sent to Professor Jerome F. Heavey, Department of Economics & Business, Lafayette College, Easton, PA 18042.