

Henry George and the Tariff Question

By Karen DeCoster / 19 April, 2006

American economist Henry George is best known for his 1879 treatise *Progress and Poverty*, for which Albert Einstein designated George a "beautiful combination of intellectual keenness, artistic forum, and fervent love of justice" (George 1879, cover). *Progress and Poverty* became a huge success, and in 1886 George followed up with a far more obscure — but perhaps more significant — work on the nature of free trade as pertaining to the eradication of poverty: [Protection or Free Trade: An Examination of the Tariff Question, With Especial Regard to the Interests of Labor](#) (online at the Mises Institute).

The problem identified by Henry George, in *Protection or Free Trade*, is that of poverty, and more specifically, wages and unemployment. What follows from that is George's systematic and all-embracing dissertation of the effects that protectionist and free-trade policies have on the wealth of a nation and its individuals. Naturally, he arrives at a conclusion that is decidedly in favor of free trade — as opposed to protective prescriptions — as a surefire solution to the ills of poverty.

George develops his focal point early on by posing the essential question: Are protective tariffs helpful to those who make their living via labor? He considers this the "tariff question," calling it the "great political question of the immediate future" (George 1886, p. 3). He does, in fact, dare to say that he approves of the ends promoted by the protective tariff advocates when the ends sought are the promotion of higher wages and prosperous employment.^[1] Nevertheless, he maintains that his position is to objectively determine whether or not protective tariffs are in fact favorable to those ends.

George holds up free trade as the natural condition. That is, men, when unaffected by artificial restraints, instinctively engage in free exchange whereas protection is a fabrication of mankind, and therefore is not native to our state of being. Thus does he offer his definition of protection: "the levying of duties upon imported commodities for the purpose of protecting from competition the home producers of such commodities" (George 1886, p. 28). Protectionists, he adds:

Contend that (at least up to a certain point in the national development) protection is everywhere beneficial to a nation, and free trade everywhere injurious; that the prosperous nations have built up their prosperity by protection, and that all nations that would be prosperous must adopt that policy. (p. 28)

So does Henry George proceed to demolish the notion of the protective unit — where each nation, as a whole, presumes it ought to protect itself from other, competitor nations. Before getting to that analysis, however, onward to explore Henry George the man, and the times in which he composed his free market philosophy and critiques of protectionism.

Life and Times of Henry George

Henry George (1839–1897) was a journalist and American political economist who was born in Philadelphia, but settled in California in his teens. After failed attempts at gold mining, he ended up in the newspaper industry, where he developed his exceptional talents for writing and analyzing political economy. He had no formal training in economics, in spite of his many superb books on the topic. It was during a trip to New York that George noticed a strange paradox: the poor in New York City seemed to be far less enabled than the poor back home in lesser-developed California.

Henry George's perplexity over this paradox led to his first book, *Progress and Poverty*, in 1879. This book became a huge seller, earning him enormous praise and international fame. In effect, while he was alive, he became known as one of the world's most famous men — only behind Thomas Edison and Mark Twain (De Mille). George's granddaughter [Agnes George de Mille](#) states:

George was endowed for his job. He was curious and he was alertly attentive to all that went on around him. He had that rarest of all attributes in the scholar and historian that gift without which all education is useless. He had mother wit. He read what he needed to read, and he understood what he read. And he was fortunate; he lived and worked in a rapidly developing society. George had the unique opportunity of studying the formation of a civilization — the change of an encampment into a thriving metropolis. He saw a city of tents and mud change into a fine town of paved streets and decent housing, with tramways and buses. And as he saw the beginning of wealth, he noted the first appearance of pauperism. He saw degradation forming as he saw the advent of leisure and affluence, and he felt compelled to discover why they arose concurrently.

The result of his inquiry, *Progress and Poverty*, is written simply, but so beautifully that it has been compared to the very greatest works of the English language. But George was totally unknown, and so no one would print his book. He and his friends, also printers, set the type themselves and ran off an author's edition which eventually found its way into the hands of a New York publisher, D. Appleton & Co. An English edition soon followed which aroused enormous interest. Alfred Russel Wallace, the English scientist and writer, pronounced it "the most remarkable and important book of the present century." (De Mille)

George's quest for the solutions to poverty led him to scrutinize the tariff question, the protectionist paradigm, and some investigations thereof. He fearlessly lays out his purpose for the writing of his fourth and perhaps most important book, *Protection or Free Trade*.

I have sought to discover why protection retains such popular strength in spite of all exposures of its fallacies; to trace the connection between the tariff question and those still more important questions, now rapidly becoming the "burning question" of our times; and to show to what radical measures the principle of free trade logically leads. (George 1886, p. ix)

George was particularly motivated by economic thought before Adam Smith, mainly [the French liberals](#), whom he saw as having laid the groundwork for the principles of free trade, which he sought to further elaborate. Indeed, his dedication of the book is "to the memory of those illustrious Frenchmen of a century ago: Quesnay, Turgot, Mirabeau, Condorcet, Dupont, and their fellows who in the night of despotism foresaw the glories of the coming day." (George 1886, dedication)

Henry George was exploring the tariff question at a time when it was an ideologically volatile topic with no economic rationale behind it whatsoever. The 1880s, in fact, were a period wherein Republican legislators had been

clamoring for protective tariffs, with the Democrats bucking for "revenue-only" tariffs. What ensued from the fuss was the [Tariff Act of 1883](#) (The Mongrel Tariff), followed by three more Tariff Acts before the turn of the century. The two major political parties of the time — the Republicans and Democrats — were heavily divided on this issue. During the presidential campaign of 1884, the Republicans, in fact, held forth the tariff question as the main issue for which they battled (Taussig 1910, p. 156). Actually, the entire 19th century was marked with the manifestation of protectionist doctrine and feverish tariff struggles, including the inauguration of political strife that served to forge the War Between the States. Thus was Henry George influenced to examine both sides of the tariff issue.

The Protective Tariff: *Cui Bono?*

The original purpose of tariffs was the raising of revenue. The protection of domestic industries was only a secondary effect. Henry George defined the type of protection sought as protection from "that part of trade which consists in bringing in from other countries commodities that might be produced at home" (George 1886, p. 45). According to George, the protectionists contend:

That to secure the highest prosperity of each nation it should produce for itself everything it is capable of producing, and that to this end its home industries should be protected against the competition of foreign industries. They also contend (in the United States at least) that to enable workmen to obtain as high wages as possible they should be protected by tariff duties against the competition of goods produced in countries where wages are lower. (George 1886, p. 28)

... The aim of protection, in short, is to prevent the bringing into a country of things in themselves useful and valuable, in order to compel the making of such things. (George 1886, p. 36)

The opposition to any such tariff typically consisted of politicians who saw the revenue tariff as the only possible replacement for the protective tariff. However, for the sake of brevity, the focus here will be on the argument for and against the protective tariff.

The protective tariff is popular due to the misconceptions that surround its potential for accruing benefits to the populace. According to Bettina Bien Greaves, "The most common arguments given are that it is in the "national interest" to maintain wages and living standards, protect industries and skills considered vital for defense, preserve domestic markets for domestic producers, and encourage infant industries" (Greaves 1986, p. 24). However, the trade-off is that while a protective tariff may help some producers, it will harm others. A tariff slants the playing field in favor of those who are a party to the tariff's benefits, while other industries become hampered by higher costs or perhaps higher barriers to entry, thus prohibiting products, businesses, or entire industries from developing.

Aside from the usual arguments surrounding the "national interest," within the pro-tariff ranks there are more pernicious forces at work. Oftentimes tariffs are purely political favors or tools of injustice designed to empower special interests or particular classes or people at the expense of other, less-favored classes. One of the fallouts from a tariff is its capability to act as an agent for hidden redistribution.

Tariffs and other devices are often used to redistribute income within the economy precisely because no such consensus exists in the body politic, and that redistribution by

the tariff is less obvious than other means the government can employ. Thus, the tariff is often used to redistribute incomes when the government wants to hide the income transfer. This kind of device is used when the redistribution has little to do with accepted standards of distributional equity in the economy, but amounts, more or less, to a "payoff" to particular groups for some reason. (Krauss 1978, p. 9)

Special interests, therefore, have an interest in lobbying bureaucrats for tariff favors when in fact only they will be benefited by them. This is a political means — requiring the use of coercion — for obtaining monetary benefit via regulatory channels. Or as Murray Rothbard terms it:

Protectionism is simply a plea that consumers, as well as general prosperity, be hurt so as to confer permanent special privilege upon groups of less efficient producers, at the expense of more competent firms and of consumers. But it is a peculiarly destructive kind of bailout, because it permanently shackles trade under the cloak of patriotism. (Rothbard 1986, p. 2)

Henry George noted the mischievous aspects of protective tariffs, which is why he questioned the levying of import duties as opposed to encouraging domestic producers by way of bounty payments or subsidies (George 1886, p. 82). If indeed the purpose of protective tariffs were to encourage the domestic production of commodities, why then, would the US government *not* use a system of bounties or subsidies which would encourage *all* industries, instead of tariffs, which encourage only *selected* industries? George has an immediate answer:

Bounties enable us to see and to fix the encouragement to each industry, while the protective system leaves the public in the dark and makes the encouragement to each industry almost a matter of chance. (George 1886, p. 82)

The pro-tariff position, however, tends toward the view that with import duties, as opposed to the subsidy or bounty alternatives, the cost of the tax falls upon the foreign producers of the goods being imported. Conversely, that does not hold true in most cases, or as George noted, such a notion "contains a scintilla of truth" (George 1886, p. 85). George recognized "special cases" wherein this is indeed the case, but even then, it affords home producers no encouragement toward production.

In short, in order for an import duty to fall on the backs of foreign producers, it must not add to the price of the goods. On the contrary, "the only possible way in which an import duty can encourage home producers is by adding to the price" (George 1886, p. 87). This attracts more producers to the industry in the hopes of the superior profits that are to be obtained. Thus import duties *do* add to the price of goods, and must do so in order to "encourage" domestic producers to engage in the competitive production of goods that are otherwise more efficiently gained through trade with foreign producers. The procurement of premium profits is one intention of protective tariffs in the first place.

Hence we arrive at the condemnation of protective tariffs as a means to an end, with the end being a politically motivated redistribution of income, the securing of favors for industry participants through opportunities for improved revenues, or the boosting of union wages at the behest of collective bargaining groups. George noted the sheer chicanery that erupts from within

politics itself: "For the fixing of protective duties is simply the distribution of pecuniary favors among a crowd of greedy applicants" (George 1886, p. 85).

Economist A.C. Pigou noted a body of fourteen academics, voicing their conclusions on the tariff issue in the *London Times*:

There are also to be apprehended those evils other than material which Protection brings in its train — the loss of purity in politics, the unfair advantage given to those who wield the powers of jobbery and corruption, unjust distribution of wealth, and the growth of "sinister interests." (p. 28)

Importance and Legacy

Although this work remains somewhat arcane compared to *Progress and Poverty*, Henry George's *Protection or Free Trade* is one of the most significant books ever written on its topic. Perhaps what stands out most in considering this work is the fact that Henry George was not always in favor of free trade (Martin 2001). George had been firmly in the protectionist camp, and it was only after relentless education and self-examination of economic issues that he abandoned protectionism. What's so important is *why* George came to see the benefits of free trade.

First, his studies brought him to the conclusion that protectionist policies did not raise wages, and thus did not alleviate poverty. George believed that the reason protection became so deeply rooted in the American and British economic systems is because of the faulty classical economists' notion of the wages-fund theory. In Chapter One of George's *Progress and Poverty*, he states:

The answer of the current economy is, that wages are fixed by the ratio between the number of laborers and the amount of capital devoted to the employment of labor, and constantly tend to the lowest amount on which laborers will consent to live and reproduce, because the increase in the number of laborers tends naturally to follow and overtake any increase of capital. (p. 17)

... It being assumed that capital is the source of wages, it necessarily follows that the gross amount of wages must be limited by the amount of capital devoted to the employment of labor, and hence that the amount individual laborers can receive must be determined by the ratio between their number and the amount of capital existing for their recompense. (p. 22)

Thus it follows that, "since the total of all wages is fixed, the competition of foreign products or foreign labor would only further subdivide this fund and reduce wages" (Martin 2001). George's entire first chapter in *Progress and Poverty* is a denunciation of this wages-fund doctrine^[2] as he began to build his case against protectionism and for free trade — the argument that culminated in the publishing of his book in 1886. Thus *Protection or Free Trade* was an essential vignette in George's heroic undertaking of the cause of defending free trade from the suffocation and oppression of arbitrary government diktat.

In addition, this valuable work was also an important testimonial, in many ways, to the tenets of the Austrian School. [Austrian Leland Yeager notes](#), "Actually, he was a profound and original economist. He independently arrived at several of the most characteristic insights of the "Austrian School" (2001). Adds Oscar B. Johannsen:

While the individualism of Henry George may not be quite as apparent as the Austrians', his life's work was directed toward creating conditions which would enable the individual to lead the kind of life he wished, qualified only by his not interfering with the right of another individual to live as he wished. And George was only too aware that it was people who created the institutions which he believed were not only the cause of poverty amidst plenty, but were also largely responsible for inhibiting the freedom of the individual. (2001)

Henry George's free trade principles also spawned the [geolibertarianism](#) movement, a "[political philosophy](#) that holds along with other forms of [libertarian](#) individualism that each individual has an exclusive right to the fruits of his or her [labor](#), as opposed to this product being owned collectively by society or the community" (Wikipedia). Geolibertarianism (also known as geonarchism) is, in a sense, a branch of anarcho-capitalism, taking its tenets from Locke, Jefferson, and Smith.

However, unlike more individualist forms of libertarianism, geolibertarianism holds that all land is owned collectively by society and may not become private property. Therefore, if individuals use the land they must pay rent to the community for doing so. They hold that private property is the product of labor, and since land itself was not created by human labor, it cannot rightfully be considered the property of any individual. Geolibertarians generally advocate distributing the land rent to the community via a [land value tax](#), as proposed by [Henry George](#) and others before him. (Wikipedia)

Henry George, with his potpourri of original and crafty hypotheses, seeded numerous "movements" or strains of thought that are leading edge to this day. Accordingly, his legacy endures as he is embraced by libertarians, quasi-libertarians, and non-libertarians, as these groups — and others — strive to reintegrate his thought closer to their own. As economic historian Joseph Schumpeter noted, "He was a self-taught economist, but he was an economist" (Schumpeter 1954, p. 864).

Karen De Coster, CPA, is a freelance writer, graduate student in Economics and Finance, and an accounting and finance professional. Send her [mail](#). See her Mises.org [archive](#). Also, see her website and blog at [www.karendecoster.com](#). [Comment on the blog](#).

Notes

[1] On page 3 of *Protection or Free Trade*, George states, "I accept as good and praiseworthy the ends avowed by the advocates of protective tariffs." Later, throughout the book, he denounces tariffs and all of their political and mischievous ends. However, reading the antecedent material in the introduction leads me to believe that the ends he praised were that of prosperity through rising wages and steady employment.

[2] George's counter proposition to classical wages-fund doctrine is "That wages, instead of being drawn from capital, are in reality drawn from the product of the labor for which they are paid." (*Progress and Poverty*, p. 23) On p. 25, he goes on to note that on the basis of "the practical application of these two theories, there arises all the difference between rigid governmental

protection and free trade." Thus emerges the basis for his pro-free trade argument.

References

De Mille, Agnes George. "Who Was Henry George?" *The Progress Report*.

"Geolibertarianism." *Wikipedia*.

George, Henry. 1879. *Progress and Poverty*. New York: Robert Schalkenbach Foundation.

George, Henry. 1886. *Protection or Free Trade: An Examination of the Tariff Question, With Especial Regard to the Interests of Labor*. New York: Robert Schalkenbach Foundation.

Greaves, Bettina Bien. 1986. *Free Trade: The Necessary Foundation for World Peace*. Irvington-on-the-Hudson, New York: The Foundation for Economic Education.

Johannsen, Oscar B. 2001. "Henry George and the Austrian Economists — History of Thought." *The American Journal of Economics and Sociology*. (December)

Krauss, Melvyn B. 1978. *The New Protectionism: The Welfare State and International Trade*. New York: New York University Press.

Martin, Thomas L. 2001. "Protection or free trade: An analysis of the ideas of Henry George on international commerce and wages - International Trade." *The American Journal of Economics and Sociology*. (December)

Pigou, A.C. 1904. *The Riddle of the Tariff*. Clifton, New Jersey: Augustus M. Kelley Publishers.

Rothbard, Murray. 1986. *Protectionism and the Destruction of Property*. Auburn, AL: Mises Institute.

Schumpeter, Joseph A. 1954. *History of Economic Analysis*. Edited from manuscript by Elizabeth Boody Schumpeter. New York: Oxford University Press.

Taussig, F. W. 1910. *The Tariff History of the United States, Part I*. New York: G.P. Putnam's & Sons.

Yeager, Leland. 2001. "Henry George and Austrian Economics — History of Thought." *The American Journal of Economics and Sociology*. (December)

Author:

[Contact Karen De Coster](#)

Karen DeCoster, CPA, has an MA in economics and works in the healthcare industry. She has written for an assortment of publications and organizations, including [LewRockwell.com](#), [Mackinac Center for Public Policy](#), [Taki's Magazine](#), [Euro Pacific Capital](#), and the [Claire Boothe Luce Policy Institute](#). Her website is [KarenDeCoster.com](#).